Labour and a World Society

Denis Healey
LABOUR and a WORLD SOCIETY
A New Fabian Essay revisited

Chapter
1 Introduction 1
2 Building a World Society 2
3 The Arms Race 4
4 A Non-Nuclear Strategy for NATO 6
5 The Economic Dimension 10
6 The Debt Crisis 12
7 Conclusion 16

Denis Healey is MP for Leeds East. He was a contributor to New Fabian Essays, published in 1952. From 1974 to 1979 he was Chancellor of the Exchequer and is currently Labour’s front bench spokesman on Foreign Affairs.

This pamphlet like all publications of the Fabian Society represents not the collective view of the Society but only the views of the individual who prepared it. The responsibility of the Society is limited to approving the publications it issues as worthy of consideration within the Labour movement.

Cover photo: John Chapman

January 1985
ISBN 0716305011
ISSN 0307 7523
Typeset by Lithosphere Printing Co-operative Ltd. (TU) 01-8371174.
1. Introduction


Gromyko had already been Ambassador in the United States for ten years, and a key influence on Soviet foreign policy for eighteen years. He is still the dominant influence today.

Change in Britain was much more rapid. Only six years had then passed since Ernest Bevin had spoken in Blackpool at the first Party Conference I attended, in 1945. We had just won the war against Nazi Germany in alliance with the Soviet Union. Bevin had told the Blackpool Conference – “Left can talk to Left”, and I had warned the Party against carrying the red flag in front of the armoured cars of the European counter-revolution. At that time we all looked forward to a long period of cooperation with the Soviet government in peace as in war.

I had spent the intervening six years as International Secretary of the Labour Party, with two main responsibilities – to act as a link between Foreign Secretary Ernest Bevin and the Labour Party in the country, and to help reconstitute the Socialist International, which had disintegrated during the Second World War, – this kept me continuously in touch with the Socialist parties of Eastern Europe, all of which had been forced into liquidation against their will and compelled to fuse with the communist parties in their countries.

When I wrote my New Fabian Essay, Labour Britain had been shocked to find itself in the firing line of a Cold War, and was fighting along with the rest of the United Nations against a communist attack on South Korea. Unrest in Eastern Europe was steadily increasing. Yugoslavia had already left the Cominform; the risings in East Berlin and Hungary were soon to follow.

The Labour Party’s post-war idealism had been cruelly disappointed. My essay was an attempt to explain what had happened. Its main conclusion was that the Labour Party’s besetting weakness in those days was to ignore the role of power in foreign policy – to assume that the outside world was a utopia in which all governments naturally wanted to work with one another for the greater good of humanity as a whole. I felt that recent experience should have forced us to a very different conclusion. Mankind was capable of the utmost selfishness and brutality. Young men like myself had been compelled to spend six years in the Services, fighting to defeat a regime which had massacred six million human beings, and was equally ruthless in treating all its political opponents at home and abroad. Nationalism was still by far the strongest single force in world affairs, much stronger than class feeling or ideology. The world was an international anarchy and unless we could establish some collective control over that anarchy we were condemned to repeat the tragedies of the First and Second World Wars at ever increasing intervals.

To those in the Party who accepted the need to control the international anarchy, the argument was then, as it still is now, between those who believed, like me, that you had to create a world society before you could create a socialist world; and those who believed that it was impossible to create a world society out of nations which did not share the same ideology, therefore the right path to world peace was to ensure that the proletariat won the international class war. In its mildest form, this theory implied that a socialist foreign policy required simply working
with socialists in other countries to create a socialist world.

Experience both during and after the War had shown that the working class in most countries was, if anything, rather more nationalistic than the employing class. We have been reminded of this again during the campaigns of Suez and the Falklands. Moreover, working only with socialists was, as Nye Bevan said at the time, a policy for hermits. There were just not enough socialist governments in the world to work with effectively, and socialists do not always agree with one another about foreign policy. Indeed, our new Labour Party defence statement had to admit that there are important disagreements about defence between the German socialists in opposition and the British socialists in opposition; there are much deeper divisions between the French socialists in office and the Greek socialists in office. The Labour Party itself, both in and out of office, has often been more deeply divided on foreign policy than on any other issue.

The key problem a socialist party has to face in the modern world was best defined by Jim Griffiths many years ago as follows: "Science has turned the world into a parish, but the peoples of the world have not yet learned how to be neighbours."

---

2. Building a World Society

My main concern throughout my political career has been how to create this world society. I have come to the conclusion that the path to a world society is essentially the same as the path to a socialist society at home. It depends on establishing some sort of collective democratic control over power in society. And to establish lasting control over power is possible only on the basis of justice. In the world society this means that the poor and weak in the world must be given more influence over what happens than would be justified simply by their military or economic power.

In 1951 the major obstacles to this process were already obvious. It would be impossible to build a world society through the United Nations so long as the Soviet Union and other communist countries believed it was impossible for capitalist and communist countries to create a single community. That was their view in the post-war years. They refused to join most of the specialised agencies of the United Nations and were reluctant to share in any functional cooperation through the UN or any other international grouping which might in any way limit their freedom to act in what they conceived as their own interest. The central problem for us in post-war Britain, therefore, was how to involve the United States in the process as the major power in the non-communist world. At that time, America was still a very reluctant participant in world affairs. An Act of Congress in 1936 had committed the United States to permanent neutrality. Although the presence of American forces in Europe and Asia at the end of the War necessarily involved the United States in the problems of those areas, there was a powerful desire not only among the American people but even inside the government machine, notably the State Department, to disengage from these responsibilities, avoid "entangling alliances", and sink back into the 'normalcy' as President Harding called it, of the pre-war years. Much of America's early support for European union was based on
the belief that a united Europe would provide a cordon sanitaire against the westward spread of communism and would soon become independent of continued American military or economic support.

