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A CATALYST WORKING PAPER

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A socialist or social democratic society is one that exercises moral principles, social justice and democratic accountability of power in meeting individual and social needs. A capitalist society is one where the economy is driven by unfettered market forces and power is amassed through the accumulation of capital. In the West, the political struggle largely centres round exactly where the line is drawn between these opposing tensions in the regulation of both economies and societies.

Over the last century or more massive shifts of power have occurred across this dividing line. Following the immense destructiveness of the Second World War; the swing of power towards social democracy was reflected in the establishment of a network of welfare state provisions, a steady diminution over succeeding decades in the inequality of income in society, the strengthening of trade union power in opposition to capital, and a widening of employment opportunities and rights.

But in Britain the pendulum swung back in the 1980s and a confluence of factors ushered in the Thatcher counter-revolution. Contrary to all expectations, after 18 years of Thatcher-Major Toryism, these policies have been largely continued by New Labour. The balance of industrial power remains as tilted in favour of big business as it ever was in the 1980s and 90s and the centralisation of state power has been taken even further.

The ideological centre of gravity remains entrenched firmly on the political Right. The question is whether this Right-wing retrenchment is inevitable.

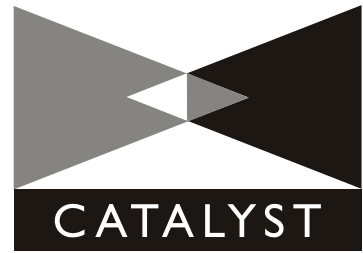
This pamphlet argues for a programme that will inject a much more democratic tenor into the quality of public life in Britain today where so much is decided top-down without consultation or accountability. It says there is a yawning gap between the governing class and the governed on a greater scale than for a very long time. It argues that Britain now needs to close that gap, to hold authority to account and to empower those now constrained by the traditional hierarchies of class and discrimination.

£5

# The Politics of Conviction

## Vision of a Socialist or Social Democratic Society

Michael Meacher MP



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Social Democratic Society

Michael Meacher MP

Published by the Catalyst Think Tank

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The views in this pamphlet are those of the author and are not necessarily those of Catalyst or its members.

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## **Catalyst**

Catalyst is the campaigning think tank of the left. Our values are long-standing and firmly established in the wider Labour movement. As democratic socialists we believe in the promotion of greater equality and the redistribution of wealth, power and opportunity – so that everyone has the chance to share fully in the civic, economic and cultural life of our society.

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# 1

## The Ideological Divide

A socialist or social democratic society is one that exercises moral principles, social justice and democratic accountability of power in meeting individual and social needs. A capitalist society is one where the economy is driven by unfettered market forces and power is amassed through the accumulation of capital. No country in the world exhibits either model in its purest form, and elements of both are found in most societies, albeit in hugely varying degrees. Indeed, in the West in particular, the political struggle largely centres round exactly where the line is drawn between these opposing tensions in the regulation of both economies and societies.

Over the last century or more massive shifts of power have occurred across this dividing line. Following the immense destructiveness of the Second World War, the political goal in the West was the integration of economies to reduce the likelihood of further war and the reconstruction of society to widen rights and opportunities as an expression of the national solidarity induced by war, as well as to prevent any recurrence of the penury of the 1930s Great Depression. The swing of power to the Left in favour of social democracy was reflected in the establishment of a network of Welfare State provisions, a steady diminution over succeeding decades in the inequality of income in society, the strengthening of trade union power in opposition to capital, and a widening of employment opportunities and rights.

In Britain the pendulum swung back in the 1980s for several mutually reinforcing reasons. Growing pressure from the reviving European economies in higher value-added products and from developing countries in cheaper staple industrial products exposed Britain's declining competitiveness and lower productivity, requiring tougher measures to improve efficiency. World-wide inflation sparked by the quadrupling of oil prices by OPEC in the early 1970s necessitated strong counter-inflationary action in all the Western countries. Trade unions were perceived to have abused their role through the continued and excessive use of strike action, symbolised in particular by the garbage collectors' strike in the Winter of Discontent 1978-9. And persistent sniping at the Welfare State by the Right-wing tabloids on the grounds that it was undermining individual responsibility steadily drained public support from the idea of collective provision against adversity.

This confluence of factors in the 1970s ushered in the Thatcher counter-revolution in the 1980s. A sharply deflationary monetarist policy was imposed on the economy which rapidly pushed unemployment up to levels not seen in Britain since the

1930s. Inequality of income sharply increased, with the share of the poorest tenth of the population cut by a third while the richest tenth expanded their share to nearly half of national income. Trade union power was systematically diminished by a series of highly restrictive legislative Acts. At the same time State power was greatly centralised, with the coercive reach of the police and security services greatly expanded.

