SOCIALIST RENEWAL

Democracy versus Capitalism

A response to Will Hutton with some old questions for New Labour

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with HUGO RADICE

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I

Capitalism: Alive but Unmentionable

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The smile without the cat

It is very old-fashioned and backward looking to talk about capitalism. *Modern* parties don't mention it. For some there is no need to mention it in political argument because they see no alternative to what is called "liberal capitalism". So, the struggle is over, Mr Fukoyama tells us, and history is thus at an end. There is just a little question of the liberality of capitalism, not of its permanence. For others, capitalism has changed so much that the old words and phrases no longer have meaning. As with the Cheshire cat, only the smile remains. The leaders of New Labour don't refer to it, not even as any sort of obstacle to creating "a community in which power, wealth and opportunity are in the hands of the many not the few", as the new Clause IV promises.

If capitalism is indeed the best of all possible worlds, then it is surprising that its praises are not sung, its benefits not celebrated and its virtues not extolled. Why keep quiet, why not a mention? Is there after all some skeleton in the cupboard? Some nasty side-effect, some doubt about the long-term? If it is heaven for some, is it perhaps hell for many others? The Christian church ceased some time ago to dwell upon the horrors and sufferings of hell and the power and temptations of the devil and his instruments (one may perhaps date the decline of the church's influence from that time). All the emphasis is placed upon the blessedness and the glories of heaven, in everlasting communion with God and Christ and of the saints and angels.

So it is with New Labour which "works for a dynamic economy, serving the public interest, in which the enterprise of the market and the rigour of competition are joined with the forces of partnership and cooperation to produce the wealth the nation needs and the opportunity for all to work and prosper" — a New Labour that judges "a just society . . . by the condition of the weak as much as the strong." Thus the new name for 'capitalism' is the 'market economy', which has the nice feel of the country market, with rival stall holders calling their wares and shoppers choosing what they fancy, in a framework of cooperation that provides also for healthy competition, so that "the weak and the strong" can mingle together on the pavements in "a spirit of solidarity, tolerance and respect."

In this idyllic picture, there can be no talk of masters and servants, of exploitation of the many who work, by the few who own the means of work, of the denial to "workers by hand or by brain of the full fruits of their industry", of the strong fixing the price and the weak having to pay it. We are all, it appears, members one of another, no one set above the other, not even if 6 per cent of adults own 90 per cent of the land and company shares and if two or three large companies control 80 per cent to 90 per cent of the trade in commodities, seven control the supply of fuel oil and a handful control two thirds of the retail business and if incomes at the top amount to a thousand times those at the bottom.

Should these inequalities be accepted as unfortunate but necessary side effects of capitalism, like unemployment which a British finance minister once reckoned well worth incurring in order to bring down inflation? Or should we accept that inequalities have nothing to do with capitalism; they exist everywhere; they always have existed. It was no different — or not much different — under what was called "socialism", where there was, apparently, "common ownership of the means of production, distribution and exchange", according to the formula in the old Clause IV. It has to be answered at once that there was not, however, as the old Clause IV also required, "the best obtainable system of popular administration and control of each industry or service". There was in effect no *popular* control of anything, but control by self-seeking bureaucrats and at times by brutal dictators. Could it have been otherwise in Russia, Eastern Europe or China is not a question we can examine here. The question for us here is whether we can have the smile of capitalism without the wild cat? Or perhaps we should ask whether that cat can be belled?

What is capitalism?

Can we have a *democratic* capitalism? even a *liberal* capitalism? That is the question. To answer it we have to decide what we mean by capitalism. Raymond Williams has reminded us in his book *Key Words* that 'capitalist' appeared in the English language long before 'capitalism'. The capitalists were the men who put up the 'capital stock', that is the chief stock of money for a venture. It was clear from the beginning that they did not do the work. As Thomas Hodgskin wrote in 1825 in *Labour Defended against the Claims of Capital*

> "all the capitalists of Europe with all their circulating capital, cannot of themselves supply a single week's food and clothing . . . betwixt him who produces the food and him who produces clothing, betwixt him who makes instruments and him who uses them, in steps the capitalist, who neither makes nor uses them and appropriates to himself the produce of both."

These are the people whom Marx called "Money bags" and it was Marx who saw that what Hodgskin was describing was an economic *system*, in which the capitalist performs the social function of accumulating capital. Whether he does this from greed or love of power, he is constrained by the system, according to Marx, "by forces external to himself to accumulate . . . and, by increasing the exploitation of the mass of human beings, extend his control over society".

Ownership of capital takes the place of ownership of land or of slaves as the source of power in society. At the same time, the yield of capital determines where capital is invested, what is produced and who gets what. Where yields fall below the going rate, businesses will fail; where they are at or above that rate, they will prosper. This is where the market enters the story, because it is in the market, whether for goods and services or for the factors in production — land, labour and capital — that success or failure is decided.

Under capitalism, capital becomes the determining factor because it can be employed to set labour to work, and labour can produce a value greater than the value of the wages paid. This profit does not come from the monopoly of production, but from the monopoly of capital. There are competing capitalists, but their number is limited by inequality at the start. Adam Smith, who is often quoted as the founding father of the capitalist market system, had no illusions:

> "The person who either acquires, or succeeds to, a great fortune does not necessarily acquire or succeed to any political power either civil or military, but the power of purchasing; a certain command over all the labour, or over all the produce of labour which is then in the market."

The great mass of the population have no chance of becoming themselves owners of capital, but must work for a wage from those who have. The capitalist revolution succeeded in freeing the capitalists from the power of the landowners, so that land could be bought and sold, but, even more important, it "freed" the labour from the land, so that labour could be exploited for a wage.

Capitalism today

All this is very interesting, you may be saying by now, but it is all old stuff. Labour is a New Party now, moving forwards with the people not backwards into the past. 'Old Labour', Labour's new leaders have declared, was "the product of revulsion at the failures of 19th Century free market capitalism — pauperism, unemployment, mass poverty and exploitation . . . the prevailing view was that because unregulated markets had failed they had to be replaced." But capitalism is not like that any longer, even if it can still be called 'capitalism'. This is for four main reasons: the first is that there are no individual capitalists any more. Companies are owned by institutions, pension funds, banks and thousands of small shareholders; the second is that workers are no longer powerless against exploitation; they have trade unions to defend them; the third is that the nature of the work force has changed. Men and women have higher skills and expertise to market now and often have no need for an employer; the fourth is that governments have developed considerable powers to regulate and control the market and the performance of capital. We need to examine all four:

(1) "no capitalists any more"

There are said to be no individual capitalists today, but only institutional owners and small shareholders. It is indeed true that some two thirds of the shares in big companies today are held by institutions and there are millions of small shareholders. But, the fact remains that about 6 per cent of adults own nearly 90 per cent of the land and of all private holdings of company shares. The overwhelming majority of the population own nothing more than a house and a share in a pension fund. This gives them little or no power over the system and practically none at work because they must still depend on a wage to live. It is also still the case that a few very rich men have great power especially over the media (Mr Murdoch's name springs to mind) and through their holdings of capital with the merchant banks, which manage the institutional funds of pension schemes, unit trusts and other small savings.

This raises an important point about democracy and capitalism. What matters in relation to management of capital, as in the market generally, is the pull of money, not the pull of numbers. When it comes to a vote at board meetings of companies, thousands of small shareholders are powerless against the massed holdings, which a few institutional managers can call up. The chairmen (and they are nearly always men) and the directors of the giant companies that dominate the market are in effect accountable to nobody except themselves. When the Annual General Meeting comes round they nominate themselves or their successors, and it is extremely rare for these "self-perpetuating oligopolies", as they have been called, to be challenged. These are the controllers of great masses of capital, as well as major owners. There are really only a few hundred of them. The only test they have to regard is the test of profit, of the return to capital, and the system allows of no other consideration — of public interest or of employment opportunities — to take its place.