On the other hand, the threat from international communism, by which American leaders sought to justify continued involvement in Europe and Asia, was already crumbling. Yugoslavia and Albania had broken away from Soviet control, and I was able to predict that China would also leave the Soviet bloc before long.

The third problem I foresaw was that the end of imperialism would not produce stability in the Third World. On the contrary, we would leave the ex-Colonial countries with a dreadful legacy—appalling poverty, frontiers which rarely bore much relationship to natural, tribal or national divisions, and a severe shortage of the administrative skills which they would need to face the formidable economic and political problems confronting them. So the Third World was likely to be shaken by turbulence for some time after the end of imperialism.

I believe the central propositions of my essay on Power Polities and the Labour Party are still true. Our main task as socialists is to establish some collective democratic control over the international anarchy on the basis of greater economic and political equality between the richer and poorer countries. I feel more strongly than ever that in the world we actually inhabit going it alone is no answer for Britain. We cannot stop the world and get off. If the future of the world were left to a free market in which nations compete for power and wealth the consequences would be as disastrous as a free market in economic power inside our national society. In an international anarchy the weakest will go to the wall, the powerful will triumph and the common interest will be trampled underfoot.

**Changes since 1951**

However, since I wrote my New Fabian Essay important changes have taken place on both sides of the Iron Curtain, in the Third World, and in the military-economic framework of foreign affairs.

International communism, which was already crumbling once communists won power outside the Soviet Union, has ceased to exist as an important factor in world affairs. Once Kruschev had denounced ex cathedra the doctrine of papal infallibility, the ideological cement of international communism dissolved. China followed Yugoslavia in rejecting Soviet leadership. In Eastern Europe, Hungary, Romania and Eastern Germany have succeeded in asserting a degree of independence from the Soviet Union. Poland and Czechoslovakia are kept sullenly loyal simply by the threat of force. In Western Europe none of the communist parties except the French and Portuguese still avows a loyalty to Moscow.

The Soviet Union itself is a very different country from that which was led by the ageing Stalin in 1951. Russia’s living standards and its military power have been enormously increased. But it faces massive domestic economic and social problems which an arthritic and conservative bureaucracy has great difficulty in handling. Nationalist resistance to control by Moscow is growing, not only in Central Asia but even in the Ukraine and White Russia. By the end of the century the Russians will be a minority in the Soviet Union. Within the next few years leadership will pass from the hands of men whose formative experience was under Stalin to a generation, on average twenty years younger, for whom even the war is only a childhood memory.

Meanwhile, however, the United States has changed beyond recognition as an actor on the world stage. It is no longer a reluctant participant in the game of nations. It is actively and enthusiastically involved in every continent. The danger today is not that the Americans will revert to pre-war normalcy, but that they will opt for a policy of global unilaterism under which they intervene all over the world without trying to win the consent or understanding of their allies or of the countries in which they operate.

This danger is increased by the fact that political power in America has followed economic power to the southern and west-
ern states where the traditional links with Europe, so important in the eastern states, are weak or non-existent. Moreover, the increasing immigration into the “sunbelt states” of Hispanics from Latin America and of Asians from the Western Pacific is bound to shift the regional balance of America’s international interests. In any case, the post-war generation of American leaders who built up the Atlantic Community and helped to devise the framework for world economic order which collapsed in the seventies has now passed from the scene.

The Reagan administration has been greatly influenced in its foreign and defence policies by anti-Communist ideologues who reject the post-war settlement with the Soviet Union, want to overturn the agreements made at Yalta and Potsdam and believe that America can and should build up sufficient military superiority over the Soviet Union to compel it to make concessions to American hegemony. This trend in recent American policy has shown total indifference to world opinion in areas like Central America and the Caribbean, which have been unilaterally designated as of vital strategic importance to the United States. Though Grenada is further from the frontier of the United States than London is from the frontier of the Soviet Union, it is nevertheless treated as part of America’s backyard. The ideologues are as hostile to international economic cooperation as to political cooperation, regarding the International Monetary Fund and the World Bank alike with the same contemptuous distaste.

3. The Arms Race

While these changes have been taking place on both sides, the Soviet Union and the United States have been engaged in an arms race which has led to both of them accumulating nuclear arsenals far larger than are needed for any rational purpose. The nuclear arms race has changed the whole framework of world politics. At times, one side or the other has pulled slightly ahead in one category of nuclear strength or another. But neither has at any time appeared likely to acquire the sort of superiority which would enable it to destroy its adversary’s ability to inflict unacceptably high levels of retaliation. The stability of the nuclear balance has been invulnerable to quite large variations in relative capability.

However, at present the arms race is entering a new phase which could within a decade or so seriously destabilise the nuclear balance between Russia and the United States; this could tempt the weaker to launch a preemptive strike against the stronger before the stronger was in a position to destroy its retaliatory power. Three developments are particularly dangerous at the present time.

First, both sides are deploying missiles with a very rapid flight time which would compel the adversary to launch on warning of a possible attack. For example, the Soviet SS22 missiles based in East Germany and Czechoslovakia could destroy all the Cruise missiles at Greenham Common and Molesworth some three minutes after a launch. This would mean that the decision to respond to the first sign that launch had taken place would have to be made by computers. There would be no time to consult President Reagan, still less for him to consult Mrs Thatcher. After the
shooting down of the South Korean airliner, and the known examples of misinterpreted radar warnings, no one can be happy to abandon the decision between the survival and destruction of the human race to the micro circuits of computers.

The second dangerous development is the deployment by both sides of small but accurate weapons like the Cruise missile, which can carry either nuclear or conventional warheads. At present both the United States and Russia plan to deploy over ten thousand Cruise missiles on ground, at sea or in aircraft. In any conflict the launch of large numbers of Cruise missiles would have to be regarded by the adversary as carrying the risk of a nuclear attack and inviting a nuclear response. Besides increasing the risk of nuclear war, the deployment of these dual-capable missiles greatly increases the difficulty of verifying an arms control agreement, since they are too small to detect by satellite photography, which has been the only method of verification so far acceptable to the Soviet Union.

