Mondialisation.ca
Centre de recherche sur la mondialisation

Is This The End Of Europe As We Know It? Economic Uncertainty Compounded by Political Divisions

Par Abayomi Azikiwe
Mondialisation.ca, 06 juillet 2016

Région : Europe
Thème: Global Economy

Brexit vote, European Union turmoil prompts reevaluation of world situation

Since the June 23 vote on whether the United Kingdom (UK) would "Leave" or "Remain" within the 28 member-state European Union (EU), uncertainty has accelerated not just in London but throughout the international community. The vote to Leave the EU by 52-48 percent of the electorate in England signaled the worsening of the already existing political crisis in relations between the UK and states on the European continent.

Global financial markets reacted to the new political situation through the crashing of stock trading, the decline in the value of the British pound, and a series of statements by the Bank of England in attempts to reassure the world capitalist class. Both the European Parliament in Brussels and their UK counterparts at Westminster have held acrimonious debates over the future of relations between Britain and the EU.

EU heads-of-state and parliamentarians are saying that London should evoke Article 50 of the Lisbon Treaty and exit from the regional bloc as soon as possible. The British are attempting to delay the exit by engaging in protracted negotiations over the terms of the severing of relations.

Under such circumstances the Governor of the Bank of England Mark Carney on July 5 held another press conference to report to the British public and the capitalist markets internationally that the financial system would have adequate liquidity to shield the economy from further shocks. In the immediate aftermath of the Brexit vote Carney suggested that this crisis would not rise to the level of the problems of 2007-2008 which triggered the worst economic downturn since the Great Depression of the 1930s.

Nonetheless, the British Daily Mail reported on July 5 that Carney "unveiled a move to boost lending by up to £150 billion under plans to contain the fallout of the Brexit vote as the pound plunged to fresh 31-year lows. Mr. Carney sought to assure that the Bank's efforts to soften the impact of the EU referendum results were working, but he raised concerns over the vulnerability of debt-laden households to an economic slowdown. While he stopped short of repeating recession warnings, he said the UK faced the prospect of a 'material' slowdown in the economy and that risks the Bank had feared ahead of the referendum had begun to emerge."

This same Daily Mail article went on to note specific examples of actions taken by firms in the real estate and equity industry which indicate potential large-scale problems in the short term which could easily hamper Britain's standing in the broader global economy. All three major bond rating agencies, Standard & Poor, Fitch and Moody's, have downgraded Britain's credit status making it more difficult for corporations and financial institutions to borrow funds in line with other states.

According to the newspaper, "two investment firms suspended trading in their property funds as investors scrambled to pull their money out of UK commercial property holdings.

Aviva moved to halt trading in its £1.8 billion property fund, while asset manager M&G Investments temporarily suspended trading in its property portfolio and feeder fund.

Their decision comes a day after Standard Life Investments stopped dealing in its £2.7 billion UK Real Estate fund. The suspensions hit the pound, which dropped below 1.31 US dollars for the first time since 1985 and sunk to its weakest level against the euro since 2013 at 1.17 euros.

Sterling's latest slide followed worse-than-expected figures for Britain's dominant services sector last month."

If these trends of conflict and subsequent fracturing of the UK-EU alliance continues it could disrupt the post-World War II economic and political construct which was a reflection of the dominant role of the United States in the international capitalist order. The Bretton Woods financial system, the Marshall Plan, the Potsdam Conference along with the emergence of the European Economic Community and the EU, has already suffered imbalances a quarter of a century ago with the overthrow of the socialist countries in Eastern Europe and the Union of Soviet Socialist Republics (USSR).

There has been an expansion of the North Atlantic Treaty Organization (NATO) bringing into this imperialist military alliance many of the former socialist states in Europe leading to the encirclement of the Russian Federation, the ascendancy of a fascist-oriented regime in Ukraine and threats of further ultra-nationalist governments on the continent. Tensions are mounting between Washington, the UK, EU member-states on one side against Moscow, Beijing and its allies on the other.

Along with the weakening of the EU and the UK, an upsurge in right-wing intolerance and xenophobia in the UK and throughout Europe could cause deepening divisions within the NATO states and the economic implications of these developments would hamper the ability of central banks and global financial institutions to adequately stabilize the world capitalist system threatening another great depression and the potential for renewed world war.

Economic Uncertainty Compounded by Political Divisions

Inside UK politics there is a realignment of forces taking place on a rapid basis. The ruling Conservative Party along with their Labor counterparts campaigned for a Remain vote.

Prime Minister David Cameron the following day after the vote announced his resignation by October which has been pushed forward until September. Member of Parliament Boris Johnson, the former Mayor of London, and a proponent of the Leave vote, was seen as being the heir apparent to Cameron.