(2) "workers can defend themselves now"

This takes us to the second point, the capacity of workers today to defend themselves. The power of trade unions has certainly grown since 1917, but this power has been greatly eroded by the onslaught on collective workers' action in the last decade through anti-union legislation and through the effect of high rates of unemployment and thus of falling union membership. It would be a point of great importance for labour (small 'l') if some of that legislation could be repealed, if the ethos of collective bargaining could be reestablished and if creating jobs was regarded as the most important task of New Labour. But the 'modern' view of the matter is that the nature of the work force and of job opportunities have changed irrevocably. There has been a great increase in the self-employed, men and women with skills, which give them power in the market.

It is certainly true that the number of self-employed has almost doubled in the UK since 1980, while the numbers of unemployed more than doubled. But most of these three and a half million self-employed men and women do not own their own means of production; they are in 'labour only' contracts in the building industry and services, where their job security is even less than the employed and they must find their own insurance against sickness and old age.

Far from having strengthened the position of labour in the market, modern trends have gravely weakened it — and in many ways. The insecurity of the self-employed is but one aspect of the general insecurity created by unemployment. It is reported that only half of those in employment in Britain regard their jobs as secure. The number of full-time employees in manual occupations in Britain fell by three and a half million between 1979 and 1993 (three million of these men). Partly offsetting this there were a million more full-time non-manual jobs and one and a half million more part-time jobs (mostly female). This is not only a loss of over 2 million jobs in full-time equivalents, but a great deal of part-time work is on short term contracts and for 3 million women carries no employers' or state contribution to insurance.

(3) "higher skills give security"

A wide gap has opened up in Britain between the so-called "work-rich" households where both adults work — now up from 51 per cent to 60 per cent of the total — and the "work-poor" with no earner — now up from 3 per cent to 11 per cent. Even more households — 20 per cent according to government definitions — live in poverty, and this includes one third of all the children.

Even among those at work, 13 million, over 60 per cent of the work force, receive pay that is below half the national average. This is the distorted result of an income distribution that has a few thousand millionaires at the top end of the scale. While one per cent own yachts and other vessels, 40 per cent of the total population cannot afford a holiday or celebration and this proportion has not changed in 25 years. The rich have got richer in the last 20 years and the poor have got poorer. And this is not true only of Britain, but of the other industrialised countries and more especially of the relationship between the rich countries and the poor countries in what is one capitalist world.

Combined with insecurity of employment has gone a serious reduction in health and safety standards. British capital has sought to attract investment from the USA and Japan by persuading the British government to opt out of the social clauses of the Maastricht Treaty of the European Union and by offering not only cheap labour and non-unionised labour but laxer health and safety rquirements and environmental controls. This is not just a matter of competition with European and other industrialised countries; it is the result of the intensification of exploitation by capital of labour throughout the Third World.

Capitalism has always been a global system and capital in the more advanced centres has always made use of cheap labour in mines and plantations in the colonies and peripheral regions. What is new is that many parts of the manufacturing processes of modern industry can now be decentralised to less developed regions where living standards are low, job opportunities scarce and conditions of work might be called 'bestial', if any beasts were allowed to be so ill treated.

Is capitalism to blame?

This massive reversal of trends in the first half of this century towards greater equality should not perhaps be blamed upon the system. It may be that, as human beings get richer, they become greedier and less caring of their fellow beings. Certainly, it must seem surprising that with total real income double what it was thirty years ago, there should be such apparent unwillingness to pay more in taxes for health, education and other social services. This is in part because political parties in all countries have realised that with only 80 per cent of the population voting (in the USA it is less than 50 per cent) they only need to meet the interests of the 40 per cent-45 per cent of the population with secure employment and the higher incomes to win elections. In part, however, it is in the nature of the capitalist system that more profit is made from the sale of goods, and especially from those goods where innovations and productivity increases come most easily, than from the public and social services. The big manufacturing and retailing companies lay down the growth path that they wish to achieve and then do all in their power using every advertising and promotional device to persuade us to follow it. This means the marginalisation of the old, the sick and the unemployed even in the industrialised countries, and world-wide it means the marginalisation of whole continents such as Africa which have been held back in the race to industrialise by their earlier colonial experience.

The most serious problem facing people everywhere in defending themselves against the power of capital remains the high level of unemployment. Unfortunately, there really is a new factor here in the workings of capitalism. The enormous increase in labour productivity resulting from the introduction of new technology means that increased output in almost every sector can be achieved with less labour. Saving labour cost is inevitably the first objective of the capitalist. Something similar happened after the industrial revolution 200 years ago when machines replaced human backs and arms and legs. It was many decades before the saving of costs in agriculture and industry enabled the labour saved to be taken on in new employments. Today, when the machines are replacing the work of human brains, the time lag in transferring the money saved into new investment is likely to be that much longer. This delay will, moreover, be much extended because of the present reduced level of spending by nation state governments which has in the past taken up a part of the slack.

(4) "governments can regulate the market"

The role of governments in capitalist economies was steadily extended up to the time of the monetarist revolution carried out by the Reagan and Thatcher Governments and others in the late 1970s and early 1980s. A larger and larger proportion of the national income passed through government hands not only in direct government current and capital expenditure but in transfer payments to the elderly, the sick and the unemployed. In many industrialised countries the total reached and exceeded 50 per cent of current incomes. Resistance to this development in capitalism did not just come from the comfortably rich who wanted to have more money to spend on the goodies so glossily advertised in the media. It came also from the owners and controllers of capital, who saw more and more of discretionary incomes tied up in the public sector, and it came from the governments of nation states themselves.

For over a century from around the middle of the Nineteenth Century the development of capitalism had proceeded very much under the aegis of the state apparatus of the industrialising nations. While capital moved right across the world in flows of investment and returning income, the whole of the state machinery of these nations was employed to protect the capital and the goods and other property of its citizens outside the home country. Colonial rule was established over large parts of the earth's population. Colonial armies were recruited to keep order and the British navy as protector of the largest colonial empire policed the Seven Seas. When Hilferding, and following him Lenin, identified the emergence at the beginning of the 20th century of a phenomenon they described as 'finance capital', it was given a national identity and the several finance capitals were shown to be dividing up the world between them.

The rising strength of an organised working class together with the warning of a potentially successful alternative to capitalism emerging after 1917 from the Soviet Union forced the rulers of the leading capitalist nations to make concessions. Public provision for health and education and social services as well as for basic utilities began to replace private provision to the extent that the concept of a 'welfare state' was projected. This was enormously extended after the Second World War as the result of promises made to the fighting forces in the capitalist countries and in their colonies and of the democratic and egalitarian ethos that the anti-fascist struggle had generated. For over thirty years after 1945 the more equal distribution of incomes under capitalism was a major factor accounting for the rapid economic growth enjoyed world wide.

What made the governments of the industrialised countries seek to roll back the power of the state was not just the frustration of its more contented citizens and the resistance of private capital to an ever burgeoning public sector; it was that the economic interventions of the nation states' governments were simply no longer working. Changes had taken place in the world-wide activities of the transnational companies which, as the main accumulators of capital, had come to render state control and regulation ineffective. These giant companies had increasingly divorced themselves from their original national base and were not only moving capital and goods all over the world, as they always had done, and investing in subsidiary plants and raw material production in many countries; they were now organising the whole of their production processes on a global scale. National governments had in effect lost control of them. Hilferding's 'finance capital' had no longer a national identity; and this was particularly evident to the smaller and weaker nations and to one like Britain which because of its imperial past had a large number of companies, originally based in Britain but with extended overseas operations.

