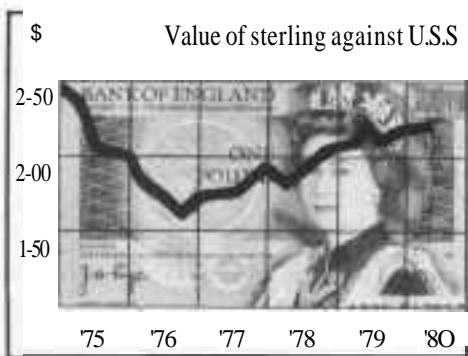


THE TORIES' HIGH EXCHANGE RATE POLICY

A few years ago there was much discussion of the dangers to the UK economy of the so-called 'Dutch disease'. It was argued that self-sufficiency in oil would follow the



example of Holland and improve the balance of payments, pushing the current account into surplus. The value of sterling would then rise to such a level that home industry would find it impossible to compete either in export markets or with imports.

The danger of a chronic surplus on Britain's balance of payments is, however, as remote as ever. In 1979 Britain faced a deficit of £2.4 billion on the current account, a similar deficit is likely for 1980 and in 1981 the National Institute for Economic and Social Research (NIESR) forecast a continuing deficit of over £1.3 billion. The reason for this state of affairs is that the balance of payments gains from North Sea oil are being more than wiped out by the continuing relative decline of Britain's main export earner, manufacturing. Imports of foreign manufactured goods have been rising faster than manufactured exports for some twenty years, but since 1978 this trend has been given an extra twist by the rapid appreciation of sterling.

The exchange rate for sterling is now around 17% higher than at the end of the last period of devaluation in 1976. Over the same period costs in Britain have risen by about 14% more than other capitalist countries. Thus the cost position is in foreign currency terms some 30% worse for UK exporters relative to foreign competitors than it was in 1976.

North Sea oil has meant that some appreciation of sterling was inevitable in the

absence of government intervention. But why is a high exchange rate persisting alongside a balance of payments deficit? The answer is quite simply the Government's monetary squeeze and the lifting of controls on the movement of capital. As a result, finance capital has flowed out into the country attracted by high interest rates.

However the Government has made it clear it has no intention of intervening to bring down sterling. As Howe put it in a recent letter to the Treasury and Civil Service Committee: 'The poor trend in our trade performance in recent years, which reflects the UK's inadequate industrial performance, is a matter of concern. The way to improve this, however, is not by a depreciation of the exchange rate — since any gains to competitiveness will in turn be eroded — but by higher productivity and lower cost increases. The Government believe, therefore, that overriding priority must be given to reducing inflation, which impairs economic efficiency and discourages investment, and to strengthening the supply side of the economy.'

A high exchange rate is an important mechanism for achieving the 'overriding priority' of reducing inflation through its effect of lowering the prices of imports. But the high pound, high interest rates, the

slump in demand together with the success of trade unions in maintaining the real wage are squeezing profitability to an unprecedented extent. We are now witnessing the odd spectacle of a businessperson's government presiding over a dramatic collapse of profitability in the private sector. In 1979 gross trading profits of industrial and commercial companies (excluding North Sea oil profits) fell in real terms by some 18% of the 1978 level. In 1980 the NIESR predict profits to drop to only a quarter of the 1979 level.

The high exchange rate is part of a Tory policy of radical deflation in which unemployment is being used as an economic weapon against the work force. The dilemma the Tories face is that in order to weaken the working class movement, in the short run they cannot avoid hurting capitalists as well. In the long run they aim to bring about a fundamental shift in the balance of class forces away from labour creating favourable conditions for capital accumulation. But in the meantime dismay is being expressed by the CBI over the present effects of Tory policy. However it would be wrong to expect a U-turn at this stage as a result of pressure from this quarter. CBI criticism is being directed at the high interest and exchange rates. Their 'alternative' is to urge the

Government to reduce public expenditure still further, hence reducing the public sector borrowing requirement. Interest rates would then fall, capital would flow out of the country and sterling would depreciate. This seems to be the most likely direction of Tory policy in the immediate future and Heseltine's struggle to bring local authority spending into line is a crucial battle now facing the Government.

To meet this challenge the labour movement, as well as lifting its campaign over public expenditure cuts, needs to incorporate into its alternative economic strategy an exchange rate policy. In the past before problems of a high exchange rate, the Left has supported import controls *as opposed* to devaluation as a solution to the balance of payments weakness in the UK economy. This policy now needs reassessing. Import controls will do nothing to help exports which constitute at present over 60% of manufacturing output. A *combination* of import controls and devaluation is the appropriate alternative in the area of trade which the Left should counterpose against the Tory policy of free trade and the maintenance of a high exchange rate.

Contributors:

David Tricsman, Paul Levine



**Whirlwind
before
the storm**

The Origins and development
of the uprising in Soweto and
the rest of South Africa,
June-December 1976

Ppb 14, Hbk £8.29pp, 280pp, 280pp, ISBN 0 90738 37 7

'Particularly impressive is the book's analysis of the social, political and economic control of Urban Black life . . . directly relevant to an understanding of a South Africa once again swept by mass demonstrations against apartheid.'

Morning Star.

Available from: Publications Dept., International Defence & Aid Fund for Southern Africa, 104 Newgate St., London EC1A 7AP. Telephone 01 608 6123.

Please send me _____ copy(ies) of *Whirlwind before the Storm* in paperback at £4/hardback at £8 (delete as necessary).

I enclose remittance of _____ MT Sept

Name _____

Address _____



**NO Cruise
NO Trident
Cut arms spending**

**DEMONSTRATE
October 26th London**

Highlighted by controversy over the modernisation of British and NATO nuclear weapons, a fifteen year lull in the debate about nuclear weapons is coming to an end. The deep concern expressed by hundreds of thousands of people about the slide to war has resulted in the spectacular growth of a mass movement — CND. On October 26th, under the banner 'Protest and Survive' and with the three demands listed above, a demonstration is to take place which is confidently expected to be one of the largest for many, many years. More details from: CND, 29 Great James Street, London WC1.

JOIN CND 