an alternative economic and political strategy for 21st century Britain

Building an economy for the people

Edited by Jonathan White with contributors from Mark Baimbridge, Brian Burkitt, Mary Davis, John Foster Marjorie Mayo, Jonathan Michie, Seumas Milne, Andrew Murray, Roger Seifert, Prem Sikka, Jonathan White and Philip Whyman.
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Contributors
Mark Baimbridge and Brian Burkitt are Senior Lecturers in Economics at the University of Bradford

Mary Davis is Visiting Professor in Labour History at Aston University

John Foster is Emeritus Professor of Social Sciences, University of West Scotland

Marjorie Mayo is Emeritus Professor in the Department of Professional and Community Education at Goldsmiths, University of London

Jonathan Michie is Professor of Innovation & Knowledge Exchange at Oxford University

Seumas Milne is a Guardian columnist and author

Andrew Murray is Chief of Staff at Unite and former Chair of the Stop the War Coalition

Roger Seifert is Professor of Industrial Relations at the University of Wolverhampton

Prem Sikka is Professor of Accounting at the University of Essex

Jonathan White is a writer and former researcher in history

Philip Whyman is Professor of Economics at the University of Central Lancashire
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In Britain today, there is a widespread perception that the quality of life is deteriorating. Two thirds of British people now believe their children will be worse off than themselves. It might be said that they have good reason for thinking this. The British economy has been battered by the financial crisis, the economy lies stagnant in a double-dip recession, youth unemployment is at an all-time high, waves of violence, disorder and protest have swept through our cities, the establishment is enmired in corruption and scandal and all the while, the Coalition government seems eager to pitch the UK’s armed forces into yet another round of brutal armed interventions across the globe.

In the government and the right wing mass media it is common to hear the familiar refrain from the 1980s: there is no alternative. And as before, some parts of the Labour party beat the same drum. Others, however, in the Labour movement and beyond, are calling for an alternative.

This short book is a contribution to the debate around what form that alternative should take. We attempt to show that the symptoms of economic and social crisis have a common root in a policies and deeper structural changes that have wrought profound changes to our economy and our political system and which have brought about the financial crisis and the other symptoms outlined above. Any alternative, we argue, must address itself directly to these changes if it is to offer any hope of real change.

Manifestations of crisis:

The financial crisis that overtook the global economy in 2008 shows no sign of abating. The credit crunch has given way to waves of panic in the financial markets
that have now translated into sovereign debt crises in the eurozone and that will move on elsewhere soon.

The crisis consuming the global economy is not the result of the aberrant behaviour either by politicians or rogue bankers but is the legacy of far deeper structural changes. A key feature of these changes has been the financialisation of the global economy.

Financialisation is all around us, whether in the form of the political panics engendered by bond market vigilantes and ratings agencies, or at the other end of the scale in the spread of personal finance. The changes in the global economy underpinning these phenomena can be sketched out in a number of ways. Financialisation can be measured in the astronomical growth in the value of financial asset markets, dwarfing the value of global GDP, together with the proliferation in the types of financial assets being traded. It can also be measured in the changing relationship with the ‘real’ economy and industry, whereby investment in productive activity is crowded out by speculation in securities trading, while even major industrial transnationals derive greater profit from their financial operations than from their industrial ones. And it can be measured in the growing encroachment of finance across huge areas of social life, including welfare systems, public services, culture and leisure activities, bringing more and more people into greater dependence on volatile asset markets. Finally, it can be measured in the economic and increasingly political power of the financial sector, made starkly evident in the recent replacements of elected governments in Greece and Italy, but manifest also in the more everyday demonstrations of power by the City of London in Britain.

The economic crisis gripping the world economy has been felt with particular force in Britain, where unemployment, especially among young people, continues to grow, wages fall and the cost of living continues to rise. The economy is in the throes of a double-dip recession and while it may be, as George Osborne says, a safe haven for financial traders, Britain has become an increasingly desolate wasteland for working people and small businesses. Why has this happened?

Britain’s Conservative governments in the 1980s were leading proponents of the neoliberal deregulatory agenda. Our argument in this book is that this deregulatory drive aggravated with long-term weaknesses in the British economy, such as the overdependence on the City and the associated failure to modernize the industrial base. When the City was de-regulated, this led to a massive outflow of capital and the further bloating of the financial sector and the exponential dwindling of
manufacturing. Finance capital turned to opening up new markets in the public sector and public services for further, safe sources of profit.

We know how this could end. The privatisation experiments of the 1980s and afterwards are now widely recognized to have failed to deliver on their promises and Britain is left with a crumbling infrastructure in the hands of monopolistic companies, increasingly owned by private equity companies, more concerned to sweat their assets than invest. The public sector spending cuts being brutally driven forward by the Coalition government, will fail to reduce the deficit and will further undermine the conditions of economic growth. But they will serve to open up new sections of the public sector to the asset stripping imperatives of the financial sector, degrading vital social services and leaving people more than ever dependent on the movements of volatile financial markets.

We will also see a renewal of the open assault on collective institutions which embody, and engender social solidarity, and their replacement with yet more emphasis on individual worth and reward, the notion that hard working people will always have a chance - a bankrupt philosophy whose inevitable failure breeds equally inadequate ‘communal’ responses: racism, ethnic chauvinism, religious fundamentalism. Young people in particular are faced with a culture that pumps out the message that greed and celebrity are good, or that there is simply no alternative. The peculiar blend of more traditional anti-authoritarian protest and rampant looting that characterised the riots of 2011 was perhaps an index of the penetration of this culture into marginalised and deprived urban working class communities.

Meanwhile, participation in political electoral activity is falling in the context of mainstream political parties who seem to offer little in the way of alternatives. Politicians themselves have been exposed as possessing their own version of the greed that pervades the City, compensating themselves for their falling status with expenses scams, basking in the sleazy hospitality of media moguls, while moving seamlessly into selling their services as consultants to big businesses. These are the corrupt politics of a failing democracy.

What is to be done? The financialisation of the global and the British economy did not just happen. It was made to happen by political and economic agents. These processes were the result of pressure from the representatives of the financial sector, but also of policy actively pursued by the governments of the USA and the UK in particular, policies that promoted the free market in the movement of capital
and that commonly go by the name of neoliberalism. Neoliberalism was at the heart of Conservative ideology in the 1980s and 1990s, but it also sat at the heart of New Labour’s understanding of the economy. New Labour tried to create a neo-liberalism with a human face but failed spectacularly. It is this ideology that needs challenging and defeating now.

There was an alternative to all this in the 1970s, when the case for neoliberalism was first being made and there is, of course, an alternative now. Some elements of this alternative are emerging into public consciousness even now. An alternative economic strategy has long lain at the heart of the Communist Party’s programme, Britain’s Road to Socialism. Now it seems, a common currency of similar ideas about an alternative economic strategy is beginning to circulate on the broader left. For all their timidity, the Labour opposition’s attacks on predatorial capitalism, their recognition of the failure to regulate the financial sector, together with some policies that look to boost government spending to stimulate growth in the economy constitute significant moves in the right direction. In addition, the Compass Group of the Labour Party has produced a comprehensive document, titled ‘Plan B’ which sets out a coherent case for a government programme that shares many common ideas with this book: major financial reform, the creation of a state investment bank and a Green New Deal to rebuild industry and boost growth while meeting sustainability targets. These perhaps partly reflect the pressure that has been applied by the trade union movement. The TUC, for example, now has policy to support the People’s Charter for Change, and an alternative economic strategy based on reining in the financial sector and boosting manufacturing.

This book seeks to make a contribution to this discussion. Our argument is that a future progressive government must go further and be more ambitious if it really wants to achieve even these relatively modest policies. We argue that a progressive government will have to recognise the problems presented by the economic and political power of the City, for example, and take concrete steps to reduce that power. This raises the central question of control. How does a progressive government ensure that it can deliver on its objectives in the face of opposition from these entrenched and powerful interests?

Ultimately, we suggest, the answer is through grasping the issue of ownership. At the core of our book is the argument that social ownership, variously conceived as public ownership, public stakes and mutualisation, is vital to give governments and the people the levers to control and rebuild the economy. This is not simply a return
to a ‘big state’ in the economy as caricatured in current political discourse. The question of ownership is a political question about democracy. That is why any alternative economic strategy must also be a political strategy. The aim of an alternative strategy must be not only to rebuild the economy to meet the needs of the people but to have a political arm aimed at substantial democratisation of political, economic and social life – the multiplication of the number and range of levers by which people can exercise real control.

We suggest that an alternative economic and political strategy must be based on a set of mutually reinforcing policies which aim to achieve related goals:

1. To address the immediate needs of the people, especially the most vulnerable in our society.
2. To reduce dependence on financial services and re-gear the economy to serve the needs of the British people.
3. To insulate the population, especially the poorest, from dependence on and vulnerability to volatile financial markets.
4. To put in place new levers of democratic control over economic and social life.
5. To lay the basis for institutions on which new ideas of social solidarity can arise and thrive.

How the book is organised

In chapter one, we analyse what’s wrong with the British economy in more detail, arguing that our productive base is too small, that the economy has become too financialised and that power has become concentrated on a narrow economic fraction based in the City.

The second chapter sets out a series of policies to establish democratic and social control of the City, arguing that regulation is not enough. Instead the labour movement must use a variety of forms of social ownership to turn the financial services sector toward productive investment in stimulating immediate growth and fostering the development of new industries.

The third chapter focuses in more detail on how immediate growth and longer-term re-industrialisation might be achieved, arguing that a socially owned banking
sector, coupled with careful use of social ownership can foster the creation of a new, sustainable, social housing sector, a new communications infrastructure and new green industries. These initiatives can lay the basis for immediate and sustainable economic growth, creating high-skilled jobs and helping Britain to meet its carbon reduction goals.

Chapter four looks at the importance of reshaping Britain’s international economic and political relationships. Any strategy aimed at tackling the overweening power of the City must involve confronting the way in which international economic relations and foreign policy have been dictated by a narrow range of interests around arms, petrochemical companies and the financial sector. An alternative economic strategy must involve not only breaking our political dependence on the US, the so-called ‘special relationship’, but also diversifying our economic relationships, fostering those with emerging BRICS economies, for example, who will demand green industrial products. It must also mean questioning anew our dependence on the European Union, whose ‘Social model’ now seems a distant memory.

The fifth chapter looks at the need for a new social strategy that can boost spending power among the British people, begin to narrow the widening inequalities in British society and raise the standard of living. It also insists on the importance of a longer-term strategy to build a new, democratised public realm that insulates people from their growing dependence on volatile financial markets.

Democracy is the subject of the sixth chapter. Returning to the opening analysis, the problems of the British economy have a political dimension. The concentration of economic and political power around a narrow fraction of interests and the hollowing out of traditional democratic institutions make it imperative that any alternative economic strategy must be accompanied by measures to devolve political power and encourage the active participation of the people in exercising control over the actions of big business and finance in the UK. A progressive government will immediately come under coordinated parliamentary and extra-parliamentary pressure from these interests and must actively create its own support base, as well as the levers by which its supporters can exercise genuine democratic control.

Finally, we develop this theme further by looking at how the labour movement can best build its own power and create broad-based alliances that can win progressive change and make inroads into the power of finance capital and big business. We argue that to do this, a political party is not enough: the labour movement must
once more become an active, self-conscious movement, with the capacity to exert political pressure inside and outside Parliament.
Chapter 1
What’s wrong with the British economy?

**What’s wrong** with Britain’s economy can be summed up in three sentences. Its productive base is too small and is getting smaller. Its financial sector is too big and out of control. Ownership and control is concentrated in the financial sector and policy is determined by it.

**The de-industrialisation of Britain**

Britain has one of the smallest industrial sectors of any advanced economy. Finland’s industrial output stands at 26 per cent of GDP, Germany’s at 25 per cent, Japan’s at 23 per cent and the US at 17 per cent. Britain’s is just 14 per cent. In manufacturing the decline has been particularly dramatic. Four and a half million jobs have been lost over the past 30 years (Table 1). The reasons for the decline are not hard to find. Investment in research and development is about the lowest in the developed world (Table 2). Labour lacks security and has limited rights to trade union action.1 Productivity is low (Table 3). And the figures for R&D and productivity would be much worse were it not for the presence of externally-owned plants in IT, electronics and cars, which supply a fifth of British exports and provide almost 40 per cent of all investment in business research and development.2 These plants are mainly controlled from the US and Japan and use Britain as an export platform for the EU. The sectors where British firms retain any export dominance are in arms production and military aerospace, petro-chemicals, pharmaceuticals and some areas of food.

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1 In May 2011 9 million of Britain’s 18 million employees were either in temporary or part-time employment [http://www.statistics.gov.uk/elmr/downloads/elmr2.pdf]. Lisi, Domenico (2009): The Impact of Temporary Employment on Labour Productivity: Evidence from an Industry-Level Panel of EU Countries. (Munich Personal RePec Archive) provides data on the negative consequences [http://mpra.ub.uni-muenchen.de/26076/]

2 ONS, Trade in Goods and Services analysed in terms of industries Q4 2010, 2011, ISSN 1740-7400; these overseas-owned firms contributed 39 per cent of total business research and development expenditure in 2006: ONS, MA 14 Research and Development in UK Business in 2006, 2008
Table 1 Employment in Manufacturing and Banking, Finance and Insurance (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing</th>
<th>Finance, business and private sector services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>6.887</td>
<td>1.805</td>
</tr>
<tr>
<td>1988</td>
<td>4.927</td>
<td>2.412</td>
</tr>
<tr>
<td>1998</td>
<td>4.208</td>
<td>3.008</td>
</tr>
<tr>
<td>2007</td>
<td>2.910</td>
<td>3.652</td>
</tr>
<tr>
<td>2010</td>
<td>2.308</td>
<td>3.435</td>
</tr>
</tbody>
</table>


Table 2 Gross Domestic Expenditure on Research Development 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of GDP spent on Research and Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>2.72</td>
</tr>
<tr>
<td>Finland</td>
<td>3.49</td>
</tr>
<tr>
<td>France</td>
<td>2.02</td>
</tr>
<tr>
<td>Germany</td>
<td>2.53</td>
</tr>
<tr>
<td>Japan</td>
<td>3.44</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.75</td>
</tr>
<tr>
<td>United States</td>
<td>2.77</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.88</td>
</tr>
</tbody>
</table>


Table 3 GDP output per hour worked 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Value of output per hour UK=100</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td>115</td>
</tr>
<tr>
<td>Germany</td>
<td>117</td>
</tr>
<tr>
<td>United States</td>
<td>119</td>
</tr>
</tbody>
</table>

ONS productivity per hour worked 2009 http://www.statistics.gov.uk/pdfdir/icp1010.pdf

Beyond manufacturing lie a range of services which are essential for the efficient
operation of the productive economy. These include transport, energy and communications and those functions necessary for the maintenance of an economically effective labour force - including education, the health service and the provision of housing.

