League for the Fifth International
Fighting for the formation of a new world party of socialist revolution
Published on **League for the Fifth International** (https://fifthinternational.org)

British capitalism under the Tories: results and prospects

Paul Morris and Keith Harvey Mon, 30/05/1994 - 10:59
Paul Morris and Keith Harvey

For the last fifteen years successive Tory governments have attempted to set the British economy to rights. In 1979 Thatcher claimed that the economy was overmanned and inefficient. Her aim was to let the competitive pressures of the free market regenerate British capitalism.

The nationalised industries were to be privatised. The power of the trade unions, which stood in the way of new working practices that could restore the productivity of British capitalism, was to be broken. As a way of stimulating enterprise and initiative Thatcher signalled her intent to reduce taxes, public spending and welfare provision.

In pursuing these goals the Tories have presided over two recessions (1979-82 and 1990-93) and one frenetic recovery sandwiched in between. They have dragged Britain?s bosses through a traumatic relationship with the European Community (EC), welcoming its single market but working to restrict or delay any higher level of economic integration between member states. They have renounced any attempt to build a partnership between the state and industry as, at best, a utopian endeavour to ?pick winners? or, at worst, crypto-socialism.

At the start of 1994 Britain was struggling to sustain a domestic economic recovery in the teeth of a deep continental European recession. But the Tories promise that once the rest of the world follows Britain out of the doldrums domestic industry and commerce stand poised to take advantage of renewed growth. They argue that the economic achievements of the last fifteen years will pay dividends in terms of sustained low inflationary growth and increased market share for British goods and services. But they are wrong.

The central argument of this article is that the British ruling class has been unable to find a leadership and an economic strategy capable of addressing the range of problems that have confronted it since the end of the post-war boom.

Ted Heath?s Tory government of 1970-74 had a coherent European policy which consciously sought to integrate British capitalism into Europe. Yet his administration was a prisoner of the post-war Keynesian consensus that brought demand expansion and ?stop-go? economics to an inflationary peak and so brought all the underlying weaknesses of British capitalism to the surface. His policies provoked the working class into resistance while his leadership proved ineffective in dealing with the challenge. His government collapsed in the face of workers? resistance and recession.

The Wilson-Callaghan government that followed Heath was an interregnum. Deeply divided over its European policy, under intense pressure from the trade unions and only pragmatically and half-heartedly converted to a break with Keynesianism, the Labour government could never be the administration the British bosses needed.

Thatcher?s three governments resolutely set about achieving a favourable balance of class forces for the bosses, and restoring profits. She broke with the post-war consensus on managing the economy. She had undoubted success in defeating the unions and this in turn had marked economic results in improving productivity and profitability. But her government foundered on the inability to maintain an economic policy towards Europe consistent with the interests of British capitalism. In addition, her ideological aversion to any kind of government-sponsored industrial policy ensured that deep structural problems of British capitalism?under-investment in manufacturing and a poor record of innovation and technological diffusion?would go unchecked.

This article tests the claim that Thatcher has reversed the long period of post-war economic decline. Has Britain kicked the ?inflation habit? or its chronic tendency to recurrent balance of payments crises? The indices of success or failure hinge on investment rates, market share, profitability and productivity. What do these tell us about Tory accomplishments and British capitalism?s likely fate in the international capitalist economy of the 1990s?

How the Thatcherites dignosed Britain?s economic problems

A recent description of the main weaknesses of the British economy in 1979, by an unreconstructed Thatcher fan, Kent Matthews, summarises the Tory view:

?Any analysis of the British economy in the 1970s would have identified four main problems: chronic inflation, low productivity, poor industrial relations and rising unemployment. The causes were, in turn, a lack of fiscal and monetary control, an excess of trade union power, government intervention and taxation, and a lack of incentive to take up low paid jobs because of the operation of unemployment benefit support.?1

Keith Joseph, writing in 1979, showed the subjective bitterness with which the ruling class perceived these problems:

?The visible signs of Britain?s unique course?as it slides from the affluent Western World towards the threadbare economies of the communist bloc?are obvious enough. We have a demotivating tax system, increasing nationalisation, compressed differentials, low and stagnant productivity, high unemployment, many failing public services and inexorably growing public expenditure; an obsession with equality and pay, price and dividend controls; a unique set of legal privileges and immunities for trade unions; and finally, since 1974, top of the Western league for inflation, bottom of the league for growth.?2

Joseph did not place each cause on the same plane but identified a root cause, an obstacle whose removal would facilitate the removal of all others. Its nature he summed up in the title of the pamphlet quoted above: Solving the Union Problem is the Key to Britain?s Recovery.

Britain?s high degree of unionisation was held to be the cause of low productivity since trade union militancy cramped management?s ability to manage and introduce new production methods. It dampened their willingness to invest. Trade union power was said to be responsible for high levels of unemployment and high inflation since wages were the chief cause of inflation and high wages priced workers out of their jobs. Through their grip on government policy making in various quangos, the unions were also held responsible for jacking up the level of public spending to unacceptable levels, levels which forced taxation to a height that crowded out investment.

The Tories were not entirely wrong in their perception of the growing organisational strength of the trade unions, nor the unions? capacity to deploy that strength. 1979 was the all time high point for trade union membership in Britain?54% of all workers. This level of union density was matched by the existence of a layer of rank and file militants schooled in a decade of struggle which had finished off a Tory (1974) government and forced the following Labour government into deep discredit by 1979. That year saw 29 million ?days lost? through the strike action of 4.5 million workers. Ending the ?excess of trade union power? was, therefore, the key political and economic objective of Thatcherism. This was both the strength of Thatcher?s strategy and its weakness. Breaking the power of the working class was a pre-condition for revitalising British capitalism; but it was not a self-sufficient remedy.

Britain in decline

Britain?s bosses may have had a ?union problem? but they had many other problems as well. These were deeply rooted in the origins of British capitalism and its subsequent evolution as a global imperialist power. During the 20th century this evolution had given rise to a pattern of trade and investment?and a sectoral structure within the British capitalist class based upon it?that contributed to the decline of British capitalism, relative to its main rivals.

The central contradiction of capitalism in the twentieth century is between an increasingly global economy and the continued existence of the nation state as its form of development. Britain feels this contradiction more acutely, or more continuously, than most major powers.

British capitalism consists of all the capital in the world that British owned firms set in motion. Much of this operates within the borders of the British state and thus has a vital interest in the day to day operation of domestic policies. But British capital is also found all over the world. The size and breadth of British capital?s overseas investments is second only to the USA and far larger than more dynamic capitalist economies such as Germany or Japan.

The interests and ambitions of this capital do not neatly coincide with those that only or mainly operate inside the UK. In addition, much of the capital that operates inside Britain is not ?British?. By 1995 it is estimated for example that 40% or more of domestic manufacturing capital in Britain will be foreign owed. One commentator has even claimed that:

?The internationalisation of financial capital means that we can no longer conceive UK financial capital as being British owned, but only as operating from a British base?3

This foreign owned capital is, nevertheless, immediately effected by the prevailing balance of power between the classes inside Britain and also seeks to influence the direction of domestic economic policies designed to steer the course of the British economy.

The difficulty of establishing a tidy set of overlapping interests between the nation-state and ?British? capital?s economic interests is one of the abiding problems facing Britain?s ruling class in the post-war period. It is a real contradiction, one that cannot be wished away or merely resolved by an effort of will. It means that British governments are the site of intense negotiation and conflict between fractions of the capitalist class. This clash of outlook is starkly revealed by Britain?s attitude to Europe.

Britain had been the major exporter of capital in the pre-1914 years. Since 1945 it has remained second only to the USA as an exporter of capital.

But Britain?s pattern of capital exports was increasingly anachronistic compared to the post-1945 trend. An important and well documented feature of the long post war boom was the enormous growth in the export of capital between the imperialist countries.4 Britain, however, adopted the strategy of retaining second place political and economic hegemony, relative to the USA, by converting its colonial empire into a protected trading zone. The result was that the majority of capital exports continued to flow into these underdeveloped economies, with investment in the USA accounting for the second largest share. As Paul Auerbach explains:

?Only in 1971 did investment flows to Western Europe move ahead of those to Commonwealth countries. Then, on the verge of EEC entry, a surge of involvement in Western Europe raised the share of outward investment flows to almost 50%. But by the early 1980s this share had fallen below 10% again (while 50% went to the US).5

This had negative effects on British capitalism. By resting easy upon protected markets the compunction to innovate and compete with the more technologically advanced capital of Europe, the USA and Japan, was absent. This contributed to Britain?s lower investment levels and declining productivity. Germany and Japan, with no colonies, could only increase market share in open markets by higher investment in new products and technologies.6

This pattern of investment and trade was, thus, increasingly an anachronism. But it reflected the dominant view within the British capitalist class, for much of the first twenty years after the war, that Britain must be a global power. Britain could not rest content with surviving as a strong regional power, as Germany was becoming. This determination to be a world power exacted a further price - British capitalism carried the burden of a high level of unproductive defence spending that acted as a drain on funds that might otherwise have been available for capital accumulation.7

If the global pattern of trade and investment had definite effects upon Britain?s ability to compete, then so, indirectly, did the sectoral composition of the British capitalist class. Investment by industry in the post-war period and even before, was deterred by the ?stop-go? cycle of post war economic growth.8

The ?stop-go? cycle was caused by the Treasury/City hegemony over the economic policy of successive post-war governments. The poor competitiveness of manufacturing industry led to any sustained expansion of domestic demand sucking in imports. This, periodically, led to a balance of payments crisis and run on sterling. The determination of the Treasury to defend the level and role of sterling led to periodic deflation of domestic demand by a government led credit and wage squeezes. This in turn cut profits and investment funds and hit accumulation. At the very least the existence of the cycle deterred medium and longer term investment plans since they could not count upon a period of sustained and relatively even expansion of markets.

Thatcherism?s single-minded pursuit of the trade union movement missed the target here. Reversing the long run trend of poor accumulation rates would not magically occur as a result of a more timid working class movement. Nor, indeed, would a second aspect of the British decline: Britain's poor levels of investment compared to those of other G7 countries.

In the two fastest rising imperialist economies of the 1950s and 1960s, Japan and Germany, high levels of investment and rapid export-led growth was backed by government intervention and direction of industry. In Japan?s case the institutions of collaboration between the state and industry were highly developed. They provided cheap finance for investment by mobilising the enforced savings of the Japanese working class as well as protecting nascent export oriented industries. In Germany the state and industry collaboration was less institutionalised, but this was more than offset by a closer working relationship between the scientific educational establishment and industry on the one hand, and industrialists and the trade union bureaucracy, on the other. The first produced a far higher quantity and quality of research and development in German industry, while the second vastly assisted flexible working practices and technological diffusion in industry. Both had big productivity pay-offs.9

The absence of such arrangements in Britain unquestionably hampered accumulation. For them to be established a consensus between different sections of the ruling class was needed. Such a consensus proved difficult to achieve. The only consensus that existed in the British economy up to Thatcher was that accumulation should be assisted by governments using traditional Keynesian demand management measures, at least up to the point where they threatened the position of sterling.10

Why then did no decisive section of the British capitalist class command a clear majority for an industrial strategy that could revive investment and accumulation in the manner of its rivals? A French style dirigiste state intervention at least, or a closer Japanese style fusion of industrial and financial capital into industrial accumulation? This would have involved ?picking winners? and borrowing for investment, dampening consumption in favour of savings to promote investment. In this way the industrial base could have been overhauled. This never happened, although Labour played around with the idea twice (1964 and 1974) only to abandon it in office. Even the last years of the Macmillan regime (1961-63) courted it.

