

Britain heads toward 'worst winter in living memory'

by Mark Burdman

Since Great Britain removed its pound sterling currency from the European Exchange Rate Mechanism on Sept. 16, the political and social crisis in the country has deepened to the point that the collapse of the John Major government in the near future is increasingly seen as a foregone conclusion, barely six months after his reelection victory in early April and only days before the annual Conservative Party conference in Brighton beginning the week of Oct. 4. At the same time, the reality shock of the accelerating collapse of the British economic and social fabric is forcing a growing minority of British spokesmen to put forward policy recommendations and critiques that demonstrate a modicum of sanity.

Sept. 16 was immediately dubbed "Black Wednesday" by commentators, but that term had already been superseded, two weeks later, by the lead Sept. 30 headline in the pro-Tory *Daily Telegraph*, which characterized the entire month, ironically, as "Black September." During September, the paper noted, 15,000 jobs had been eliminated.

On Sept. 29 alone, a new round of almost 5,000 job cuts was announced, with the alarming new element being cuts in the defense-related scientific research. Approximately 2,000 jobs were cut at the Defense Research Agency, where scientists and craftsmen are employed on developing weapons systems. The head of the DRA, John Chisholm, explained the cuts in words that should be emblazoned in a history of buffoonery: "Scientific excellence is not enough; we must also be cost effective."

Other cuts during September hit aircraft manufacturing, shipbuilding, auto manufacturing, coal mining, computer firms, banking, broadcasting, and other sectors of the economy. A leading trade unionist stated Sept. 29: "Unemployment is running out of control. Britain is heading to the worst winter for unemployment in living memory."

The London *Guardian* on same day spoke of an "avalanche of job cuts," as well as alarming new figures released by the Dun and Bradstreet firm, showing that bankruptcies

among small companies has gone up 40% in the first nine months of 1992, with the figure over 50% for the third quarter of 1992 compared to the third quarter of 1991. Over 1,000 such companies are going bankrupt per week. A Dun and Bradstreet analyst was quoted saying blandly, "We do expect the situation to get worse," while a spokesman for what remains of Britain's small business community warned that "the chain reaction of cutbacks in large companies will continue to devastate the small business community."

The headlines in the Sept. 30 London *Independent* were enough to underscore the downward vicious spiral that British society is becoming. "Recession Is Linked to Increase in Child Abuse," blared one. "Suicides Among Young Males Rise," documented not only that phenomenon but also the dramatic rise in child pregnancies in Britain. Two others, read "Wave of Job Losses Bring Total to 11,000," and "Rail Fares 'Could Increase by 142%.'"

'Sweet things possibly to come'

In this atmosphere, the power wars at the "superstructure" level of the British system are entering a new and critical phase. On the evening of Sept. 24, John Major's close friend David Mellor announced his resignation from his cabinet post of minister of national heritage. Mellor had been at the center of a complex of scandals, including an alleged extramarital affair with a Spanish actress and a social relationship with the daughter of the chief financier of the Palestine Liberation Organization, which were likened in the British and continental European press to the famous "Profumo Affair" of 1963. That scandal, centered around Defense Minister John Profumo's affair with call-girl Christine Keeler and Keeler's simultaneous affair with a high-level Soviet military intelligence operative, resulted in the downfall of the Conservative Harold Macmillan government in 1963.

During the day of Sept. 24, the "inner establishment" of the Conservative Party, embodied in the executive of an

entity known as the "1922 Committee," decided that it was time for him to "reconsider his position." Since many of the 1922 executives have received honors from the queen, this group has come to be known as "The Knights of the Long Knives." It was this same group which sealed the fate of Prime Minister Margaret Thatcher, when she was forced to resign in late November 1990.

The sub-plot in all these maneuverings, was to organize Mellor's resignation statement precisely at the moment when an emergency House of Commons debate on the British economy was taking place, so that Major's embarrassments in that debate could be preempted by the Mellor saga. However, in a Sept. 25 lead editorial entitled "Mellor and Major," the arch-establishment London *Times* warned that this ploy would backfire. The paper said that the "sense of relief" felt in Tory circles that Mellor's announcement had distracted the attention of the early evening broadcast news away from "Mr. Major's own indifferent performance" in the economic debate was "understandable." However, the paper went on, this relief "will not last." The whole episode "only underlined the current sense of a government stumbling from one moment of instant gratification to another."