Transport, energy and communications were all privatised under the previous Conservative government in a chaotic process that led to long-term profiteering, fragmentation and waste. The 2011 McNulty report on the rail industry found that costs were 40 per cent higher than comparable state-owned industries on the continent. Far higher subsidies were required from government to fund inefficient and inferior services. In energy a series of parliamentary enquiries have exposed equal levels of profiteering, inefficiencies arising from fragmentation and such a rundown of investment as to threaten security of supply. The same problems apply equally to telecommunications and water. All add to the wider costs incurred by British industry and its loss of international competitiveness. Health and education now face similar threats.

A further and no less serious consequence of the privatisation of essential services has been the loss of strategic control. Transport and energy are precisely the areas where planned investment is required if the challenges of climate change are to be met in ways that stimulate innovation and development in manufacturing. During the high growth of the post-war years investment in R&D in energy, transport and telecommunications fed directly back into manufacturing. Such strategic intervention now depends on attempts to manipulate investment decisions in ways

3 Department of Transport, Realising the Potential of GB Rail, June 2011

4 Florio, Massimo, The Great D ivestiture: Evaluating the Welf are Impact of the B ritish Privatizations 1979-1997, MIT Press: Cambridge, Mass., 2004, provides the most authoritative academic analysis of privatisation in Britain. Florio totally destroys the myth that privatisation has led to any long term gains in productivity or efficiency and demonstrates major costs in terms of welfare and social benefit. House of Commons Select Committee on Trade and Industry, Fifth Special Report, Transmission and Distribution Networks, May 2004. Report paragraphs 77 to 80, 103 and 116; Evidence Question 181 examines the consequences of the lack of investment.

5 Dieter Helm, ‘Infrastructure, the cost of capital and regulation: an assessment’, Oxford Economic Papers, Vol. 25, number 3, 2009 looks at the challenge of the £500 billion investment required to secure an internationally competitive level of infrastructure over the next decade in light of the accelerating failure of privatisation.

that are largely beyond government control or very costly – and often both. The housing crisis provides a glaring example. Once the provision of housing had been ceded to the private sector no amount of government targets could get investors to meet the shortfall in provision. But at the same time the financial sector was proactive in high-margin mortgage lending to those desperate for housing - inflating costs at double the rate elsewhere in Europe. This brings us to the second problem with Britain’s economy: the dominance of finance.

**The financialisation of Britain**

The ‘financialisation’ of Britain goes back to the previous Conservative government. One of its first acts in 1979-80 was to deregulate capital movement - seeking to redevelop the City of London as a world financial centre on the back of North Sea oil revenues. Simultaneously the Reagan administration deregulated US capital movements. As a result the City of London quickly became the world centre for largely unregulated and untaxed financial transactions by external banks – mainly from the US – while Britain’s Crown dependencies served the same role for British capital. A fifth of all US capital invested abroad is now located in Britain and its crown dependencies, the greater part in banking. By 2007 London was the leading world centre for foreign exchange transactions (37 per cent), financial derivatives (45 per cent), eurobonds (70 per cent) and marine insurance (20 per cent). It also transacted significant proportions of global equity trading and was the biggest European centre for asset management.

7 HM Treasury, Barker Review of Housing Supply, 2004 set a target of 200,00 new homes a year. This was never reached. By 2008-09 completions had fallen to 80,000 and in 2009-10 remained at 110,000. By then 7.7 million houses were classified as not meeting government standards and a fifth of all those aged 18-44 unable to start a family because of the lack of affordable accommodation. Communities and Local Government, House Building March Quarter 2011 http://tinyurl.com/cdztlc8  http://tinyurl.com/d7r3sym

8 The 2004 Barker report found that over the previous decade housing costs in Britain had increased by 2.4 per cent a year as against an EU average of 1.1 per cent. Much of this increase can be attributed, as in the US, to speculative lending by financial institutions in conditions of housing scarcity.


10 US Bureau of Economic Analysis July 2010: Direct investment positions for end 2009 http://www.bea.gov/international/ai1.htm#usdia. US capital investment in Britain and its territories is equivalent to over 20 per cent of GDP. US investment in Japan is equivalent to 2.3 per cent of GDP, in Germany 3.3 per cent.

11 City of London research and statistics: http://tinyurl.com/3cfzx8
The defenders of financial deregulation would argue that without it Britain would be far worse off: financial services have compensated for the decline of manufacturing. Is this true? There are three compelling reasons why it is not.\(^{12}\)

First, the disproportionate and unregulated growth of the financial sector has already resulted in grave damage to economic growth. Ignoring the US banks and British-owned investment firms, Britain’s big general banks (combining retail and investment in one institution) currently have outstanding loans equivalent to 460 per cent of GDP. This is far higher than France and Germany at 325, Japan 180 and the US 100. The leverage of these British banks in 2008 was 65 times their capital base. It remains 35 times today. The level recommended by the Independent Commission on Banking, from which these figures come, is 10 times.\(^{13}\) The National Audit Office estimates that the ultimate cost to the Exchequer of bailouts in the financial crash is likely to be around £120 billion.\(^{14}\) Even worse, however, has been the overall impact of Britain’s disproportionate bank indebtedness on economic growth. By early 2011 Germany and the US had exceeded their pre-crash GDP by 0.5 per cent, France was less than 1 per cent below and the eurozone 2 per cent below. Britain’s GDP remained 4.3 per cent below the 2007 level.\(^{15}\) Hence, far from compensating for manufacturing’s decline, the disproportionate and unregulated character of our financial system has compounded it.

Second, this ‘financialisation’ has directly and detrimentally impacted on the way firms in the productive sector operate. While Britain’s larger firms have always raised much of their capital through the stock exchange, the last three decades have seen this relationship take on a new character. A very small number of investment firms, insurance companies and hedge funds now dominate this market and use it speculatively to control companies and extract maximum short-term profit. They demand ‘shareholder value’ through high dividend payments and enhanced share values at the expense of long-term investment. Often the quickest way of extracting

\(^{12}\) A further argument is sometimes advanced based on employment. However, the numbers directly employed are quite small: in 2009 total City of London employment in finance and insurance was 140,000. Of these a majority would be in relatively routine and low paid employment. City of London, Employment Trends BRES data, 2009, April 2011. Across Britain about one million are employed in financial services — but the great majority of these would be in retail banking and insurance functions.

\(^{13}\) Independent Commission on Banking, Interim Report, April 2011, Figures 2.1, 2.2 and para. 2.3


\(^{15}\) Financial Times, 14 May 2011; Independent Commission on Banking Interim Report 2.23
value, especially for heavily leveraged hedge funds, is by enforcing mergers, acquisitions or selling on a company for private equity.

This type of ownership contrasts with that in France and Germany where a majority of the biggest firms still have one shareholder, often regional state banks, holding a majority of shares for the long-term – with results in terms of investment, training and research and development we have already noted. This pattern of stable and continuing ownership also has a further benefit. It tends to generate regional clusters of inter-linked firms, large and small, that trade together, share expertise and thereby secure additional competitive advantages. Conversely in Britain, the rapid changes in company ownership, resulting in the downsizing or closure of plants, has led to a disastrous erosion of previously strong regional economies.

Third, and probably most fatally, financialisation has changed the way our political system operates – both in terms of the totality of its control across the economy and the purposes to which this control is put. Corporate shareholders now control virtually all big companies in a way that was not the case thirty years ago. The major investment firms number little more than three dozen. No more than a few dozen of these firms, some British, a few European and many American, own the controlling blocks of shares in all the major enterprises across manufacturing, services, infrastructure and the media in a way that was not the case thirty years ago. Chief executives are increasingly their servants, promoted from company to company if they maximise profits, sacked if they do not. In turn it is these companies, together with the investment firms, that fund the trade associations, lobbying groups, consultancy organisations and policy units.

The result is a very narrow concentration of power and interest – of the kind that Adair Turner, the Chair of the Financial Services Authority, seems to have had in mind in 2010 when he described the Wall Street/Treasury complex’ as a fusion of interests and ideologies: ‘market efficiency and market completion theories can help reassure the top executives of major financial institutions that they must in some


way be doing God’s work even if it looks at first sight that .. their trading is simply speculation’.\(^{18}\)

Turner, along with a few other experts at the heart of financial system, had demanded action immediately after the crisis broke - calling in particular for retail and investment banking to be separated. He argued that what rendered the crisis so costly for governments to stabilise was the degree to the savings of ordinary people in the retail banks had been used to leverage up the high-risk, high profit speculations of the investment banks that manage the fortunes of wealthy individuals.\(^{19}\)

It is this process that takes us to the nub of what is wrong with the British economy. The wealth of the super-rich no longer principally depends on capital vested in particular areas of the productive economy. It flows though the investment banks and their generalised ability to extract profit from the short-term purchases of shares, commodities, currencies and insurance derivatives and to leverage up those profits using credit borrowed at low interest from retail savings. These investment banks, including the subsidiaries of the big retail banks, are registered in tax havens that place them outside regulatory control and largely beyond tax liabilities - even though almost all are located in Britain’s crown dependencies. In turn the savings of working people, instead of being invested in the productive economy, become the collateral for these speculations.\(^{20}\)

This system has brought immense wealth to the very rich. It is increasingly impoverishing everyone else and in doing so has contributed powerfully to the

\(^{18}\) Adair Turner, ‘The Crisis, Conventional Economic Wisdom and Public Policy’, Industrial and Corporate Change, 19/5, October 2010

\(^{19}\) Turner was a member of the four person Independent Commission on Banking. When it was rumoured that its Interim Report would suggest the separation of retail and investment banking, the hedge fund organisation, the Alternative Investment Management Association, lobbied the Treasury. The Financial Times 15 April 2011 reported that they were reassured by senior Treasury officials’ that if the report proposed this, ‘it would not be implemented’. The Interim Report, as published, simply suggested some form of ‘ring fencing’. Since then George Osborne has moved to pre-empt further discussion by proposing what seems to be a largely cosmetic scheme of internal controls within banks.

\(^{20}\) John Chapman, a former senior official of the Office of Fair Trading, explained this structure in some detail in an article in the Financial Times 21 September 2009. Only the ‘very wealthy’ (with a minimum investible £3m) have access to it. This was confirmed in a further article citing Crossbridge Capital Wealth Management Financial Times 23 September 2009. The US National Securities Markets Improvement Act sets a threshold of $5m net worth for qualified investors (V Agarwal and N Yaik, ‘Introduction to Hedge Funds’, website of the London Business School Hedge Fund Research Centre).
depth of the economic crisis. Politically, it depends on the unfettered ‘freedom’ of capital - the central tenet of the neo-liberal consensus to which Turner referred. In practice this freedom (‘the market always knows best’) simply allows a very small number of investment managers to continue making money for the very rich irrespective of the damage they do to the wider economy.

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**Summary – the need for an alternative economic and political strategy**

Overall, our conclusions have to be harsh. Compared to other countries, Britain’s manufacturing has been starved of investment and is increasingly dependent on cheapening its supplies of labour. Other sectors of the productive economy, particularly the utilities and social services, have been asset stripped and used to pump further subsidies out of wage-earners - either as taxpayers or consumers. The financial sector has not just precipitated the biggest economic crisis since the 1930s but distorted the functioning of the whole economy and, to a great extent, of the political system itself.

This is why any answering strategy must be political as well as economic. It must tackle both the issue of restoring democracy in Britain and address the resulting international challenges. The City of London’s global reach, and the ability of Britain’s super rich to benefit from it, depends to a large extent on London’s use by US banks. This in turn ties Britain to the military policies required to maintain the dollar’s international dominance. Britain’s involvement with the European Union is no less central. It was the joint US-British drive to open up European banking and energy markets that led to the Single European Act. Today the legal primacy given by the European Treaty to the free movement of capital stands in the way of any reassertion of economic and social democracy.

There can therefore be no simple solution to Britain’s economic crisis on the basis of ‘more investment’ or ‘better training’. What’s wrong with the British economy is not just its economics. It’s the politics as well.
In the first chapter we saw how the roots of today’s financial crisis lie in the deeper problems with the British economy and its ‘financialisation’. In this chapter we look in more detail at the financial sector, often referred to as the ‘City of London’. We see how any alternative economic and political strategy must include steps to challenge the power of this sector, decisively restructuring and reorienting its activities toward the rebuilding of productive economic activity and the social infrastructure.

The current crisis, and to a great extent, the deeper problems of the British economy, can be seen as the long-term outcome of the Tory strategy to deregulate the activities of the City in the 1980s, part of a conscious, though ultimately failed, strategy to place London at the heart of the growing international capital markets.

The Thatcher government’s abolition of exchange controls in 1979 led to a vast outflow of capital as pension funds and insurance firms used financial intermediaries to invest in overseas securities markets. This also generated the growth of shady investment vehicles: hedge funds and private equity firms, specialising in short-term investments that maximise ‘shareholder value’ before resale. Apart from the damaging effects of this short-term ownership on corporate culture across the wider economy, this means that the savings of working people have become more than ever entangled with sharply fluctuating equity markets.

The deregulation of the Stock Exchange - ‘Big Bang’ - saw the entry of the banking sector into stock markets, encouraging the growth of speculative investment arms among the major retail banks, as well as their aggressive takeover by US and Japanese banks. The Tories deregulated banking more generally, eroding the distinction between building societies and banks leading to the demutualisation of many building societies, with their transformation into retail banks and their
takeover. None of the former building societies remain in independent ownership. Retail banks were also allowed to expand mortgage lending.\footnote{This section owes much to the account in Jerry Coakley and Laurence Harris, ‘Financial Globalisation and Deregulation’, in Jonathan Michie (ed.), The Economic Legacy, 1979–1992, (London, 1992), pp. 37-57.}

This deregulation had a profound effect on the banking sector. The banks and former mutuals became focused on short-term profitability. This is hardly surprising given the short-term perspectives of the institutional investors owning the banks. The average duration of equity holdings has fallen from around 5 years in the mid-1960s to around 2 years in the 1980s. At the turn of the century, it had reached just over a year. By 2007, it had fallen to around 7.5 months. Many institutional investors churn their portfolio every quarter and their success is measured by returns rather than any involvement in bank governance. Inevitably, this affects the behaviour of executives and directors.