Some key sectors of the bosses were in favour of it for while (early 1960s) but decisive sectors of multinational corporation (MNC) industry rejected a dirigiste relationship between nation-state and capital because of the global character of British capitalist economic interests. It proved impossible for British capital (industry and city together) to define its interests so narrowly as to coincide with a national strategy for industrial regeneration based on the French model. Hence, when a radical break with the past was to emerge it was not in the form of an increased role for the state in economic management but a reduced role. In the 1980s. Thatcher got a clear and uninterrupted run to see whether supply-side economics could bring about the transformation that the rhetoric promised.

What the Tories achieved

Taking Kent Matthews? diagnosis of Britain?s economic disease it is possible to examine Tory economic achievements in five areas: inflation, productivity, ?industrial relations?, unemployment and state spending. There is another, even more fundamental area of investigation, coyly neglected in the passage quoted from Matthews above: profitability. Ultimately, the restoration of conditions for profitable accumulation was the god to whom sacrifices in all of the other areas were dedicated

Inflation: constantly present and recurring?

On inflation, Tory economic dogma rejected the assertion that ?high wage demands cause inflation?. Paradoxically, this classic right wing argument originated in the squabbles amongst Keynesian economists as their ?model? broke down in the 1970s.11

Adopting the theoretical standpoint of Milton Friedman?s monetarism, the first Thatcher government rejected the idea that ?cost-push? distortions (wage demands and over-pricing) were responsible for inflation. Instead it focused exclusively on the money supply.

Inflation is caused by the growth in the supply of money, according to the ?neo-classical? economists. The answer is to reduce the supply of money. In the long run (always referred to as the ?medium term? by the optimistic monetarists) the driving out of inflation through strict monetary controls will reduce the ?natural rate? of unemployment.

During the initial phase of Tory rule ?slump economics? did wipe out double-figure inflation. In 1979 retail prices were growing at 13.3% and earnings were growing at 15.5%. By 1983 the figures were 4.6% and 8.4% respectively. Nevertheless, during the period 1982-1986 Britain?s inflation rate remained higher than average for the imperialist countries and significantly higher than that of the three main imperialist countries:

But in the mid-1980s Thatcherism first abandoned zero-inflation and then all monetary targets. With the recovery underway the ruling class believed it could live with 5% inflation and that it had driven upward tendencies out of the system.

This was proved wrong during the Lawson boom, when inflation again took off, reaching double figures at the ?headline rate? in mid 1990. This surge in inflation was due to the massive de-regulation of the financial markets after 1981 which swept away many restraints on the financial operations of the banks. They multiplied their lending. They fuelled a housing prices boom, which in turn fuelled a credit explosion as millions of households borrowed on the strength of the rising market values of their homes.

Domestic industry, gutted by the recession and not expanding in the recovery phase at a rate that could meet the increased domestic demand, raised prices to increase profit margins. Thus inflation was built into the system by the policies of Thatcher and Lawson, adding to the problems caused by the existing structure of British manufacturing and the financial markets.

During the 1990-92 recession, combined with ERM-based deflationary policy, the headline rate of inflation fell to extreme lows. In the summer of 1993 the annual growth of the Retail Price Index (RPI) reached a cyclically low 1.3%. However, to reduce inflation dramatically through kicking the economy while it was down represented neither a great feat of economic management nor a vindication of Tory economic theory. In the short term the 20% devaluation of sterling, following its exit from the ERM in September 1992, and the feeble and confused ?growth? policies of the flailing Major government again raised the spectre of growing inflation.

According to the Bank of England, early in 1993:

?Expectations of inflation have not yet adjusted to levels compatible with the target range of 1%-4%. Such a target range would mean that at this stage of the cycle inflation would be expected to be nearer 1% than 4%. The reverse is the case.?12

Currently, the Tories are able to point to Britain?s improved performance on inflation compared to Germany as evidence of a decisive improvement.

According to the Bank:

?UK inflation remains above the average, but has clearly converged rapidly over the past two years to a rate broadly in line with the average of the other three major European economies?13

But this says more about the failing economic health of Germany, France and Italy than any achievement by British capitalism. The G7 average in 1993 was 2.7% real inflation, compared to Britain?s 3.7%

It could be predicted that when the present recovery of the British economy strengthens, it would, under present conditions, be an inflationary one. However, that would presuppose the possibility of a sustained recovery: another Lawson-type boom or an investment-led recovery.

As we shall see it is precisely the fear of the inflation still lurking at the heart of the system that prevents any systematic ?dash for growth? policies. No matter how much the Major administration would like to signal that its policy objective has changed from ?fighting inflation? to ?stimulating recovery? it is clear that any real recovery would necessitate an immediate switch back to deflationary objectives.

Considered in the short term, the thirteen years of Tory rule certainly eradicated the high, double-figure inflation of the late 1970s. But, understood in the context of the boost to inflation given by government policies in the mid 1970s this does not constitute an economic miracle. In the long term Keith Joseph?s judgement about Britain in 1979 remains valid. If by chronic we mean ?established and abiding, constantly present or recurring?14 we have to conclude that, despite the effects of the current recession, Britain still suffers from chronic inflation.

Productivity: miracle or mirage?

Throughout the post-war boom the productivity level of Britain?s industries?and the rate of growth in that productivity?lagged behind that of the major imperialist countries. During the 1980s Thatcher implemented a significant improvement in productivity, however it is measured. Whatever else may have proved transitory, for the neo-classical economists who advised and supported Thatcher, and now Major, it stands as the one lasting ?miracle? of Tory rule.

Before examining the figures and the controversies surrounding them it is worth considering what ?productivity? means for Marxists.

Capitalism is the first social system in history which constantly revolutionises productive techniques and thus the productivity of labour. Because the capitalist has to squeeze as much surplus value out of the worker?s labour power as possible, and because s/he does so in competition with other capitalists, there is a constant drive to produce more goods with less labour power.

However, other ways of increasing the volume of goods exist which involve more effort than before, not less. While this is not an increase in productivity in the Marxist sense it does fulfil the capitalists? definition of productivity, since more goods are produced with the same amount of labour and for no increase in pay. The crudest method on offer to the capitalist is the extension of the working day with no commensurate pay increase. But there is an absolute limit to that method, namely the fact that there are only 24 hours in a day!

A less crude method is to increase the intensity of work. During the First World War the most advanced US capitalists found a way of taking this method beyond bullying and increased labour discipline in the form of the so called ?Taylor revolution?. The introduction of time and motion studies, continuous production lines, piece work and other productivity measures, all helped to make workers work harder and increase labour productivity.

But the most effective method capitalism has developed, and in human terms the most historically progressive, is to constantly introduce new techniques, new processes and machines which enable the capitalist to produce more commodities with less and less labour. This in turn is what makes capitalist industry the pre-requisite for socialism. In order to leap out of the realm of necessity and into the realm of human freedom the amount of human labour necessary to produce a decent standard of living for all has to be negligible.

But capitalism?s constant advances in technique do not lead automatically to its overthrow, nor do they proceed in a unilinear fashion. They begin to rebound back on the system itself, which is not geared to human need but to the production of profit. New techniques of production will only be introduced, the productivity of labour will only be increased, if at the end of the process the capitalist makes a profit.

At times during the last century, but particularly during the acute crises of the inter-war years, capitalism has stood at such an impasse that it was incapable of introducing new technological advances. Absolute levels of output for the world economy stagnated and even fell, leading Leon Trotsky to conclude in 1938 that ?mankind?s productive forces stagnate?.15

At other times this tendency for capitalist social relations to retard the introduction of new productive techniques and therefore hold back labour productivity manifests itself partially: in a certain sector, for a certain period.

Britain, the first industrial capitalist country, was also the first to witness a long term decline in productivity relative to its competitors. Over and above any other factor it is this failure to compete at the level of productivity which excited the long running debate about the causes and extent of ?Britain?s decline?.

Glyn and Harrison (1980)8 showed the extent of the problem by comparing long term rates of growth in productivity:

Glyn and Harrison concluded:

?By 1970, UK industrial productivity was approximately one-third of the US level, two thirds of that of France, W Germany and the smaller Northern European economies and about the same as the Italian level.?16

By March 1988 Nigel Lawson could claim to the contrary:

?In the 1980s, output per head in manufacturing went up faster in Britain than in any other major industrial country. This was in stark contrast to the 1960s and the 1970s, when in the growth of manufacturing productivity, as in so much else, we were at the bottom of the league?17

The statistics justified his claim. Between 1979 and 1988 manufacturing output per head did increase at an average annual rate of 4.2%, and the overall rise in output per worker was impressive.

Two recent studies on productivity reach the same conclusions about the extent of the productivity increases. Prevezer et al argue that by contrast with the 1970s,

?in the 1980s UK manufacturing displayed a relatively good productivity performance with a rate of growth rather higher than in any other G7 country apart from Japan. This led to a significant closing of the gap, especially in comparison to the UK?s European competitors.?18

Moreover, Prevezer et al. conclude that this performance ?is replicated in almost every sector within UK manufacturing.? Having established this increase two further issues have to be addressed. What accounts for this improvement? Can it be sustained?

The Thatcherite view is that productivity increased permanently due to the ?supply side? policies of the Tory government. This involves an improvement in technical innovation, in management techniques, curbing the trade unions, and reducing taxes. But how do we measure this? Bourgeois economists try to measure productivity in two ways, first of all by calculating total output and dividing it by the number of workers (labour productivity); secondly by comparing the rate of output growth to the rate of growth of all inputs (essentially reducible to capital and labour but called ?total factor productivity?).

It was by focusing on this latter measure that Muellbauer drew up an influential study of Britain?s productivity ?miracle? in 198619. Muellbauer concluded that it was an increase in the ?labour utilisation rate? which accounted for most of the productivity increase.

That is, far from being the result of investment in new technology and machinery, the major part of the productivity increase came through new management techniques and reorganising factories and machinery to produce more efficiently, ultimately with the result of making workers work harder. Furthermore, the productivity gains were almost directly proportional to the shrinkage of the workforce and to manufacturing output itself, which did not recover to 1979 levels until 1988.