Contrary to all expectations, after 18 years of Thatcher-Major Toryism, these policies have been largely continued after 1997 by New Labour. Though there have been some small reductions in child poverty, the overall inequality of income remains as wide as in the most extreme Thatcher years. The balance of industrial power remains as tilted in favour of Big Business as it ever was in the 1980-90s, with virtually no changes made to the aggressively anti-trade union laws designed by Thatcher to eradicate union influence. The centralisation of State power has been taken even further, with the country run essentially through No.10 private negotiations with business and finance leaders without checks or balances from either the Cabinet or Parliament, and decisions privately made then transmitted to the country as a whole via a high level of 'spin' and systematic manipulation of the media. The only major change from the Thatcher years has been the abandonment of monetarism and the long 13-year boom unleashed by Britain's ignominious exit from the Exchange Rate Mechanism in 1992.

What this means is that the ideological centre of gravity remains entrenched firmly on the political Right, and indeed in some areas has actually been taken further Right since 1997. The issue then is whether the Right-wing retrenchment across the West in the face of the 1970s hyper-inflation, followed by the fall of the Berlin Wall in 1989 and the emergence of unchallenged US global hegemony thereafter, makes this current further consolidation of capitalism inevitable, or whether seeds of change can be detected which could begin to reverse the present configurations of power. The war presidency of George Bush geared around the so-called 'war on terror', the use of 'regime change' as an unabashed goal of US foreign policy, and the Bush team's publication of the Project for the New American Century as a manifesto of world domination, all suggest that an authoritarian political, economic and military ideology is being pushed to more extreme limits than at any time since 1945. Can this be challenged, and if so, how?

# 2

## The Window for Change

There are many reasons for believing that the present contours of power, both global and national, so far from being fixed and predictable, are in fact highly fluid and uncertain. US policy is essentially driven by the need to secure an adequate supply of oil to their industry and domestic markets. That flow of oil, which is critical for the US economy, is now threatened both by the finite limits of world oil supply and by the rapidly escalating levels of world demand. Oil is the fundamental basis of modern civilisation – an absolute prerequisite for industry, agriculture, transportation and military activity – and without oil those fundamentals are going to have to change, fast. Already oil has begun the long, slow path to disappearance. Since oil was first discovered in Pennsylvania in 1869, half of the 2 trillion barrels of oil available in the world has already been consumed. We are now at the age of Peak Oil where supply limitations mean world production is now at full stretch, yet world demand for oil continues to grow voraciously as the Chinese and Indian economies (representing two-fifths of the entire world population) continue to register growth rates of 7-10% a year. The net result is the accelerating world price of oil, perhaps reaching \$100 a barrel within 2-3 years, with catastrophic consequences for most developing country economies and massive upheavals for the way of life in many developed countries. The era of cheap oil is over for good, and with it the superstructure of power built on it will gradually collapse.

Second, the American century, which arose in 1945 and reached its apogee after the implosion of the Soviet Union in the 1990s, is now under challenge from several sources. It is dangerously over-dependent on imported oil, when over 90% of exported oil will by 2020 be concentrated in Muslim countries. Yet US attempts to control this dependence by domination of the Middle East and Caspian Basin have led to imperial over-reach in Iraq and Afghanistan, which threaten a US humiliation and enforced withdrawal. The so-called 'war on terror', which was launched to provide cover for the extension of the new American empire into central Asia, is now likely to precipitate a major blowback against the West.

But the real long-term threat to US hegemony now comes from the seemingly unstoppable rise of China, the world's second largest economy. With a breakneck growth rate of 7-10% over most of the last decade and a GDP now of \$6.5 trillion, nearly twice as large as Japan's, China is challenging the US over an expanding number of issues regarding trade and financial imbalances between the two, oil and natural resources in Africa, Latin America and the Middle East, regional competition in East Asia, as well as Taiwan and Japan. Indeed a new regional and superpower

coalition of China, Russia, India and Brazil is emerging, and attracting the close interest of major oil producers, such as Iran and Venezuela, as a counterweight to American power. The coalition already covers 75% of the world's population and 80% of its natural resources. Iran has just made a \$200bn energy deal with China, while Venezuela, the biggest OPEC producer outside the Gulf, and a major supplier to the US in the past, is offering to help China build a strategic oil reserve. China has also become the prime customer of Russia's arms industry and, unprecedentedly, has recently engaged with Russia in joint military exercises. All of this is aimed at diluting US domination of the post-Cold War international order.