Global capitalism

The point has already been made that capitalism from its very beginning operated on a world scale. British capital has always had a particularly wide compass because of its historic imperial connections. The £ sterling was for long the world's currency and as good as gold. The United States dollar which replaced it remains today the dominant means of payment and currency of reserve. Both Britain and the USA have been challenged in turn by Japanese and German industry. Doubts have been expressed about the dollar continuing as the world's money. A European-wide money is being proposed to take the place of the many European currencies. All these developments are putting into question the power of national governments to regulate the market.

Two main questions are being raised in relation to future government policy for the British economy in particular. The first is whether the British problem is not capitalism in general but British capitalism in particular. The argument is that the City of London's financial interests today, as often before, override the interests of British manufacturing industry. Mrs Thatcher believed that a service economy could replace Britain's dependence on manufacturing, but then she relied entirely on the high level of North Sea oil prices to carry her through. That bonanza is now over. It is suggested that Britain needs to have an economy and political system nearer to the German model, where manufacturing predominates and skilled labour rather than cheap labour is the attraction for investors.

The second question relates to Britain's involvement with the European Union. If an individual nation state the size of Britain is unable to regulate the market in face of the global reach of the transnational companies, could a European federation do better? New Labour has not committed itself. Its leaders evidently wish to end the social opt-out and to become loyal Europeans, but not to the point of joining in common action to tackle unemployment, for fear of being caught with that responsibility if returned to power, let alone to sacrifice those lingering relics of national sovereignty like the Queen as head of state and the Queen's head on our coins. The whole logic of capitalist development is that larger units of government than small nation states will be needed to stand up to the power of the transnational companies, but it is a question whether a closer European association would advance or retard the necessary correlation of global government with global capitalism.

As always the crucial question for democrats will be the extent to which under any restucturing of the European or of the world order the present largely unaccountable power of capital can be brought to book. For, the fact is that capitalism still exists and shapes our lives in ways that must be challenged before it is too late. How this may be done is the subject of the two essays that follow, which have their own logic although both were stimulated by the widely influential writings of Will Hutton of *The Guardian* newspaper. It is to be hoped that they will contribute with this introductory essay to the absolutely necessary discussion that must take place about the current nature of capitalism, as Britain's Labour Movement begins to clarify what has to be done if a new Labour government is to use its power to make a real improvement in the condition of the British people.

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II

'Globalisation' and the UK Economy

Hugo Radice

It has become part of 'conventional wisdom' that as a result of the increasingly global character of production and exchange, governments are less and less able to establish and implement autonomous economic policies. However, a number of writers have argued strongly that globalisation has been greatly exaggerated, and that governments are still free to choose their own destiny — and in particular, to adopt state-led strategies and policies that depart from the dominant neo-liberal norm. Thus, Paul Hirst and Grahame Thompson[1] recently offered a powerful critique of 'globalist' analyses, arguing that the world economy has not become more integrated across national borders than in previous eras, and that the most significant feature of contemporary world capitalism is not globalisation, but the formation of regional blocs. Similarly, in a recent *Guardian* article,[2] Will Hutton argued that the 'globalisation' of contemporary capitalism is a myth carefully cultivated by the supporters of unfettered markets, with the consequence that those who advance a more progressive agenda (like Hutton himself) can be dismissed as outdated nationalists.

I believe that globalisation is emphatically *not* a myth, but a grim reality which requires a radical recasting of the progressive alternative. Those who dismiss globalism as a right-wing ideology end up seriously misreading the nature of contemporary world capitalism; as a consequence, they continue to nail their colours to the mast of a utopian and outdated *national* Keynesianism, instead of looking for a realistic way of challenging the global hegemony of capital. In what follows, I will outline first a critique of the neo-liberal view, and then a progressive alternative view. I will then criticise the British left's traditional alternative economic strategy in the light of the deep global integration of the UK economy, and suggest that the left needs to adopt instead a radical internationalist approach.

A critique of the neo-liberal view

There are two basic flaws in the neo-liberal vision of globalisation. To begin with, the concept itself implies that capitalism is *becoming* global, having originally not been so. In fact, capitalism has always been constituted at a global level, as a 'world system', to use Immanuel Wallerstein's very appropriate term.[3] It has certainly at times swept away pre-existing structures of territorial states and societies, notably during the colonial era. But in its heartland, capitalism accommodated to those structures as it reached its mature industrial form in the nineteenth century. As a result, for about a hundred years — roughly 1870 to 1970 — the world economy's main structural differentiation was into distinct national capitalisms (dominated by the main imperial powers). The divergence in economic outcomes, which are central to capitalism as an economic system, took the form of huge differences in *national* living standards, growth rates, exports and above all productivity.

The second flaw in the neo-liberal view is that both its advocates and its critics focus on the phenomenon of a unified global market for money capital, which demands, often with some success, to be detached from any national jurisdiction and regulation. What has *really* been going on since the end of the post-war boom is a much deeper global integration of the material, everyday economic processes of production, exchange and consumption — and of the institutions, practices and beliefs in which those processes are embedded. Cycles of investment, circuits of capital, value chains, consumer fads and fashions, all criss-cross national boundaries, and thereby *tie together* territorially separate economic activities.

However, this does not require or lead to the *dissolution* of nation-states, as in the neo-liberal vision of the 'stateless corporation'. It requires rather the *reconstitution* of the state as an enabling institution for capital. This reconstituted capitalist state faces two ways. It operates nationally to control labour and other resources and make them readily available for the transnationals to exploit. At the same time, it operates internationally, in concert with other states, to ensure the basic legal and institutional prerequisites for global flows of capital and commodities.

The neo-liberals are right to assert that the result is inevitably a reduction in the state's powers of *independent* economic management. Thus, in the recent crisis in Mexico, US and other investors attracted by the prospect of very high returns were effectively bailed out by the US government and the multilateral institutions. This appeared (to Hutton for example) to indicate the *weakness* of 'footloose' global capital. But the most striking aspect of the rescue was that all the blame was placed on the Mexican government, whose policies had not conformed to the requirements of foreign capital. The terms of the rescue fully preserved the rights of global capital to do as it likes, while the costs were borne entirely by Mexican workers. It can hardly be doubted, too, that the first Mitterrand Government's attempt at a radical policy of national regeneration in 1981-3 were defeated by capital flight, and that the massive foreign investments of Swedish industry have steadily undermined the 'Swedish model' since the 1970s.

In addition, this deepening of global integration does not in any way create a homogeneous global economic space, a true 'single market' for labour and capital, let alone an equalisation of economic outcomes. The results of competitive accumulation remain inherently uneven, both between classes and between locations. But there are two systematic changes. There is first a linking-together of the fates of different nations, so that events within the European Union are intimately connected, say, to the conditions of life in Nagoya or Nairobi. Further, there is increasing differentiation *within* nations, with some groups and localities — especially urban capitalist elites — becoming part of the 'first world' whether in Beijing or Barcelona, while others become underdeveloped or excluded.