The conclusion that a large part of the productivity increase comes from making fewer workers work harder is supported by a number of partial studies. Bennett and Smith-Gavine?s ?Percentage Utilisation of Labour Index? is a measure of labour intensity gathered from management work-study measurements in a selected panel of firms since 1971. It shows a sharp rise of 7% after 1981 and reached a historic peak in 1984. Andrew Glyn, assessing the productivity impact of the round of pit closures after the defeat of the 1984-85 miners? strike concluded that rapid productivity increases had occurred as a result of ?changing work practices and pace of work rather than new equipment?.20

Prevezer argued recently that ?one obvious explanation? for the substantial productivity gap that still exists between the UK and its rivals, ?is that it is the effect of a lower level of capital per worker in UK manufacturing, resulting from an inadequate investment record over long periods of time.?21

Rather less scientifically from the viewpoint of the experts, but no less true, is what the vast majority of workers know from their own experience. The changing balance of class forces in the workplace has meant being forced to work harder, take fewer breaks, to do on your own tasks which formerly required two or three workers. Despite the fact that this filters through into a ?productivity miracle? most sharply in manufacturing it has also been the experience in the service sector, as any hospital domestic, local government officer or bus driver will know.

Here is just one concrete example of what the ?productivity miracle? means for ordinary workers. When Crawley?s refuse collection service was privatised GMB members found their wages cut from £5.25 an hour to £2.75. The number of refuse cart crews cut from six to five, and a new contract was introduced that provided neither holiday nor sick pay. Twenty workers were sacked on the first day for refusing to work an extra three hours overtime. One five-man crew had lifted 12 tons of rubbish and walked 27 miles. Gordon Wildish, one of the sacked dustmen, said:

?It was impossible to do what we were asked. We would have had to do an extra 1,800 houses a week?.22

If this is the main source of Britain?s manufacturing productivity surge in the 1980s there are important implications for the future of British capitalism, and especially damning ones for the neo-classical economic theories that underpinned 1980s Toryism.

British capitalism in the 1980s was a classic example of how imperialism trades-off periods of recovery for increased tendencies to stagnation and decay. Britain recovered at the cost of reducing its productive capacity, without significant introduction of technological advance and by increasing systemic unemployment.

The facts show that?notwithstanding productive investment from abroad into ?greenfield site? manufacturing?British capitalism has failed to buck the long term tendency to low levels of domestic capital investment observed by Glyn and Harrison.

In turn this places definite limits on British capitalism?s ability to continue raising productivity. Conceptually we have to divide the methods by which the bosses make workers work harder into two types. The first type, though organisational and administrative, plays the same role as introducing new machinery. The redesign of a factory layout, introduction of team work, designation of responsibility for quality throughout the process (all features of the new Japanese-owned car plants) have the same effect as technological innovation. The second type complements, and is in many ways the precondition, of the first: it involves cajoling or threatening workers into working harder, through labour discipline, through the fear of unemployment, through the removal of union rights or the signing of class-collaboration deals with the union leaders.

There are clear limits to what can be achieved by the combination of these types of productivity improvement dictated by the reality of human exhaustion?the Crawley GMB workers being a classic example. The limit is actually much lower than exhaustion levels since quality begins to suffer much earlier. Whilst the scientific application of new principles of organisation counts as a form of technical innovation without innovation at the level of technology this alone cannot go on raising levels of labour productivity.

But it is precisely this second type of innovation, capital investment in productive machinery, plant, new technology etc., that remains historically low in Britain, even after the ?supply side miracle? worked by Thatcher. The lack of capital intensity helps explain the failure of Britain?s productivity miracle to halt the further erosion of British industry?s share of world exports. This can be seen from the graph below, showing productivity and trade performance for various sectors of the UK manufacturing.

Most of the arrows point towards higher relative labour productivity, but point towards a smaller percentage share of G7 exports.

Shedding labour and making workers work harder may lower labour costs and improve price competitiveness. But for an imperialist power what counts is its ability to stay at the leading edge of new hi-tech industries and increase its market share in these sectors. Here the UK has fallen further behind its G7 rivals. Competitiveness in these sectors does not depend, in the first instance, on the contribution of labour costs to productivity but on the contribution made by the introduction of advanced technologies. In this department the record of British industry in the 1980s has been poor.

The defects of Thatcherism?s refusal to contemplate a partnership between state and industry in research and development (R&D) or education and training are evident. This has definite consequences for the future of British industry. It points to a continuation of the trend for Britain to develop a low skilled, low paid workforce devoted to assembly tasks for multinationals. Though this might be acceptable to individual bosses and even to sections of the Tory party it has big implications for the national economy as a whole: the level of consumer demand, the balance of payments and therefore the exchange rate. In addition it would leave British imperialism competing with the semi-colonial and minor imperialist economies of the European region as a specialist in low grade assembly work, rather than striving for a place in the high technology productive centre of the EC. The implications of this are considered below.

It would be wrong to leave the productivity debate without commenting on some of the conclusions drawn by left-wing and Marxist economists. Whilst in general agreeing that the productivity miracle cannot be sustained without systematic improvements in capital investment some left wing economists have tended to downplay the increased intensification of labour because it is ?reversible??in Marxist terms it is a function of the balance of class forces.

Peter Nolan, for example, poses the question bluntly:

?Are the gains sustainable or do they merely reflect a shift in the power relationship between workers and bosses which may eventually be reversed??23

Correctly attacking the notion of a ?permanent change in industrial relations? Nolan writes:

?The problem with such terms is that they encourage writers to speak misleadingly of an enduring ?trend shift? in supply side conditions, when in fact what they are merely describing is a new and intrinsically fragile power shift arising from the exceptionally brutal crisis conditions of the early 1980s?24

Bob Rowthorn, writing about the massive shock effect of the 1979-81 recession which forced workers and bosses to collaborate in the introduction of new techniques, comments:

?There is some doubt about how permanent the effects of the shock will be, whether productivity growth will slow down as memories of the recession gradually wear off?25

The problem is that, whilst Marxists criticise the nebulous concept of ?industrial relations? (and other vulgar economic attempts to quantify the strength of the working class, such as ?falling expectations?) we cannot dispense with an attempt to measure the relative strength of the employers and the workers. Nor is it enough to state that, since the productivity increase was achieved largely through intensifying labour this ?can always be reversed?.

In the long term it can. But, to take an extreme example, the ?exceptionally brutal crisis conditions? which propelled Hitler to power in 1933 meant that German workers wages were slashed and did not recover to their real pre-Nazi level until 1953. And to say that it can be reversed is not to predict that it will be reversed.

We can agree with the left academics that the labour intensity component of the productivity increase in the 1980s means there is little likelihood of a repeat performance. But we also have to understand it as an important index of the real change in the balance of class forces effected under Thatcherism.

?Industrial Relations? and the rate of exploitation

The term ?industrial relations? is the bosses? euphemism for class struggle and the union bureaucrats? euphemism for class collaboration. Both bureaucrat and boss are in agreement that Britain?s ?industrial relations? were bad in the late 1970s and in need of ?improvement?.

Marxists prefer to call things by their real name. The Thatcherites clearly targeted ?union power? as the key problem for British capitalism, by which they meant an adverse balance of class forces for the bosses. We have to ask how far the Tories have succeeded in shifting the balance of forces in their favour and what have been the effects on the bosses? profits and the performance of the British economy as a whole.

It might be objected that ?balance of class forces? is as equally vague a term as ?industrial relations?, since it can only be judged through a variety of subjective and objective factors and cannot be reduced to a two-dimensional graph in an academic treatise. This would be wrong. The concept of a balance of class forces is an important tool for revolutionary socialists who wish to intervene in the struggle and alter its course. Wherever the bourgeoisie has to engage in open conflict it is happy enough with such concepts, e.g. the ?balance of power? in diplomacy, the ?dynamics of combat power? in military doctrine. Marxists need not be shy of using the concept of the ?balance of class forces?.

The ?achievements? of Thatcher/Major in the sphere of the class struggle at the point of production since 1979 are painfully obvious. In 1979 trade union membership (all unions) stood at 13,289,000 representing 54.5% of the workforce - an all time high in terms of density and absolute numbers. In 1993 it stands at 34% and just over 8 million in absolute numbers. However, the shrinkage of trade union density does not reflect a de-recognition drive. Nor has it led to a drastic shrinkage of the number of shop stewards.

In the five years to 1979 the average number of strikes per year was 2,310 and the average number of strike days per year was over 14 million. In the first half of 1992 there were 31 strikes involving 7,400 workers. 1991 registered the lowest number of strike days since the 1930s.26 Since 1979 seven anti-trade union and ?employment? laws have combined to severely limit the possibility for effective, legal trade union struggle.

At the level of the introduction of new management techniques (as opposed to the new, tough, management attitudes fostered under both Callaghan and Thatcher) there has been little verifiable systematic change. Certain companies have implemented the full range of flexible working, no-strike, ?human resource management? techniques, which in theory the bosses see as replacing collective bargaining. It will take further time and study to assess the overall effect of these on the balance of class forces.

However, behind this simple balance sheet stands the overwhelming reality of the defeat inflicted by the Tories on the trade union movement in the 1984-85 miners? strike and subsequent strikes in newspapers, ferries and the docks. This has been a strategic defeat, involving not just the loss of one class battle, or the decimation of one traditional industry, but the beheading of the militant vanguard of British trade unionism. Militancy in the best organised sectors has been either smashed or severely curtailed through the victimisation of militants and the sponsorship of open scab unions (EETPU in 1986, UDM in 1985). A layer of militants throughout industry and the manual public sector has been atomised.

Whatever its immediate effect has been on the rate of exploitation of the working class, the defeat inflicted on the trade union movement has also cleared the way for a number of government initiatives to restructure the economy which the union leaders had pledged themselves to resist; notably privatisation, compulsory redundancies, the removal of employment protection, and the systematic reduction of the real level of state benefits and services.

Given all this, to what extent has ?solving the union problem? really been ?the key to recovery??

Let us first consider wages. It is clear that, until 1992, the Tories did not attempt to impose a strategic overall reduction in real incomes for those in work. The Thatcher government wanted to avoid presenting the unions with a common target - an incomes policy - that could spark generalised resistance. Fundamentally, however, the attitude to pay was part of Thatcher?s doctrine that the market should set the level of wages and that the government?s job should be confined to ensuring that the markets operated without restriction.

Nevertheless much has been written about the effect of trade union organisation on wage levels. Bourgeois economics recognises that there is a ?trade union mark up? on wage levels resulting from the collective strength of unionised workers. In the decade before Thatcher took office the ?mark up? had been rising. It rose sharply in the period 1979-81, then after 1982 it declined.

Both Thatcher and individual bosses were prepared to settle with well organised groups on pay in the early 1980s in order to push through massive redundancies. A crystal clear example is the aftermath of then 1980 steel strike, where the government met a 20% claim with an award of over 12%, after which it sacked tens of thousands of workers and closed down vast quantities of steel making capacity.