Thirdly, the United States is developing and hoping to deploy a system of defence against ballistic missiles which might render it invulnerable to a retaliatory attack and therefore might seem in the Soviet Union to be the prelude to an American first strike. Meanwhile, both America and Russia are developing anti-satellite weapons which, if successful, could destroy the main means on which each side depends for warning of a surprise attack.

These new and dangerous developments in the arms race are under way just at the time when scientists in the USA, Europe and the Soviet Union have concluded that if even a fraction of existing nuclear arsenals are used by either side, they might generate fires which throw up so much soot into the upper atmosphere as to blot out the sun over the Northern Hemisphere for a period of months. During this so-called nuclear winter, human life, and even plant life, might become impossible north of the Equator and in large areas south of the Equator. So even a successful first strike would condemn the population of the aggressor country, no less than of its enemy and of neutral countries, to a lingering death in conditions of Arctic night. There are many uncertainties about the precise number, types, and targets of nuclear explosions which would be required to produce a nuclear winter. But the general concept is now almost universally recognised as valid. This must have profound consequences for any rational government’s approach to the problems of foreign policy and defence.

Most important, if the Soviet Union or the United States ever carry out a major nuclear attack, it would be impossible for any country in the Northern Hemisphere to escape catastrophe. General de Gaulle’s main argument for creating a French national nuclear deterrent was to enable France to keep out of a nuclear war between Russia and the United States. Mrs Thatcher increasingly uses the same argument to justify a British nuclear deterrent. This argument collapses in the face of a nuclear winter.

But it would be equally impossible to opt out by renouncing nuclear weapons and declaring neutrality, because currently and non-nuclear neutral will be condemned alike to death in a nuclear winter if the Russians and Americans ever come to nuclear blows. Thus the argument that the presence of foreign nuclear bases on one’s territory makes one a nuclear target loses its relevance.

I have no doubt that the strategic intelligence on both sides will seek to respond to the concept of nuclear winter by developing weapons and strategies which would enable them to use nuclear weapons without such consequences. The arguments for a neutron bomb may well be revived. And some will say that the case for civil defence is greatly strengthened since it is likely that a future nuclear war would involve the use of only a small number of weapons against a small number of targets on both sides.

Any normal human being, however, must feel that foreign and defence policy for any government in the world must now be to exert the maximum influence on relations between the super powers so as to ensure that they never fight a nuclear war.
4. A Non-Nuclear Strategy for NATO

The great virtue of the new Labour Party statement on defence (Defence & Security for Britain Labour Party, 1984) is that it establishes a clear framework for a rational approach to this problem. First, it argues that the Soviet Union and its allies do represent a potential military threat to Western Europe, and that their threat can be met only through deterrence by the appropriate forms of military power. Second, in the modern world the only appropriate deterrent against a major conventional attack must be a conventional deterrent.

NATO's current strategy of flexible response involves using nuclear weapons early against any conventional attack which seems likely to overrun its forces, and moving up a ladder of escalation through various levels of limited nuclear war to an all-out strategic intercontinental exchange between Russia and the United States. This is no longer feasible in practice, if it ever was. Both sides plan to attack their adversary's command and control centres at the beginning of any conflict. The electromagnetic pulses produced by the first nuclear explosion will in any case make communication between governments and their field commanders impossible. Moreover, the Soviet government has said it would observe no limitations on the use of nuclear weapons once the West had initiated nuclear war in Europe. Even if we ignore such statements, Russia has as large and varied an arsenal of nuclear weapons as NATO and could therefore win a nuclear conflict at any level if it had more numerous forces, which is the assumption on which NATO's first use of nuclear weapons depends. The central problem therefore facing NATO is to develop a non-nuclear strategy for deterring and, if necessary, frustrating a non-nuclear attack. As the Labour Party statement makes clear, the first duty of a Labour government must therefore be to shift NATO policy in this direction.

The argument about nuclear weapons will continue in Britain and elsewhere for many years. Inside the Labour Party it should now be concerned primarily with the question how best to shift NATO policy towards a conventional deterrent against conventional attack. Some conditions for success are fairly obvious. Whichever party is in office, Britain's influence inside NATO will depend partly on the strength of its arguments and partly on its military and economic power to help progress and hinder movement in the wrong direction.

My own experience under many American administrations is that Washington is exceptionally open to influence by argument from outsiders whose goodwill, experience and commonsense is accepted. The machinery for taking decisions in Washington usually involves prolonged argument between officials who favour different policies. Intelligent foreigners may often play a decisive role in such arguments.

I have also found that if Britain is able to mobilise the other European allies in support of a particular course of action the chance of its arguments carrying the day in Washington is greatly increased. This was how I persuaded NATO to set up the Nuclear Planning Group and the Euro Group when I was Secretary of Defence and persuaded the IMF to set up the so-called Second Oil Facility when I was Chancellor of the Exchequer.

Even under the Reagan administration there have been many officials in Washington, as well as many Congressmen, particularly in the Democratic Par-
ty, who already share our desire for a conventional defence of Europe. But we shall lose influence even with our friends in the United States if we adopt policies which they see as lacking in goodwill, experience, and common sense.

Second, if Britain wants to influence NATO towards a non-nuclear strategy, it must be able to make a major military contribution to the conventional defence of Europe. One of the virtues of the new Labour Party statement is its recognition that if we are to have the influence we need to carry out our policies, then we cannot commit ourselves to big cuts in defence expenditure in the short run.