Banks’ investment arms’ portfolios have bloated in the international securities markets, allowing them to leverage themselves to incredible ratios. Lehman Brothers, the fourth largest investment bank, had a leverage of more than 30 to 1. With this leverage, a mere 3.3% drop in the value of assets wipes out the entire value of equity and makes the company insolvent. Bear Stearns had a leverage of 33:1. This was partly fuelled by, and helped to drive forward, the financialisation and privatisation of the utilities and the sales of social housing in the 1980s. These privatisations created a new class of assets for securitisation, allowing the further expansion of banks’ credit and debt and creating the basis for the real estate asset bubble that finally burst in 2008.

Yet despite all this, the industry’s regulatory mechanisms consistently failed to spot the signs of danger. Accountancy firms and ratings agencies gave the distressed banks clean bills of health only months before they ran into trouble, their sights perhaps dimmed by the millions that they collected in fees for audit and consultancy services.25

When the crash came in 2008, it was the taxpayer who was uncovered as carrying all the risk. At the height of the banking crisis, the UK government committed £1.2 trillion in loans and guarantees to bailout the banking sector and at March 2011 the amounts stood at £456 billion.26 The demutualised institutions Bradford & Bingley, Northern Rock, and Halifax had to be rescued and the major retail banks had to be re-capitalised at public expense.

Yet there has been no fundamental restructuring of the sector. Instead, the Coalition government, like New Labour before it, is attempting to return to speculation as usual with a minor reshuffling of the deckchairs. The bankers bonuses continue to flow. Savers continue to receive measly interest rates on their savings. Loans to industry and commerce have been choked off. But the excessive risk-taking that brought the sector to the brink of disaster continues unabated. At 31 December 2007, the face value of derivatives (clever bets on the movement of commodity prices, oil, gas, interest rates and exchange rates) was US$1148 trillion and according to the Bank for International Settlements at the end of 2010 it was over US$1000 trillion. The global gross domestic product (GDP) is only $65 trillion and a tiny exposure on the clever bets can usher in a financial tsunami.


The bailouts and the quantitative easing have done nothing to return the banks to lending. Instead, the demand to recapitalise is merely encouraging the hoarding of capital to preserve value. The Coalition has instead done its utmost to appease the City, reducing corporation tax on the banks to 26% and ensuring that the only report into the banking sector makes mild recommendations to ‘ringfence’ investment and retail banking activities and establish higher capital to asset ratios. Neither will solve the problem of the extent of banks’ speculative activities, nor will they address the sector’s liquidity problems. Most importantly, the Vickers report does nothing to question the corporate structure of the banking sector and the short-termism thus engendered. Despite the Coalition Agreement’s commitment to diversifying the financial services sector, including through the support of mutuals, it has sold off Northern Rock at a £400 million loss to the taxpayer to form a new private retail bank, owned by Richard Branson. A renewed financial crisis is highly likely.

**An alternative economic and political strategy in the City**

The City has effectively ceased to play its historic role of lending and facilitating business and as currently constituted is unable to do so. The first priority for any progressive government must be to take steps to get finance moving into the economy again, breaking the effective investment strike in the corporate sector. This market failure is again being aggravated by the Coalition government’s actions. Chancellor Osborne’s policies are doing nothing to stimulate lending or investment and in fact are worsening the problems. The aggressive deficit reduction plan is reducing public expenditure, eroding the basis of future growth and indeed, undermining the goal of reducing the deficit in the process.

So the first step is to stop the aggressive deficit reduction programme. The second step must be to stimulate investment in the productive economy again. But at a deeper level, the ‘blocking’ power of the financial sector must be tackled. Reorienting the economy so that it meets the needs of the people will mean profound structural changes that roll back the market’s unfettered control of finance and establish democratic and social control over this strategically vital sector.

The main levers for this strategy would be:

1. Measures to build a publicly owned banking sector, together with the rebuilding of the mutual sector, using them to finance investment in infrastructure and industrial redevelopment.
2. A package of reforms and taxes that could tackle the speculative activities of...
the financial sector, shift the burden of taxes more squarely onto speculative activity, generate revenue for government investment and increase democratic controls on finance;
3 Reform of pension funds to make them more responsive to scheme members and to socially responsible investment.
4 A package of capital and exchange controls that would counter any attempt to destabilise the economy by the financial sector.

Public ownership of banks and remutualisation

The centrepiece of a strategy for tackling the city and stimulating investment must be the creation of a genuinely publicly controlled banking sector, working to the priorities of a democratically elected government. Banking is of immense strategic significance in the modern British economy and it is too important to be left to a failed free market. When the task is to alter the corporate and investment culture of the major banks, to force them to act in the democratically agreed public interest, regulatory bodies cannot substitute for genuine control. Instead, banks must be turned into, as one commentator has put it, ‘motors of public investment and growth that would create a powerful mechanism to expand and restructure a broken economy’.27

The instruments for this already exist and are in the hands of the government if only it wanted to use them. The first task would be to take full democratic control of the publicly owned banking sector, HBOS and RBS. Similar to the idea of the British Investment Bank, the activities of these national banks would be restructured so that their lending was directed toward the goals of stimulating economic growth. They could start to provide long-term finance and take public stakes in companies with the aim of renewing the economic and social infrastructure and stimulating longer-term industrial redevelopment.

As we show in chapter 3, using a British Investment Bank or properly publicly owned banking sector, a progressive government could provide the long-term finance for a Green New Deal that would meet the immediate needs of the people, particularly in housing, while stimulating economic activity in construction and the development of renewable energy and the emergence of new industrial companies, socially owned or part-owned and oriented toward the public good.

A progressive government could also act to support the mutual sector, oriented as it is toward a public goal of providing savings and mortgage facilities for people. Struggling financial institutions with big mortgage or savings portfolios could be mutualised on a new basis with a public stake and a public interest locked into their operations and governance. This could and should have happened with Northern Rock.28

The combined effect of these activities would be to create a strategic public and democratically controlled banking and financial sector that would reflect democratically agreed priorities. Its existence would also alter the operation of the entire City, creating new competitive and political pressures on the remaining private sector banks.

**Tax and legislative reforms of the banking sector**

A government that wanted to restructure the banking sector and take the heat out of its speculative activity could undertake a range of reforms that would remove the incentives toward speculative behaviour. These could include legislation that would ensure full legal separation of retail and investment banking as well as removing limited liability from speculative investment vehicles.

Greater external democratic control on the private banking sector could be established by the setting up of a proper publicly controlled regulator, transparent and answerable to democratic bodies, together with legislation to make banking licences renewable and removable. The regulator could be instructed to renew licences based on banks’ fulfilment of social criteria, their investment in small businesses and infrastructure and their degree of liquidity and solvency rather than capital/asset ratios. The banking sector could be internally democratised with legislation to ensure that directors are elected by stakeholders, including all depositors, customers and savers, as well as shareholders. Directors’ remuneration packages could be subject to the same democratic procedures.

The tax system could be used to exert greater control on speculative activity, while raising vital revenue for deficit reduction and investment. The most important area here would be to move taxation more firmly onto speculative financial activity.

Banks should be taxed where the activity occurs rather than the place of their assumed residence. The main levers for this would be the abolition of the tax haven status of the Crown Dependencies and Crown Protectorates, in which the shadow banking sector has grown up. Many banks have established offshore subsidiaries in these tax havens. They then book transactions in those subsidiaries even though the underlying activity takes place in the UK and elsewhere. This booking of transactions is a sham and has no economic substance. Its sole purpose is to avoid taxes. Banks often demand concessions from governments with threats of relocating. At the same time they want to trade in the UK and enjoy all the benefits of the local infrastructure. By trading in the UK they would be liable to pay local taxes on that part of the trade and will not be able to dodge it by relocating.

**Pension fund reform**

In 2009, UK pension funds held assets worth £1,124 billion, of which 61% was held in corporate securities. 44% of corporate assets are now held in overseas securities, compared with around a quarter for most of the 1990s. Pension funds have raced increasingly into equity markets, led by fund managers supposedly acting for trustees in the name of scheme members but who in fact follow the herd in the financial service markets, under the cover of the ‘prudent person’ rules governing such schemes. Scheme members have virtually no democratic controls over the vast investments formed by their savings. A progressive government could begin to tackle this by legislating to make them more responsive to members and stakeholding bodies like trade unions, while obliging them to direct their activity more toward domestic socially and environmentally responsible investment. It could also examine more radical alternatives for establishing ‘social funds’ under public or mutual control, able to direct investment into regenerating the UK’s crumbling infrastructure.

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31 For example, see Robin Blackburn’s notion of a share levy to fund the establishment of a network of regional social funds. Robin Blackburn, ‘Grey Capitalism and Pension Reform’, New Left Review, January/February 1999, pp. 3-65.
Capital controls

For years, neoliberal orthodoxy declared any restrictions on capital movement to be anathema. Yet in the wake of recent turbulence and the prospect of further instability and asset bubbles, capital controls are back on the public policy agenda. Following the Asian debt crisis of 1998 and the financial crisis of 2008, talk about capital controls has a new respectability, to the point where even the IMF now admits their usefulness, while the Bank of England’s director of financial stability recently declared that capital controls were ‘back in the policy bloodstream if not the mainstream’.32

Any government committed to a growth strategy and stimulating domestic investment would need to quickly put in place a range of measures to prevent the outflow of capital. In part this could be achieved by measures to alter the behaviour of pension funds for example. In addition, a progressive government could face disruptive activity from City interests, probably even in advance of any election victory. These could include capital flight which could trigger a run on sterling and raise interest rates, increasing the cost of government borrowing and accelerating the likely flight from government bonds, raising the threat of a sovereign debt crisis. A progressive government would need to be ready to meet this challenge with a package of pre-emptive measures to control the outflow of capital.

A progressive government could take a range of measures to control capital flows. The most well-known is the Financial Transactions Tax. A progressive government could implement a Tobin Tax - a small percentage tax on foreign exchange transactions - sometimes referred to as a ‘Robin Hood tax’. As well as raising much-needed revenue to fund government investment in the economy, a small tax on each speculative purchase of currencies was advocated by Nobel Prize winning economist James Tobin, precisely to ‘put some sand’ in the wheels of international financial markets, recognising as he did the damage that such speculative activity can cause to the real economy.

It would also be important to control the flow of capital out of the country in the form of portfolio investment by financial intermediaries acting on behalf of institutional investors like pension funds and insurance firms. This could be tackled by a prohibition on all future such outflows, along with the phased repatriation of 

percentage of existing portfolio investment, which would then be sold to the Bank of England, boosting sterling reserves. The government could also impose a tax on new cross-border trading in securities, removing the incentives to channel working people’s savings into overseas securities markets. Instead, these could be channelled into government bonds for infrastructure investment.

Finally, there would have to be measures to restrict the release and use of sterling and foreign currency held in British banks, to prevent overseas investors selling their holdings of foreign exchange and British residents moving their money out quickly. This would mean the government moving to legally separate commercial and investment accounts of overseas depositors holding both sterling and foreign exchange in British banks. The government could then establish a dual exchange rate by which anyone seeking to sell foreign exchange for trade purposes could do so in a regulated commercial market at a fixed exchange rate, while investors simply wishing to move their investments into another currency would only have access to a limited supply of foreign exchange and the exchange rate would float according to the demand, effectively making capital flight more expensive.33

Taken together, these policies would represent a major challenge to the City of London’s self-appointed role in the UK and international economy. However, the alternative is to continue allowing the British people to act as the lender of last resort for a failed banking sector, submit to attempts to blackmail the government of the day with the threat to relocate, endorse the continued under-funding of productive activity and the ever more ingenious direction of funds into fuelling new asset bubbles and embrace a policy agenda that will drive us headlong toward another perhaps greater collapse.

33 This section on capital controls draws on ideas originated by Andrew Glyn and developed in Nicholas Costello, Jonathan Michie and Seumas Milne, Beyond the Casino Economy (London, 1989), pp. 115-147. See also James Crotty and Gerald Epstein, ‘In Defence of Capital Controls’, Socialist Register (1996), pp. 118-149.
Chapter 3
Returning to sustainable growth

The economic challenge facing a progressive government

There are huge economic challenges globally and within Britain. The problems to be faced and the scale of action required are probably greater than at any time since the 1930s. Unemployment is rising and the future for jobs, public services and living standards are uncertain. Britain confronts the global economy with a bloated and crisis ridden financial sector and with a correspondingly withered industrial base, its manufacturing representing barely 14% of GDP, not nearly enough to satisfy the domestic demand for manufactured goods, the combination of which is creating an unsustainable trade deficit in manufactured goods. Alongside these economic challenges are the environmental ones of climate change. These may lead to mass migrations, as well as crop failures and other economic and social problems across the globe.

These challenges call for a bold response from a progressive government. Obviously, the most urgent need is to stop the Osborne cuts that are threatening public services, jobs, communities and the productive infrastructure of the economy. They are quite literally self-defeating. By weakening the economy as they are, they are undermining the tax base. Thus, these short-term cuts are likely to result in higher deficits in the future than would be the case with the alternative advocated here – of a Green New Deal to get the economy moving again, with increased tax receipts then able to bring the deficit down in a consistent and sustainable manner.

Certainly there may be areas where public spending can be and should be cut, the most obvious being the £100 billion cost of Trident, as well as the military...
campaigns such as those in Iraq, Afghanistan and Libya, campaigns that have not only resulted in tragic and needless deaths, but which are also hugely expensive in financial terms. And there are no doubt areas where additional tax revenue could be sought immediately, such as from a more serious taxing of the banking sector, including bank bonuses as laid out in chapter 2.

However, an alternative economic and political strategy will need to not just reverse the cuts and deal with their immediate effects, but will also need to tackle the crippling legacy of the deeper structural problems of the British economy. As well as tackling the power of the City of London, it must take bold steps to invest in the rebuilding of a productive economy to serve the needs of the British people and to enable us to pay our way in the global markets.

Many across the left and now the centre left are recognising this, to some degree at least. But our argument here is that there has to be a departure from the idea that governments can simply manipulate the existing levers of the economy to boost demand and incentivise the private sector. As the legacy of quantitative easing demonstrates, this is inadequate. So embedded is the financialisation of the economy and so manifold are its effects, that progressive governments now need to be more, not less ambitious. The challenges facing us require that progressive governments realise the importance of creating new instruments, and of exercising greater control in the implementation of economic and industrial policy. This means re-engaging with the idea of strategic social ownership in the economy, whether in the form of mutuals, public stakes or full public ownership.