We can understand the fall in the ?mark up? during the 1980s better if we look at its commonly agreed causes. Here is a recent summary of what reliable research exists:

?A survey undertaken by Blanchflower and Oswald (1988) cautiously concludes that the average wage premium for union members over non-union members is 10% or just under. Most of this premium is associated with closed shops, with pre-entry closed shops having the greatest impact on wages. This argument is supported by Stewart (1987) who found that for semi-skilled manual workers the union mark up was on average 7.8% but increased to about 9% where a post entry closed shop existed and to 15% in the case of a pre-entry closed shop. For skilled workers the average differential associated with union membership, ceteris paribus [all things being equal-eds], was found to be insignificant, but rose to 7.5% where a pre-entry closed shop existed.?27

Two things become obvious when we consider these facts. First, if the employers ever did consider skilled workers? wage levels to be a problem, attacking trade union organisation per se would not be a complete answer to it, since it is the supply of labour rather than unionisation which creates its basic market price.

Secondly, and more importantly, it is the closed shop rather than union membership itself which delivers the most significant union mark up on wages. The importance of this becomes clear when we consider that, in the past thirteen years, the closed shop has been all but outlawed and the number of workers covered by some form of closed shop fell from 4.7 million in 1980 to 2.6 million in 1989, representing (when we take into account employment growth in this period) a fall from 30% to 10% of the working population.

According to most economists, real wages grew faster than productivity throughout the 1980s, especially in manufacturing. Rowthorn points out that:

?Real hourly earnings in manufacturing . . . rose by 26% during the period 1979-87 and by another 4% in 1988.?28

Government figures for ?real wages? (wage increases over inflation) suggest that there is not a single year in the 1980s when productivity rises faster than wages. Are the bosses in business to raise workers real wages then? Of course they are not.

The overall aim of Tory policy with regard to ?industrial relations? was to restore the conditions for capital accumulation, for profits, which is what they have done. Profit rates have risen (see below) and the share of profits in the national income has grown. Wages as a proportion of GDP fell from 42.3% in 1979 to 36% in 1987. Meanwhile, real disposable income rose by 14%. One third of this rise is accounted for by the phenomenon of people spending their savings (and then borrowing on top of that). The other two thirds is almost entirely accounted for by the rise in ?Rents, Dividends and Interest? (RDI). If we temporarily ignore returns on overseas investment, the profits accrued from investing in British capital and labour grew significantly in the Thatcher decade.

It is sometimes asserted on the left that the profits of the mid to late 1980s, and with it the Porsches and penthouses of the newly rich, originated in a purely speculative, credit based, and therefore ?ficticious? boom. When we look at the changing structure of British capitalism under the Tories we can see that both speculation and the unproductive side of the economy played a part in generating profits. However, once we consider the true relationship of productivity gains to so called rising real wages it becomes clear that the increased profits of British capitalism in the 1980s were based on real changes in the rate of exploitation of the working class.

A study by Andrew Glyn demonstrates this. Glyn was one of the ?neo-Ricardian? protagonists in the debate about the onset of the first post-war recession, and in citing his evidence we do not need to subscribe to his views on the causes of crisis.

The raw data presented by Glyn29 shows the recovery in the rate of profit which took place in the Thatcher years; from 4.3% in 1979, via a recessionary dip to 2.3%, to a 1987 high of 9.2% (commensurate with the profit rates of the late 1960s). As Glyn points out this pattern is not significantly affected by excluding North Sea Oil from the calculation.

Glyn then calculates the contribution to the rising rate of profit made by productivity, via calculating a truer ?real wage? than the one calculated by bourgeois economists.

Glyn takes into account the fact that the purchasing power of real wages is a globally determined phenomenon rather than one rooted in the national economy. The average yearly productivity increase in 1979-87 of 4.5% translates only into an average growth of real wages per head of 2.6% per annum, but a yearly increase in the rate of profit of 10%.

According to Glyn, this ?striking picture? reverses a twenty-year tendency in the British economy both for real wage increases and output/capital ratios. The net result of Thatcher?s attack on jobs and unionisation and her ?free? wages policy was to make real wages grow slower than productivity, when measured in value terms, and therefore to increase the rate of profit.

Marxism differentiates the rate of profit from the rate of exploitation. Profit is calculated in relation to the total capital advanced. Exploitation can be calculated by comparing ?necessary? and ?surplus? labour time within the working day. Conceptually the rates of profit and exploitation must differ, even at the highly abstract level which Marx dealt with them in Capital. The rate of profit can be, and is, calculated concretely by both Marxist and capitalist economics.

The rate of exploitation is harder to calculate concretely. However, if what Marxists call the ?necessary? part of the working day is determined by the value of the goods needed to reproduce the worker, and if increased productivity cheapens commodities consumed by the worker, all things being equal the ?surplus? part of the working day will increase.

When we consider that British workers are at the top of the European league in hours worked, and that the average real price of a basket of necessary goods (food, housing, transport, electrical goods and leisure) has fallen over the last decade, it is reasonable to suppose that the rate of exploitation, as well as the rate of profit, has recovered.

What all this means for the working class could not be simpler: we paid for the Porsches, the tankards of champagne, the days at the races, and the ski-ing holidays which the rich consumed in such abundance in the mid-1980s.

We paid through working harder individually. As a class we paid by allowing up to four million workers, at any one time, to rot on the scrapheap of unemployment. And we paid because Thatcher was able to ?solve the union problem? through one defeat after another, culminating in a strategic defeat whose effects on working class combativity have lasted until today.

It should be obvious that, if either a Tory government or a future Labour government attempted to attack wages systematically they would be far better placed than in 1979, because of the general legal restrictions in place, the shrinkage of union density, and the decline of the closed shop. As we enter the second year of a public sector pay policy, that is not to say that the past defeats preclude mass resistance. But it is sobering to consider just how sloped in the bosses favour the playing field of the wages struggle has become.

Unemployment: Tory theory in tatters

?Labour isn?t working? read the election poster of Thatcher?s 1979 victory. The suggestion that the long queue of unemployed depicted by Saatchi and Saatchi would disappear under Thatcher was not pure electoral cynicism. Neo-classical economics predicted that, once a transformation in ?supply side? conditions had been carried out (that is a restoration of the conditions for profitability) the British economy would reach a natural equilibrium in which unemployment would be reduced or disappear.

There were of course differences in the economic strategies advocated by neo-liberals. Hayek?s strategy was for a short, once and for all, deflationary shock to drive inflation out of the system at the cost of high unemployment. Once money was allowed to act as a stable measure of value the focus would turn to the class struggle where, by attacking the power of the unions to ?distort? the labour market, the government could drive down real wages and thus recreate the conditions for full employment.

Friedman favoured a longer-term progressive tightening of the money supply, and was even prepared to see index-linking of wages to inflation.

Although it appeared that Tory money supply policy was guided by Friedmanite principles the miscalculation of money supply, and subsequent deepening of the 1979-81 recession, amounted to something akin to Hayek?s solution. No doubt Thatcher believed that the combined effects of high unemployment and an attack on the unions would have an ultimately downward pressure on wages. No doubt she believed that other tenet of neo-liberalism, that by reducing state benefits to the unemployed, and by restricting entitlement to those benefits, workers would be forced to take up jobs at lower wages. This is the implicit logic of Kent Matthews? statement:

?The ultimate aim of supply side policy is to raise the level of productivity of the labour force and the capital stock and eventually to reduce unemployment.?30

What have been the results of Tory policy based on the view of a natural equilibrium between employment, wages and money supply?

As we have seen, real wages for those in work have risen. It is true that a vast army of lower paid part-time, mainly women workers has been drawn into production. But this recasting of the ?reserve army of labour? into something like an army of film extras with walk-on parts has not altered the fact that unemployment remains high.

During the 1979-81 recession it grew rapidly to over 2.5 million. It reached its peak of 3.1 million well into the recovery, in 1987. It fell to a seasonally adjusted total of 1.7 million in 1989-90 and has thereafter risen to 3 million in February 1993 and back down to 2.9 million in September 1993. And this is only by the official government calculations. In fact a total of twenty one changes in official methods of calculating unemployment lead to a significant underestimation. The real total, using 1979 methods of calculation, would be nearer four million.31

Are there any signs that the neo-classical economists? ?equilibrium rate of unemployment? is now ?lower? as Kent Matthews claims? In the first place we would have to ask: lower than what? They are certainly not lower than those of the post-war boom. During the 1970s the highest level of unemployment was 4%. When Thatcher came to power unemployment stood at 1.3 million. At the height of the runaway economic boom, induced by Nigel Lawson?s reflationary splurge, unemployment did not fall below 1.6 million. Thereafter Major had to deflate the economy, on the grounds that it was ?overheating? with over one and a half million workers still out of work.

The Bank of England recently commented:

?Worryingly the unemployment rate has risen to a higher level during each recession, from which it has only partially recovered.?32

Those neo-classical economists who, unlike Matthews, are prepared to recognise the total failure of unemployment to fall, would have a ready made explanation if the existence of trade unions could be blamed for ?distorting? the labour market and maintaining artificially high wages. This was the Hayekian explanation for high unemployment in the 1920s and 1930s. But as we have seen the ?trade union mark up? on wages is estimated at only 10%. And in 1993 trade unions cover little more than one third of the working class! Clearly, as far as chronic unemployment goes, ?solving the union problem? was not the key to recovery.

Amongst less dogmatic economists a different explanation for the persistence of unemployment, and its failure to influence wage rates, is offered. If we see the labour market as a market for real people?s real skills then we can see why the effects of the economic shock of the early 1980s had a different outcome to those predicted by Hayek. During long term unemployment workers lose their skills and cannot develop new ones. If this is accompanied by a massive reduction in the availability of public housing, and an increase in the price of private housing, the ?fiexible labour market? envisaged in neo-classical economics becomes a useless abstraction. The long term unemployed also cease to compete effectively with the employed, even if they are prepared to work for less, because of the financial cost to the employer of hiring and training (leave aside the potential cost exacted by the class struggle). According to Francis Green:

?The massive recession of 1979-81 itself disrupted the normal procedures of the labour market to an extent from which it has not yet [1989] recovered. Only a massive investment in retraining workers, and a regional programme to overcome geographical immobility, could have prevented a semi permanent rise [in the equilibrium rate of unemployment].?33

Why did the improved profitability of British manufacturing not lead to a reduction of unemployment? Because rates of capital investment lagged far behind growth in the rate of profit. According to Andrew Glyn:

?With the exception of North Sea Oil, where accumulation was very high over the beginning of the period, the average growth rate of capital stock [over the period 1979-87] was around 1% a year or less?an unprecedentedly poor performance in the whole post war period.?34

PSBR: back to basics or back to square one?

In their 1979 election manifesto the Tories wrote:

?The state takes too much of the nation?s income; its share must be steadily reduced. When it spends and borrows too much, taxes, interest rates, prices and unemployment rise so that in the long run there is less wealth with which to improve our standard of living and social services?.

Since neo-liberal economics regarded inflation as a purely ?monetary phenomenon? it saw the massive post-war growth in state spending, both in Britain and throughout the OECD, as a major cause of money supply growth and therefore inflation. This, rather than the cruder argument that ?all state spending is a drain on the bosses? profits?, provided the rationale for the Tory onslaught on the level of state spending in Britain. The Tories combined this with the stated aim of reducing the two main sources of government revenue: taxation and public sector borrowing.