**The role of unilateral action**

The realities of the problem we face have too often been confused and distorted by the argument between so-called unilateralists and multilateralists. The Labour Party has never believed that it is possible to achieve its objectives by unilateral action alone, or by multilateral action alone. NATO as a whole has already committed itself to a unilateral reduction in battlefield nuclear weapons because it rightly believes this would make military sense and reduce the risk of war. The Soviet Union recently unilaterally withdrew 20,000 troops from Central Europe for much the same reasons. Similarly, unilateral actions by Britain can help to achieve our objectives providing that they do not lead to reactions by other governments inside or outside the Alliance which make the situation more dangerous.

For example, Britain must unilaterally get rid of Cruise missiles because they serve no military purpose and undermine public support for the Alliance. We must also unilaterally cancel the Trident programme because it costs far more than it is worth, diverts military spending from more desirable objectives, and increases Britain’s destructive power so much as to disturb both our allies and our enemies. Trident would also make disarmament agreement more difficult, particularly if Britain, as Mrs Thatcher intends, refuses to include Britain’s strategic nuclear forces in the disarmament talks with Russia. During Neil Kinnock’s recent visit to Moscow, Labour’s commitment to decommission the Polaris force was matched by Chernenko’s commitment to match the dismantling of every British missile by the dismantling of a Soviet missile. So what was once a unilateral commitment has now become a bilateral one. This increases the security of both sides and creates a precedent well worth pursuing.

But it would be foolhardy to take other unilateral actions without first making sure that they did not provoke reactions by other members of NATO which made it more difficult to achieve the non-nuclear strategy we want. At present the balance of military forces in Europe makes it realistic to aim at a purely conventional deterrent against conventional attack. Indeed, the current gap between the NATO forces and the Warsaw Pact forces is generally recognised to be too small to give a Soviet attack an adequate chance of success.

I believe we could strengthen the defensive capability of NATO’s existing forces rapidly and at a small cost by certain changes in strategy and organisation so as to make a conventional deterrent totally effective. But any substantial reduction in America’s conventional contribution to NATO would make a non-nuclear strategy much less feasible. If the 300,000 American troops in Europe were cut, as some senators have proposed, to a third of their present size, it would be so difficult and expensive for the European countries to make up the difference, not only in manpower but also in weapons, that most NATO governments would not even try. They would simply seek new ways of making the nuclear strategy more effective, even if this increased the risk of war.

To expel American bases from Britain without consultation in the first days of a new Labour government would create a serious danger that America would reduce her conventional contribution to NATO. It would be equally dangerous if the American response was simply to move nuclear bases from Britain to Western Germany, where they would appear very much more provocative to the Soviet Union than they are in Britain.
On the other hand, I believe that, in intelligent negotiations, we could persuade the United States to agree to some of the proposals in our document which they currently reject. For example, it should not be difficult to persuade the Americans to withdraw their nuclear bases from Britain. It is doubtful whether they will need the submarine base at Holy Loch once the Trident submarines are in service. And their F111 bombers are likely to be of little value by the time the next general election comes in Britain. If the United States regarded Britain as a valuable ally in NATO, we should be able then to persuade it to withdraw its existing nuclear bases from Britain. But if we acted in such a way as to destroy America's confidence in our loyalty as a member of the Alliance, then I think the reaction, not only in the United States but among our European allies, could be such as to destroy the possibility of achieving the non-nuclear strategy for NATO which we desire.

There is another problem to which the Labour Party has so far given little attention. It is difficult to foresee any possible government in NATO, including a Labour government, wishing America to give up all its nuclear weapons while Russia still possesses a nuclear arsenal. In my opinion, Russia is bound to maintain a nuclear capability so long as China does the same.

One of the immense changes in the world since I wrote my New Fabian Essay is that China, a country of a thousand million inhabitants on Russia's ill-defined Eastern frontier, now possesses a strategic nuclear force. We are already having to face the problem of involving the Chinese government in the talks about nuclear disarmament, because the Russians have made it clear that they cannot ignore the Chinese factor in disarmament talks with the United States. For example, they reserved the right to maintain what they regarded as sufficient SS20s in Soviet Asia facing China whatever happened in negotiations in the IMF talks about Europe. So offshore American nuclear weapons will remain necessary to deter a nuclear attack on Europe even when all nuclear weapons have been withdrawn from European soil.

I know as well as anyone that in recent years membership of NATO has imposed severe strains on its left-wing supporters in Europe. It is difficult to feel confidence in an Alliance if its leadership is lacking in wisdom and consistency, as has too often been the case under the last two American Presidents. But it is difficult to see an alternative. For Britain in the age of nuclear winter, neutrality is not an attractive option. The nuclear winter condemns ally and neutral to the same fate if war breaks out. But a neutral Britain would have far less chance of influencing the decision between peace and war than one which accepts its obligations as a member of NATO. Neutrality would not put Britain in better company so far as human rights are concerned; there is at least as much violation of human rights in many of the non-aligned countries as anywhere in NATO.

Neutrality would not be cheaper. Yugoslavia, one of the two European neutrals which has the power independently to determine the level of its forces—Austria and Finland are restricted by treaty—is spending much more of its national wealth on defence than Britain. Sweden did so for many years and Prime Minister Olof Palme has recently seen his country's neutrality continually violated by Soviet submarines; he has had to warn his own Social Democratic Party's Congress that unilateral disarmament is just not an option for Sweden. By far the best answer, as Palme himself has argued, is to seek common security through multilateral agreements between the super powers and their allies. This must be the overriding objective of the foreign and defence policies of a Labour Britain. We must remain in NATO, and our membership in NATO must be designed and reshaped so that we can support this objective effectively.

**Instability in the Third World**

Negotiations between Russia and the West on arms control are desperately urgent because of the new dangers to stability represented by the current phase in the arms race. But this is only one of the issues where cooperation between East and
West is needed. I believe that we urgently need some agreement or, at least, some understanding with the Soviet Union about how to deal with political instability in the Third World. Over the last ten years the arms race has accelerated faster in the Third World than between the superpowers. Three countries in the Third World almost certainly possess nuclear weapons already. The scale and frequency of armed conflict in the Third World is also increasing.

