CONVERTIBILITY AND AFTER

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IN the midst of the great economic crisis between the wars (1929-1933) the trading and currency arrangements of the capitalist world based on the gold exchange standard were seriously disrupted and had to be abandoned. In the midst of another (though as yet milder) economic crisis today attempts are being made to restore a similar monetary system. That is the meaning of the moves toward convertibility announced by various European governments.

The gold exchange standard perished in 1931 under the accumulating strains of the world economic crisis. It became clear that the system could not work, because its very structure allowed American monopoly capitalism to hog most of the monetary gold in the world and to thereby intensify the crisis that was raging. In addition the system made it more difficult for states which wanted to do something to mitigate the crisis. Even before the crisis 1929-33 developed, the gold standard, in post-war conditions, was proving to be fiercely inimical to working class conditions. Any country which was experiencing foreign trade difficulties was bound to lose gold, and to stop this loss it was expected to take measures to lower the cost of production of its exports, which meant lowering wages. A gold-backed currency was expected in good and bad times to remain at the same level as all other currencies based on gold. It was wages which were expected to adjust themselves in a downward direction in period of crisis.

The ruthless application of this policy in Britain caused the miners' strike and the General Strike in 1926. Prime Minister Baldwin's 1925 dictum 'the wages of all workers must come down' was the expression of this policy. A stable pound, but unstable wages and employment was the aim.

When the capitalist States were blown off the Gold Standard, they went over to a type of policy which could be summed up in the phrase 'economic nationalism'. The capitalist world tended to split up into sterling, dollar and franc currency blocs. A whole series of bilateral trade agreements took the place of multilateral trade. All capitalist governments were under pressure to do something positive to reduce unemployment. In fact many of the measures of economic nationalism were of a beggar-my-neighbour character, and they certainly did not eliminate unemployment or even reduce it to moderate proportions. They did, however, diminish the power of the United States to use its great economic strength at the expense of weaker states in the capitalist world; they also tended to reduce the business of the City of London with regard to banking and the operation of commodity markets.

It has therefore been the unrelenting purpose of the United States of America to eliminate as far as possible all measures of economic nationalism and achieve a world in which all currencies will be interchangeable at fixed rates and in which there would be no discrimination against dollar goods.

In the British loan in 1946, in the Marshall Aid agreements, in the assistance given to the setting up of the European Payments Union, the United States never ceased to insist that these were measures whose logical end would be the full interchangeability of all currencies. The Bank of England and the big merchant banks of the 'City' were eager to co-operate. They thought they saw possibilities in restoring London as the world's financial centre.

As far back as 1952 the City and some prominent officials in the Treasury were in favour of a dash to convertibility. Only Tory fears as to the reaction of the country, if this proved to be a dash to mass unemployment as well as to convertibility, made the Government hesitate.

The main reason for the present decision to extend convertibility on the part of the British Government and the City was the pressure of the Americans and West Germans. True, the propagandists of the City have pretended that the pound had been strengthened considerably in recent months and was now strong enough to undertake the adventure. This, however, is purely a short-term situation. Productivity in British industry, and therefore power to compete in the world market, has not improved as fast as that of Britain's main competitors, West Germany and the U.S.A. Indeed British productivity is stagnant, while that of U.S.A. and West Germany is growing, though slowly. It is true that Britain's foreign trade balance has become favourable owing to a big improvement in the terms of trade. Britain can now get raw materials much cheaper than before owing to a world-wide fall in prices. This means, however, the relative impoverishment of Britain's colonies and dominions and will make it more difficult to maintain British exports to these countries in the immediate future. It is absurd to build a long-term policy on such shifting sands.

Besides it is widely recognised that the policy of convertibility must be developed further. The next steps are likely to be the relaxation of discrimination against dollar goods so that more

American imports can be admitted to the United Kingdom. From that the final and most hazardous step, that of making some of the sterling in the hands of British citizens convertible into dollars cannot long be delayed.

Before discussing the effects on conditions inside Britain, it is necessary to remember the continuing crisis, the sharpening competition in the world market, the West German and French rejection of the Free Trade Area, and the entrance of the U.S. motor firms into competition for the small car market. Suppose in these circumstances some adverse development—the loss of the U.S. car market, the fall in exports to the colonies, the loss of trade in the Common Market Area, the failure of capital investment in Britain to grow sufficiently—causes a move from sterling into dollars or marks. The only way the Government and banks can respond to this situation is to operate a policy similar to that pursued when Britain was on the Gold Standard or the Exchange Gold Standard. This involves trying to keep the pound stable while exerting a downward pressure on wages and costs of production generally. To do this means reverting to the dear money policy, using it to create unemployment and urging the employers in the new situation sharply to reduce wage costs. This in the first place may not involve a direct attack on weekly or hourly wage rates. It could mean attacks on piece-rates, on merit money, on all those extras which were squeezed out of the employers at the height of the boom. It could also mean a ruthless drive to economise labour inside the various factories. It is a well-known fact that employers, with memories of past labour shortages, have been carrying more men than are needed, encouraged by the Tory promises that the recession will soon be over, and also because they did not want a fierce redundancy dispute with the workers resisting dismissals. Now policies involving substantial dismissals will be imposed on them more and more. Or the adverse developments may take place if the economy remains stagnant and public opinion forces the Government to attempt a more comprehensive anti-slump policy. If foreign holders of sterling react against this policy the Government may be forced to abandon it. Indeed under certain circumstances the Government might be intimidated from embarking on this type of policy at all.