The monetarist rationale for an attack on public spending is nothing more than a piece of bourgeois false consciousness. Even the tamest of the tame academic commentators recognise this. For example Prest and Coppock?s The UK Economy, a standard academic textbook states:

?The relationship between government borrowing and the growth of the money supply has in fact been very weak.?35

The capitalist state levies taxes and loans, and spends the proceeds, to meet a variety of needs for capital in general. In the first place it creates and maintains the legal and repressive conditions for private property to exist and for the national capitalist formation to defend itself from its rivals. Secondly it intervenes to shore up the accumulation process by providing services which could not be adequately provided by individual capitals, whether these be road building or training and education. Thirdly it intervenes through state capitalist nationalisation to prop up the accumulation process as a whole by temporarily suppressing it in one sector. Finally it facilitates the draining away of a proportion of surplus value which cannot be profitably reinvested in the form of unproductive consumption, primarily defence spending.

The massive growth of the capitalist state?s economic functions in the twentieth century is testimony to the growing parasitism of the system. However that growth has increasingly made the level and form of state spending an arena of class struggle. Capitalism may need local councils to provide essential public services, but it does not require them to fund lesbian and gay centres and alternative comedy festivals. It may need some form of state unemployment benefit to maintain social stability. But it does not require that benefit to maintain its value against inflation, or to be so high as to prevent a systematic lowering of unskilled wages.

The Tory attack on public spending, borrowing and taxation needs to be seen both as a quantitative and qualitative one, designed to retard those aspects of public spending which were detrimental to capitalism and to boost those which, like defence, had been retarded by the negative balance of class forces. The results are a mixture of success and failure.

In 1979 general government spending (local and national) stood at 44% of GDP. During the 1979-81 recession that proportion increased to 46% and remained at either 46 or 47% of GDP until 1985, after which it fell, reaching 39% in 1988-89. There it remained until 1992 when preliminary estimates suggest it crept up to 42%

The reason for the initial rise in the early 1980s was that the effects of the recession on GDP outweighed the massive cuts in public spending the Tories were implementing. After 1985 public spending cuts took place parallel to steady GDP growth.

The trend in the reduction of the Public Sector Borrowing Requirement (PSBR) was even more dramatic: from 5.6% of GDP in 1980-81 to a surplus (i.e. no state borrowing) between 1987 and 1991.

Francis Green concluded from this, in 1989, that:

?Whatever its objective, the policy has by and large been successfully carried out?.

On the eve of the latest recession left and right wing commentators concurred that significant reductions had indeed been made in government spending and borrowing to the detriment of the workers? social wage.

However the performance of public spending and borrowing as Britain slid into recession throws a different light on the Tories? achievements. Public spending crept back up to over 42% of GDP. Meanwhile the trend in public borrowing was significantly reversed. The Institute of Fiscal Studies expected total state borrowing in 1993 to amount to over £38 billion, whilst in 1994 it could reach £54 billion. This represents a jump from a PSBR equal to 3.75% of GDP in 1991-92 to an expected 7.5% of GDP this in 1993.

The Economist, along with most Tory commentators, consoled itself with the view that:

?Most of the extra borrowing is caused by the inevitable cyclical effects of recession in squeezing tax revenues and boosting expenditure on e.g. unemployment pay.?36

This is not true. Even the OECD warned that Britain faces a structural debt problem. To understand the true picture we have to take into account both the quantitative and qualitative achievements of Thatcherism. Overall public spending grew by an estimated 26.2%, at constant prices, between 1979 and 1991. But that masked some radically different stories.

Defence spending grew overall by 17%. ?Law and order and protection services? registered the largest rise, at 79.7%. Meanwhile most of the sectors representing real gains in public services made by the working class during the post war boom fell, some of them dramatically. Government spending on housing fell by 50.5%.

?Trade, industry, energy and employment? fell by 26.8%. This graphically illustrates the ideological opposition to any state direction of investment or research and development and must count as one of the most self-defeating cuts in government spending from the viewpoint of British capitalism.

The one enormous rise which nominally ?benefited? the working class was the rise in social security payments which totalled 77.1% over the period. This of course masks the real erosion of individual benefit levels. Less spectacularly but importantly health spending rose by 40.4% and represented 14.2% of all government spending in 1991, the highest ever proportion since 1979 when it stood at 12%.

The changing balance of public spending reflects Thatcher?s success in altering the balance of class forces. However it also reflects the limitations of that success. As long as the ruling class remains nominally committed to the two bedrocks of the welfare state - a state healthcare system and a universal social security system - it will encounter growing bills in these areas. Whether the recent rises in social security payments turn out to be ?cyclical? depends on the outcome of the cycle itself. If Britain?s next recovery creates three million real jobs then there is no problem. But if the trend observed above continues, the next recovery will create fewer jobs than before.

Overall it is possible to summarise the Tory record on spending as a qualified victory over the working class when it comes to sectors of distribution, but as a failure when it comes to total spending as a proportion of GDP. The assault on social spending continues under the slogan ?back to basics?, but when we consider Thatcher?s strategic objectives in 1979? cutting public spending and borrowing, it is more a case of ?back to square one? in the Tory treasury.

This is the context of Tory Chancellor Kenneth Clarke?s two 1993 budgets, which pledged the Tory government to a low spending high-tax regime, one which Clarke was prepared to admit would ?slow down the recovery?.

The Tories intended solution to their historically high PSBR is clearly a further onslaught against the remaining post-war gains of the working class in health, education, local government services and social security.

To place the sharp swings in the PSBR in context it is necessary to look at the Tories? record on taxation.

Taxation: one law for the rich . . .

?Neo-liberalism cuts taxes?: this truism has entered popular mythology. But the real picture is more complicated. When we look at sources of government revenue in Britain the biggest remains income tax. Throughout the last decade the Tories have focused on lowering general levels of income tax and on making the system less ?progressive? (i.e. making it hit the rich less hard).

However Tory governments have repeatedly offset cuts in income tax with rises in indirect taxation, notably VAT. The very first budget of the Thatcher era almost doubled VAT (from 8% to 15%). Between 1979 and 1990 the share of local government costs levied through local taxation grew from 18% to 27%. Within this growing burden of local taxation Thatcher attempted a massive regressive shift from rich to poor via the Poll Tax. When this failed a further 2.5% was added to VAT, raising it to 17.5%, in order to pay for a strategic reversal of the ten year trend in local taxation.

Taking into account corporate taxes, taxation accounted for 37.6% of GDP in 1988-89 compared with 33.1% in 1979. Within this overall proportional rise, however, it is clear that the balance was altered in favour of the capitalists and to the detriment of workers. The tax system is now much less progressive than in 1979. After Clarke?s budget of November 1993 the Treasury was forced to reveal the damning fact that ?average family? levels of taxation would be higher under the Tories in 1994 than under Labour in 1979?16.1% of income in 1979 compared to 19.5% in 1994!

The recent alarming growth in the PSBR may be in part cyclical. It may reflect a partial alteration in the balance of class forces as the various compromises the Tories made in order to survive the fall of Thatcher have to be paid for. But if we judge the cyclical recovery Britain must undergo to be necessarily weak and shallow, the current level of public spending, borrowing and taxation means that further class battles lie ahead for the Tories if they are to permanently reduce state spending.

On balance it is clear that neo-liberalism in Britain has cut taxes for the individual and corporate bourgeoisie, but only within the boundaries prescribed by its failure to demolish key foundations of the welfare state.

Before leaving the world of government finances it is necessary to mention the effect of privatisation revenues and North Sea Oil revenues. During the 1980s revenues from the sale of nationalised industries totalled £33,552 million. As the following graph demonstrates the privatisation programme only cushioned government borrowing rather than altering its whole trend. Nevertheless, as the absolute limits of the privatisation programme are reached (no more public industries and services to sell) and the relative limits (inability to privatise due to recessionary conditions or inbuilt lack of profitability) the removal of this cushion will have a tangible effect on public borrowing unless a commensurately harsh attack on public spending is launched.

Graph 4 PSBR with and without privatisation receipts

Source: Healey op cit

The cost of Thatcherism

Whatever else the ?Thatcher miracle? achieved, it did not achieve the revival of British domestic manufacturing which it promised. By abandoning expansionist policies in 1979 and refusing to countenance any form of dirigisim Thatcher was only left with supply side solutions?expose everything to world competition and expose the working class to unemployment; let both these things affect the level of industrialisation and level of wages accordingly.

In place of a state directed investment programme Thatcher insisted that the new changed balance of forces in industry between management and the working class would allow the former to discipline the working class in the face of competition. Productivity would be raised that way. Investment would flow in wherever it was deserved; Thatcher was disinterested as to whether this was foreign or domestic.

To the argument that this would allow foreigners to take over domestic industry the Thatcherites replied that Britain can still be world economic power by exporting goods, services and capital around the world in a quantity second only to the USA.

In this sense Thatcherism has worked and not worked. It has not arrested the decline in export share in the industrial sectors that matter. Productivity has improved but the gap is still large between UK manufacturers and their rivals. On the other hand, there has been a strengthening of British MNC wealth and its international spread as well as an increase in London?s strength as a centre of world finance.

The great hope for the British ruling class is that British companies? world operations, plus City of London earnings, will indefinitely compensate for an increasing share of domestic UK output being foreign owned and a declining share of world trade being taken by British industrial exports.

Is this a viable strategy for British imperialism and what contradictions does it contain? Britain?s decline is at one level simply the most advanced form of the general decline of imperialist capitalism in the 20th century. Imperialism is a parasitic form of capitalism. It emerges when capital accumulation runs up against the limits of national boundaries. It leads to the export of capital, the search for super-exploitable workforces in the third world, to the domination of industrial production by banking and credit, to the search for profits in non-productive economic activity and to the overall growth of unproductive investment compared to productive investment.

However, imperialist capitalism cannot completely escape the fact that it is a mode of production. It is repeatedly ?called to order? by the fact that the basis of all its profit making activity is the world of production. As Hillel Ticktin explained:

?On the one hand [finance capitalism] would reduce productive capital, industry, transport, construction, mining etc., to shadows through the redeployment of its investment in more profitable places inside and outside the country of origin, not to speak of the high rate of interest which would squeeze these sources of surplus value. On the other hand it would cease to exist in the absence of productive labour so that finance capital is both parasitic and like any parasite dependent on its host. It is thus a weakened form of capital in that it has to vacillate between pure parasitism and a retreat to enable productive capital to rebuild itself. ?37

In the light of this general description of the contradictions of imperialist finance capitalism the peculiarities of Britain?s predicament are brought into sharp focus. Britain exhibits in advanced form the contradictions of this ?weakened form of capital?. Its ruling class cannot simply exist on their portfolio investments in foreign capital, what Lenin described as ?coupon clipping?. Their profits are accumulated in a specific national economy, with its own money and taxation system, its own class struggle.

The problem British capitalism faces now is that it cannot easily conduct a ?retreat? towards the firm economic ground of production because of the fundamental imbalance in Britain?s economic relationship to the world market and because of the political leadership it is stuck with.