**Historical precedents**

There are, of course, significant historical precedents for this. Facing similar challenges in the 1930s, the USA launched the New Deal – a massive programme of public works, alongside the regulation of the banks and the financial services sector more generally. Equally, the 1945-51 Labour Governments nationalised many of the economy’s key industries, and in particular those that created or supported the country’s productive infrastructure – including water, gas, electricity, coal, the railways and the National Health Service. This was partly in response to the economic failures of the pre-war era – not just the Great Depression of the 1930s, but also the lack of private investment and development during the 1920s – which of course was not helped by the pre-Keynesian economic ideology which saw cuts as the only way of balancing the books, leading amongst other things to the General
Strike of 1926.

What is striking is not so much that a Labour Government – which was elected after all on a platform of “no return to the 30s” – should nationalise the ‘commanding heights of the economy’, but rather that the succession of subsequent Conservative administrations which ruled uninterrupted from 1951 to 1964 did not reverse the nationalisations of any of these basic infrastructure industries – only steel was returned to the private sector. It was not until the 1980s that the Thatcher governments began the process of privatisation – which gathered pace globally with the collapse of the Soviet Union and the subsequent free market feeding frenzy which culminated in ballooning inequalities domestically and globally, and the credit crunch of 2007-8 which in turn created the first global recession, during 2009, since the 1930s. On the contrary, the Conservative Governments of the 1950s retained all these basic infrastructural industries in public ownership, and were committed in addition to continued large scale council house building and provision – where again, the idea of selling these off privately was quite alien until Thatcher declared that there was ‘no such thing as society’, and launched her scorched-earth economic and social policies.

Why was there no move to privatise during the 1950s – or indeed the 1960s and 1970s, which together amounted to the most successful era in the history of capitalism, with almost uninterrupted growth, full employment, and profitability? The answer lies in what has just been written – this was the ‘golden age of capitalism’. The publicly owned industries created a modern and reliable productive infrastructure which the private sector had failed to deliver when the mines and railways were privately owned. A whole branch of ‘public economics’ developed, with textbooks and learned papers demonstrating the best pricing policies for governments to set for these industries – which involved them charging lower prices than they would were they privately owned, while still breaking even over the long term. Public ownership thus delivered high investment, high productivity, high reliability and low prices – all to the benefit of private companies who used and relied upon these industries, as well as to the benefit of the economy and society as a whole.

A strategy for sustainable growth in 21st century Britain

The central, mutually reinforcing, aims of such a strategy must be to:

- Boost economic recovery and create jobs in the immediate term
Meet the urgent needs of the people
Regenerate our dilapidated and crumbling economic infrastructure
Stimulate the rebuilding of an industrial base in industries with regional and national strategic importance.

This could be achieved through a series of reinforcing initiatives:

- A programme of investment to upgrade the UK’s communications infrastructure, including through the strategic use of public ownership.
- A new house building programme, based on expansion of democratically controlled council housing stock, together with a national programme of renovation for all homes, equipping them with insulation and sustainable technologies to make ‘every home a power station’.
- Public investment in the development of green industries to create a hi-tech industrial base in Britain.

**Building a modern communications infrastructure**

Ensuring a balanced, sustainable and successful economy requires the creation of a modern productive infrastructure on which the economy can rely. This still includes the same basics as were required during the ‘golden age’ of capitalism – energy and transport – but today also requires the information super-highway, of broadband provision to all homes and businesses across the country. A programme for sustainable economic recovery and development needs to include major and sustained investment in the productive infrastructure. This cannot be left to the private sector, which has failed so spectacularly to be trusted on the economy. It will only be delivered on the scale required, and sustained over time, if the government becomes an active agent.

As the Transport for Quality of Life report ‘Rebuilding Rail’ shows, a progressive government could achieve savings of over £1.2 billion a year by beginning to re-assert strategic control over the railway network and reversing the catastrophic experiment of privatisation. Taking over passenger franchises as they come up for renewal or as companies fail to deliver, while converting Network Rail to a fully public company, making it cheaper for the company to borrow, will make savings to the taxpayer. The government would save on shareholder dividends and subcontracting costs. These savings could be invested in expanding the freight capacity of the network and creating more high speed links, both of which would
assist in cutting carbon emissions from vehicle and air transport.\textsuperscript{34}

Similarly, the provision of a universal superfast broadband system, vital to the creation of a modern, hi-technology industrial base, has been impeded by the fragmentation of the market and its dominance by two monopolistic suppliers, BT and Virgin. This has been compounded by the suppliers’ dependence on the utility companies for access to glass fibre, the cheapest technology for superfast broadband available, and on the mobile phone companies for access to satellite phone systems, vital to merge cable broadband with 3G phone systems. As a result, Britain has failed to supply broadband to non-commercially viable rural communities, while failing to upgrade to superfast broadband. The system of public subsidies pursued by New Labour did little to rectify this and their abandonment by the Coalition will do even less. The government must take a lead. The government should take public stakes in companies delivering the broadband network. Such investment would create new jobs.

It has been estimated that an investment in £5 billion in broadband alone would create more than 200,000 jobs. A programme of investment in the UK’s digital infrastructure, including broadband, smart grid and Intelligent transport systems would create more than 700,000 jobs for a £15 billion investment.\textsuperscript{35} So it would be an immediate stimulus to growth. Even more importantly, it would stimulate longer-term modernisation in infrastructure, supporting the development of new hi-tech green industries.

\textbf{Social house-building, renovation and sustainability}

Another immediate stimulus to employment that should sit at the heart of an alternative economic strategy would be a major programme to build new houses. This would answer a pressing and immediate need for the British people. It would also be a major stimulus to economic growth and employment. It has been estimated that building 100,000 houses, costing £6bn, could create 750,000 jobs. And of course, a strategy aimed at generating growth by stimulating economic activity would generate greater tax revenue through the multiplier effect of investment leading to increased incomes and expenditure. In construction, for example, the

\textsuperscript{34} Rebuilding Rail – Interim report, September 2011, Transport for Quality of Life; http://www.transportforqualityoflife.com/u/files/110922_Rebuilding_Rail_Interim_Report.pdf

multiplier effect of investment has been estimated at creating £3.5 billion in economic output for every £1.0 billion spent.\textsuperscript{36} Such a house building programme would therefore play a role in reducing the deficit and growing the economy. But it’s important to realise that delivering this will require a programme of socially owned and democratically controlled house building to roll back the dictatorship of the market in housing. The private sector has no interest in a major programme of affordable housing and social landlords such as housing associations cannot deliver this alone.

An expansion of the socially controlled housing stock would not only address the needs of many thousands of people who are currently homeless or living in poor accommodation, it would also protect many more families from the costs of market speculation. By taking the heat out of the housing market, it would prevent a repeat of the speculative bubbles in house prices helped create the financial crash, as well as protecting many more from the extortions of private landlords in the diminished rental sector.

Such a house building programme could be coupled with a nationally planned programme of insulating the entire existing UK housing stock and retro-fitting solar panels, a programme the Green New Deal Group calls ‘every home a power station’. This could generate tens of thousands of new jobs in specialist construction and maintenance. It would also create a demand for new sustainable industries.

\textit{A green industrial strategy}

As we saw in chapter 1, Britain’s industrial base is no longer adequate for the country to pay its way in the world. Its remaining strengths are concentrated on defence, where it is dominated by BAe systems, and pharmaceuticals, thanks to contracts from the National Health Service. Both sectors are notably dependent on public procurement by the state. If Britain is to rebalance its economy away from financial services, meet its carbon reduction goals and begin to rebuild an economy that answers the urgent needs of its people, a progressive government must address the massive systemic failures of the market and the private sector. This would mean an industrial strategy to create a modern and productive infrastructure, along with appropriate ownership, investment and control to build new green domestic industries. For example, the objective of building new sustainable homes and retrofitting existing housing stock with solar panels will

\textsuperscript{36} Plan B: A Good Economy for a Good Society (Compass, 2011), p. 27.
require significant investment in training. Similarly, research and development in carbon capture storage or combined heat and power technologies require long-term and stable funding for basic research in universities, coupled with the provision of strategically targeted support for research and development programmes, involving government, companies and universities. Government also has a key role to play in upgrading the infrastructure needed by new renewable energy firms and in procurement.  

But it’s not enough just to create the demand or infrastructure for new industries. A progressive government would have to ensure investment in the relevant industrial sectors themselves – the solar panel industry, the wind turbine sector and other renewables. This requires investment in start-up companies and in long-term Research and Development. In both areas, the UK currently lags behind most other countries. True to form, the private capital markets in the UK have seen investment in the development of renewable energy technology as being too long-term and have avoided it.

If these new opportunities are to be taken up, UK companies will have to abandon the short-termism that has plagued British industry for decades. Even with government investing in infrastructure and providing procurement contracts, unless steps are taken to reshape corporate culture, managers will remain under pressure to maintain high share prices via dividend payouts, even where there may be other much better uses of those funds, such as Research and Development, training, and other productive investments. Strategically vital companies need a long-term, stable finance environment that will enable them to move away from the short-term focus on ‘shareholder value’. This will never be delivered by a banking sector left to pursue its speculation-as-usual. Neither will it be provided by the government’s

37 See A Green New Deal: Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices (New Economics Foundation, 2008); Jenny Bird, Green Jobs: Prospects for creating jobs from offshore wind in the UK (ippr, 2009); The Good Jobs Plan: a new approach to industrial strategy (New Economics Foundation, 2011).

38 See for example, Mariana Mazzucato, The Entrepreneurial State (Demos, 2011), pp. 97-104 for the risk-aversion of venture capital in relation to investment in renewable technologies and the potential role that government can play in providing R&D investment.

39 There is a substantial literature on the historical weakness of British industry, its historical failure to invest in Research and Development and the role of finance capital in creating these conditions. See for example, Nicholas Costello, Jonathan Michie and Seumas Milne, Beyond the Casino Economy (London, 1989); Jonathan Michie and Michael Kitson, The Political Economy of Competitiveness: essays on employment, public policy and corporate performance (Routledge, London and New York, 2000).
Green Investment Bank, with its tiny capital fund.

As we saw in chapter 2, one option open to government would be to use a publicly owned British Investment Bank to provide a proper loan structure to enable start up companies in key industries to develop. The need to tackle the culture of short-term shareholder value also requires increased levels of public control. One way that other economies have fostered a long-term outlook has been to take public stakes in companies, and to use these shareholdings to discuss with the managers and Boards of those firms what they are doing to take advantage of new opportunities on the horizon – rather than to manipulate the next set of quarterly financial results. Obvious examples would be taking public stakes in companies manufacturing wind turbines, and companies that provide the components to such companies. Others might include taking stakes in combined heat and power suppliers, or carbon capture storage technology companies, which have large potential overseas as well as domestic markets.

Building on that, local and regional government should be encouraged to take ownership stakes in local business, both start-up companies and those that are seeking to grow. If and when local or regional institutions seek to sell on their stakes so as to invest elsewhere, attention should be paid to the possibility of selling to one or more of the company’s other stakeholders – their employees, customers, and suppliers, forming ‘hybrid mutuals’, where the companies are then part-owned by their employees and part-owned by their customers. This in turn could support a strengthened and growing mutual and co-operative sector of the economy. Since the demutualisations of the 1980s and 1990s, one of the weaknesses of the UK economy has been the relatively small size of the co-operative and mutual sector, leaving the economy dominated by large PLCs. This proved particularly expensive for us all when the financial services sector fell victim to this – with previously mutual building societies such as Northern Rock becoming private banks and joining the feeding frenzy on new financial instruments that led to the global credit crunch along with the bankruptcy of Northern Rock. Indeed, not a single one of the demutualised building societies has survived as an independent entity.

Can the UK Government afford to take stakes in private firms in this way, to influence behaviour for the better? They already have done, in the Royal Bank of Scotland and HBOS – the only problem is that they are failing to make any productive use of these ownership stakes. The Government complains that the
banks aren’t lending to small and medium sized companies, and yet the Government owns or part-owns two of the biggest banks – it is the Government’s fault. And that could be changed immediately by a government creating a publicly owned banking sector geared toward investing in longer-term industrial development.

Rebalancing the economy

There is a broad consensus that the British economy needs to be rebalanced, away from the bloated and speculative financial services sector towards manufacturing and the productive sector of the economy more generally. There is an equally broad consensus that we need a geographical rebalancing to reverse the centralisation of activity in the City of London and the South East of the economy more generally, to get more vibrancy into localities and regions across the country.

The sort of Green New Deal policies being advocated here could deliver on both of these major and urgent needs. A major programme of investing in every house and flat across the country, installing insulation and solar panels as appropriate, and even wind turbines and other environmentally friendly innovations, would create employment across the country, providing work for companies many of whom might be able to win export orders – or increased market shares where they are already exporting – on the back of this work, and the new product and process innovations that would undoubtedly flow from such a major national and sustained programme. Similarly a new house-building policy would not only be able to provide further demand for such new innovations, but would also produce work across the localities.

Supporting and expanding the co-operative and mutual sector could also have a positive local and regional impact, with people being able to take ownership stakes in their local football clubs, wind farms, and other enterprises. Such a regional and local rejuvenation would be the opposite from the cuts being currently imposed on local authorities and on those charities and other bodies that are, ironically, involved in the front line of what Cameron has chosen to dub the ‘big society’. So stopping those cuts, but going on to fund a major Green New Deal, are entirely synergistic components of a strategy that would get the economy moving again nationally and across the regions, while at the same time improving the quality of life and the health of local communities, and doing all this in a sustainable way. Such a strategy will create new jobs which in turn will lead to increased tax
revenues to the Treasury, as the employed pay income tax, the companies hiring them pay National Insurance and Corporation Tax, increased consumer spending boosts VAT receipts, and so on. That is the way that the deficit can be reduced over time in a consistent and sustainable way – reinforced by increased taxation of the banks and cuts in Trident and other military spending.
Chapter 4
New international political
and economic relationships

A progressive government, committed to tackling the power of the City of London would be laying down an explicit challenge to some of the most powerful international economic and political relationships shaping Britain’s role in the world. These would include challenging Britain’s so-called ‘special relationship’ with the United States, as well as the ‘Anglo-Saxon’ model of free-market capitalism, often seen to underpin this relationship. But it would also mean decisively breaking with the idea that deeper political and economic integration in Europe is a viable alternative and recognising that in the crisis of the eurozone the ‘Social Model’ has finally been overwhelmed.

The extent of this challenge would mean that a progressive government would face orchestrated attacks from the mass media and financial sector, including the bond markets, aimed at political destabilisation. It is vital therefore to recognise that challenging these false alternatives means breaking the grip of forces which are holding back economic development in Britain and would open up the possibility of industrial redevelopment and modernisation, as well as the chance to build new economic relationships in the global economy, focused on mutual development.