An alternative approach

On the basis of these criticisms of the neo-liberal view, can we build a positive and progressive alternative analysis? Again, I start with two main points. First, the fragmentation and disintegration of national economies is profoundly disturbing, not only for the economic losers the world over, but also because it undermines the main vehicle for the legitimation of capitalism for the last hundred years — its appropriation of nationhood. This was epitomised in the developed world by the mercantilist pursuit of national competitiveness, as Joan Robinson argued in her 1966 inaugural lecture,[4] and equally in the post-colonial aspirations for national economic development in the Third World. Today, the nation state is torn between the protection and promotion of 'its' national capitalists, and the imperative to welcome any mobile capital which might locate production in its borders and generate jobs and exports. The successful state which manages to do both ascends the global economic ladder, but at the cost of undermining its ability to shape the nation's economic destiny. Incoming capital insists on the right to withdraw at any time, while success in world markets has a centrifugal effect on the interests and decisions of domestic capital, even when inward direct investment has been tightly restricted as in Japan and South Korea.

The second point is that while there is no convergence of economic *outcomes* between nations, deeper global integration does entail the interpenetration and partial convergence of national economic *systems*. At the global level, interstate agencies like the IMF, the World Bank and the new World Trade Organisation impose uniform terms and conditions upon all states. These conditions have to be obeyed if capital is to flow in, and if goods are to be allowed access to the richest markets. The proposal to enlarge the IMF's General Agreement to Borrow, in the aftermath of the Mexican crisis, is the latest evidence of the strengthening of this global enforcement mechanism, which bears down on all countries bar none.

At the same time, the growing recognition of distinct national models of capitalism and its subsystems (corporate governance, industrial relations, R and D, education, business culture, etc.) ironically coincides with growing pressures on these national models to accommodate to each other and moderate their individuality. For example, the Rhineland model of corporate governance and finance, promoted so vigorously by Will Hutton[5] and New Labour, is starting to erode in Germany. Deeper internationalisation is compelling German industrial and banking capital to adopt the norms and practices of the Anglo-Saxons who dominate global capital markets; the cosy Rhineland cartels are breaking up. At the same time, meeting the costs of German unification has awoken the German middle classes to the raw deal they now have as savers, in terms of individual 'freedom of choice' and real rates of return.

A 'left globalist' thus argues that we live in a capitalist world economy that is increasingly unified and integrated. There are strong pressures from global capital to impose a liberal order upon all states, setting up a tendency for national economic systems to converge. However, the world economy remains extremely differentiated into rich and poor, by region, country and class.

The UK case: the left's traditional view

If national economies are becoming more deeply integrated and facing a linked, if highly differentiated fate, what are the policy implications for the left in this country? The main implication is that national 'left Keynesianism' is unrealistic, not because of the awesome power of 'detached' global capital, but because the interests of particular capitalists are no longer confined to, and synonymous with, the interests of particular nations, as they were during the century to 1970. We can see this in the UK case by looking at the traditional left explanations and cures for the relative economic decline of the UK when compared with other advanced industrial economies.

For twenty years now, the left has defined the relative decline of the UK economy as *deindustrialisation*, expressed in a lack of international competitiveness in the production of manufactures, and rooted in low and slowly-growing industrial investment and productivity. The first Thatcher government saw the answer in freeing British capitalism from the embrace of an overweening state and the obstructionism of the trade unions. She pushed through trade union and labour market reforms, followed rigorous monetarist policies, and embarked on a radical programme of privatisation and deregulation. The result was, the Tories claimed, the 'productivity miracle' of the mid to late 1980s. For Thatcherism, the problem of deindustrialisation was side-stepped, since free market dogma does not permit the privileging of any particular sector such as manufacturing.

The left (and parts of the centre and right too) offered a very different cure for deindustrialisation. The main thrust of policy in the Labour Party has shifted, from the old faith in state interventionism through public ownership and an active industrial policy, to the new faith in 'supply-side' intervention in education, training and R & D, and in industrial and financial 're-regulation'. One strand in the left critique has, however, retained its hold: namely, that important factors in deindustrialisation have been the persistently high levels of outward foreign investment by UK capitalists, and the economic and political dominance of the City. Finance that is not invested abroad is available only on a short-term basis and at a high cost in accordance with the City's interests, thus deterring investment in innovation and long-term restructuring. If globalism is largely a myth propagated to further the interests of big business, then any alternative to Thatcherism should be firmly based on a programme of national 're-industrialisation' and the taming of the City and foreign capital.

The problem with this traditional left view is that it assumes an opposition between 'good' national industry (as the basis for national economic regeneration) and 'bad' foreign industry, aided and abetted by a disloyal City. However, British capital as a whole, *including* industrial firms, has played and continues to play a leading role in the restructuring of *world* capitalism. The global character of the City does not intrinsically conflict with the interests of UK industrial and commercial firms, since the latter have historically been highly global also. In this context, deindustrialisation does not mean failure for British capital, but rather that it successfully competes by operating globally. While this may damage the interests of British *workers*, it keeps profits high.

Since 1993 devaluation seems to have strengthened the possibility of a particular form of relative industrial recovery. Thatcherite policies could be seen as having promoted a process of adjustment to 'new realities' of international competition. The sustained attack on the unions, for example, has opened the way for the installation of Japanese-style ('post-Fordist') management methods, making Britain's relatively low wages even more attractive to footloose multinationals. At the same time, the sharp rise in personal disposable incomes of those in work has made Britain a more attractive market, and Britain remains an attractive base for the wider European market in many sectors, as the recent recovery of inward direct investment shows. Deregulation and privatisation are then supposed to provide the flexibility required to continue the recovery beyond the expected cyclical peak. Meanwhile, the City of London has been able to maintain its role in the world's financial markets, with British financial institutions being willing to concede substantial participation to foreign capital (e.g in merchant banking), but able at the same time to expand abroad in more dynamic areas.

However, this remains a very peculiar, selective and fragile recovery. First of all, despite some improvement in overall unemployment, the underlying situation especially for the poor and unskilled has continued to get worse with continuing deregulation of labour markets and cuts in welfare. Secondly, there is no sign of any big increase in investment, nor in the rate of growth of productivity. While German industry steadily absorbs the costs of unification through new investment and productivity growth, we seem to rely upon inward investments from South Korea, Japan and indeed Germany for the little investment and job growth that does occur in industry. Meanwhile the success of UK-owned firms is measured as always by their expansion in continental Europe or North America.

Our 'success' thus depends crucially not on a substantial core of UK-centred investment and innovation, but on the *international corporate integration* of UK economic activity. In addition, the accompanying deepening of external financial integration makes the UK economy ever more vulnerable to the fluctuations and fancies of global financial markets, which of course also transmit the consequences of government policies in our major trading partners.

However, deeper global integration has also undermined the *solutions* to decline traditionally proposed by the left. These have continued to focus on some variant of national industrial planning, coupled with the reform or reregulation of the City and of trade and capital flows. Criticism of such proposals within the left has tended to focus on the *politics* of winning electoral support and then implementing them; hence the abandonment of more radical state intervention policies by the present Labour leadership. But important questions are also raised by the changed character of the UK economy. Firstly, if that economy is now so fragmented and 'globalised', it is hard to see what possible system of incentives and controls could ensure an alliance of interests *including 'industrial capital'* around a programme of national industrial expansion. At the very least, substantial powers would be required to compel multinational companies, both British- and foreign-owned, to carry out investments in accordance with a national plan. Secondly, because the City is in fact closely tied to industry and trade (if in its own peculiar ways), it cannot be treated as a distinct economic sphere merely requiring reregulation, or the provision of incentives aimed at redirecting capital flows towards domestic industry. The City's global scope is central to the competitiveness of UK-owned multinational companies, which despite their relative disengagement from UK production, remain very important to it.