If Britain were only a ?segment of the global economy? this would not be problematic. But the nation state is not a fiction, nor a purely political instrument to guarantee capitalist law and order. It is a reflection of the fact that the bourgeoisie remains tied, in the last analysis, to its national origins. Though the capitalist nation state was the first unified theatre for the operation of the capitalist law of value, imperialism constantly strives to make the world economy the theatre of operations of that law. Whilst it builds a world market, erects a world money, calls forth a succession of world policemen, it cannot supersede the national state qualitatively unless all of the economic functions of the capitalist state are transferred to supra-national bodies.

Britain, like all capitalist economies, retains its own currency, its own central bank, its own taxation system and system of subsidies for industry and services. It remains a national sphere of the operation of the law of value within an underdeveloped international sphere. Thus, whilst British capital can roam, and always has roamed, the world in search of imperialist super-profits the effects of this high degree of internationalisation are always felt in the sphere of the national economy.

In Britain during the 1980s real domestic spending increased 14%, largely as a result of the credit boom and the increase in profit incomes. As John Wells has shown the proportion of spending on manufactured goods to spending on services ?appears hardly to have undergone any change at all?38. By contrast growth in manufacturing output and manufacturing employment has been dwarfed by the equivalent rates for the service sector. Even in terms of investment, services have overtaken manufacturing, despite the fact that profit rates are demonstrably lower in the service sector than in the newly productive manufacturing sector.

This amounts to a net de-industrialisation of Britain. For revolutionary Marxists to use this term means giving nothing to backward looking sentiments which equate working class socialism with a largely productive economy, nor to the economic nationalists who want to ?protect British industry against the Germans?. It does mean recognising the enormous problems de-industrialisation creates for British capitalism as a whole.

Since the changes in the balance of class forces have not brought about the rebirth and absolute growth of British manufacturing industry, Britain is doomed to suffer a strategic balance of payments problem. In the initial slump years of Thatcher and Howe Britain had a trade surplus. Thereafter it deteriorated to the point where by 1988 the import-export deficit was running at 3.7% of GDP. Clearly Britain has neither the volume of manufacturing output, nor the quality, required to satisfy its domestic market.

In this fact alone there is nothing for any socialist to cry about, since we are not supporters of socialism in one country and see the international division of labour as a progressive precondition for international socialism. But the effects of the strategic balance of payments problem are certainly giving Tory politicians something to cry about.

Up until the early 1980s the growth in the current account deficit was sustained by rising exports of food, drink and tobacco and of raw materials, primarily North Sea Oil. However, according to John Wells:

?. . . from the mid 1980s onwards the surplus on the UK?s non manufacturing current account - which had been a wholly exceptional and unusual feature of the UK economy during the 1980s - began to diminish and, by 1988, had for all intents and purposes completely disappeared.?39

Thus exposed, Britain?s long term balance of payments deficit has a long term repercussion: the strategic devaluation of its currency. Even when the economy was still booming prescient left-wing economists like Francis Green were able to predict a rocky future for British capitalism as a result.

Commenting on ex-Chancellor Lawson?s prediction of a strategic upswing in manufacturing following the restructuring of the 1980s Green wrote:

?If Lawson is wrong, future Chancellors will continually find themselves caught on the horns of a dilemma.

Inflation, unemployment, trade deficits, devaluations - the problems will outnumber the instruments of control any Chancellor can have, and no amount of macroeconomic tuning of either the Keynesian or the modern kind will point the way out of renewed crisis.?40

There could not have been a more accurate prediction of the 1990s as they have unfolded and continue to unfold. Having tied anti-inflationary policy to manipulating the exchange rate the Tories found they could only do so through severe, deflationary interest rate rises. They convinced themselves that they had found a solution to this problem by ultimately shifting the burden of managing the exchange rate onto the Bundesbank via ERM. But beset by its own problems, German imperialism refused to observe the fiction that the pound was worth 2.95 Marks and the currency dealers did the rest.

At time of writing the economic policy on which Major fought the last election has been destroyed.

The anti-inflation policy based on ERM has been abandoned. The long term promises of low taxation have been replaced with huge tax clawbacks. The committment to retaining key elements of the welfare state looks unlikely to survive.

The Tories stand at a crossroads where any growth policy runs the danger of being an inflationary policy and is doomed to immediate reining in or reversal should it have its desired effect. Their strategic anti-inflationary policy is thrown back once again on manipulating the exchange rate through interest rates. Growth accelerates the trade deficit, unemployment fails to reduce real wages. The tax increases necessary to reduce the PSBR threaten to sink the recovery. Whatever Major?s ability to manipulate the ?Rubik?s Cube? of international diplomacy every time he turns the Rubik?s Cube of economic policy he comes up with the wrong combination.

Metaphors for this situation abound in bourgeois economic punditry: creeks, paddles, rocks, hard places. But, as Lenin said, there are no impossible situations for the capitalists. The solutions and possible escape routes from the strategic dilemma Thatcherism has posed for British capitalism exist both on the national terrain and in a restructuring of Britain?s role within world and specifically European imperialism. But the obstacles to the solution on both terrains are immense.

The bankruptcy of neo-liberalism

Twenty years ago the predominant bourgeois economic explanation of reality, Keynesianism, stood in ruins. It could no longer explain a world where rampant inflation and economic stagnation co-existed. It was replaced by neo-liberalism as the dominant ideology of the imperialist ruling classes. Some, like Mitterrand, were dragged to its conclusions unwillingly. Others, like Reagan, proclaimed theoretical allegiance to it only to quickly depart from it in practice. Thatcher, in contrast, based her whole drive to power within the Tory party and her whole ten years in office on the theories and remedies of neo-liberalism.

Today neo-liberalism itself stands in ruins - as a theory and as a social policy. Like the failed Keynesianism of the 1970s it still has its devotees. But on a world scale, to remain a functional strategy for the bosses, it demands a level of offensive action in the class struggle, and amounts of poverty and repression, which no national G7 bourgeoisie is prepared to countenance - yet. And as a theory it is coming apart at the seams.

There is no better illustration of this than Britain.

When Thatcher loomed onto the scene in the late 1970s most commentators described her as a ?monetarist?. Then, Milton Friedman?s monetarism was the most fashionable form of anti-Keynesian ?free market? economics. Today the free marketeers prefer to call their ideas ?neo-classical? and treat monetarism for what it always was: a partial and one sided expression of the classical bourgeois economic theory of ?general equilibrium?.

Monetarism was based on the unremarkable proposition that prices rise and fall in proportion to the volume of money in the economy, at a given velocity of circulation.

Because, like all modern bourgeois economics, it rejects the labour theory of value monetarism?s explanation for the relationship between price and money supply is the opposite to the Marxist explanation. For the monetarists the money supply determines price, and therefore inflation. For Marxists the price of everything in the economy can only, in the last instance, reflect its total value (or the total amount of socially necessary labour time used to create everything). Thus if more money is in circulation, but it represents only a previously fixed amount of value, commodities of the same value will be represented by more money: their price will rise systematically.

Monetarist theory was formulated in opposition to one branch of Keynesianism: the cost push theory of inflation. Thus the central tenet of monetarism was that, far from the unions ?distorting? the natural equilibrium of the economy through high wage demands it was the government which distorted equilibrium, though expanding the money supply.

Opposed to monetarism within the neo-liberal camp was the so-called ?Austrian school?, led by the far-right economist of the 1930s Frederick von Hayek. Though agreeing on the need to combat inflation, and agreeing that state spending and loose monetary policy was the cause, Hayek?s theory identified the unions and workers? wage demands as a key target for government offensives. Hayek believed that high unemployment was the inevitable result of the deflationary monetary policy he advocated. But in his model, once a short sharp deflationary shock had been delivered the economy should quickly find its own equilibrium, with low unemployment, as workers? wages fell in line with the new conditions. If this did not happen it could only be because the unions were maintaining artificially high wages:

?What is needed is that the responsibility for a wage level which is compatible with a high and stable level of employment should again be squarely placed where it belongs: with the trade unions.?41

Thus, for the 1930s-trained neo-liberals, government policy had to prioritise an attack on the unions - first of all to prevent their influence forcing a reimposition of Keynesian measures and secondly to force wage levels to their ?natural? level to allow the full employment of a lower paid workforce.

In hindsight Thatcherite economic strategy seems to have been an attempt to combine Friedman?s medium term reduction of the money supply with a well worked out strategic plan to smash union militancy, based on the neo-liberal supposition that, with inflation defeated and the unions cowed, both wages and unemployment would fall.

In practice rigidly orthodox money supply targets were abandoned and replaced with an exchange rate-based method of reducing inflation which ultimately toppled Thatcher and then collapsed, spectacularly, during the September 1992 ERM crisis. Though the unions were defeated, real wages rose throughout the decade. Unemployment did not fall: it stood at over two million at the point where the Tories were forced to deflate the economy in the face of 10% inflation.

If we were to accept the logic of the Austrian school, and see the unions as the source of ?unnaturally? high wages in a post 1979-81 economy it would throw remarkable light on Thatcher?s neo-liberal strategy. Thatcher pursued the defeat of union power to the exclusion of a direct attack on wages! And unemployment, which in the equilibrium theory is meant to drive down wages, did not drive them down, even when assisted by successive youth training schemes, community programmes, Restart interviews and benefit cuts.

On balance, far from being an innovative fusion of medium-term monetarism with a neo-liberal onslaught on the unions Thatcherism was a confusion of the two. The monetarist dogma that ?wages must find their own level? was the rationale for Thatcher?s failure to target wages. Meanwhile broad money targets proved a disastrously crude guide to macroeconomic policy and were abandoned. Was this all a product of Conservatism?s notorious aversion to theory, its pragmatism? Was it because the theories themselves were flawed? Undoubtedly these were contributing factors. But the main cause has to be located in the depth of the ?union problem? Thatcherism had to solve.

Fundamentally Thatcher?s preoccupation with defeating union militancy became a goal in itself because it was seen as the precondition for all the miracles that neo-liberal economics claims to be able to work. But the ?union problem? was so big that the means of solving it created new obstacles to arresting Britain's decline. To weed-out a generation of militant trade unionists Thatcher had to destroy a fifth of industrial capacity. To keep the working class divided whilst taking on its big battalions Thatcher was forced to abstain from a direct attack on pay.

Today Major is left without a coherent economic policy. With neo-liberalism?s theoretical assertions in tatters he is left only with its pragmatic conclusions, hammered home by the Bank of England even after thirty months of recession: ?when in doubt attack inflation and the PSBR?. Not only Major?s economic policy but the entire neo-liberal philosophy which it inherited, has reached an impasse.

In the Tory cabinet Michael Heseltine represents the only coherent alternative to neo-liberalism. In 1986 he resigned from Thatcher?s cabinet on an issue that combined a conflict over Europe and a conflict over state intervention into industry. In the four years in the wilderness preparing his leadership challenge of 1990 he wrote extensively on the merits of the Japanese approach to industrial planning and the need for Britain to emulate their collaboration between state and industry.

