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THE TIMING of the resignation of David Mellor, the hapless Minister of Fun, calls to mind the public unmasking of the notorious British spy, (Sir) Anthony Blunt, in 1979. Blunt, it will be recalled, was a figure who did serious harm to the cause of Britain, and was, therefore, not pursued by the tabloid press or their hordes of sprinting photographers until well after the damage was done.

This is in spite of the fact that he worked for the Royal Family.

Having unearthed conclusive evidence of Blunt's crimes, the Establishment kept the findings quiet for many years. The final reserve last week. It did, however, have the Minister of Fun, and Mellor's resignation undoubtedly proved a useful diversion from the bankruptcy of economic policy and the abysmal showing the Government made in last Thursday's emergency debate.

Of course, Mellor's timing also served another purpose. To lose two Ministers in a week would have been to evoke familiar quotations from Oscar Wilde. Mellor's resignation was extremely useful for the Chancellor, perversely strengthening his position in the Cabinet — at least for the weekend.

There is no overestimating the Chancellor's luck in this respect. Indeed, to judge from his recent demeanour in Washington, at the Group of Seven

... (not Bath, you understand: that was altogether a more fraught occasion).

I am tempted to suggest that 'a British monetary policy' is one of the few things that *are* being made in Britain at the moment. But that would be inaccurate, because, as the Chancellor himself has obtusely hinted, even under floating exchange rates there is no such thing as a strictly British monetary policy.

This sudden outburst of elation on the part of my new friend can be attributed to several factors, including that he survived *last* weekend, and satisfaction that he is no longer having to defend the indefensible — by which I do not just mean the pound, but the whole baggage of nonsense which he

The fact that the Government is now pursuing more sensible economic policies — or perhaps being pursued by them — is not enough. The truth is we are now the laughing stock of the entire financial community.

peerage. Major's discomfiture is so patent that, if she were still in the Commons, all manner of comebacks might be possible. But there is no precedent, to my knowledge, for people being able to renounce peerages thay have accepted voluntarily.

So here we are, with a rumbustious performance from the Chancellor in the Commons, and at least a 'pass' in his *viva* with the Conservative Back-

Chancellor sees the turn of events moving in his favour —distrust of Europe, relief at the new policy of floating exchange rates and lower interest rates, and the absence of Madame Thatcher to take advantage of this in the Commons?

But let us stop fantasising. The fact that the Government is now pursuing more sensible economic policies (or perhaps

... wasteful way in which it occurred.

Since the policy was Major's and not Lamont's, it may seem unfair to say that the Chancellor should do the decent Roman thing and fall on his sword. But, given his ambitions, it might be wise of him to do so before he is pushed. It was Major's policy, but Lamont was the front man. The Chancellor put his job on the line with his speech to the European Policy Forum in July. He gave his word that we should not devalue, and listed a host of dire consequences of devaluation. We *have* devalued, and the dire consequences — higher interest rates etc — have not occurred.

But the credibility of his anti-inflationary strategy is in tatters — to use his own words on 10 July.

... ment, and the word of the present Chancellor has been devalued in line with those pounds.

One should not be so rash as to compare the damage done to Britain's reputation by recent events to that wrought by the spy Blunt. The more recent episode has probably been far more harmful to the reputation of UK plc, although the actual outcome for policy should be beneficent.

The question is whether the Chancellor cuts a credible figure as the purveyor of that new policy.

Lest anybody doubt how serious the 'U' turn has been, let me remind them of the list which Norman Lamont gave us on 10 July, when he said there was 'no alternative to our present policy'.

On that occasion the Man

... and run option — cut interest rates and a run on the pound'; (v) 'Leave the ERM and set interest rates according to domestic monetary targets' — 'We have been here before . . . in practice the money supply figures often provided a poor guide to interest rate policy.'

I rest my case. The question of credibilty also applies to the Prime Minister himself — some would say more so. But if I were Norman Lamont I should be wary of declarations of support from the Prime Minister which state: 'I take full responsibility for the actions and policies of my Chancellor.'

They sound all too reminiscent of a previous Prime Minister, whose name momentarily eludes me, who declared that her Chancellor was 'unassailable'.