Major's problem, the paper went on, is that his own policies are far from the "solid success" he may hope they are. Beyond that, Major's insistence on protecting Mellor and his mishandling of the past weeks' crises had created a potentially deadly situation for Major himself: "The prime minister's loyalty to his flawed personal friend has been as dogged as his devotion to his flawed economic course. That simple state of stubbornness has come to define him. If a prime minister has more deep friendships around his cabinet table than he has deeply rooted policies, he risks being judged by his choice of chums, not by his achievements." Warning that Major's "pride may still be his downfall," the paper predicted that the previous day's economic debate in the Parliament, during which Labour Party leader John Smith savaged Major's economic policies, "was a sweet taste of things possibly to come." Particularly devastating, was Smith's battering of Major for "lame excuses and absent apologies. He put his best points well, pointing out that to blame speculators for the run on the pound did nothing to explain why the pound was the most vulnerable currency in the first place."

Times political correspondent Peter Riddell, stressed that the Major government "has been shaken to its foundations" by the developments since mid-September, and asserting that the smell in the air is similar to the time of the 1905 downfall of the Arthur Balfour government, which was torn apart by internal fissures within the cabinet.

'Victory by bankers over democrats'

Following his performance in the Sept. 24 House of Commons debate, newly appointed Labour leader Smith told Labourites attending the party's annual convention in Blackpool on Sept. 29 that Major and his Chancellor of the Exchequer

Norman Lamont were "the Laurel and Hardy of British politics. Another fine mess they've gotten us into."

However, Labour itself is more than compromised by its leaders' tolerance of, if not enthusiastic support for, the monetarist policies of the City of London, as exemplified by Labour's insistent support for the Maastricht Treaty. This issue suddenly exploded onto center stage at Blackpool, when the anti-Maastricht shadow minister for national heritage Bryan Gould announced his resignation from the shadow cabinet on Sept. 27, with a statement blasting Maastricht, correctly, as "a breathtaking, audacious attempt to enshrine in treaty law a permanent victory by bankers over democrats." Gould asserted with a candidness rare at the higher echelons of British politics, that "the issue of whether the currency, and so the whole of economic policy, should be controlled by bankers or politicians, has been at the heart of political debate for two centuries." He charged that the Maastricht Treaty was "a totally overt, not to say shameless, statement of the bankers' view." Not only were the bankers to be unelected, but the treaty "expressly instructed them to take no notice of anyone else, including elected politicians." Their policy was price stability at all costs, which could mean massive cuts in public expenditure for Britain.

He derided British government ministers as "headless chickens. . . . Where they once had an economic and foreign policy, there is now a gaping hole. What the prime minister described as a quack doctor's remedy is now government policy—not so much a government pursuing a policy but a policy pursuing a government." Worse, in the Labour Party itself, the shadow cabinet has been operating "merely as a gag and a straitjacket, which suppresses real debate." He resigned his shadow cabinet post in order to give the British population more of a say on "principle and policy" in the U.K.

'The monster Thatcher created'

Gould's declaration indicates that a certain amount of reality is filtering into Britain, as the crisis deepens. This is also reflected in some commentaries in the British press. For example, on Sept. 20, John Eatwell of Trinity College, Cambridge, wrote in the London *Observer*: "It may have been a bad week for John Major. It's been a far worse week for the long-term development of the British economy. We have been given a lesson in how a free financial market really works. The rule is simple: the greater the instability, the greater the amount of money to be made. . . . The speculative monster Margaret Thatcher created by the abolition of exchange controls and the deregulation of the financial markets has not been tamed by John Major's devaluation. It has tasted blood and wants more." He warned that Major's attempts to now show himself as totally "market friendly" will destroy what is left of British health services, education and training, and investment in housing, roads, and railways.

Eatwell insisted that Britain's economic difficulties demand a return to "policies designed to foster long-term investment in industry and in people," in contrast to the "Thatcher-Major policies of deregulation and a minimalist

state," which "have resulted in greater instability (just look at the housing market), lower investment, lower growth and higher unemployment." Eatwell warned that "the short-term drives out the long-term. The opportunity to make a quick speculative turn will always be more attractive than the interests of the financial classes are opposed to the interests of all other classes." His alternative recommendation was that "the government itself must adopt a long-term view, investing in infrastructure and in education and training."