A radical internationalist approach

The traditional left alternative is thus torn in two directions. One of these is to retreat from political confrontation with capital. In this case, the structures of global integration impose very narrow limits on reform, and the left risks remaining locked within the logic of international competition, attempting to pit 'British' manufacturing against Japanese, American or German (or South Korean) manufacturing. The current emphasis in the political centre ground on training and infrastructure investment can certainly attract support from British industrialists, but it will still not shift the structures of British capitalism as a whole towards a model centered on industry rather than finance. In particular, the City's leaders can rest secure in the knowledge that no challenge to their influence over those government policies which are central to their interests is likely to come from within their own class, given British industry's common interest in global integration.

The second alternative within the traditional framework of debate is to reassert an active role for the state in the strategic direction of economic affairs, but going beyond the 'national industrial planning' approach of the last thirty years. Somewhere between Stalin's socialism in one country, and Norway's rejection of the European Union, there may lie a viable future, particularly for a relatively large, resource-rich developed society like our own. Economic policies within such a 'radical nationalism' would include, at the least, controls on international capital flows, the subordination of monetary policy to government rather than the City, and the reregulation, if not renationalization, of large parts of the productive sector. But in the British case this would require a complete break with the power of capital, and such an alternative has never had more than marginal popular support. Hence, although this alternative might be economically feasible in a narrow sense, it is at present not politically realistic.

A more real, and realistic, alternative for the left has to start by rejecting the logic of international competition, and seek to subordinate the market to social needs at all levels. Locally, control by external capital and a remote central government has created space for democratic movements to redefine the objectives of economic development, away from the logic of competing for limited resources from outside towards mobilising local resources. Nationally, the economic and social divisions that beset the UK bear witness to an increasing disjuncture between the national economy and British capital; business, so visibly preoccupied with financial speculation, 'downsizing' and massive pay rises for top managers, has never been less popular.

So far, so good: a programme along such lines would command significant public support in Britain today. But without a *radical internationalism*, not just bolted on top but as an integral part of the politics and economics of the left, any attempt at an alternative will be frustrated by the corrosive powers of the world market. This internationalism should not merely extend to

Western Europe, where it will only replicate the contradictions of national Keynesianism on a larger scale, but to the world as a whole. It is time to challenge the neo-liberal globalists on their own ground, with a practical vision of collective, democratic intervention to re-regulate the world economy, and rein in the excesses of the free market with effective policies and instruments. We should support a reconstitution of the Bretton Woods and UN economic bodies, but in a totally different direction to that being sought by American and British finance capital. The unfettered flows of private capital, to which US Treasury Secretary Rubin bends his knee, should be replaced by public or publicly-regulated transfers to poorer regions. Trade flows should be guided to level *up*, not level down, conditions of work and production throughout the world.

Such an approach would be very much in the spirit of Keynes' policy advocacy of the 1930s and 1940s, although it would not be welcomed by his more timorous followers today. But is it realistic? I believe that it is.

It is first of all realistic precisely *because* of deeper global integration. While this has undermined both 'national' British capitalism and the traditional progressive alternative, it has also created a common experience across different countries, and therefore a common agenda in which cooperation makes more sense than competition. When European multinationals are switching jobs from country to country, both within and beyond the EU, internationalism becomes a matter of practical economics.

But it is also politically realistic, for two reasons. First, citizens everywhere are frustrated by national political inertia and mistrustful of traditional political parties: an alternative which rejected the fatuous logic of international capitalist competition would offer something genuinely different. Secondly, a framework of international cooperation does exist in the Bretton Woods and United Nations institutions. For all their many faults, they continue to embody ideals that are completely absent from foreign exchange markets and jet-setting management consultants. They are surely much more susceptible to a progressive agenda than the tired and conservative British state. At the same time, many of us are involved in the burgeoning global networks of non-governmental organisations which pursue the issues of justice, equity and ecological sanity central to a progressive agenda.

Globalisation has undoubtedly undermined the economic and political basis for socialist economic policies at the level of the individual nation state. But at the same time, it has created the material basis for a genuine radical internationalism. Parties of the left will find a public response if they develop internationalist programmes which can link up their traditional 'economic' constituencies with the so-called new social movements. They should not imagine that they can retreat into their national bunkers while the storms of global economic crisis pass over.

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III

The New Orthodoxy

Michael Barratt Brown

Will Hutton, *The Guardian* assistant editor, has written a best-seller* about the current state of the British economy. It is a matter of some importance how it comes that an economics text, which in parts is pretty heavy reading for anyone but an economist, should have achieved such a wide readership.

Why people are reading Hutton

Hutton's book is no doubt being read by many on the Left for its withering attack on 16 years of Thatcherism resulting in mass unemployment, widening inequality of incomes, declining investment in industry, and 'multiple sources of deprivation and exclusion that arise', as Hutton views it, 'from the marketisation of national life, ranging from schooling to television'.

Others will be welcoming its robust rehabilitation of Keynes after two decades of monetarist nonsense, when Keynes' insistence that it is investment that encourages savings was turned upside down and when Keynes' warning was forgotten, that relying on a casino for your investment decisions will not turn out well.

Others still from the Charter 88 Trust will be delighted to find (though with precious little acknowledgement) the wholesale adoption of their beliefs in the need for Britain to have a written constitution which establishes proportional representation, diminishes the monarchy, reforms the House of Lords, devolves

*Will Hutton, *The State We're in*, Jonathan Cape, 1995, pp.352, £16.99.

power to regional and local authorities, and introduces other forms of 'republican regulation'.

Those who view the City of London as the historic arch-enemy of British industrial progress, with its preference for short-term profit and overseas rather than home investment, will have their prejudices confirmed. The bankers themselves, as represented by the chief executive of Barclays Bank, reviewing Hutton's book in the *Financial Times*, see the book as 'the post-socialist alternative to the orthodoxy of the no-longer New Right'. And, for once, they may be right.

Most people are reading what Will Hutton has to say because word has it that he knows what is being hidden from the rest of us: the still secret agenda of a new Lib-Lab coalition when the Labour Party splits, before or after the next General Election. You could be surprised at the devastating critique of marketisation and the portrayal of capitalism (a taboo word for the Labour leadership) as 'degenerative and exploitative', until you find that markets can be regulated and humanised and that capitalism can be socialised and cooperative.

Hutton's view of British capitalism

Thus it is that, when we wonder at Gordon Brown speaking of the widespread benefits of the social market and Marjorie Mowlam writing of a democratically managed capitalism, Will Hutton tells us what they mean. We have to change the kind of market capitalism we have into a 'proper' sort of market capitalism, like they have for example in Germany. In brief, what Britain suffers from, Hutton says, is a quasi-feudal state handed down from the Seventeenth Century's aborted capitalist revolution. It is managed, so the story goes on — from the Bank of England, the Treasury and the City of London — by 'gentleman capitalists', drawn from landed families, educated at public schools (for non-English readers, this means 'private'), whose *métier* is managing (and making) money and nothing so vulgar as producing or trading goods. That has always been left to the Scots and Welsh and other provincials, who wore clogs and had dirty hands, and sometimes aspired to the status of gentry. But industrial capital was never so important in the British state as commercial capital, and so it remains.

In times of war, of course, these awful industrialists have to be given their heads. They are then received into the highest ranks of government and permitted to manage capitalism with the aim of increasing production. Concessions have at the same time to be made to their workers. When peace comes the industrialists are reined in. They were given a rather long run after the Second World War, thanks to the interference of Labour governments in support of their workers, but Thatcherism stopped all that. The aim of government reverted to the protection of sterling by the Treasury and the Bank of England and the liberation of the City of London from all restraints (except those rather loosely self imposed) which might frustrate its money making activities. Investment in industry was then allowed to be run down in the interest of short term money making to feed a service economy for the affluent. The poor got poorer and the unemployed increased in numbers, as one industry after another was allowed to close down.