Fascist spectre looms over stagnant Europe

Centre Stage

Europe needs a New Deal to prevent mass unemployment, argues **Jan Toporowski**

A SPECTRE is haunting Europe: the spectre of fascism, born of economic stagnation and the very apparent inability of democratic governments to eliminate mass unemployment.

There are two main reasons for this alarming prospect. First, exchange rate stability in Europe has come to be regarded as the precondition for European economic and monetary union. Second, the distribution of productive capital in the European economy is such that, broadly speaking, the German economy normally operates surpluses in its trade with the rest of the European economy. In other words, other countries can only keep their foreign trade in balace by holding down the growth of their own economies.

The commitment to the European exchange rate mechanism is not, as many economists have interpreted it, a commitment to the convergence of European rates of inflation. In fact, it means giving an overriding priority in economic policy to the reduction and elimination of foreign trade deficits: the ERM requires member governments to keep the exchange rates of their currencies stable or strong. For currencies that are not reserve currencies, this is achieved by maintaining foreign trade in balance or surplus. For deficit countries, the most effective way of eliminating trade deficits is by reducing demand so that fewer imports are purchased. The alternative way of strengthening exchange rates by attracting foreign capital inflows with relatively high interest rates is temporary, unreliable and unstable. In so far as it works more than temporarily, it does so because raising interest rates reduces demand in highly indebted economies.

The fact that price inflation is also reduced when trade deficits are eliminated in this way is a by-product of the arrangement: it is is not the effective means by which currencies are strengthened.

The problem for Europe is that reducing trade deficits also diminishes the exports of surplus countries. This extends the deflation from deficit countries to those with trade surpluses. As surplus countries join in the deflation, the demand for exports from the deficit countries is reduced. The latter have to deflate even more to obtain a given deficit reduction.

Furthermore, when Germany, the main surplus country, reflated to support the East German economy, it promptly drove itself into a trade deficit.

The ERM is therefore a regime of permanent deflation and mass unemployment of the kind that we have seen in France over the past 10 years as long as governments refrain from intervening in industry and directing its growth. Again, the increasing concentration of productive capital in western Germany means that, even outside the ERM, de-industrialising economies such as Britain cannot expand their industrial capacity and production without increasing their trade deficit and weakening their currency.

Among European political elites, the Euro-sceptic option is for a free trade area in which all countries will 'compete equally'. The currencies of the deficit countries will depreciate until their trade deficits are eliminated.

But, in so far as it works like high interest rates, devaluation reduces the spending of importing classes, (principally individuals with high incomes, and manufacturing industry). In this way too, it reduces the exports of the surplus countries. Although it does not reduce imports, it raises import prices, boosting price inflation in the deficit country.

European policy, and the Euro-sceptic alternative, have reduced the economic policy choices to two: severe deflation, and milder deflation with inflation. The poor, discontented and marginalised, who are in increasing numbers paying for this, will note the apparent failure of democracy. At best they will become alienated and cynical. But more and more of them are clearly turning to authoritarian and xenophobic ideologies.

The bold alternative is European monetary union. But the economic problem with this is the scope that it will leave for government economic activism.

If European governments are reduced to the role that local authorities have in the UK, as advocates of an independent central bank would prefer, then there is little hope that they will be able to do much beyond acting as the deflationary arm of the European central bank: holding down incomes and expenditure to keep imports low so that the European central bank can keep the European currency 'strong'.

This is likely to be more and more deflationary as the United States tries to eliminate its deficit with the rest of the world, and as the world outside Europe reduces its imports from Europe in response to the continent's deflation. The continuing regime of mass unemployment in Europe will lead to further disillusionment with the ideal of a united Europe. Fascist and nationalist movements will thrive on this.

The recent withdrawal of sterling from the ERM confirms that it is not possible to use interest rates to permanently strengthen a weak currency.

It is now much more likely that the ERM will fall apart as member countries resort to devaluation as a partial alternative to deflation. But, with all countries simultaneously trying to become more competitive by cutting costs, the net effect of all this competitive devaluation can only be further deflation, with rising price inflation as well.

However, a democratic European government or an alliance of national governments could encourage enterprise by infrastructural works, while the organisation of industry in impoverished and backward parts of Europe can lead the continent out of the economic impasse in which it now finds itself. What Britain and Europe need is a European New Deal.

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Bottom Line