Along similar lines, the Engineering Employers Federation, which brings together 5,000 U.K. engineering firms, has composed a letter to Major, calling for the government to forward a "new industrial vitality" in Britain, to prevent the "irreversible decline" of British manufacturing. The letter attacked the government for over-concentration on "financial and other service sectors" relative to manufacturing, and stressed the "long-term merits of recovery based on greater investment in plant, machinery, education, and training."

On Sept. 27, the weekly *Observer* wrote that the previous week's 5,500 layoffs at the U.K.'s leading industrial firms—British Aerospace, Ford, and Vickers—"contributed to another bleak chapter in the recent history of Britain's manufacturing sector." But, the paper went on, "Britain's manufacturing industry has been in continuous decline since 1979, with a litany of factory closures, company bankruptcies, and staff redundancies. . . . Productive capacity has been slashed, new investment has declined by 12%, and Britain, once the workshop of the world, now suffers a deficit on trade in manufactured goods for the first time since the Industrial Revolution." The *Observer* emphasized that manufacturing jobs have declined in the U.K. by 36% since 1979, with "a remarkable 2.6 million people" having lost jobs in industry in the last 13 years. This process "is causing irreparable damage to the nation's industrial base."

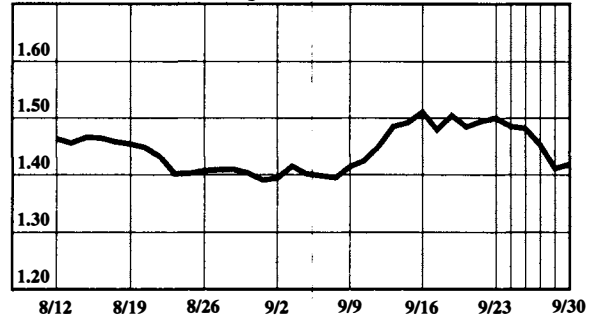
The paper blasted the various industry secretaries of the Thatcher-Major years, for having withdrawn government support for such industries as steel, shipbuilding, and automobiles, and for having "shifted the emphasis from manufacturing to services." Equally, the *Observer* stated, "successive secretaries of state reinforced the doctrine that competition should determine industrial policy. In contrast, many sections of business, including the Confederation of British Industry, were demanding a more interventionist approach, supported by public sector investment in the national infrastructure. . . . The lack of any coherent industrial strategy has been felt most notably by the declining defense manufacturing sector. . . . Critics are quick to point out that many other countries have successfully developed their economies with a positive industrial policy. Japan's capital investment per employee during the 1980s, for example, was almost three times that of Britain."

The *Observer* concluded on the ironical note that a key British Aerospace capability is being bailed out by Taiwan, at the same time that the historic BAe airplane-manufacturing plant in Hatfield in the U.K. is being closed down.

Currency Rates

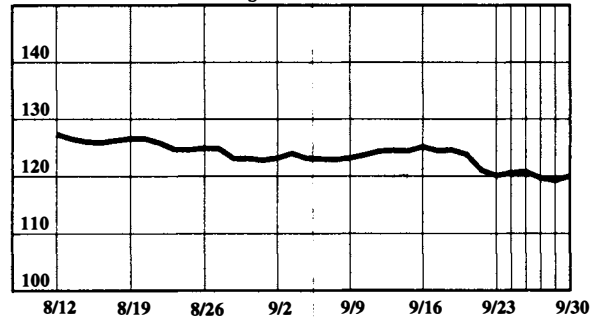
The dollar in deutschmarks

New York late afternoon fixing



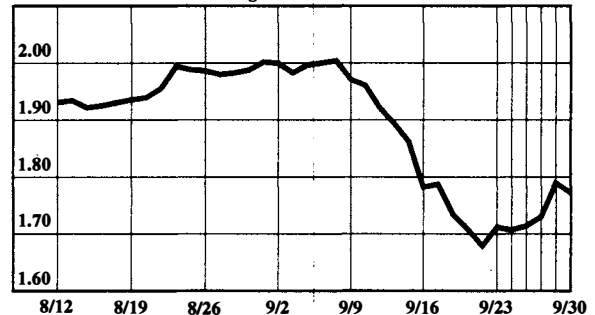
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