Where Hutton is right

Hutton's argument sounds most persuasive and accords with much of the experience of British capitalism. The feudal survivals in the British state — the monarchy, the Privy Council, the House of Lords, the Lord-Lieutenants in the counties — have more than ceremonial significance. We are still not citizens but subjects; the oath of loyalty of civil servants, magistrates, the armed services, the police, the intelligence services is to the Queen, not to an elected President. A government such as Harold Wilson's can be the object of secret surveillance by officers whose express duty is to defend a semi-feudal state whose authority is not accountable to the people.

Once they are sworn in, and so long as they retain a voting majority in the House of Commons, the Queen's First Minister and her other ministers can in effect do what they like. They can break the law with impunity, as Mr Hurd did over finance of the Pergau dam or as Mr Major did over the sale of arms to Iraq and as Mr Howard does every other day in dispensing justice, because they make the law. Elected bodies like the Greater London Council (GLC) and other local authorities can be eliminated and replaced with quangos stuffed with place men without any form of constitutional check. Whether or not you want to go the whole way with Mr Hutton in embracing a written constitution with defined and separated powers for each arm of government, there is no doubt that he is right that Britain — the United Kingdom — is the most centralised state in the world outside of the actual dictatorships.

Hutton is right too about the British educational system. The division between 'public' and state schools, being compounded by selection to opted out schools, the far easier access of pupils from privileged schools to universities, the links between Oxbridge and government, the judiciary, civil service and the merchant banks, the continuing divide between the two cultures, the arts and sciences, the lamentable absence of any capacity among the British to speak a foreign language — all these serve to create a caste-like elite supremely arrogant in its relations with lesser breeds at home as much as overseas. While Britain had the lead in industrial development and while the empire held as source of materials and markets alike, the system survived. But, the challenge from competitors with a wider and deeper education and with greater openings for advancement by merit rather than by family background was in the end to prove fatal.

Hutton's excoriation of the City of London has also a great measure of truth in it. There have always been greater fortunes to be made in finance than in industry. London has regularly outshone the provinces as the centre of government, of finance and of trade with the largest population and the largest port in the country. The power of the City-Bank of England-Treasury nexus that Hutton takes from Cain and Hopkins' studies of British imperialism has often dominated government policies to the exclusion of the wider interests of the whole nation. The short-term money making proclivities of the City have in the past, and most particularly today, stood in the way of finance for longer-term investment projects. Preservation of the value of sterling has at times been pursued at the expense of all other considerations.

The German corporate model

What Hutton yearns for in Britain is that we should do things the way the Germans do them. We need a written constitution, voting by proportional representation, the monarchy reduced to a Presidency, legislative, executive and judicial powers clearly separated, most of the social functions of government devolved to regional and local authorities, like the German *länder* with their own finances, a central bank that is independent but representative of the several regions to secure stability, a banking system integrated with trade associations (the German *kammer*) that directly supports long term investment in small and medium as well as large companies, trade unions recognised as partners with management in German-style works' councils (*mitbestimmung*) to provide democratic control of investment, education for all to the age of 18 providing the basis for a massive expansion of vocational training in the workplace, high levels both of benefits and contributions for pensions, sickness and unemployment to generate the social solidarity that competitive capitalism lacks.

Before we rush to applaud and to recommend adoption of a political economy that appears to be at the opposite pole from the overcentralised, class-ridden, undemocratic, competitive free-for-all which has developed in Britain, we need to ask some questions. The corporate model has stood Germany well in the past fifty years, and long before that, but can it stand up to the new challenges from the East, from Japan, Korea, Taiwan and China and from the technological drive to lean production? Can the balance of Central Bank rigidity and the cosy networks of employers' associations and works' councils provide both the innovatory capacity and the ruthless excision of obsolete plant and unwanted labour that the new methods of production imply? Can levels of taxation and insurance contributions from those in employment be raised to maintain Germany's high standards of social security, health and education as the proportion of old people in the population rises and the relative costs of labour intensive services increase?

Hutton gives positive answers to these questions. He believes that 'the social market is the self-conscious way for a capitalist economy to blend the gains from competition and cooperation . . . and of adapting to changed conditions in a new way.' Others like Colin Crouch, who share Hutton's critique of the British system and some of his enthusiasm for the German model, have their doubts. Crouch wonders in particular about the ability of the moral legacy of German corporatism with its emphasis on consensus to survive the onslaught of the newly industrialising economies of the Pacific rim or of the wage-cutting American colossus.

Where Hutton's history is wrong

Before attempting our own answers to these questions, we need to go back to Hutton's analysis of the central weakness of the British condition. It was the caste ridden 'gentlemanly capitalists' in government and the City that had, in his view, for long dominated the British political economy and had brought about its nemesis. He has taken this view from Perry Anderson, Geoffrey Ingham, Cain and Hopkin and other revisionists of both liberal and marxist history. According to these writers there never was a real bourgeois revolution or a real industrial revolution in Britain: 1688 established a merchant-landowning oligarchy, British capitalism was from the start a merchant capitalism, not an industrial capitalism, commercial and not productive activity was the source of British wealth and of the drive to empire, and so the dominant power in British government and society was and remains to this day the City of London. Through the Bank of England and the Treasury a small elite of gentleman capitalists have for long managed the British economy in the narrow interest of short-term money making and against the wider interest of long-term industrial investment.

This is at best a collection of half-truths, as I have attempted to show elsewhere. The English revolution was certainly not on the model of 1789 in France. The Wars of the Roses and the spoliations of Henry VIII destroyed the old feudal families and replaced them with new landowners with commercial interests. The industrial revolution, although financed here and there by landowners like the Duke of Bridgewater, was the work of engineers and craftsmen such as Newcomen and Watt, Boulton and Paul, Hargreaves and Crompton, Darby and Telford, whose industries were built by the ploughing back of profits. This was true equally of the railway age.

Contrary to the revisionists' view, Britain's banks were nearly all established by industrialists and other productive capitalists to pool their risks — Barclays by the textile manufacturers of East Anglia and silversmiths in London, Lloyds by Midland forge masters, the Midland by Midland farmers, the National Provincial from the old Bristol Bank of the Bristol ship owners. Even the merchant bankers who became the central core of the City of London's operations were originally in industry — J.P. Morgan started as copper smelters at Swansea, the Barings were initially in the west country cloth industry, the Hoares were ship owners from southern Ireland, Rothschild first came to

Manchester to trade in cotton goods. Industrialists in the Nineteenth Century not only became bankers, the more successful ones also became land-owners. Although it was a long time before home companies came to be the major part of stock exchange business, the banks supplied essential overdrafts and credits to industry for home production and export.

The supposedly dominant position of commerce rather than industry in British capitalism can only be sustained by looking at the wealth of individuals rather than at contributions to the national wealth and by including all the income from shipping and from overseas investment in commercial rather than productive activity. In fact, the share of industry (mining, manufacturing, construction and utilities) in the British national income grew during the whole of the Nineteenth Century from 23% at the beginning to 40% at the end and rose further to 50% in the 1930s and again in the 1950s; while commercial activity (including finance, trade and transport but not income from overseas) rose from 17% at the beginning to 23% by the end of the century, and to 29% by 1910, at which level it was maintained into the 1930s, but not into the 1950s. This is not a picture of declining industry; that was not to come until the 1980s, when income from commerce was re-established. By the end of the 1980s the share of industry had been cut back from 50% to 40% and services apart from commerce had risen to 30% of the gross domestic product.