The great powers – not only the Soviet Union and the United States, but Britain and France among the European powers – have frequently intervened in conflicts in the Third World in the hope of national advantage. In most cases their intervention has brought them no long-term benefit. This is particularly true in the Middle East, where military intervention by Britain and France at Suez destroyed their influence for a generation. Israel’s invasion of the Lebanon has done more damage to Israel’s security and national unity than any other act since the creation of the state in 1947. America’s attempt to determine the course of events in Lebanon was also a disastrous failure. The Soviet Union has fared no better. After a short flirtation with Moscow, Egypt has aligned herself with the Western powers.

The main danger of external intervention in the Third World is that it might embroil the superpowers in direct conflict with one another against their will. There was a real danger of this happening over the Gulf War early in 1984. Almost the only good news in world affairs during the last twelve months has been the sign of some tentative understanding between the United States and Russia on how to deal with possible contingencies arising out of the Gulf War. I believe that arguments from America’s European allies helped to contribute to this understanding.

There is a strong case for trying to extend this limited understanding over the Gulf to the Middle East as a whole. Bitter experience should have taught the great powers that none of them will derive national advantage from intervention in the Middle East so long as other great powers can intervene to frustrate them. A settlement of Middle Eastern problems on American terms can be frustrated by the Soviet Union. The opposite is also true. So it would be wise for the West to treat the Soviet Union as an equal partner in the attempt to limit the consequences of instability in the Middle East. This is in any case a precondition of giving the United Nations forces a greater role in the Lebanon, which is probably a precondition of an Israeli withdrawal. But the greatest advantages for all concerned would follow the agreed limitation of arms supplies to countries in the Middle East, since the regional arms races are now an independent cause of tension in the area.

The tragedy of Ethiopia suggests that it would be sensible also to seek some understanding with the Soviet Union on keeping the cold war out of Africa, where great power intervention has caused needless suffering to the peoples both in the Horn of Africa and among the front-line states bordering South Africa.

Recent external intervention in the civil wars of Central America has already produced an agreement among the regional powers of the Contadora group to keep the great powers out, to limit external supplies of arms, and to seek a solution of regional problems by conciliation rather than by fighting. If America’s European allies give wholehearted support to the Contadora process, it may succeed in saving the United States from a type of military intervention which could be as disastrous in its consequences for America and the world as the Vietnam war itself.

**European co-operation**

In a world where peace may depend on the ability of its allies to influence the policy of the United States, it is obvious that if the European allies could agree on a collective approach to Washington, their influence would be far greater than if they all act separately. Unfortunately, the European countries are deeply divided among themselves, particularly on the major problems of defence and disarmament. France still refuses to join NATO as the military organisation of the Alliance, and attaches prime importance to strengthen-
ing its national nuclear forces. Germany has agreed with France to use Western European union as a forum for developing a coherent European approach to defence problems, but is not prepared to sacrifice its military relationship with the United States; on the contrary, it would like to persuade France to rejoin NATO. On the other hand, the German government would rather revert to the trip-wire strategy for massive retaliation than move forward from flexible response to an all-conventional deterrent. In particular, it opposes the preparation of anti-tank barriers in its border areas, although this would vastly increase NATO's ability to fulfill its commitment to the forward defence of German territory. The British government will soon have to decide whether to continue with its Trident programme. But even the cancellation of Trident would only delay for a year or two the more seminal choice between a maritime strategy which emphasised Britain's links with the United States and a continental strategy which emphasised its links with Europe. Nevertheless, I believe that a Labour government in Britain with a clear commitment to move NATO towards a conventional strategy would be able to organise sufficient support in Germany and France to achieve its objective. Already many influential Americans would see this as the best way out of their own strategic and political dilemmas, and there is widespread support for this approach among the NATO civil and military staffs themselves. On the major issues of Third World politics, Britain is fully committed to the Middle East policy launched by the Common Market at Venice but has been at best a very lukewarm supporter of the Community support for the Contadora approach in Central America.

5. The Economic Dimension

Now let me turn to the economic dimension of international affairs, where changes since I wrote my New Fabian Essay have been, if anything, even more dramatic.

The men who established the post-war framework for economic order in the world were, in the main, British, American and French officials for whom the great slump of the 1930s was a formative experience, who had seen the Second World War as an inevitable consequence of the great slumps, had worked together in Washington to win the war, and were determined to build a post-war system which would not repeat the errors of the past. The framework they devised included the Bretton Woods Agreement to keep exchange rates fixed in relation to one another, with only infrequent adjustments, the General Agreement on Tariffs and Trade (GATT), which made free trade in manufactured goods obligatory, and two international institutions, the International Monetary Fund (IMF), which was supposed to finance balance of payments deficits on conditions which guaranteed ultimate adjustment by the debtor country and the International Bank for Reconstruction and Development, or World Bank, which provided help for development in the Third World.
This framework for international economic order had some obvious defects; in particular, it was unable to impose obligations on the strong countries comparable with those it imposed on the weak. Nevertheless, it helped to produce a quarter of a century of high growth and low inflation in the industrial world, together with a transfer of resources from the rich countries of the Northern Hemisphere to the poorer countries in the South, as a result of which the economic gap between North and South slowly but steadily grew smaller.

The collapse of economic order

This golden age of high growth and low inflation came to an end in the late 1960s, partly because the United States was unable and unwilling to accept the unique responsibilities it imposed. The Bretton Woods Agreement was replaced by a regime of floating currencies, the GATT was rejected by one major industrial country after another in favour of import controls, and the richer countries became increasingly reluctant to give the IMF and the World Bank the resources they required to carry out their responsibilities. This process was aggravated by the massive increase in oil prices imposed by the OPEC countries in 1973, and the unwise policies adopted by most industrial countries to cope with the consequences of the OPEC increase in oil prices.