However, Johnson, in a struggle over succession, was rejected by key players among the Tories including MP Michael Gove, who has announced his candidacy for the leadership post and consequently prime minister. Soon enough yet another figure, Home Secretary and MP

Theresa May, who supported a Remain position, is also seeking the top post within the party. Altogether there are five different officials within the Tory party which are vying for the leadership post.

On the Labor Party side, the designated left-leaning leader, Jeremy Corbyn, who wanted the Remain vote to succeed as well, has been challenged by his parliamentary colleagues where a vote of no-confidence was held against him gaining 80 percent of his fellow MPs. Corbyn has since refused to step down prompting a threat to hold a general membership election. Whether Corbyn is successful in maintaining his position of leadership through a membership poll or not, the party would inevitably be ripped to shreds if an agreement between the various Labor factions is not negotiated.

This fracturing of the political landscape extends to Scotland where the Nationalist Party has threatened to hold another referendum on succession. In Northern Ireland, the nationalist movement is looking at a similar election saying they want to remain inside the EU.

These fissures in British politics are not unique within the western capitalist world during this period. Australia, which is a British settler extension of London, is facing the possibility of a hung parliament where Prime Minister Malcolm Turnbull is scrambling to form a viable government amid threats from his predecessor Tony Abbott who is being watched not only personally but also as it relates to the political future of the country.

The U.S. government, which is a close partner of both the UK and the EU member-states, is being placed in an awkward political situation having supported the Remain position however at the same time needing to navigate its foreign policy relations while such much animosity exists inside the UK and between London and Brussels.

As it relates to the instability within electoral politics in the U.S., the candidacy of Republican presumptive nominee Donald Trump has caused much consternation inside and outside the party. Trump has interjected open racism into the campaign while the Democratic Party is plagued by the same problems considering the role of the Bill Clinton administration during the 1990s in further fostering the mass incarceration of African Americans and Latinos.

Credibility problems abound when the leading criminal investigative agency, the Federal Bureau of Investigation (FBI), has to hold a national press briefing to announce that despite the violations of rules governing state department functionaries and officials, former Secretary of State Hillary Clinton, the presumptive Democratic Party nominee, will not be recommended for indictment.

Africa and the World Capitalist Crisis

Although many African portfolios dealing with economic issues along with financial institutions have attempted to put a positive face on the open split within the EU and the rancorous character of the presidential elections in the U.S., a movement towards recession has already been well documented.

Over the last several months in Nigeria, Egypt and South Africa, the three largest economies on the continent, all of these heavily-populated states have experienced financial problems involving the decline in currency values, the rise in unemployment and the reemerging debt crisis which caused tremendous social problems during the period of the 1960s through the

1990s.

Bloomberg wrote on July 5 noting “The MSCI Emerging Markets Currency Index retreated 0.7 percent. It was little changed on Monday (July 5) after jumping 2 percent in the four days through Friday. The Mexican peso, Colombian peso and South African rand posted the steepest declines among 24 currencies.”

Dan Steinbock in an article published by seekingalpha.com emphasizes that “Whatever its final impact, in the short term, the UK’s EU referendum will increase global economic uncertainty, market volatility and economic risk. In Africa, most scenarios will prove costly, particularly among those economies highly exposed to UK trade, investment, banking and remittances.” (July 5)

This same writer goes on to say that this scenario was to be anticipated in light of the political trajectory taking place in Europe. He stresses after taking a tour of the EU member-states prior to the vote on June 23 that “Despite media headlines about ‘shock,’ the Brexit outcome was not a surprise. It reflects years of UK’s economic malaise following the global crisis, the European debt crisis, and the Britons’ ambivalence about the EU, the euro and integration.”

These developments illustrate the need for new regional alliances outside the framework of the world capitalist system. Many have placed hope within the Brazil, Russia, India, China and South Africa (BRICS) Summit which is seeking to establish alternative development funding and trade networks.

Nevertheless, Brazil, South Africa, Russia and China have been under attack by U.S. imperialism in an effort to halt its movements toward strengthening independent economic and political blocs. These setbacks for the so-called “emerging economies” will also have an impact on the West as well by closing markets for their products, reducing demand and generating social unrest.

The potential for other states within the EU to withdraw from the bloc is a major worry for the imperialist states. This discontent within both the Eastern and Western European states are largely emanating from the Right of the political spectrum but will ultimately generate negative outcomes for the capitalist class internationally. The priority for the developing countries and emerging markets remain centered on removing their vulnerabilities from the international capitalist system in order to achieve sustainable growth and development based on the interests of the majority of the world’s population.

Articles Par : Abayomi Azikiwe