Heseltine is no Keynesian. He is also viciously anti-working class and a ?consolidator? on all matters relating to the ?union problem?. But he does see the dysfunctional nature of Thatcherism and he represents a rational alternative to pure supply-side economics. The problem?as for all those who have trod this path before?is the difficulty of forging a majority consensus for this project out of the diverse and competing segments of the British capitalist class. It has more sympathy than before, albeit in the modified form of European collaboration, since key sectors of British MNCs recognise that their future prosperity is tied up with European collaboration and integration.

B ritain in the world economy today

The general tendencies observable in the economies of the imperialist heartlands in the 1980s were recently summarised by Andrew Glyn.42 The main achievement of the imperialist bourgeoisies was an overall alteration in the balance of class forces in their favour, which provided conditions for the US-led, credit-fuelled recovery after 1983. But the price was both domestic and international financial instability - from the ?thrifts? crisis in the USA, to the 1987 crash, through to 1992-93?s repeated speculative ?runs? on major currencies.

The investment recovery of the 1980s took place at much lower levels than in the post-war boom, and have been followed by a world recession whose implications are still being assessed. Nevertheless, all the supra-national agencies of imperialist economic management (IMF, OECD), and most of the national imperialist governments, remain wedded to the deflationary economic strategies they believe created the conditions for the post-1983 recovery.

Within this general picture of the dynamics of the world economy the structural changes first manifested in the 1970s have accelerated. On the one hand, the imperialist regional economic blocs have consolidated and, in the latest phase of the recession have even begun to take open, if yet minor, protectionist measures against each other (see for example the USA?s imposition of steel quotas on Europe, the threat of a French veto over the compromise solution to the GATT Uruguay round).

On the other hand, the MNCs have embarked on a second round of restructuring their world operations. The emphasis is no longer solely on relocating manufacturing to low wage, semi-colonial countries. In addition to this tactic the MNCs have embarked on a series of mergers and acquisitions and even direct investments that will allow them to produce and therefore sell within each of the three emerging economic blocs.

For the European national ruling classes this has posed an acute set of problems. The European Union (EU - formerly EC), in association with the EFTA countries, represents 40% of the world?s business and accounts for the largest share of the world?s imports and exports. But beneath these impressive figures the EU is structurally weaker than either of the rival economic blocs emerging in South East Asia and the Americas. Its growth rates consistently fell below the global average in the 1980s. Its share of world trade in manufactured goods fell from 45% to 26% between 1973 and 1985.

Since in this phase capital is concentrating itself on a continental scale, since the biggest and best companies produced on the national terrain alone cannot hope to survive in the context of inter-regional rivalry, fostering the creation of a Europe-wide centralisation of capital has come to be in the urgent national interest of each of the European capitalist powers.

It was an influential group of European multinationals, the Round Table of European Industrialists, who between 1983 and 1987 lobbied the EC Commission to push through the single market. The single market itself was calculated to increase GDP within the EU by 6% between 1992 and the year 2000, by removing the remnants of intra-European non-tariff barriers.

However on its own it does not redress the imbalance between the EU and its rival blocs. In the meantime US and Japanese multinationals have been busy maintaining their technological advantage in the sphere of hi-tech manufactured goods, and using a strategy of acquisitions and direct investment in Europe itself to exploit that competitive edge.

This has focused the consciousness of the big-bourgeoisie of the European heartlands on progress towards ever greater concentrations of capital and towards European Union, the increased ceding of national political sovereignty to supra-national bodies in order to create a single, continental sphere for the operation of the capital accumulation process, with a single currency and central bank and a harmonised tax system. If they fail in this task then their efforts to create a single market inside the EU, which have already tangibly increased the volume of trade, will in the last analysis benefit the inward investors of the rival blocs.

The Euro-bosses? problems do not end here, because the precondition for the achievement of this unified arena of capital accumulation is the set of so-called convergence criteria laid down by the Maastricht Treaty. Leaving aside the enormous hostility of various domestic small bourgeois and petit bourgeois fractions, this process of ?convergence? has already become held up on a central contradiction.

Convergence in practice means the economies of the 12 converging on standards set by the strongest imperialism, Germany. There is little or no chance of the semi-colonial economies, Greece and Ireland, ever achieving this. The enormous domestic obstacles to both Britain and Italy achieving it pose an even greater problem. Whatever the subjective intentions of the European ruling class leaders, only Germany and the Benelux countries, with the addition of France, have the objective possibility of ?converging??and then not by the target date of 1996.

And what does the convergence process, which despite objective difficulties all are committed to, mean in practice? It means a medium term policy of depressed accumulation.

At the level of the class struggle the European bosses also remain at a disadvantage in relation to their US and Japanese rivals. If we abstract from the quite large national variations, EU workers enjoy the shortest hours, highest pay and highest social benefits of any workers in the OECD. Unit labour costs are high in Europe, on a world scale. And though it contains low wage semi-colonies and is host to several million low paid migrant workers, the EU bloc does not have, as yet, a large peripheral pool of low paid labour along the lines of the USA?s Mexican and Latin American periphery. Most of the capitalist countries on the EU?s immediate periphery (the EFTA bloc) are very high wage/high benefit economies. Eastern Europe at present lies fallow as an arena for wholesale export of capital due to the stalled character of the capitalist restoration process.

If Europe as a whole feels these problems acutely, then Britain feels them sharpest of all. Historically it was already the most ?declining? of the big imperialist economies. Added to that its capitalists adopted what proved to be an atypical pattern of foreign investment (ie in the Commonwealth) after the war. Saddled with one of the most powerfully organised and militant working class movements of the big imperialist countries it turned to the ?solving? of that problem with single minded zeal in the late 1970s. The overhead cost of this single minded zeal was the maintenance in office of a fraction within bourgeois politics completely opposed to an active, central role in the emerging European regional bloc.

When this proved untenable, and Thatcher departed, the result was a compromise. Thatcher?s vision of Britain as America and Japan?s ally in a stalled, ?broader and shallower? Europe was combined with a pro-European neo-liberalism that was still unwilling to positively espouse the supra-national mechanisms needed for the creation of a fully functioning European imperialist bloc (single currency and central bank).

This compromise was held in place by another compromise, that with German imperialism, which had taken on itself the task of uniting Europe by temporarily subordinating the needs of its domestic economy to the creation of the supra-national mechanisms (ERM etc).

When the inflationary pressures of German re-unification blew apart the compromise that underpins not only the ERM but also the whole Maastricht Treaty, it also began to unravel the post-Thatcher domestic compromise between those in the Tory party lukewarm on European Union and those positively hostile to it.

There is one aspect of British imperialism?s predicament, however, which places it in a favourable position within the EU. Namely, the very fact of its successful prosecution of the domestic class struggle in the last period.

The European bosses as a whole face a strategic battle against the working class to impose the costs of the long term deflationary ?convergence? process via falling real wages and social benefits and through increased unemployment. In this battle British capitalism stands better placed than many.

It may be only a short term phenomenon, but the initial signs during the 1993 wage bargaining round in Britain showed that public and private employers were able to force wage freezes, rises below inflation, and even in some cases voluntary wage cuts on some of the best organised sections of the working class.

Offsetting this is the fact that, in the year to November 1993 the underlying increase in average weekly earnings was about 3%. With RPI inflation running at 1.4% this indicates a real average growth of 1.6% according to Labour Research. Within these overall figures manufacturing pay rose at an average 4% compared to 2.25% in the service sector.

The reduced strength of trade unionism, combined with Britain?s relatively low wage costs and flexible working hours have in turn attracted a large proportion of foreign capital to the low-skilled assembly sector from both the US and South East Asian blocs. Over 30% of Japanese investment in the EU has been in the UK, for example. A recent study confirmed that the UK was the most favoured investment site within the EU.43 On current trends it is estimated that by the year 2000 40% of capital in Britain will be foreign owned, and most of that will originate in Japan and the USA.

Meanwhile what has happened to Britain?s patterns of trade and external investment? The long term trend towards trade with Europe, and away from the US and Commonwealth markets gained qualitative impetus in the 1980s. Over 50% of Britain?s trade is with the EC. Germany is Britain?s biggest export market (14%). In 1992 France overtook the USA in second place.

British capital has also been at the forefront of the process of centralisation of capital within the EU. Since the mid-1980s 60% of all cross border acquisitions in the EU have been carried out by UK based firms.

This phenomenon, however, is only the result of the general orientation by British capitalists to foreign investments. In Britain foreign investments account for one third of all corporate assets. In Germany they account for 7%, whilst in Japan and the USA they are below 3%. But whilst the UK has been at the forefront of EC merger activity its capitalists have been carrying out similar activity in the USA (both Japan?s domestic consumer market and its capital investment market remain largely sealed off).

Heavy British capital investment in the USA means not only that the British capitalists? profits and markets are acutely sensitive to the fluctuations in the US economy, but that an influential section of the multinational capitalist class has an interest in preventing the emergence of a regional bloc in Europe.

This is the source of the Tories? Euro-dilemma. It is not a case of ?City versus Industry?, or of multinational versus domestic capital. Multinational capital itself is sectorally divided. On the one side stand multinationals like Hanson, Trafalgar House and the recently formed SmithKline Beecham which orientate firmly to the maintenance of a world market and to US interests within it. On the other stand the big electrical, defence, aerospace and engineering companies who have to take part in the European capital centralisation process if they are to survive. On the same side as these stands the financial sector of British imperialism which knows it must become a financial centre for Europe if it is to survive.

It is in the acute national interest of British capitalism as a whole to be at the centre of the European capitalist integration process. Yet this process, which inevitably proceeds towards the formation of a protected European trading bloc, runs up against obstacles at the very commanding heights of British capitalism.

Leave aside for the moment the very considerable ideological baggage of Empire and the ?special relationship? with the USA. Leave aside the anti-European xenophobia which united Thatcher and her petit-bourgeois social base in the Tory party. The material interests of a large portion of British multinational capitalists militate against the united Europe. It is their influence that dictates Britain?s lack of a positive European policy, its strategy of a ?wider shallower European Union?, its willingness to act as a stopping off point for US and Japanese capital in the EU and, to date, as a proxy representative of the USA?s economic interests.

Short term perspectives

Cyclically, in early 1994 Britain?s economy is experiencing a weak recovery from recession. The US economy, which we have seen has an important material effect on the fortunes of British capitalism, is itself in a shallow recovery phase. In the short term a strengthening of this cyclical recovery faces several, linked obstacles.

After sterling?s exit from ERM the Tories signalled that the main target for economic policy would remain low inflation. They set a 1% - 4% target for the RPI inflation rate. However, the failure of economic recovery to occur in late 1992 prompted a further relaxation of interest rates which, together with an upturn in retail sales has already seen another government target broken: growth in ?M0? banknotes and money represented in chequebooks (current bank accounts) broke through its 4% ceiling in 1993. According to the Bank of England two further inflationary pressures threaten to bust the Tory anti-inflation targets completely if Britain does experience a significant recovery in Spring 1994.

These are the effects of sterling?s depreciation against the dollar and the DMark, and the effect of the government?s growing public sector borrowing requirement. The effect of sterling?s falling value is to push up the prices of imports, both in terms of consumer goods and goods destined for the factory and the office. This in turn tends to put up prices unless firms are prepared to absorb the price increase in their profit margins or workers are prepared to accept lower wages.