In the British foreign payments balance, business services and shipping provided an important cover for the widening gap which opened up during the Nineteenth Century between imports and exports of goods, but they did not grow as fast as the export of goods. Income from overseas investment increasingly filled the gap, but the overseas share of investment did not rise at the expense of home investment, as is often suggested. Most of the overseas investment (62% by 1913), moreover, was in railways, mining, industry, shipping and public utilities which were closely linked to industrial production at home. From the 1930s through to the 1960s overseas investment was run down and the import bill had largely to be covered by exports of goods. After the 1960s investment income once more took the strain as investment overseas was re-established, increasingly in the form of direct investment by large transnationally operating companies.

It is necessary to make this rather extended historical review to make three corrections of what Hutton has taken from the revisionist school, because he has made this central to his whole analysis of the British condition:

1) the picture of a continuing dominance of finance in the British economy, especially overseas finance, at the expense of industry has to be replaced with one of a much closer integration of finance and industry; and in our own day it has to be recognised that it is absurd to speak, as Hutton does, of a continuing *rentier* economy, and of the banks setting the conditions for investment, when the overwhelming part of the savings available for investment are not in the hands of persons (*rentiers*) and their bankers, but of large transnational trading and production companies;

2) the link with the empire of British industry and not her commerce was the crucial one not only for markets but for sources of raw materials. The holding back of the colonies, however, except for the white dominions, from industrial development to serve only as raw material producers, was self defeating for British industry which found its old colonial markets fading, but it was the choice of industrial and not of financial protectionism;

3) the idea is quite misconceived of a 'gentlemanly capitalist' who needs to be replaced, not presumably by an 'ungentlemanly' one (though a glance through the headlines of the London papers in the 1990s might have suggested that that was just what was happening) but by an opening to talented people who are not property owners. There has always been room in British

capitalism for the self-made man. Although many of the offices of state are still held by old Etonians and their ilk, a list of leading tycoons of industry and finance would show that the great majority made their own way up.

The conclusion is clear. What is wrong with British capitalism is not that it is 'gentlemanly' (or for that matter ungentlemanly), or that it is dominated by the short-term financial interest of the City of London, or that it is fenced in by an archaic semi-feudal state. What is wrong with it is that it is capitalism, and in our day a particularly powerful form of capitalism, which is incorporated in the transnational company. You will search where you will in his book and find just two mentions of such a company, both to be found in relation only to the international flows of money, and not of goods and services. The same silence seems to have struck the new Labour Party leaders.

While Hutton says so little about the transnational companies, he expatiates at length about the global financial markets, which 'need to be brought to heel', of companies which need to be made accountable to their 'stakeholders' — the workers and customers as well as the financiers. But how the new republican state is supposed to achieve these ends with companies that operate transnationally is never discussed. Reducing the power of the financiers, who are no more than intermediaries for the surpluses of the giant production and trading companies, is thought to be enough.

Whatever happened to the transnationals?

In an earlier book, in an essay entitled 'Whither Global Capitalism?', Will Hutton did treat more fully of the multinationals, but still only as junior partners of the financial institutions. According to this interpretation:

> 'the end of geography in which multinationals and capital can move freely around actually derived from a Cold War order, and a willingness of states to subordinate national priorities to the larger goal of forming a Western

> interest . . . financial intermediaries and financial institutions have increasingly been able to take advantage of this new (global) capital market structure much more quickly than those engaged in the 'real economy'. As a result there has been a seismic shift in the balance of power between finance and industry, tilting very much towards finance especially in the Anglo-Saxon world' (see Colin Crouch and David Marquand, eds., 1993., pp.140-1).

So much for Hutton's view, which was engaging us earlier, of the long history of the domination of industry by finance in the British political economy!

There was certainly a real change in world capitalism in the late 1980s as a result of the collapse of the Soviet Union, a shift which Hutton calls 'seismic', and it was indeed about the removal of the Soviet threat. But, the most important effect of that removal was not the globalisation of capital — that had been going on for a long time; it was the disappearance of the necessity for capitalist governments to make concessions to those at home and overseas who might otherwise look to the Soviet alternative. The transnational companies were thus released from nation state restraints on their freedom of world-wide manoeuvre in setting employment conditions; and there was no international substitute for the nation state.

Hutton's estimate in that article of the prospects for international cooperation among the developed industrial states, and even in the European Union, was distinctly hesitant. It would need, at least in Britain, he wrote:

> 'the establishment of a rival political hegemony to contest the Conservative hegemony, and which will be able to reduce currency speculation, to sterilise the growth of liquidity in the banking system by introducing reserve requirement and to reform the labour market — maybe launching an incomes policy. And in the long run to make a new form of corporate governance work, together with the reform of the entire financial system. The City of London is not going to go along with that.'

Hutton could not then have even dreamt of the changes that were to come in the Labour leadership, when he concluded in 1993 on the need for Labour 'to construct a political coalition'. 'That must mean', he went on, 'not merely willingness to participate in the European project, whatever it may be; but to redesign the country's economic and social institutions to conform to European norms.' His new book must be seen as his response to those changes at the top of the Labour Party. But, he still assumes that the City of London is the main enemy and the financial institutions those that are most in need of reform. The real power brokers in global capitalism remain unmentioned — the giant transnational trading companies.

So — what are the prospects for the New Orthodoxy?

A new Labour government, setting out along the path indicated by Will Hutton, may well commit itself to some reduction in the functions and cost of the monarchy, to some reform of the House of Lords, certainly to Proportional Representation if a coalition with the Liberal Democrats is required because of a Labour split, and to some scheme of devolution. Even without a written constitution, these measures could be carried through together with some adjustments of Parliamentary procedure to ensure greater control over the executive's actions and appointments. When it comes to reforming the City and reducing its power, this would not be so easy as things now stand. The directors of the Bank of England could no doubt be reconstituted. Regulation of the City by government, however, in place of self-regulation, would simply drive the speculators to base their activities somewhere else — in Singapore for example, where apparently the punishments for fraud are truly deterrent. Markets are no longer places, but computer connections to a data base.

There is, however, help at hand. The importance of the Bank of England will be greatly reduced when its functions are merged into a European Central Bank. Being a member of the European

Monetary Union will greatly reduce the power of the City. Hutton understands very well that the only chance for a British social market and a cooperative capitalism lies in European unity, and laments the obstruction of Conservative governments to all attempts at common social rights and any common management of demand. He rightly sees, further, the absolute necessity for European governments to act together, if they are to 'regulate the financial markets and to control capital flows and to play a part in compelling the US and Japan to manage their relations better, as part of a world deal', as he calls it, for semi-fixed exchange rates through the good offices of the IMF. There is an assumption here about the possibility of exercising some control over the Bretton Woods institutions, without major reform which is not discussed. But, it is very much to be hoped that the commitment to working together with our European partners is accepted by our new Labour leaders.

Hutton's understanding of the need of a European framework for a 'consensual capitalism' extends to the corollary for convergence of economies in a Keynesian employment programme. He sees the Delors 1993 white paper on *Growth, Competitiveness and Employment* as the 'last gasp of the old order . . . even as the basis for that consensus was disappearing'. But he goes on 'However, any British government interested in implementing the ideas of this book will need to revive that fading European idealism.' Has the new Labour leadership understood that? Has it, in particular, understood the necessary basis for the Delors paper in the extension of public sector investment on a European wide scale, which was the reason for its rejection, outstandingly by the British Conservative government?

This brings us to the nub of the argument that has to be engaged with Will Hutton. How is the power of the City, the power indeed of private capital, to be moderated and made consensual without a major extension of public ownership? When Hutton launches into a diatribe against privatisation, we find that after excoriating the marketised Health Service, private schools, private rail and bus services and building societies, most of the chapter is about the disastrous effect of competition on TV. The old nationalised industries are written off as a part of the public bureaucracy, tied to the political aims of the ruling Party and having 'no capacity to develop a tradition of public enterprise.' The proven greater efficiency of these industries prior to privatisation is not recognised, although this has been demonstrated both in return to capital and in output in relation to input.