Indeed convertibility renders it more easy for the finance-capitalists in Britain to mobilise their opposite numbers abroad to bring pressure on a British government whose general policy they dislike, even if that policy does not attack the capitalist basis of society. We know from a recent article in the *Labour Monthly* how in 1931 the British banks were not above securing the co-operation of their American colleagues in bringing pressure on the Labour government to cut unemployed relief. We now know that at the time of the Attlee government there were some flights from the pound organised by reactionary groups in this country despite the existence of exchange controls. With those controls much weakened the power of financial groups to obstruct or intimidate governments is correspondingly increased.

It is of course being argued that the recent move to convertibility will make it easier to attract foreign money to this country and that will strengthen the position of the pound. But money which comes to this country to make a quick profit or to avoid a loss elsewhere, can, with a slight change of circumstances, depart as speedily as it came. Indeed there is quite a danger of the Government and the banks adopting higher interest rates than exist elsewhere, in order to keep foreign money here and in so doing definitely discouraging industrial development in Britain. There is no doubt that up until 1931 the policy of high interest rates held British capitalism back in comparison with some of its continental rivals. Speculation can also take place in relation to the possibility of the election of a progressive government in order to frighten the electorate and induce a panic vote against such a government.

Naturally this monetary set-up will increase the power of the international financial institutions which have been set up, under American control in the post-war period, namely the International Monetary Fund and the World Bank. Indeed one of the arguments for moving closer to convertibility is that Britain will now be able to call upon the Monetary Fund to help it in the present operation. Thus American monopoly capitalism will have increased possibilities of disciplining the lesser capitalist States and forcing them to conform to an international capitalist trade and monetary set-up which will favour the U.S. as the strongest capitalism.

It is possible that these new monetary arrangements will free powerful capitalist groups from the supervision even of governments supporting monopoly capitalism. Far be it to suggest that these groups despising the State, will go back to a policy completely rejecting State intervention. The State will always be useful to them for the repression of the workers and as a milch cow. But there is little doubt that some groups will be able in certain circumstances to ignore State policy and even work against it, if they see more profits coming that way. The further aggrandisement of finance capitalist groups—possibly on an Anglo-German or an Anglo-American basis—and a further increase in their already enormous political power seems inevitable, unless this policy is changed.

Mr. Gaitskell, the leader of the Labour Party, and his Shadow Cabinet have deplored the Government's decision on convertibility and have stressed its dangers. But they do not propose to reverse this policy or even re-examine it. What, besides contempt, they expect to gain from this craven attitude we are not told. Of course the Tories would raise a great clamour about Labour being against a strong pound, but surely the Labour Party could demonstrate the immense damage which this kind of measure did to British export industries between 1925 and 1931. If Labour is not going to oppose dangerous Tory measures, because of the danger of misrepresentation in an election, then it will inevitably get into a state of frozen immobility fatal to its election prospects.

What of Labour policy in the light of this refusal? In the period from 1945-51 Right-wing Labour theorists insisted that it was possible to control capitalism, in order to maintain full employment and keep prices stable. In point of fact the more capitalism emerged from war-time conditions, the more ineffective some of the Labour controls became. Still for what it was worth the Labour Party from 1951 onward declared that the Tory policy of attempting to control the economy by manipulating interest rates and taxes was insufficient. Those monetary controls would have to be supplemented by physical controls, the Labour Party said, such as controls over raw materials, over imports, over the licencing of machinery and over buildings. The *master* control was, however, exchange control, designed to prevent a flight of capital from Britain. Gradually the Labour Party ceased to advocate most of these controls. In its *Plan for Progress* only two controls were left, namely, building licences and exchange control. Now the party is refusing to reverse the Tory policy of weakening exchange controls. It is still talking about controlling capitalism or rather 'the new mixed economy' as it prefers to call it, but what its control instruments are it is no longer able to tell us.

So the basic lessons of the new step towards convertibility appear to be (1) that the workers standard is menaced as never before in the post-war period, and that the whole movement must prepare for struggle ahead, and (2) that the Right-wing policy 'Managed capitalism' is breaking down in face of the first serious challenge.