**New Labour’s imperialism**

New Labour’s view of Britain’s economic and geopolitical role gave expression to a fundamentally neoliberal view of the workings of the global economy, beneath which lay their thrall to a complex of interests based on the City of London, the petrochemical companies, BP and Shell and arms companies like BAe Systems. The entanglement of these interests with those of US finance, mineral and arms companies has formed the solid basis underpinning the so-called ‘special relationship’. 
Like their Tory predecessors, New Labour and particularly Blair viewed a commitment to freedom of capital markets as an article of faith made necessary by what they portrayed as the unstoppable forces of globalisation. Globalisation and freedom of capital were often seen as the same thing. Yet just as in the 1980s and 1990s, capital’s freedom of movement depended on active government promotion and support. New Labour continued to deregulate the City and to remove the Bank of England from political control and it continued to promote the opening up of international markets to capital inflows and privatisation.40

The extensive penetration of the British financial sector by US banks in the wake of ‘Big Bang’ has meant that British policy aimed at protecting or enhancing the City’s interests has practically functioned to align UK foreign and economic policy with the US Treasury’s policies. These were aimed at sucking in foreign capital, boosting the international strength of the dollar and providing new markets for US investment banks, mainly through the privatisation of state assets. Britain and the US have promoted this through international agencies like the World Bank and the IMF, replacing a regime of international aid and development with a new system in which loans are made in return for structural adjustment programmes which demand privatisation. These have been pursued in the former socialist countries, as well as in the global south and, increasingly, south-East Asia and the Middle East.

New Labour’s willingness to trail the US in its use of overwhelming military force in pursuit of strategic control of oil resources rested on its unwillingness to challenge, and in fact, keenness to promote, the power of UK based transnationals like BP, Shell and BAe Systems. In 2008, Britain became the biggest arms exporter in the world. BAe systems benefited from the Blair government’s active promotion and underwriting of arms deals with Tanzania, India and most notoriously Saudi Arabia, while their profits have risen above market expectations thanks to the ‘high tempo’ of Anglo-US wars in Afghanistan and Iraq. The invasion of Iraq and the intervention in Libya have both seen major US, British and French oil companies engaged in squabbling over the petroleum spoils, together with more widespread plans to privatisate state assets.41


Under New Labour, this willingness to deploy force selectively in the pursuit of oil, arms and financial interests was garbed in a new international ideology – the ‘Blair doctrine’. In reality, this amounted to little more than a shabby attempt to replace the rule of international law with a new set of criteria that could clothe the deployment of naked force at will across the globe with a series of selective ‘human rights’ tests. In doing so, the Blair doctrine carried New Labour firmly into the territory of US neo-conservative imperial ideology. With the unravelling of the Blair doctrine under the weight of its own lies in Iraq and the literally untold deaths that followed, it is perhaps little wonder that so many social democrats have sought shelter in the fuzzier ideas of the European Union and its so-called Social Model.

Progressive opinion in the UK has become identified as amongst the most enthusiastic supporters of the ‘European project’. This is remarkable given that until the 1980s, Labour politics in particular contained a strong trend that preferred a national, ‘Keynes plus’ macroeconomic policy strategy. This shift has occurred for a number of inter-related reasons. One was undoubtedly, simple electoral considerations. New Labour wished to distinguish itself from its predecessors, suggesting that European integration represented ‘the only game in town’ in which progressive policies could thrive. But equally, the promise of a European Social Model (ESM), appeared to offer a comprehensive system of welfare provision that would act as a counterweight to the Thatcher governments’ unrestrained neoliberalism.

It is unfortunate, therefore, that this faith has delivered so little in real advances for European citizenry. The ‘Social model’, advocated by Jacques Delors et al, has been replaced by the Lisbon agenda, which is intrinsically neo-liberal in character. It emphasises ‘supply side’ solutions, such as the standardisation of skills training in labour, rather than any considerations of the importance of stimulating demand in the economy. Moreover, the reality of the ‘Social model’ was always less attractive than the vision. It was always a minimalist version of a fully-fledged system of social protection, and even those protections that were won are under strain with each successive wave of enlargement, increasing the diversity of social and employment conditions for EU members.42

It was claimed that Economic and Monetary Union (EMU) would provide a stable economic zone, where governments, free from destabilising effects of speculation,

could improve the efficiency of economic policy tools. The reality has been quite different. The economic architecture designed to support the creation of the euro, was badly designed and has contributed towards subsequent problems faced by participants; a point with which even Delors, head of the European Commission when the Euro was introduced, now concurs. The Maastricht Convergence Criteria that were agreed in creating monetary union were arbitrary and they were never applied properly in assessing economies’ suitability to join the single currency. Consequently, economies that were unsuitable for monetary union were allowed to join. The effects of this were magnified by the creation of the European Central Bank, which was given the sole objective of controlling inflation, regardless of the diverging needs of the economies joining the single currency. Finally, the Stability and Growth Pact (SGP) is intended to reinforce the policies of the ECB by preventing governments from borrowing to fund Keynesian style policies. Yet, it has been selectively and poorly policed, failing to deal with risks emanating from spill-over and free-rider effects resulting from a lack of fiscal discipline. The version of fiscal union currently being proposed by Germany, is intended to impose budgetary discipline upon national member states, but there is little corresponding discussion of fiscal transfers necessary to stabilise a single currency. EMU, therefore, represents a fundamentally flawed creation and the European Union economies are suffering the effects of this now.43

**Consequences: endless war and economic crisis**

The policy errors that have proceeded from obeisance to neoliberal ideology and the complex of financial, mineral and military interests that it supports have generated appallingly economic, political and humanitarian costs.

As Ben Fine and other economists have argued, the US and British-promoted financialisation of the global economy has been responsible for the slowdown in growth in the global economy over a 30 year period as capital has deserted or destroyed productive capacity worldwide. It has also promoted the speculation in securities in essential commodities like oil and food, artificially raising food prices and bringing poverty and starvation in their wake. At the same time, financialisation has created a financial regime characterised by more frequent and more serious crises. Financial liberalisation, pursued in the interests of Wall Street and the City, promoted the volatile flow of capital around the globe, into and out of a series of

43 M. Baimbridge and P. B. Whyman, Britain, the euro and beyond, Ashgate: Aldershot, 2008); M. Baimbridge, B. Burkitt, and P. Whyman, Convergence criteria and EMU membership: theory and evidence, Journal of European Integration (1999), 21(4), 281-305.
different assets and national economies, all in search of higher returns. This created growing instability in the world economy as economies experienced inflows of capital fuelling asset bubbles and extending cheap credit, raising exchange rates and hastening deindustrialisation in many of the world’s biggest economies. In Malaysia, the dot.com boom, in Japan, Russia, Ireland, Greece and now the EU, we can a similar story. When these asset bubbles burst, widespread defaults and bankruptcies were followed by drops in the value of the currency and the imposition of stagnatory austerity regimes. By 2008, so generalised was the debt-fuelled speculative activity of the banking sector and so complex were the financial derivatives being traded - assets whose real value was impossible to establish - that the collapse of the housing bubble in the US prompted an unprecedented crisis in confidence. The banks stopped lending to each other through unsecured loans and as a result some of the biggest names in Anglo-US finance capitalism went bankrupt and had to be bailed out or renationalised at astronomical public expense. The cost of the renationalisations in the UK, USA and Europe in 2008 alone has been equivalent to reversing half of all the privatisations in the entire world for the last 30 years, while the costs of bailing out Northern Rock exceeded the value of all the private finance provided for public-private partnerships in Britain and the EU for the last 17 years. In return for this generosity, the people of these countries must pay through austerity regimes that attack their wages and pensions and sell their public services off to the very institutions they have just bailed out.44

As a result of its hawkish foreign adventures, Britain has been embroiled in a succession of disastrous imperial foreign wars in pursuit of capital’s freedom or the strategic interests of British-based oil companies. From Yugoslavia to Sierra Leone, Afghanistan, Iraq, Libya and now possibly even Syria and Iran and Somalia, the cost in the lives of British soldiers and far more so the peoples of those states has been immense. In March 2012, the number of British service men and women killed in Afghanistan totalled more than 400, while more than 5,300 have been wounded. The numbers of Iraqis and Afghans killed and maimed are literally countless. The political backlash from the various justifications used – the ‘War on Terror’, or the ‘clash of civilisations’ with ‘Islamic fundamentalism’, has generated a dynamic in which mainland terrorism produces a corresponding erosion of civil liberties and democratic rights. And finally the financial cost of Britain’s wars has been and continues to be extraordinary. In 2010, the cost of the wars in Iraq and Afghanistan

had risen to £20 billion, while in June 2011, in the midst of the government’s austerity cuts, it was revealed that the intervention in Libya had cost £200 million.45

Finally, the inherent flaws in the eurozone have been brutally exposed by the current problems faced by weaker Eurozone economies. Whilst the external shock which acted as the catalyst for these events arose from the aftermath of the 2008 financial crisis, because of its design, the eurozone has been unable to respond in a way that would allow stronger economies to reflate in the interests of the currency zone as a whole. Instead, the costs of the crisis are being imposed on the debtor nations like Greece, Spain and Portugal, with catastrophic results for their economies. The EU’s current solution appears to be to delay default by nationalising private debt via an under-funded European Financial Stability Facility (EFSF), whilst demanding dramatic deflation by national governments desperate to retain political capital by remaining within the single currency. Even if this approach succeeds, which is extremely doubtful, it hardly provides an enticing picture of a European project in which the UK would wish to become more deeply integrated.

An alternative international programme

A progressive government in Britain must begin to play a new role in the world. This must mean weakening the relationship between its international economic policy and diplomacy and the complex of interests around the City, petrochemical companies and the arms industry. This is not only a condition of possibility for the formation of a truly independent foreign policy, it’s also the only way in which the government can help foster new economic relationships in the world economy and play a role in returning it to growth.

The most immediate and obvious priority would be the withdrawal of British armed forces from Afghanistan and the Middle East more widely to end the cycle of violence, terrorism and the domestic attacks on civil liberties. Britain must instead play a role in promoting a political solution to the extraordinarily dangerous escalations in relations with both Syria and Iran. Such political detachment from US foreign policy would also play a significant dampening role on Washington’s hawkishness.

Britain’s relationship with the Europe is more complicated, but at the very least, a

progressive government must urgently review its membership of the European Union. A progressive government committed to the kinds of domestic policies advocated here would run into immediate problems in relation to Britain’s European Treaties. Long-term public ownership of banks and state aid for industry, as well as public ownership of transport, for example, would contravene EU policy, while the Stability and Growth Pact requires commitment to deflationary policies of the kind that have crippled the economies of Greece and Ireland. As this book has argued throughout, government intervention has the potential, if properly directed and accurately timed, to improve Britain’s economic performance. Ultimately, progressives must judge the EU according to whether it is an effective vehicle for advancing an egalitarian agenda based on full employment, redistribution and democratisation, compared with other available national and global policy alternatives. The conclusion has to be that it is not and that accordingly, a progressive government must explore alternatives.

Potential options include the status quo position whereby the UK retains EU membership, relying upon its opt-out from EMU and refuses to participate in further economic and political integration, together with pressing for renegotiation of EU obligations and withdrawal from some or all of the neo-liberalist burdens. However, such strategies are problematic since although further integration measures can be vetoed, Britain remains committed to those that already exist and relying upon the maintenance of bargaining strength to secure concessions within already agreed international treaties.

In contrast, the most beneficial option would appear to be full withdrawal from the EU and a reorientation of the UK’s priorities globally and enable Britain to take an independent approach to political and economic issues confronting the nation. This would mean that UK citizens would possess the power to decide how they are governed and how the economy is run. For example, independence would leave our Parliament with greater potential to design and implement an economic and social policy, which could embrace full employment and social solidarity. Once withdrawal is achieved, the UK has the opportunity to develop whatever trading relations with other nations/groups it desires. For example, the potential offered by a revitalised European Free Trade Association (EFTA) would permit alternative European trade relationships, whilst the Commonwealth nations include a number of the fastest growing markets in the world where historic links may give the UK a potential advantage in re-establishing trade links with these dynamic economies. Additionally, it may provide a bridgehead to closer trading links with the emerging economic
giant, China. This is particularly important as demand for green technologies in China as well as other BRICS countries is massive and constitutes a massive potential export market for green technology industries. This could see the expansion of new joint ventures between publicly supported companies in green industries with Chinese counterparts.

A progressive government should also be pursuing a Green New Deal at a global level. This could be co-ordinated through the G20 and other such gatherings as well as via the relevant global institutions – the United Nations, World Bank, International Monetary Fund and others. But it could also be funded and supported by new revenues from a tax on international currency speculation – the ‘Robin Hood’ or ‘Tobin’ tax.

This raises the issue of wider financial reform. The previous international financial and economic crisis of 1929, with the resulting Great Depression of the 1930s, led to a range of new regulations on the financial services sector, limiting their ability to speculate for the sole purpose of private financial gain, seeking instead to foster real economic activity. Unfortunately, the US and other governments succumbed to lobbying from financial and other corporate interests and repealed much of this legislation during the past thirty year era of privatisation, deregulation and demutualisation. This free-market deregulation added to the speculative frenzy that led to the 2007 global credit crunch. But it has also led to increased speculation on food and commodity prices, leading to spikes in prices that have led to serious malnourishment. Such speculation needs once again to be outlawed.

Further, a progressive government in Britain should pursue the issue of wider international financial reform in the interests of returning the global economy to growth and building into it developmental and social justice goals. This might mean a new ‘Bretton Woods’ type international agreement, based on a return to fixed exchange rates and controls on capital movements. This would provide national and regional economies with the shelter from volatile capital movements within which they could begin to pursue planned developmental policies aimed at creating new global demand and a more diversified global industrial base. This in turn would probably require new government controls over interest rates other key prices.

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46 See, for example, B. Burkitt, M. Baimbridge and P. Whyman, There is an alternative: Britain and its relationship with the EU, Nelson and Pollard: Oxford (1996).