How then does Hutton expect to strengthen British industry, generate European recovery, and reduce the power of the City? The answer is by regulation, through what Hutton calls 'an interdependent institutional structure in Britain that will permit commitment and cooperation in the context of a competitive market'. 'Markets', Hutton admits, 'turn out to be unstable, irrational and quite capable of producing perverse results — exactly what happens in real life. Yet they are also capable of producing great wealth, productivity and of sponsoring innovation. The problem is to tease out why they go wrong and how they can be corrected. The answer is not to let them do what they like.'

At this point, the anthropomorphism (as if markets themselves produced anything or knew what they liked) and the absence of identification of the market makers, the giant transnational companies, and the market takers, the rest of us, becomes frankly disingenuous. Regulating markets, in actual fact, means regulating the owners of capital — ask Professor Littlechild! It can be done by government using sticks — imposing taxes, refusing planning permission and, with more difficulty, exercising price controls; or using carrots — freeing prices, guaranteeing credit and offering tax concessions. Transnational companies which do not like a regime of taxation, restriction and price controls can go elsewhere or evade them by moving their registration to a tax haven and operating internal transfer prices. How do you stop them doing what they like?

A New Order must be based on existing traditions

Hutton's appeal for recognition of the success of consensual capitalism in Germany, like that of those who look to successful Japanese capitalism, fails to recognise the traditions from which each national capitalism derives. Hutton is right to emphasise the network of social and political institutions in which markets are embedded and indeed the moral codes which imbue market practices. But these networks and codes are not transferable. It profits nothing to lament the absence in the British tradition of the solidarity of the German employers' *kammer* and the *meister* craftsmen's guilds, any more than of the sense of family and community among owners and workers alike in a Japanese firm. The capitalist revolution in Britain destroyed all that and replaced it with the single prescription of property in a company of shareholders, employing 'hands' at the discretion of a manager.

Adam Smith, who is always claimed as the father of market capitalism, still believed that the force of moral sentiment — his much misquoted 'invisible hand' — provided the necessary cement for the social cohesion that made markets work. But, that was before the industrial revolution had done its work, 'putting to an end all feudal, patriarchal, idyllic relations', in Marx's words, and leaving 'no other nexus than naked self-interest, than callous "cash payment"'. Despite the survival of a semi-feudal state in the United Kingdom, Hutton is right to ascribe to Britain the purest form of bourgeois economy, where 'cash payment' has been elevated to iconic status. Where he is wrong is to suppose that this could be ended by 'adopting' the German system and corraling the financiers.

It will simply not be possible to graft German practice onto British tradition. It is reported that Japanese industrial practices are already at work in Britain; then, 'why not German?', it may be asked. First, it must be noted that Japanese practices are facing resistance from the workers. Secondly, Hutton's recipe for a British revolution goes well beyond the labour process, important as that is in the lives of those who have work. He is seeking to overturn the whole of Britain's social and political economy. Many of his readers will be longing to do the same thing, but it will have to be on the basis of those really strong British traditions, which are revealed wherever the encouragement of competition is relaxed — in the enormous number of democratically run voluntary organisations, more proportionately than in any other country in the world, in the thousands of charities and community associations providing personal care, in the solidarity of men and women at the workplace and in their unions, still surviving in spite of twenty years of assault and restriction by government and by the effects of unemployment.

What it would mean to build a new society in Britain upon the best traditions in the old cannot possibly be dealt with in the compass of this review. But two points may be made in contradistinction to the programme of renewal proposed by Will Hutton. The first is that all forms of regulation from above, whether by constitutional or executive direction, will have little effect in reducing overweening power, unless they provide for the involvement of men and women at the base. The second is that there are viable alternatives to incorporation — in the German or Japanese manner — such that difference and conflict, within limits, can be creative rather than destructive. To illustrate both points, we can take the example of the role of trade unions in British society. When they have been strongest, capitalism has been forced to respond with high levels of investment and with innovatory development. The collective bargaining process at its best can be as effective as any Works' Councils, indeed often more effective, for ensuring efficient means to meet the real needs of the people.

IV

Democracy versus Capitalism

New Labour is committed by its new statement of aims and values:
— to democratic socialism and this is defined to include creating "a community in which power, wealth and opportunity are in the hands of the many, not the few".
— to co-operating in European institutions, the United Nations, etc., "to secure peace, freedom, economic security and environmental protection for all".

In the light of the three papers printed above which analyse the reality of the capitalist world in which we live, there are some questions to be answered by all who support these aims:

First about *Equality*

1. How considerable are inequalities of "power, wealth and opportunity" in our society?
2. Are they tending to grow rather than diminish?
3. Should these inequalities be regarded as a dangerous threat to all in the disorder and violence they generate?
4. Are they to be dealt with by punishing the crimes or by eradicating the causes of crime?
5. How does capitalism generate such inequalities
   — through the power that private capital ownership gives in the factory and in the market?
   — through the absence of democratic control over the exercise of this power?

6. How is it proposed that inequalities generated by capitalism are to be corrected?
7. Short of changing ownership from private to public or common ownership, what countervailing power can be exercised to temper/regulate the power of private capital?
8. Will it be enough to provide greater opportunities for individual self-advancement, through tax relief, education, training?
9. Will it be necessary to reactivate the collective action of trade unions, through repeal of anti-trade union legislation, recognition of collective bargaining rights, provision of public funds for trade union education?
10. Will it be necessary to strengthen/increase the public sector in the economy?
11. How can this sector be brought under democratic control in the interests of both workers and consumers?
12. What is to be done to decentralise power in the economy through strengthening small enterprises, encouraging local government enterprise, supporting the co-operative sector, housing associations and other voluntary organisations?
13. Is it possible to separate financial and industrial capitalism and achieve democratic socialism through taming the City of London to reduce the power of financial institutions?
14. Is it possible for individual nation state governments to challenge the power of transnational capitalism on their own?

Second, about *Socialist Internationalism*

1. Is there a serious threat for all at present to "peace, freedom, democracy, economic security and environmental protection"?

2. What are the causes of these several threats?

3. Are they all different, so that the blame lies with ambitious men, brutal dictators, war-lords, nationalism, ethnic rivalries, fundamentalism, terrorists, corrupt officials, short-sightedness, ignorance?

4. Are these all underpinned by the pressures of capitalism, the requirement of profit making, the demand for debt repayment at any cost, and inequalities generated by capitalism?

5. Is the growth of these threats related to the increasing global concentration of power of transnational companies, and the worldwide spread of their operations including armament suppliers, oil companies, mining companies, logging companies, manufacturing companies operating in Third World enterprise zones?

6. Can any of these threats be countered by the action of individual nation states?

7. Is joint action enough or is common action needed through common agencies?

8. Is common action through the European Union possible to meet any or all of these threats?

9. Is action at a European level likely to be sufficient to remove these threats not only to peace and the environment, but to economic security and especially the scourge of unemployment?

10. Is it possible to obtain European agreement to proposing the restructuring of the United Nations financial institutions in a revised Bretton Woods agreement, which would reduce Third World debt and give power to small-scale producers and to the most disadvantaged economies?

11. Can such a proposal be reinforced by harnessing to it the widespread grassroots internationalism already existing in aid agencies, environmentalists, alternative trading, and other voluntary bodies?

12. Is it envisaged that support for the United Nations should mean a diminution of narrower alliances like NATO?

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