In consequence, the 1970s were a decade of "stagflation" – a combination of high inflation with stagnant or even negative growth rates which conventional economics had taught to be impossible. During the 1970s, as a result of this new phenomenon, economic behaviour began to change at every level from the housewife to the treasurer of a great multinational corporation. We do not yet quite understand exactly how and why the economic rules have changed. But they have changed fundamentally in many respects.

For example, all forecasts about the behaviour of the American economy from 1982 to 1984 turned out to be grossly in error. American growth was twice as high as predicted, for at least twice as long, while inflation in America increased only two-thirds as fast as the forecasters assumed. The American dollar rose steadily through most of this period, although America was acquiring the biggest balance of payments deficit in its history. President Reagan won re-election in the autumn of 1984 because in the previous two years the American economy had produced 7 million more full-time jobs while inflation had fallen to 4 percent from 14 per cent in 1980. On the other hand, in Europe unemployment has been rising steadily for several years, economic recovery is feeble and very dependent on the unique combination of high American economic growth and a high dollar. Meanwhile, economic statistics have become exceptionally unreliable. The latest GATT statistics of world trade show a gap of $100-billion between the aggregate trade surpluses and the aggregate deficits, although these should be equal.

Yet politicians and economists continue to base policy on economic rules of thumb which have no foundation in reality. Most European economists argue that the high American internal deficit is responsible for high interest rates in the United States. Yet in 1984 the deficit for the Netherlands was estimated by its government to be 10½ percent of GDP – twice the relative size of the American deficit – while inflation in Holland was lower than anywhere else in Europe and interest rates were among the lowest too. On the other hand, the large Dutch deficit was accompanied by a level of unemployment higher than in any other European country. So both the monetarists and the Keynesians were contradicted by the experience of the Netherlands.

It is too early to be certain exactly how economic behaviour has changed in the last ten years, and what are the new rules which describe the current performance of national economies. But it is possible to point to some elements in this revolution.

Some features of the new economic anarchy

First, most industrial countries lost confidence in Keynesian demand-management
during the 1970s, and adopted instead a policy of sado-monetaryism, based on three propositions, each of which is easily shown to be untrue: that the only economic variable which can be influenced by government policy is inflation, that inflation can be influenced only by controlling the growth of money supply, and the growth of money supply can be influenced only by the price of money i.e. by changes in interest rates. Sado-monetaryism has given the industrial world the biggest recession since the 1930s, combined with real interest rates higher than they have ever been since the usury of the Middle Ages—over twice as high as was normal in similar periods of recovery.

Secondly, doubts about the future behaviour of the economy have made everyone reluctant to commit funds to long-term fixed investment. Governments and private firms have accumulated an unprecedented volume of liquid funds. The money in the Euromarkets alone amounts to over $2,000-billion. Thus, with other liquid funds, is moving in micro seconds all over the world for twenty-four hours a day. It is officially estimated that at present $50,000-billion cross the exchanges in search of profit every year as against only $2,000-billion which cross the exchanges to finance world trade. These capital flows have become the biggest single influence on exchange rates, and exchange rates have become a major factor in determining the prices of international traded commodities, including oil. Most of the fall in oil and commodity prices over the last twelve months has been due to the rise in the dollar. Their price in other currencies has scarcely shifted.

Meanwhile, there has been an institutional revolution in the financial markets. The barriers between the banks and other financial institutions have broken down. The banks themselves have been freed from many regulations on both sides of the Atlantic, and are now engaged in cutthroat competition for business and profits, which is pushing up interest rates. Salesmanship has replaced reliability as the test of a financial institution's success. The impact of this institutional revolution in a period when international capital movements have swamped all other elements in the financial scene has produced a steadily increasing growth in the inter-bank markets which the central banks and the international institutions are unable even to monitor, still less control. For example, in America and Britain the central banks under highly conservative governments decided to nationalise institutions in trouble, like Continental Illinois, and Johnson Matthey, not because they knew what would happen if they failed to nationalise them, but precisely because they had no idea what would happen.

6. The Debt Crisis

These developments in the industrial world were mainly responsible for the debt crisis which has threatened the survival of the Western banking system since the middle of 1982. The deficits imposed on many Third World countries by the increases in the price of oil—particularly the second round of oil price increases which began in 1979—should under the post-war rules have been financed by international institutions like the IMF and the World Bank. But Western governments were not prepared to give these official institutions the resources for financing world deficits, and insisted that they imposed conditions which many debtor countries were unwilling to accept. The private banks stepped in,
in search of more business and higher profits. Even so, most of the loans made to the Third World as a result of the increase in oil prices, would have remained viable had it not been for the world recession, the increase in interest rates and the effect on exchange rates of the staggering increase in international capital movements.

Although in Latin America the debt problem was aggravated by the enormous outflows of funk money from wealthy individuals, it has been estimated that 80 percent of the increase in Third World debt over the last ten years is the result not of mistakes by governments in the debtor countries, but of policy decisions taken by the industrial countries, or by OPEC. As a result, the magic of the market place has produced a private banking system which can survive only by lending ever more money to bad debtors, and is bullied into doing so by central banks and international institutions which were set up to guarantee its prudence, not to promote its profligacy.

The total burden of world debt is still steadily increasing. Despite continual rescheduling, at least $800-billion of private bank lending is now irrecoverable. The debtor countries are now beginning to determine the terms of their re-scheduling and the banks are turning a blind eye to default. Indeed, a chain reaction of defaults is now being avoided only by semantic devices, which describe default by other words—like “a temporary interruption of debt service.” The conditions imposed for IMF lending, which unlocked further lending by the private banks, are now being regularly ignored by the debtor countries, and often by their creditors too.