47 This is argued in Foley, ‘Anatomy of Financial and Economic Crisis’, p. 22.
Conclusion:

Far from being outmoded and passive witnesses to the miraculous movements of markets, national governments played a critical role in creating the financialised global economic regime which collapsed in 2008. Successive British governments have vacillated between pandering to the City and a handful of British based transnational companies on the one hand or becoming more closely embroiled in a similarly neoliberal economic project in Europe on the other. National economic and diplomatic policy created this situation and it will require national policy to change it. The policies outlined here would be an essential part of any alternative economic strategy, to the extent that an alternative is unthinkable without them. The long-term effects of these policies would be to weaken our dependence on finance capital, arms and petrochemical industries, diversify our international economic relationships. The would also begin to shift the emphasis of foreign policy away from the attempt to deploy massive economic and military force to dominate markets and resources, toward the promotion of global, national and regional economic and social development through co-operation.
Chapter 5
A new social strategy

The financial crisis of 2008 and the advent of the Coalition government have seen a renewed frontal assault on working people’s standards of living. Two thirds of British people now believe their children will be worse off than they are. George Osborne’s cuts are stifling economic recovery, creating greater unemployment and damaging access to frontline public services, falling disproportionately on women and the poorest families.

As the Institute for Fiscal Studies showed in October 2010, the impact of the cuts will fall hardest on the poorest in society, while the TUC has warned that cutting public sector jobs will affect women disproportionately, as they form 65% of the workforce. Cutting hundreds of thousands of public sector jobs when so few similarly skilled jobs exist in the private sector will set progress on closing the gender pay gap back years. At the same time, the government’s reforms to the social security system, the NHS and higher education represent new attacks on social entitlements and new pressures forcing people toward debt and private insurance, while in each case, new parts of the public sector are opened up to private providers and their City of London backers.

A progressive government must halt these attacks on the public sector as an urgent priority. However, the government’s attack is just the latest and most aggressive phase of a 30 year period in which British society has become more unequal, more unfair, more precarious and more dependent on the financial sector.

In December 2011, the OECD reported that over the last 30 years, Britain had

48 For the IFS report, see http://www.guardian.co.uk/politics/2010/act/21/spending-review-cuts-will-hit-poorest-harder-says-ifs; For the TUC’s analysis of the impact on women, see http://www.tuc.org.uk/extras/womenandrecessiononeyearon.pdf.
seen the fastest growth in income inequality of any developed nation. The report identified a particular feature of this trend as the rise of a financial super-rich who controlled a staggering quantity of the national wealth. In 2005, the top 1% of the population controlled 14.3% of pre-tax income, up from 7% in 1970. On the eve of the recession the 0.1% highest earners made off with 5% of total pre-tax income.49

Under the Thatcher governments, the effect of ‘Big Bang’ in the City was to start a race to the top across in executive pay across the financial services and corporate sectors, the results of which are now being played out in the debate over City bonuses. For working people, the forcible de-industrialisation of the economy, combined with the recomposition of industry around services employing flexible labour and the attack on trade union rights, resulted in a historic squeeze on wages. In 1979, wages accounted for 65% of GDP. By 2007, that figure had fallen to 53%. In spite of 40 years of Equal Pay legislation, the gender pay gap remains at 15.5%, rising to 55% in the finance sector.50

Income divergence has also been accompanied by the degradation and financialisation of social services and entitlements. The period of neoliberal policy-making has seen public services subjected to a set of mutually reinforcing policies that ultimately serve the interests of private companies and their financial sector backers: services are marketised by breaking them up into competing cost centres and business units, with the state becoming merely a commissioner of services from ‘providers’ who can in theory be private or public sector bodies, according to which offers best value for money; services are ‘commodified’ by breaking them up into goods bearing a price, paid for by users and if possible, turned into actual commodities produced for sale in the market; labour is commodified by breaking it up, compartmentalising, deskilling and casualising it and where possible, outsourcing it entirely to private sector companies. The logic of these policies pushes inexorably toward handing control entirely to private sector companies, leading to the emergence of a national and transnational public service industry, closely tied to the City of London. These companies and consortia specialise in ‘cherry picking’ lucrative front line services or in putting together public-private partnerships that open up infrastructure to private sector control, using steady


streams of public funding to leverage private sector investment.\footnote{See for example, Colin Leys, Market Driven Politics: Neoliberal Democracy and the Public Interest (Verso, London, 2001); Dexter Whitfield, Global Auction of Public Assets: Public Sector Alternatives to the infrastructure market and Public-Private Partnerships (Spokesman, 2010). See also the work of David Hall at the Public Services Research Unit, University of Greenwich and for an essay that embeds privatisation firmly within economic financialisation, see Ben Fine and David Hall, ‘Contesting Neoliberalism: Public Sector Alternatives for Service Delivery’, Milan European Economy Workshops, Working Paper, 2010-27; http://www.economia.unimi.it/uploads/wp/DEA-2010_27wp.pdf}

Access to vital services and utilities has been commoditised for users, while the services themselves have been converted into assets - securitised - for trading in the financial markets.

For example, the sale of council housing in the 1980s created a market in which developers and banks prospered by ensuring an inadequate supply of housing and the extension of greater mortgage credit to workers whose wages were stagnating, fuelling an asset bubble in housing that finally burst in 2008. Average household debt - mortgage and credit card debt - is currently running at £58,000 in 2010 and is projected to rise to £77,309 by 2015, 175% of income. In 2009 it was estimated that 1.7 million people were waiting on council lists, while an extra 240,000 new houses would have to be built every year to meet the demand for housing.

Similarly, the Thatcher government’s decoupling of the state pension from prices, together with private sector employers’ offensives against occupational pension schemes has increased pensioner poverty and driven many others toward the volatile private, stock market-linked pensions industry. An estimated 15% of current pensioners now live in poverty, while the number of private sector workers in occupational pension schemes has fallen from 8 million in 1967 to just 3 million in 2010. Private pension schemes have been degraded for their members by a shift to inferior benefit structures, while pension fund managers shifted investments into higher risk equities and employers exploited booming financial markets to take pension holidays. Private pension funds in the UK hold around 60% of their assets in the form of equities, around 44% of which are overseas equities, plus a small but growing proportion in the ‘alternatives’ market, mostly in private equity-style infrastructure funds.\footnote{http://www.ons.gov.uk/ons/dcp171778_235435.pdf}

Education and access to skills is being further stratified and fragmented along class, community and regional lines as the comprehensive system is degraded by the promotion of free schools and academies, competing for scarce resources.
Entitlements to access to tertiary education from Further to Higher Education will increasingly depend on students’ willingness to saddle themselves with debt to cover up to five years of study, while private providers and their finance capital backers are encouraged to help themselves to public subsidies and even possibly to trade in student debt.

The long-term erosion of welfare provision has embedded class and gender inequality. Where it is properly provided, collectivist social provision relieves some of the caring responsibilities of the family, which still fall disproportionately on women. At its maximal level such provision could (and did in wartime and in the former socialist countries) include the socialisation of some household tasks including childcare. This has long gone in Britain, which now has the most expensive (and hence unaffordable) childcare of any EU country. The New Labour government’s Surestart programme was a small step in the right direction but even that is now being reversed. Meanwhile, the privatisation steamroller has now ensured that the care of the elderly is completely outside the state sector. Hence at both ends of the age span (i.e. the very young and the very old) are, unless they come from well off families), cared for by women in the home.

At a more minimal level the erosion of hospital provision; the insistence that recuperation after serious illnesses takes place at home means that the care of the sick is also a ‘family responsibility’. To this may be added the countless other erosions of caring services such as home helps, after school clubs and so on.

Yet while these processes have worsened the standard of living and exacerbated inequalities, finance capital has enjoyed a boom time on the profits. The beneficiaries of all this, once again, have been the new big companies trading in services and the financial sector: the pension funds, investment banks and private equity firms who now trade public service equity in a vast secondary market. And for all the heroic rhetoric about private sector daring, when privatisation goes wrong it turns out that, once again, it is the public that carry all the real risk. The Private Finance Initiative has proven disastrous value for money, with ballooning debt merely shoved off the public balance sheet and now with NHS Primary Care Trusts forced to cut services and close departments because they are trapped into inflexible contractual relationships with their partner companies. Similarly, the Southern Cross care homes scandal shows the danger of private equity’s penetration of the services and infrastructure market.
An alternative social strategy

Growing inequality matters to a progressive government, not just because it is unjust and cruel but because it is wasteful. Inequality breeds social alienation, violence, ill-health and mental distress. In doing so, it wastes the potential and skills of people who are vital to creating a growing economy. The perennial debates around poor educational opportunities and outcomes in the UK are symptomatic of the fact that finance capital can get along quite well without a mass, democratic education system. Indeed, it is seeking to turn the education system into a set of monetised assets. By contrast, the costs of training a skilled, educated workforce for a modern, hi-tech, green economy would require a return to significant levels of investment and egalitarian ideas of the what education is for and should be doing.

A progressive government will face massive challenges in tackling inequality and the effects of social morbidity. Yet tackle them it must and with an ambition to match the wartime commitments embedded in the Beveridge report. A government, committed to rebuilding economic growth while lifting people out of the worst poverty, tackling inequality and restructuring the economy and society would have to set its policies against a series of objectives including:

- Driving up living standards in the immediate term and restoring consumer confidence.
- Reinforcing these gains by making inroads into structural inequality, raising living standards for working people over the longer term.
- Insulating people from dependence on and vulnerability to volatile fluctuations in financial markets.
- Laying the basis of a new ‘common sense’ in society, based on values of social solidarity rather than ‘greed is good’.
- Reinforcing policies that establish democratic control over the main levers of the economy.

Immediate measures:

A progressive government could take some immediate measures to boost spending
power and stimulate consumer activity, including reversing the cuts to Corporation Tax and using the money raised to cut VAT. It could also boost the state pension by raising it to 60% of median earnings and index linking pensions to earnings or prices, whichever is higher. This would not only lift pensioners out of poverty insulate pensioners from the need to consider riskier stock market linked pensions.

According to the National Pensioners Convention, this could be financed by out of existing National insurance reserves, by removing the higher earnings limit on NI contributions, raising employer contributions to 15% of payroll and through closing tax loopholes. Similarly, the government could raise the minimum wage and legislating for a shorter, 35 hour working week. Given that working hours in Britain are some of the longest in Europe, this would embed beneficial changes to the balance of labour and leisure and would be likely to become gains that working people would defend.

The government could also take immediate steps to make inroads into structural gender inequalities, not only by halting the cuts which aggravate them but by embracing the demands of the Women’s Charter to tackle the embedded inequality in the workplace. It could legislate to introduce statutory pay audits, grant real full-time rights to part-time workers – overwhelmingly women. It must also build on the faltering progress made under recent Labour governments by creating truly affordable and comprehensive child care provision, including pre-after-school and holiday provision, as well as improving and equalising maternity and paternity leave and pay. The government could also use a modest rise in corporation tax on the biggest companies to fund a reversal of the rise in higher education tuition fees and return the subsidies to Further Education places. This is vital not just to begin the move toward equal access but also to provide vital skills training. A progressive government would have to encourage training fit for a ‘carbon army’, as well as research and development to support innovation in hi-tech green industries.

However, a progressive government will also need to take more ambitious steps. Raising living standards, eroding inequality and insulating people from exposure to financialisation will require a far-reaching programme to rebuild the public realm and construct new and truly democratic public services.

**Rebuilding the public realm**

As we have seen, a progressive government could immediately halt the Coalition’s public service spending cuts, shift taxation onto City wealth, cut costly nuclear arms expenditure and invest in economic growth. Some of the tax
revenues raised could be used to fund steady increases in spending on public services. But such is the penetration of the private sector and finance capital now that unless the issue of control of public services was addressed much of this money would disappear into shareholder profit. For this reason, a progressive government would have to begin a long-term programme to rebuild the public realm in economic and social life, rolling back the dominance of the market and insulating people from the financialisation of everyday life. Alongside the assumption of public control of key strategic elements of the economy and economic infrastructure, must go the regaining of control over economic and social reproduction.

A vital part of this, as we have seen, would be a major programme of building socially controlled housing, which would play a vital role in insulating people from vulnerability of financial markets. The government would also have to halt all further outsourcing or public-private partnerships, and all projects to liberalise services. As a first step, it could embrace the plan outlined by Compass and the Green New Deal Group for buying back the £56 billion of PFI debt using quantitative easing, directing the central bank’s actions toward saving future generations from the massive debt obligations entailed on them mostly by New Labour.

It must also mean turning away from the promotion of social enterprises as a panacea for public services. As Dexter Whitfield and others have pointed out, while there is a good case for mutualisation in the private sector, in the field of public services, they function as a step toward full privatisation. The first step in reversing this would be to begin a gradual process of exerting control over and taking back in-house contracted out services. This would most likely have to take place in a gradual way as contracts usually have prohibitive early termination fines built into them. But the government could act to decrease private sector interest in public sector investment as well as removing incentives to secondary trading in public sector equity by imposing new duties on public sector bodies and contractors. These could include a range of obligations to promote equality, ensure comparable employment standards, build in democratic fora for the consultation and involvement of unions and other stakeholders, increase the


power of regulatory bodies to monitor contract performance, and create new duties to open their accounts to public scrutiny. Whenever the opportunity arose to end a contract or take a service back in house, it would have to be taken. Some councils have already begun to do this. The Labour Council in Islington, North London, for the example, recently closed an Arms Length Management Organisation, one of the largest in England, and brought its housing back in-house.55

Yet neither is it simply enough to turn the clock back on the culture of contracting and the financialisation of everyday life. Progressives must learn the lesson from the experience of the last 30 years, that there cannot be peaceful coexistence between the market and the public sector on the old social democratic model. As long as public services are seen as simply compensating for market failure, they will be judged against the standards of the market, leaving them vulnerable to exactly the kind of offensive seen in the era of neoliberal policy-making. The public sector that emerged out of this kind of thinking in the post-war period was not built on a sustainable model. It was always too bureaucratised, leaving it structurally vulnerable to being captured by ‘market’ ideas of efficiency in resource use and allocation, a road leading directly to the privatisation we see now.56

Now, however, the left and progressive movements face a historic opportunity to recapture the debate. Markets are failing not only in areas where public services traditionally flourished, but at the very heart of capitalism. It is time to rebuild the idea of the function, value and internal constitution of public services as social goods in itself.

**New model public services**

Public services are not simply a safety net. In fact, they point beyond markets to a more rational and coherent way of planning and controlling social life. The very existence of public services is a challenge to the power of big business and finance and a standing threat to their ability to present a coherent world view.


56 This is argued in Robert Griffiths, Britain Needs Public Ownership: the case for democratic nationalisation (Morning Star Pamphlet, 2012), pp. 5-10.
Here we suggest that public services need to be rebuilt around the distinctive social goal of delivering collective enrichment, equality and democratisation to the people, as efficiently as possible. What do we mean by this?