This forms the background to the current attack on pay and conditions, spearheaded by the public sector 1.5% pay ceiling in 1993 and pay freeze in 1994 and beyond and being followed up in the private sector on a scale unprecedented during Tory rule. In the short term the Tories have decided on a government co-ordinated attack on wages, which has enjoyed some success from the bosses? point of view.

The other perceived pressure on inflation, from the size of government borrowing, is more a product of monetarist ?theory? than anything else. According to neo-liberal economics, if the government has large debts it is tempted to increase the money supply, stimulating inflation and thus lowering the real value of its debts. The alternative is to reduce government debt, and this forms the background to the second major political/economic policy development of 1993: Clarke?s tax-hiking, cost-cutting budget.

Clearly the fear that the recovery will stimulate inflation has prompted the Tories to seek a short term class-struggle solution over the next year. They are determined to hold public and private sector pay below inflation, to slow the effect of lower sterling on inflation. And they are preparing a massive assault on public spending, involving a variety of social nightmare scenarios?from de-indexing the old age pension and tightening invalidity benefit to means-testing hospital care.

In the short term then the prospects for a non-inflationary recovery depend almost entirely on the result of the immediate class battles ahead.

However, the sustained character of this recovery is by no means assured, even if we take into account only domestic considerations. All economic forecasts now take account of the fact that, after each successive recession the rate of unemployment has continued to rise for many years after the formal ?recovery?. According to the Bank of England this is not just an unfortunate side effect or time lag. In the mid 1990s it is the very precondition for a sustained recovery:

?If real wages for those in employment continue to grow as rapidly as they have since the recession began then [falling real wages overall] will take the form of rising unemployment.?44

According to the same report:

?The inflation outlook for 1994 and beyond depends on the balance between the continuing downward pressure on inflation resulting from the difference between actual and potential output - reflected in rising unemployment - and the stimulus to inflation from past sterling depreciation . . .?45

Here the Bank?s mandarins define ?potential output? not as what is physically possible but what is possible without inflation, i.e. a much lower level. What they are talking about is the government-directed weakening of the recovery in order to remain within inflation targets. When we add this to the historically unprecedented levels of unemployment and its depressive effect on demand, the prospects for any full blown recovery before 1995 look bleak.

Most non-government economic forecasters concur. The Independent/Oxford Economic Forecast, for example, sees growth of up to 3.1% in 1994 along with 4.4% RPI inflation. This is followed by two years of modest (1.8%) projected growth. However this forecast is based on the assumption that the Tories can impose ?a credible counter-inflationary framework? via re-entry into ERM in mid 1994, thus obviating the need for lower interest rates to sustain the recovery. Without this, according to the forecasters, the Tories could only maintain lower interest rates through higher taxes and big cuts in public spending, or both. When it became clear that ERM re-entry was ruled out by the inner party deal over Maastricht, it was precisely for the high tax, low spending option that Major and Clarke reached.

Even when considered from the standpoint of the national economy therefore, Europe - the existence of the ERM and Britain?s ability to rejoin it - becomes crucial even for the sustaining of a weak recovery.

When we consider what is actually happening in Europe itself the picture becomes even bleaker.

The core European economies did not enter recession at the same time as Britain and the USA. This was largely a product of the fact that they had pursued long term deflationary policies and could react to ?external shocks? without immediately having to put the brakes on as Thatcher/Major did in 1988.

However the effect of German unification, combined with the cyclical onset of recession, has pulled Germany and France well and truly into the mire, just as Britain was hoping to escape from it. Large falls in output have taken place in 1993 in Germany, France and Italy. Industrial output in the EC in Q3 1993 was 5% down on the Q3 1992 figure. The German recovery will not take hold until at least 1995 and this will ensure that the EC as a whole will hover around stagnation in 1994. All of this means that Britain?s recovery will by weakened.

An even bigger problem is presented by the inter-imperialist rivalry within Europe that the current recession is stimulating. This no longer takes the form of setting each imperialist country at the throats of every other. It takes the form of the consolidation of the core economic bloc of Germany, Benelux and France around a faster but narrower zone of progress towards the Maastricht convergence levels, reflected in a two-tier exchange rate system.

All the objective tendencies point to this. If it develops in reality then there is no prospect of British imperialism opting back into the ERM in 1994 except on terms dictated by the core imperialisms. Still less is there any prospect of Britain achieving the Maastricht conditions by the 1996 deadline.

Medium term prospects

Most bourgeois forecasts expect growth in Britain to be both inflationary and weak in the years towards 2000. Nevertheless, from the bosses? point of view there are some positive expectations. If Europe as a whole now confronts the problem of high social and wage costs, British imperialism is amongst the leaders in ?solving? that problem. While patterns of British capital investment remain heavily orientated to both the USA and Europe, thus depriving the domestic economy of capital investment, it is also true that the early 1990s have seen a growth of productive investment from Japan and Korea, particularly in the auto and related industries.

These facts are clearly linked, and form the basis of John Major?s half-hearted attempt to reinsert a domestic productive investment strategy into Tory economic thinking

In the mid 1980s government ministers fostered the view that the service and other unproductive sectors could take the place of manufacturing in Britain. If 21st century capitalism would be characterised by de-industrialisation, high unemployment, low wage and high luxury goods consumption by an elite, so the argument went, then here it was in embryo in Britain?s Lawson boom. In the 1990s the Tories are clearly reformulating this conception based on Britain being a prime cheap-labour site for foreign productive investment.

This combined with the fact that, due to non-synchronised character of the recession, Britain is set to recover in a cycle co-ordinated with the USA, has led to official optimism about Britain?s prospects. Major clearly believes that the pick-up in volume of domestic production and productive investment, which so clearly failed to happen in the mid 1980s, may take place in the mid 1990s.

The attraction of such a strategy is that it obviates the need for any kind of industrial intervention policy. Japan and the USA?s industrial policies will drive the re-industrialisation of Britain, so the theory goes.

However, Japanese and US manufacturers do not invest in Britain simply to gain access to the EU market, but to compete within it. And the results of the opening of extremely competitive new Japanese car plants will inevitably feed through in the form of the destruction of one or more of the EC car giants.

More importantly, the whole strategy is predicated on Britain being able to use its political influence within Europe to slow down or prevent the formation of a protected trading bloc, a single currency and real European Union.

Here the political contradictions for British capitalism multiply. Faced with the problem of defining the interests of capital in general it can only define and mediate the interests of two fractions of capital: the Euro-oriented producers and financiers and the US/Japanese oriented multinationals.

At present it is in the interests of both fractions for Britain to have signed the Maastricht treaty and attempt medium term entry into the ERM. But the purpose of remaining at the heart of the EU project differs fundamentally.

For those oriented to the ?world economy? the purpose of participating in Europe is to slow down all the aspects of integration which lead to bloc protectionism whilst opening up the market for their relocated production plants. For those firmly oriented to the EU it is the opposite: to make sure their firms are the main beneficiaries of the single market by shoring up the battlements of Fortress Europe and proceeding as quickly as possible to the creation of supra-national regulatory bodies, an EU foreign policy and an embryo Euro-state machine.

When we look, not just at John Major?s government, but at the whole ruling class political spectrum in Britain, we can see that only one party even remotely represents this latter pro-integrationist fraction?the tiny Liberal Democrats.

Labour is prevented from projecting a Delors-style European social market orientation not only by its crypto-Stalinist and left reformist rump of economic nationalists. Its leadership cannot project any policy, even one reflecting the interests of a fraction of the capitalists, which is seen to stand against the stream of prevailing bourgeois opinion. Quite simply, the 1980s have drummed into a generation of Labour politicians that the only way to win is to adopt 90% of the Tory leadership?s policy at a given time and hope that general discontent allows Labour to scrape home in the next election.

Meanwhile Major?s Tory party is an uneasy coalition of lukewarm pro-EU ex-Thatcherites, and lukewarm pro-EU interventionists. There is no discernible current inside the Tory party which reflects Ashdown?s clear pro-EU stance. On the contrary, whilst the anti-Europeans in parliament may consist of a maximum of 45 Tory MPs, recent Tory conferences suggest that 40 to 50% of the party?s petit-bourgeois grass roots were against Maastricht ratification.

In or out of the EU mainstream, the British bourgeoisie will have to continue its onslaught against the remaining gains of the working class. As we have seen, the maintenance of the current form of the welfare state is incompatible with the current tax regime in the medium term.

Likewise, despite productivity growth Britain will not produce to world standards unless cuts in real wages can be achieved. Thus, despite the head start it has gained from the Thatcher years British capitalism is faced once again with spearheading the attack on the real living standards of its working class in terms of wages, social benefits and the level of employment.

The young, right wing minority of John Major?s cabinet (Portillo, Redwood, Lilley and Hunt) do not represent merely the hangover of Thatcherism. Their commitment to continued tax-cutting and service cutting, allied to rejection of the most centralising of the demands of Maastricht, can be seen as a reformulation of neo-liberalism in Britain. It demands nothing less than the destruction of the NHS, the universal benefit system and the services delivered by local councils.

The forces are being put together for this task, but it is proving a difficult process within a weak and fractious government. Whether Major's right wing ?bastards? can force the Tory party to launch a frontal assault on the last remnants of the post war gains of the British working class depends as much on the outcome of the crisis of leadership in the working class as on the crisis of leadership within the Tories.

Endnotes

1 Matthews, K ?Britain?s Economic Renaissance? in N.M.Healey Britain?s Economic Miracle, Myth or Reality (London 1993)
2 Joseph, K Solving the Union Problem is the Key to Britain?s Recovery London 1979
3 Harris, L ?British Capital: Manufacturing, Finance and Multinational Corporations? in Coates et al A Socialist Anatomy of Britain (London 1985)
4 This tendency accelerated dramatically in the 1980s. Worldwide oreign direct investment quadrupled in the 1980s, rising at three times faster than the growth of exports and four times faster than world output. 97% of this capital export originated in the imperialist countries, which in turn received 83% of such investment in the second half of the 1980s. This forms the background to the debate on European integration dealt with below.
5 Auerbach, P ?Multinationals and the British Economy? in F Green Restructuring the UK Economy (London 1989)

6 The effect of protectionism on investment was not confined to export markets. The cartelisation of key sectors of industry by UK monopolies after the war and up to 1951 represented a continuation of wartime controls. This monopolisation created guaranteed domestic markets and stifled competition, which in turn deterred investment. Once again this factor was not present in Britain?s European rivals, Japan or the USA after the war.
7 The strong working class movement after the war also imposed costs on capital. The welfare state diverted funds for accumulation in a way that was not the case at least in Japan and the USA.
8 See S Newton and D Porter, Modernization Frustrated; the politics of industrial decline in Britain since 1900, (London, 1988) and M Nevin, The Age of Illusions; the political economy of Britain 1968-82, (London, 1983), for accounts of the causes and effects of the stop-go cycle in the British economy.
9 See M O?M