In fact, the system is still working because the creditors are determined to ignore the facts, or to redefine them by changing the meaning of words. Nevertheless, the risk of breakdown is steadily increasing because the strains are becoming intolerable at both ends of the process.

The smaller private banks have already pulled out of the re-scheduling process, leaving the burden to be carried solely by the larger banks. The larger banks are trying to reduce the percentage of bad debts on their books by frantically making new loans to domestic borrowers, often with only the most cursory examination of their credit-worthiness. In the United States the number of “problem banks” has doubled in the last twelve months with an increasing number of failures expected.

In early 1984 the orthodox view was that the problem could be overcome by the end of the decade through a series of reschedulings and packages of aid which the IMF would sanction by imposing adjustment programmes on the debtors—the “case-by-case” or “sticking-plaster” approach. No one believes that now. As the Managing Director of the IMF himself explained, the case-by-case approach required the fulfillment of four conditions of which only one has the slightest chance of being met.

The developed countries would have to achieve growth rates averaging three to four percent till 1990—their feeble recovery has fallen short of that except in the United States, and world growth is likely to decline in 1985. Interest rates would have to fall—they rose 2% in early 1984, imposing an additional eight billion dollars in servicing costs on the debtors. Trade restrictions would have to be reduced—they are increasing almost everywhere. And inflation would have to fall—the only assumption which has yet to be falsified. So on the basis of present trends, existing indebtedness will almost double by the end of the decade.

Moreover, there is always the risk of an unpredictable change in the situation wrecking the system. For example, if, as a result of increasing violence in the Gulf War, Western access to Middle East oil was interrupted for a period of months, the consequent increase in the price of oil would wreck any hope that the non oil debtors would be able to get through. Equally, if Iran and Iraq made peace and the supplies of oil from the Gulf suddenly increased, the price of oil would drop so far as to destroy the ability of the oil pro-
ducing debtors like Mexico, Venezuela, Indonesia, Nigeria and Argentina, to get through.

Road to revolution

The most important change in the situation is the growing unwillingness of the debtor countries to risk revolution by making Herculean efforts to improve their balance of payments when their markets in the developed world face mounting restrictions and the bulk of the money they earn goes to pay debt service at steadily mounting interest rates. The poor countries are now exporting capital to the rich.

For the Latin American countries which carry half of world debt, the debt crisis is really a growth crisis. As Tom Enders has written, "For a generation, in one of the great upward thrusts in history, Latin America grew by almost 6% a year in real terms. By 1981 the economy was three times the size it had been in 1960." (Thomas Enders & Richard Mattione, Latin America: The Crisis of Debt and Growth, Brookings Institute, 1984). The IMF adjustment programmes have compelled these countries to cut their growth so that in the five years to 1987 they can expect a 7% drop in national income in the course of which many of the poor will starve and many of the middle class will be wiped out — the historical recipe for revolutions.

For at least two of these countries it may seem better to default than to be crucified upon a cross of gold. Argentina is self-sufficient in energy and food; its new democratic government feels little responsibility for the debts its military predecessors accumulated, in part to buy unnecessary armaments. Venezuela's position is not dissimilar. Both may feel that if they freed themselves from the burden of past debts they would not need to borrow new money to start growing faster. In any case, what is the point of borrowing simply to pay off foreign banks when one of the prices of borrowing is to abandon growth? But if Argentina or Venezuela were to default, most of the other Latin American governments would be compelled by public opinion to follow suit, even against their better judgement. Moreover US military intervention in Central America could trigger a wave of anti-Yankee feeling which could overturn governments or compel them to default even if Argentina had not led the way.

So in recent months we have seen a game of brinkmanship in which the weak have begun to exploit their power over the strong by dictating the terms of rescheduling and of new lending. Whether the West’s "good boys" like Mexico and Brazil have restrained the "bad boys" like Argentina from default, or whether by agreement they are playing different roles in the same script it is difficult to say. The result is the same and the underlying political reality remains. The popular pressures to bring down the whole system are growing remorselessly.

None of the creditor governments can allow the collapse of any bank to trigger the collapse of the banking system as a whole. So they have to protect the depositors of a bank in trouble even at the cost of taking it over altogether. Political connoisseurs will long cherish the spectacle of President Reagan, the champion of small government and free enterprise, nationalising Continental Illinois. What is more important is that his Treasury Secretary has promised to nationalise any major bank in trouble while allowing the smaller banks to go to the wall.

But although the FDIC, which organised the take over, wrote off a billion dollars' worth of Continental's bad domestic debts it did not dare to do so with its bad foreign debts for fear of compelling the accountants to do what the government regulators do not dare to do — to expose the true fragility of America's private banking system.

It now seems clear that if the final catastrophe breaks and there is a chain reaction of defaults, the Western governments will save their private banks even if it means general nationalisation and the abandonment of monetary stringency — for they will print the money needed to meet the banks' liabilities.

But this will not deal with the problem of the debtor nations, who by definition will in this situation have embarked on a revolutionary course, which is likely to involve tragic suffering for most of the
peoples involved. Even if the Western governments think they can ignore that suffering, the United States is likely to face a generation of violent instability on its southern frontiers which could send millions of refugees flooding into California and Texas, with social and political consequences which could well destabilise American society and pre-empt the bulk of America's international energy till the end of the millenium and beyond. This would be a consequence which neither Western Europe nor Japan could contemplate with equanimity.

The stakes are huge. If things go wrong, as now seems probable, the political and economic adjustments required of the West will be stupendous and unavoidable. Is it really impossible for Western governments to make the much smaller changes in their policies which are required to prevent the catastrophe from happening at all?

**The necessary solutions**

All in fact that is required is a return to the sort of policies which gave the Western world a quarter century of unprecedented growth and low inflation after the Second World War. In domestic policy that means a pragmatic mixture of demand and monetary management with social consensus which, though at present scorned by the major Anglo-Saxon governments, is still working well in countries as diverse as Japan, Sweden, Australia, and Austria.