Collective enrichment should be understood to include the kind of enrichment that might accompany the extension of education and skills to accompany the sort of industrial strategy laid out in chapter 3, as well as the eradication of poverty and the provision of basic welfare provision to ensure a decent and rising standard of living. But it must also mean the aspiration to extend cultural enrichment through entitlements to access to the arts and culture. Finally, the goal of collective enrichment also captures the need for public services and welfare systems that foster solidarity between different social groups and generations.

As growth allows steady increases in investment, the aspiration must be to rebuild universal access to public services and welfare along the lines that Beveridge initially outlined, without means testing, in recognition that this produced greater equality of outcomes and lessens serious structural inequalities along class, gender and racial lines, allowing opportunities to the greatest number for the raising of their living standards and the enlargement of their capabilities. The public realm is also a lever for tackling inequality in the workplace. The public sector still far outstrips the private sector in its recognition of and attempts to ameliorate gender inequality, but it needs to go further. A re-expanding public sector must become the benchmark of action to address inequality, rooting out bullying and sexual harassment, ending casualisation and especially zero hours contracts, which affects women far more than men, and reducing job segregation by providing training opportunities for women in non-traditional areas.

Perhaps most importantly, future public services need to incorporate the idea that they are founded on a constant democratisation process. Public services must be democratic not simply by answering to an elected government but by involving people through the mass organisations of the working class, through devolved democratic institutions and through community organisations at every possible stage. How this works in practice will vary according to each service, education, health, social security, public service broadcasting or whatever. It might be achieved, for example, by involving user communities and trade unions in agreeing ‘needs’ budgets at the lowest level, which are then negotiated with higher levels of service provision, acting according to nationally democratic agreed priorities.57

57 Griffiths, Britain Needs Public Ownership, pp. 18-23.
Crucially, while collective deliberation over the provision of collective social provision is a coherent and functional idea in itself, it would also make it harder for big business and the financial sector to recapture public services in the future.

Finally, progressives must recapture the idea of efficiency. This means breaking with the notion that efficiency in allocating resources is the preserve of the market. We are confronted daily with an abundance of evidence that the imposition of market models of delivery damages public services. Now it is time for a new public service reform agenda based on a genuine understanding of how public services work in society. As Ben Fine and David Hall have argued, each service – health, education, welfare and so on – has its own distinctive set of features and relationships between agencies, users and workers.\(^5\)\(^8\) The efficiency of each public service or welfare system must be measured against the ability of the institutions and practices that comprise them to meet the ends that a progressive government sets them to achieve. This means looking hard at the institutions and practices that make up each public service, examining them against the ends being pursued and assessing their fitness to deliver them, in the context of society as a whole. Measured in such a way, it’s unlikely that privatised services or social enterprises, for example, will appear as efficient solutions in much of what constituted the former public domain.

This may seem like a huge task, but there are places where the germs of this approach can be seen in action, such as the Newcastle City Services example, covered in detail by Hilary Wainwright and Matthew Little.\(^5\)\(^9\) Arguably, it can also be seen in germinal form in the discussions over the defence of public services within and around the anti-cuts movement and the Labour movement. It is vital that public service trade unions and the labour movement more widely begin to develop this policy agenda in detail.


\(^5\)\(^9\) Hilary Wainwright and Matthew Little, Public Service Reform… but not as we know it (Picnic Publishing, 2009), http://clients.squareeye.net/uploads/compass/documents/PublicServiceReformWainwright.pdf
Chapter 6
Promoting genuine democracy

What’s the problem and what needs to change?

There has been a long history of initiatives to export British democracy, from the days of Empire through to more recent imperialist ventures in Iraq and Afghanistan. Back home in Britain, however, there seems to have been rather less confidence in the fabric of British democracy, of late, as politicians have been increasingly concerned with the so-called ‘democratic deficit’. The recent referendum on AV was to have provided a technical fix, to revitalise our democratic institutions. But as the results demonstrated, only too clearly, voter turn-out is symptomatic of far more fundamental problems. Why bother to vote for any of the main political parties if they are each offering variations on the neo-liberal theme? Or vote in local elections, if local powers have been stripped away by successive governments?

Despite the rhetoric of decentralisation, localism and democratic participation, successive governments have effectively undermined our democratic gains, won in the past through progressive popular struggles. Economic decision-making has been increasingly evidently subjected to the requirements of international finance, from the City of London to the IMF and other multilateral agencies. And far from being helpless spectators, as some writers on the impact of globalisation have argued, (the ‘There is No Alternative’ syndrome) successive national governments actively promoted this agenda. They have pursued a range of policies that have hollowed out democratic institutions and handed power to unelected bodies, including centralising domestic policies, controlling local authority and NHS expenditure on public services, forcing through privatisation programmes and replacing local democratic accountability - with strengthened accountability to the interests of the private market.60 David Cameron’s repeatedly re-launched - but still evidently

unconvincing ‘Big Society’ threatens to take these processes even further. Beneath the rhetoric of local involvement and democratic choice, the ConDem government is aiming to undermine public services even more, using the voluntary sector as the thin edge of a potentially very thick wedge.

These supposed solutions actually compound the problems associated with the ‘democratic deficit’, then, reducing democratic control over the economy and public services even further.

At the same time, big business interests around the City, the arms industry, oil companies and, most notoriously, media corporations, appear to have developed hugely effective practices and structures for exercising a profoundly anti-democratic grip over the formation of policy in the UK. The relationship between NewsCorp and the Conservative led government in relation to the proposed takeover of BSkyB is only the tip of the iceberg. Big businesses have developed a wide range of measures for shaping policy: the financing of think tanks, donations to political parties, the lobbying industry and the ever smoother revolving door between industry and government.

That’s why democratization must be a central part of an alternative economic strategy.

As we saw in the first chapter, the concentration of economic and political power in the hands of the financial interests grouped around the City of London means that what is wrong with the Britain’s economy is not a narrowly economic issue to be resolved in a technocratic manner. It is also political problem that is undermining our right to call ourselves a democratic society.

**What is progressive democratisation?**

Democracy has been a topic on which the Left has too often been defensive - socialism has too often been popularly associated with the caricature of an all-powerful state, controlling the population rigidly, along Stalinist lines. The reality is that the trade union and progressive movement has a long history of struggle for democratic rights, including the right to organize - and the right to vote itself, of course. But without economic rights and social rights that can be effectively enforced, the right to vote is at best incomplete. We also need positive democratic rights – the right to work, the right to health care and the right to education, for a

61 See David Beetham, Unelected Oligarchy: corporate and financial dominance in Britain’s Democracy (Democratic Audit, 2011).
start. Rather than arguing for rolling back the state still further - the logic of the ‘Good Society’ that is being proposed by Blue Labour as well as the logic of the ‘Big Society’ that is being proposed by the Con-Dems - the progressive alternative has to start from the importance of problem of market-dominated politics. It is market forces that should be rolled back, not the state - although the state certainly does need to be made more democratically accountable if it is to be more effective in meeting people’s needs.

Progressive democratization has also to involve deepening active democratic participation, over and above their right to vote, every five years or so. And active participation entails collective deliberation and debate, as the basis for democratic decision-making, building upon and extending the models of democratic decision-making that have already been developed in the trade union and progressive movement, both in Britain and elsewhere, internationally. There are numerous examples of participatory democracy to draw upon, identifying ways of becoming more inclusive and more accessible for women as well as for men, young people as well as older people, and people of varying cultural backgrounds.

But critically, participatory democracy must entail the exercise of real, meaningful control over economic and social life.62

Progressive democratisation then must be about increasing people’s actual control of their lives through the assertion of positive democratic rights against the dictatorship of the market. To make this meaningful means reversing the direction of travel away from the ‘hollowing out’ of democratic institutions, multiplying the number of democratic levers available to people in their economic and social lives and deepening their participation in democratic activity.

**Rolling back the dictatorship of the market**

As we’ve seen, tackling the basic problems with the British economy means starting with measures to build an economy that can meet people’s needs for jobs and for public services.

This will mean measures to devolve political and economic power away from unelected bodies like the European Union and from the City by reviewing Britain’s membership of the EU and taking public control of part of the financial sector. These will limit the ability of such bodies to influence economic policy and increase

accountability to democratic bodies by contrast.

The government should also use its public stakes in strategically important sectors and industries, to shape economic activity and drive it in more productive directions. As we saw earlier, changing the short-termist corporate culture of British industry and rebuilding it on a longer-term basis requires that the government pays an active role through public ownership stakes or by measures to support mutualisation where appropriate. Such measures are not simply technocratic measures for avoiding perpetual crisis, but should also be seen as part of the democratisation process. This aspect should be reinforced with steps to use public stakes to foster democratic structures and practices and increase accountability. This could be done by encouraging workforce and user group voting on remuneration packages and managerial positions, promoting trade union recognition and collective bargaining and opening up the provision of information and consultation rights to employees.

Increasing democratic leverage within the fully private sector cannot be achieved as simply as where the public has a stake. However, it could still be promoted through legislation to improve the position of trade unions and restore the protections and influence that collective bargaining brings. The key example here is the example of trade union rights to organize, rights that have been massively eroded in recent years. In a number of respects, British trade unionists’ rights currently fall below ILO standards, a disgrace that the previous government signalantly failed to remedy. Without the restoration of these basic democratic rights, the labour and progressive movement find themselves condemned to struggle with their hands tied behind their backs.63

As we’ve seen, large areas of infrastructure will also need to become subject to effective democratic control through the rebuilding of the public realm. Transport, housing and the digital infrastructure are obvious examples. But this does not simply mean re-nationalization. Those who provide public services need to have some stake in how they are provided and run, and so, of course, do those who use the services in question. Clearly for local public services, this will mean a revitalized role for local authorities, which in turn means taking ambitious steps to democratize local government. But right across the public realm this stake needs to be embedded in a way that leads away from the notion of individualized consumer rights that in fact serve merely as managerial tools, and toward a notion of democratized public services that are able to reflect the interests of users, workers and the public as a whole.
In some cases, deepening the democratic involvement of service users might involve strengthening the roles of tenants and residents organizations, for example, to enable them to exercise collective control over the key decisions that affect their housing and their communities. In other cases this might include the provision of certain services via social enterprises or co-operatives, providing that these are democratically accountable to the communities that they serve. For example, the information, advice and advocacy services that are provided by law centres and citizens advice bureaux are essential, if people are to know their rights and be able to access these rights effectively. These types of services may need to be provided at arms length, in the voluntary sector, if they are to be in a position to challenge public service providers such as local authorities or government departments. In either case, though, the key question is how to ensure that services meet people’s needs in democratically accountable ways, rather than serving private interests, including shareholders’ interests in enhancing their profits.

Multiplying the levers of democratic control should also include addressing the democratic issues thrown up by media monopolies. If the 2008 economic crisis exposed the damage done to the global and British economies by years of unrestrained financialisation, the News International phone hacking affair has done the same in relation to the role of media monopolies. Not only did it derail Newscorp’s attempt to extend its control of broadcast media through the BSkyB takeover, but it also exposed the antidemocratic and parasitic relationship between political parties committed to neoliberal economic policies, the state’s policing functions and the mass media monopolies. Given the reach of mass media and their role in social and cultural life, real democratization must also involve a progressive government taking steps to democratize the media. The breaking up of media monopolies must be accompanied by measures to strengthen public service broadcasting and creating publicly resources to boost the emergence of independent not-for-profit media enterprises.64

Building a democratic culture

If neo-liberal agendas are to be challenged, if the operations of big business and the

63 For a modest proposal in this direction, see the Trade Union Rights and Freedoms Bill (2008); http://www.publications.parliament.uk/pa/cm200607/cm bills/032/2007032.pdf

64 For examples of some proposals, see Tamara Witschge, Natalie Fenton and Des Freedman, Protecting the News: Civil Society and the Media (Goldsmiths and Carnegie UK, March 2010).
banks are to be constrained, if the economy is to be rebuilt and if public services are to be revitalized, then people need to be enabled to be actively and effectively involved.

As the Power Commission so clearly demonstrated, the problem in Britain isn’t apathy. The reason for the so-called ‘democratic deficit’ is simply this - people don’t generally want to get involved unless they believe that they can make a difference. Why go to political meetings if you don’t think that you will be listened to, let alone offered any real choices about alternative ways forward? Overcoming the legacy of the recent past will be a challenging task.

We need to build a deeper democratic culture, empowering people to effect lasting change, rooted in collective commitments to the values of equality and social justice. And this needs to start with the way in which we educate young people, providing opportunities for them to learn about democracy in practice, through actively participating – and being listened to – in schools and youth clubs (where youth clubs still exist that is, after the latest round of cuts).

Participation can be an educative process for adults and communities too, a process that trade unions and social movements need to foster, themselves, through engaging their members and supporters and encouraging them to participate in their own democratic procedures. This is a long term challenge – and it needs to begin right now, if we are serious about building an effective movement for an Alternative Economic and Political Strategy.

65 Power to the people: the report of Power: an independent inquiry into Britain’s democracy, (March 2006)
In theory, much of the strategy outlined in this book could be introduced by an incoming Labour government. Indeed, many of the policies in this programme are already widely supported in the labour movement and in many social movements and civil society organisations. But it’s important to realise that the fundamental drive of the strategy does not constitute a set of policy options that could be cherry picked.

The alternative economic and political strategy argued for here is premised on the need to tackle the blockages to meaningful change and the need to anticipate and negate resistance. The strategy is the way it is because of the way in which big business and the financial sector dominate economic and political power and because of how they will react to any challenge to that power. The forces ranged against any progressive government committed to such a strategy will be considerable, from parliamentary opposition and civil service resistance to legislation, through to extra-parliamentary pressure expressed in the form of organised attacks from the monopoly-owned mass media attacks and, most importantly, from the threat of capital flight and economic destabilisation in the international bond markets.

This entails two things. The first is that the strategy needs to be argued for and debated within progressive organisations and carried into the Labour party in these terms. The second is that success at every stage will depend on the extent to which the need for such a strategy is understood on a mass basis and to which a progressive government could mobilise this support base on a sustained basis.

It should be clear that the strategy’s emphasis on democratisation means that it marks a qualitative break with the ‘consumer politics’ that characterised the New
Labour years. Instead of marketing itself to the fickle preferences of an elusive and diminishing middle ground, a Labour government committed to an alternative strategy would have to re-learn the art of mobilising its coalition of supporters as democratic pressure against the extra-parliamentary power of big business and the financial sector, probably on a sustained basis. This re-education in movement building would also have to extent beyond the fashion for ‘community organising’ in the Labour Party. The importation of community organising techniques from the voter registration drives in the Democrat Party has at least moved some Labour part activists away from the more extreme forms of consumer politics. On the other hand, community organising has no inherently progressive political content. As Marjorie Mayo has pointed out, without some sense of a positive progressive programme uniting various community struggles and providing a framework within which they can be understood, there is no guarantee that the lessons learned from participating in local campaigning will be progressive or empowering ones.66

Effectively, this means building a movement for change, oriented around a mass understanding of the need for an alternative programme that could be politically expressed within the Labour party and within society more broadly.

The leading role of the unions:

The trade unions are uniquely placed to play the leading role in building a movement for an alternative.

At a political level, the trade unions can exercise unique leverage within the Labour Party. The Labour Party remains the mass party (electorally and in terms of membership) of the working-class, and its federal nature allows the trade unions in particular a say in some policy decisions. Furthermore in the face of a sustained recession with no apparent solution that does not impoverish millions of working people, it is possible to push the party towards a set of progressive policies as the first step on the way to opening up the debate and the party for more left-leaning programmes.

But it remains the fact that even for the Labour Party to begin to adopt the features of the strategy would require sustained mass pressure from the Trades Unions. Such

a change would require not only large numbers of Labour MPs and activists supporting the strategy but large numbers of members and voters as well. Such a coalition of interests and forces would require significant levels of open debate, communications, organisation, and mobilisation. The only institutions capable of such activity are the trade unions, which remain the mass expression of the organised working-class.

Some progress is already being made here, as Unite and the TUC now have policies that call for an alternative economic strategy containing some of the ideas in this programme and in Plan B. But such positions need to be widely accepted in the movement. In addition, the lesson of the AES in the 1960s and 1970s is that this needs to sink deep roots into the trade union movement. A programme based upon the alternative economic and political strategy should be hammered out within the wider labour movement, involving all union branches and democratic bodies in the debate. That means linking the programme to the everyday experience of trade union members and this brings us to the second reason that the unions are uniquely well placed to play the leading role in building a movement: their experience of mobilising members to defend themselves collectively in the workplace.

Winning mass support within the trade union movement for an alternative means connecting its demands with the everyday experience of working people. Every wage struggle, every grievance and disciplinary, every health and safety issue, and every example of discrimination and bullying are all collective expressions of power mediated through collective procedures and individual cases. Each time there is conflict and struggle the argument about employer authority, workers' rights, and state-sponsored injustice comes to the fore. Too often it goes to waste, left and ignored as the wider questions of power imbalance, social fairness, and exploitation go unanswered and unanswerable.

Those promoting the need for a coherent alternative programme must show how each struggle raises questions of management authority, the right of owners and government or state policy and how actively supporting an alternative programme is the only way to win sustained advances in each individual struggle. Unions have the key role to play in turning consciousness of the need to wage defensive struggles over immediate issues into an understanding of the need for a coherent, immediately implementable programme.
The potential within the labour movement is visible in our recent history. For example, the period of industrial militancy in 1968-74, saw a corresponding rise in political consciousness which was expressed in rising membership of left political parties and in the beginning of mass support for a radical alternative programme.67

Of course, the working class and the trade union movement is different from the 1970s. Today the TUC has about six and a half million members in fifty-eight unions, and there are other unions with another 500,000 members not affiliated. Most members belong to large hybrid open unions such as UNITE, UNISON, and the GMB. Others remain within loosely bound occupational and sectoral groups such as the PCS, CWU and USDAW. Others still remain with their occupational group such as for teachers (NUT, NASUWT, ATL); health workers (RCN, CSP, BMA); and other specialists such as journalists (NUJ), Broadcasters (BECTU), actors (Equity) and musicians (MU), airline pilots (BALPA) and firefighters (FBU). Most align themselves with a single centre (TUC) and many are affiliated to the Labour Party.

While numbers are down from the heights of 1979, and while strike action is less common, nonetheless the unions remain a major force in our country and in many workplaces and employment units they are the only source of protection of working people, and nationally they remain the main voice of the organised working-class to the nation. Their financial clout, communication powers, and political pressure group style organisation mean there is still great potential in the movement united and focused, clear and determined, and above all fighting the fights their members want and the government does not.

Trade unions have also changed in their composition as the composition of the working class has altered. As the central strength of the union movement has settled more firmly upon the public sector, so the gender profile of active trade unionists and members has changed. Unions must ensure more than ever that their demands and their internal structures reflect the need to engage with the specific issues arising from the oppression of women and its symptomatic expressions, the gender pay gap and the feminisation of poverty. As Mary Davis has written, it is vital to understand that

“working class unity is not just a desirable dream but is an essential project and that its achievement is only possible if differences born of life experiences of centuries of disunity founded on oppression are recognised and respected. It

also means that forms of organisation must not only reflect those differences but must actively seek to overcome them”. 68

That’s what makes embracing the demands of the Women’s Charter, for example, so central to the modern trade union movement. These must be linked into and firmly embedded in an alternative strategy. 69

**Unions and the wider social movement**

The need to build unity also means that the unions need to look outside their own organisations into the wider working class and other social groups. The unions must address the many millions who are not members of unions. Unions are of course already trying to do this, most obviously through intermittent efforts to organise the unorganised and reshape the unions around the flexible workforces of Britain’s diminished economy. This needs sustained and strategic effort, of course.

But there is also an urgent need to drive the organising power and the resources of the unions deep into the communities struggling against the Coalition government’s austerity regime. The public service cuts, for example, are forcing together community organisations, charities, churches, other NGOs and trade unions in local and, increasingly, in national defences of provision and services, such as those around the Health and Social Care Bill in 2011-12. Working people are becoming active in defending their rights as consumers of public services and the unions must seek to link these struggles to their own. Unite’s imaginative community membership initiative can be seen as one response to this.

The creation of dynamic alliances around defensive campaigns with unions at their heart are another.

Nationally, the TUC should be building on the great mobilisation in March 2011 and turning its slogan of People First into a wider alliance and bigger mobilisations around the demand for an alternative. The People’s Charter could serve as a good mobilising tool for beginning to project a coherent alternative into such alliances and mobilisations. The TUC and the unions should look to draw in the forces that mobilised around campaigns for debt relief and the alleviation of global poverty.


69 For the Charter for Women, see http://charterforwomen.org.uk/

66 | Building an economy for the people
Locally, the unions need to place their resources and organising power more firmly at the heart of local defensive campaigns and begin to project the idea of an alternative strategy into mobilised communities. The Trades Councils are an obvious tool to hand. Trades Councils have of course, suffered alongside other independent working class organisations. Yet despite this, when broadly based and active in their communities they retain the potential to provide an organisational lead in campaigning alliances around immediate material issues such as rents, mortgages, repossessions, local services and prices, as well as wider environmental or discrimination issues.

The importance of the trades councils is heightened by the fact that in many working class areas, and more so in the most impoverished, autonomous organisations such as tenants and residents associations have collapsed and the surviving 'civic organisations' are those partially state-funded and potentially part of Cameron’s Third Sector, many of whom stand to gain materially from the promotion of the ‘Big Society’. In some cases this change has been directly promoted over the past thirty years to colonise and neutralise organisations that might articulate opposing class viewpoints. The independent tenants movements that developed in the 20th century did so largely as a direct intervention by Trades Councils. If the organisations of the working class are to build the case for an alternative economic and political strategy by linking it to every local struggle, then the Trades Councils have a vital role to play in carrying this perspective into local campaigning. This means the TUC and other unions taking a more proactive approach to their participation in the trades councils.

There is an urgent need to reinvest union time and money in a reconstruction of trades councils as a key part of the local struggle against all the consequences of the Tory-run recession.70

Alliances with business

An alternative economic and political strategy also has the potential to bring the trade unions and working people into alliance with large sections of the business community. As we’ve seen, the domination of the economy by the largely externally owned financial sector and big business is having a disastrous effect on many small to medium and even some larger businesses in the productive economy, both in immediate and more structural terms.

70 For a useful discussion of issues around trade unions in the community, see Chris Wright, Swords of Justice and Civic Pillars, (TUC, November 2010); http://www.tuc.org.uk/union/tuc-19609-f0.pdf
This gives the trade union movement and the labour party the opportunity to place itself at the head of alliances to defend industries and services that are vital to local and regional economies.

The trade union movement has successfully done this in the past, as in the historic example of the UCS work-in on Clydebank in 1971, a campaign that was led by working class activists but which united an entire community, including substantial local and regional businesses, against the policies of the then Tory administration. We can see the germs of such alliances again in the contemporary Bombardier campaign. Each struggle to defend industries and services and the thousands of small and medium businesses which depend on them presents the movement with the opportunity to build alliances. The example of Bombardier also raised vital questions about the structures of ownership in what remains of British industry, making absolutely concrete to alliances of workers and local and regional businesses, the need for a coherent alternative economic and political strategy. Beginning to project a coherent alternative into such campaigns will build mass support for such a programme on a broad social basis stretching far beyond the organisations of working people. 71

Conclusion

To return to the first point made, this ‘movement building’ is not an optional extra. Given the range of forces committed to the status quo, it is essential. Were the movement for change able to secure the election of a government committed to an alternative strategy, it would have to be ready to mobilise again and again to sustain and support that government and to make sure that it was not blown off course. The lessons of the French Socialist government in the early 1980s shows what happens in the absence of mass movement pressure, while the example of the Chavez governments in Venezuela provide an alternative perspective, demonstrating what can be achieved when mass pressure is constantly mobilised and applied and alliances are formed on the widest possible basis.

Un-learning the mantras of New Labour’s consumerist politics and embracing the mobilisation and education of an active population through practical campaigning and collective struggles around a commonly understood alternative programme are

conditions of success for the labour movement and any progressive government in pursuing an alternative economic and political strategy.

It is a necessity if any government is to even put the question of an alternative before the British people.

And to return to a point made right at the beginning, there is no progressive way forward either in hugging the status quo or returning to New Labour’s delusions of neoliberalism with a human face. The urgency of the economic, political and ecological challenges facing us, and the political and economic entrenchment of finance capital and big business interests make a radical programme necessary even to pursue the most seemingly modest democratic and social demands. That’s why the labour movement must begin a serious debate about the alternative now. This book is a contribution to that debate.
The imperial controversy
Challenging the empire apologists
by Andrew Murray

£12.95 (£2 p&p) 150pp
ISBN 978-1-907464-00-3

Foreword by George Galloway MP

The imperialist urge, rooted in the dynamics of the world economy, continues to cast a long shadow. Andrew Murray subjects the leading pro-imperial historians, including Niall Ferguson, to a withering analysis. He presents an alternative reading of the record of the British Empire, and of other colonial powers, “… the better to develop an understanding as to why the last thing the great majority of the world wants to see is a repetition, however dressed up.”

The history of imperial intervention in the Middle East and the phenomenon of liberal interventionism in general, and Blair’s premiership in particular, is located in a history of argument within the progressive movement concerning imperialism. The record and role of the “pro-war left” in relation to the Iraq war comes under scrutiny.

Andrew Murray was chair of the Stop the War Coalition

Freedom From Tyranny
The fight against fascism and the falsification of history
by Phil Katz

£5.95 (£1.50 p&p) 114pp illustrated
ISBN 978-1-907464-03-4

Published in association with the Communist Party History Group to commemorate the 65th anniversary of the defeat of fascism in Europe this book celebrates that victory and warns of the continuing dangers posed by fascism and the attempts to re-write history.

It includes previously unpublished images (courtesy of the Marx Memorial Library photographic archive) displaying Nazi atrocities and the popular resistance to them in Britain and across Europe.

When VE (Victory in Europe) day was celebrated on May 8 1945, the people of Europe swarmed into the streets to celebrate their first taste of freedom since 1939. Tyranny had been put to the sword but at a massive cost in destruction of communities and economic life. For many, especially in central and eastern Europe, born after the First World War into economic depression and fascism, it was a novel first-ever taste of freedom.

Phil Katz is a designer, a Fellow of the Chartered Society of Designers and a Fellow of the Royal Society of the Arts.
Killing no murder?
South Wales and the Great Railway Strike of 1911
by Robert Griffiths

£12.95 (£2 p&p) 126pp illustrated
ISBN 978-1-907464-01-0

Foreword by Bob Crow General Secretary Rail, Maritime and Transport Union

The 1911 railway strike in south Wales raised important questions about power and class consciousness and the direction of the working class movement in the early years of the last century. An earlier version of this book was first published in 1986, in Welsh as Streic! Streic! Streic! This new edition corrects and extends that work, while remaining in essence an English language translation of it.

The author collaborated with Gareth Miles in the production of the 1983 television film of these events by Cwmni Filmiâu’r Nant – broadcast as ‘Y Gwrthgiliwr’ and, subsequently, in English as ‘The Deserter’. Robert Griffith’s aim, then as now, was to help shape contemporary revolutionary political consciousness among working people and within the labour movement.

Robert Griffiths is general secretary of the Communist Party.

The education revolution
Cuba’s alternative to neoliberalism
by Théodore H. MacDonald

£14.95 (£2 p&p) 265pp Illustrated
ISBN 978-1-907464-02-7

Published in co-operation with the NUT
Foreword by Christine Blower, Bill Greenshields and Martin Reed

The singular successes of the Cuban education system are treated to a deep, comprehensive and fraternal analysis by Dr MacDonald, a world authority on human rights, a sharp critic of contemporary imperialism.

The book covers with great authority the full range of Cuba’s innovative education system, from pre school and primary education, through the secondary and tertiary sectors, the experiences of the pioneering literacy programmes and the comprehensive nature of adult education. He locates the children’s Pioneer movement, the day care system, school and community relations and specialist, technical and vocational education in the framework of Cuba’s distinctive pedagogy.

Dr MacDonald was emeritus professor for Global Health rights at London Metropolitan University and a member of Research Institute for Human Rights.
The state and local government
Towards a new basis for 'local democracy' and the defeat of big business control
by Peter Latham

£14.95 (£4.50 p&p) 500pp illustrated
Forward by Kelvin Hopkins MP

The striking continuity between Cameron’s ‘big society’ and New Labour’s ‘neo-liberal’ project for governance gives a special relevance to this book. Beneath the rhetoric of devolution and empowerment real power is evacuated to the central state and displaced to corporate capital.

Proceeding from the famous dictum of Marx; ‘All science would be superfluous if the outward appearance and the essence of things directly coincided’ Latham demonstrates the foundation – in the particular neo-liberal forms assumed by ‘state monopoly capitalism’ – of the local governance in Britain and other countries. Theoretically, the study is located in a rigorous address of Marxist theories of the state and argues that “superstructural” readings, which exclude political economy, misrepresent Antonio Gramsci.

Dr Peter Latham is a sociologist and former secretary of the Labour Campaign for Open Local Government.

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The story of a municipal socialist
by John Kotz

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