In international policy it means giving the World Bank and the International Monetary Fund the scale of resources which their founders envisaged, with a mandate to encourage the structural adjustments which will favour growth. Once this were done there are already scores of blueprints for the sort of techniques which would be required to restructure the existing debts of the Third World and to finance its future deficits. For although in the Pacific basin the newly industrialising countries have achieved miracles of growth through free enterprise capitalism without much foreign borrowing, for most of the Third World, which still depends on exports of commodities to finance development, as for America in the Nineteenth Century, external loans are likely to be essential for industrial development. There must, as the Brandt Commission proposed, be an organised transfer of resources from North to South.

Twenty years ago the policies now required would have been adopted without much argument by governments of all political complexions throughout the West. If the Neanderthal economic bigotry which infected so many Western governments in the seventies is allowed to prevent their adoption today, President Reagan, Mrs. Thatcher and Chancellor Kohl are likely to go down in history as the gravediggers of the very capitalism which they claim to defend.

Even today, all serious observers of the debt crisis, both in the private banks and in the central banks and governments, have come to the conclusion that a long-term solution to the debt crisis requires higher growth in the industrial world and a substantial increase in the role and resources of the international institutions like the IMF and the World Bank. But these same experts despair of governments ever having the wit or the will to shift their policies in this direction unless the crisis suddenly becomes worse. Whether a sudden worsening of the crisis would give time for these changes in government policies is obviously most uncertain.
7. Conclusion

I have concentrated on the debt crisis as an example of the growing tension between North and South only because it is the most obvious and in some ways most urgent. But the North/South division goes far deeper than the debt crisis as is tragically illustrated by the famines in Africa. It has been so well and fully explored in the report of the Brandt Commission that I will not discuss it further here.

To return to my original theme, a world society can be built only on greater equality and justice among the peoples of the world. The wisdom and generosity of American leaders in the early post-war years did produce a steady flow of resources from the North to the South, while the framework of world order they established produced a level of growth in the Northern Hemisphere which permitted the Third World slowly but steadily to narrow the gap which separated it from its industrial partners. That process came to an end in the 1970s, so that in the 1980s the gap between North and South has been steadily widening. We must now begin to narrow it again.

The next Labour Government will have to deal with many new problems. I have confined this brief survey to two main issues – the debt bomb and the atom bomb – both because they illustrate the wider problems and because they require urgent action by the Atlantic Community in which Britain’s influence is of special importance. There is no sign that the Conservative Government is prepared to give them the priority they demand. I believe the Labour Party has both the insight and the energy to tackle them. There is no more powerful argument for the election of a Labour government in Britain.
Recent Fabian Pamphlets

Tracts

475 Robin Cook
476 Stuart Bell
478 Margaret Legum, Jenny Little, Donald Roy, David Stephen
479 Roy Kohn
480 ed. David Lipsey
481 David Basnett
482 Betty Vernon
483 Tom Ellis, Rosaleen Hughes, Phillip Whitehead
484 Christopher Harvie
485 Bryan Gould, Shaun Stewart, John Mills, Austin Mitchell
486 Nicholas Kaldor
487 David Donnison
488 Emma MacLennan, Chris Pond, Jill Sullivan
489 Roy Hattersley, Eric Heffer, Neil Kinnock, Peter Shore
490 David Downes
491 David Blunkett, Geoff Green
492 Keith Ewing
493 G. Bernard Shaw
494 Raymond Plant
495 Bernard Crick
496 Anthony Wright, John Stewart, Nicholas Deakin
497 Carl James
498 eds. Brian Abel-Smith & Peter Townsend
499 Hugh O’Shaughnessy
500 Peter Townsend

Special Centenary Publication

100 Years of Fabian Socialism

Books available from the Fabian Society

ed. Howard Glennerster
The Future of the Welfare State (Heinemann, 1983) paper £5.95
eds. M. Cannell & N. Citrine
Citrine’s ABC of Chairmanship (NCLC, 1982) paper £3.50

Special offers:
eds. Nick Bosanquet & Peter Townsend
Labour and Equality (Heinemann, 1980) paper £2.50
cased £4.00
Norman & Jeanne McKenzie
The First Fabians (Quartet, 1977) paper £1.50
cased £5.50
J. P. M. Millar
The Labour College Movement

Postage: books 50p per title (ABC of Chairmanship 30p), pamphlets post free.
Labour and a World Society

Denis Healey contributed to the New Fabian Essays of 1952. A generation later, he looks at two main issues - the atom bomb and the debt bomb and concludes that only the Labour Party has the insight and energy to tackle these problems. He argues that the Party should now concern itself primarily with the question of how best to shift NATO policy towards a conventional deterrent against conventional attack. Britain must unilaterally get rid of Cruise missiles and cancel the Trident programme. But, membership of NATO has to be retained as in the age of nuclear winter, neutrality is not an attractive alternative.

The golden age of high growth and low inflation ended in the late sixties and the following decade was one of stagflation - a combination of high inflation with stagnant or negative growth rates. This led most industrial countries to adopt a policy of 'sado-monetarism' which combined with a revolution in the financial institutions resulted in the debt crisis that threaten the survival of the Western Banking system. The solutions, he argues, are higher growth in the industrial world and a substantial increase in the role and resources of international institutions like the IMF and the World Bank.

Fabian Society

The Fabian Society exists to further socialist education and research. Since 1884 it has enrolled thoughtful socialists who wish to discuss the essential questions of democratic socialism and relate them to practical plans for building socialism in a changing world. Beyond this the Society has no collective policy. It is affiliated to the Labour Party. Anyone who is not ineligible for membership of the Labour Party is eligible for full membership; others may become associate members. For membership and publications details write to: Ian Martin, General Secretary, Fabian Society, 11 Dartmouth Street, London SW1H 9BN.

£1.50