The precariousness of the present world order and the inevitability of fundamental change within a medium term horizon is displayed even more starkly by the current unsustainable pressures on the global eco-system. These are driven by three interacting processes: over-exploitation of natural resources, over-population of a finite planet, and over-warming of the global atmosphere by greenhouse gases.

Not only is the supply of oil, given current accelerating levels of world demand, likely to begin to dry up within 30-40 years, but the availability of other critical natural resources is already showing signs of severe depletion. Water scarcity already affects half a billion people living in regions prone to chronic drought, and the UN expects this number to increase 5-fold to around 3 billion within just two decades, nearly half the entire world. The implications for population displacement and refugee flows are without precedent. Nearly 50% of all fish stocks, fundamental for human diet, are fully exploited, 20% are over-exploited, and only 2% are recovering. The degradation of land and pollution now leaves half a billion people living in countries which no longer have enough healthy cropland to grow their own food.

Overall the measure of this non-sustainability is the global ecological footprint. It assesses the average biologically productive land available per person across the world at about 2.0 hectares, whereas the land area required per person on average to sustain human life at present levels is about 2.85 hectares. This 30% overshoot means that we are steadily running down the Earth's natural capital stock, to such a degree that it has been estimated that in 50 years' time we will be exploiting natural resources equal to two Earths – yet as some have noticed, we only have one. And this process is further intensified by accelerating population pressures. It took about 150,000 years after homo sapiens left Africa to conquer the Earth for world population to reach 1 billion, about 1800. It took 123 years to reach 2 billion, and then only 14 years to reach 3 billion, a further 14 years to reach 4 billion, 13 years to reach 5 billion, and just 12 years to reach 6 billion. The accelerating population explosion (6-fold in just 200 years) combined with the revolution of rising expectations for higher living standards everywhere must inevitably exhaust the Earth's capability to meet this relentlessly escalating pressure on resources within

this present century. A fundamental shift in the world economy and in our pattern of civilisation is therefore certain. The issue is only whether we plan for it and change in time or whether it is forced on us with dislocations unprecedented outside of the mass extinctions of palaeohistory.

On top of these coming upheavals is the biggest threat of all – climate change. Human existence is dependent on a set of equable conditions in the terrestrial and atmospheric environment, and these have now been put at risk by a blanket of greenhouse gases steadily warming up average global temperatures, with disastrous polarisation of the Earth's climate. Drier parts of the world become ever more arid so that crops cannot grow and forest fires become inextinguishable. Wetter parts of the world become steadily more prone to violent storms, hurricanes, cyclones, massive flooding, and submersion below rising sea levels. Even the Pentagon has stated it regards climate change (or rather climate destruction) as a greater threat than global terrorism.

The world's scientists virtually unanimously declare that the only way to arrest, and ultimately reverse, global warming is to reduce greenhouse gas concentrations in the atmosphere by 60% by 2050, compared with the baseline 1990. But the 1997 Kyoto Protocol will only reduce them, even if successful, by 5% by 2010 - and that only applies to the 30 industrialised countries (excluding crucially the US, by far the world's biggest polluter, and Australia), not to the remaining 155 developing countries which contain over four-fifths of the world's population. If they are taken into account, as they obviously should be, the world's greenhouse gas emissions on present trends will not reduce at all, but are expected to *increase by 75% by 2020* – an apocalyptic outcome unprecedented in human history.

What all this analysis shows is that currently the window for change is unusually great. So far from being locked in the iron embrace of an international straitjacket, the political world order is much more unsettled than is often recognised, much more open to challenge, and clearly requiring a major change of direction after the 'war on terror' has set the post-Cold War world on a self-destruct course towards conflict between civilizations. In terms of the natural world order, the global ecosystem is now being relentlessly pushed to its limits and beyond, towards the point where over-exploitation of natural resources, over-population of a finite planet, and over-heating of the atmosphere are together undermining the conditions for human survival. This course of events, at both the political and geo-physical level, is plainly unsustainable. We face irrevocably an era of fundamental change.

# 3

## A Manifesto for a Socialist or Social Democratic Society

So what has gone wrong, and how can it be put right at both the national and international levels? At present Britain is being propelled towards more centralised and unaccountable State power, more extreme inequalities of income and wealth, and an increasingly authoritarian civil society. The driving force is a neo-liberal economy delivered by privatisation, de-regulation and out-sourcing. This ideology, though often spun as ‘modernisation’, is in fact a throwback to early twentieth century old-fashioned laissez faire economics where market forces and business interests ruled largely unhindered. Globalisation is now regularly cited as the reason why market forces cannot be opposed, just as kow-towing to US demands is now justified by claims that overwhelming American power cannot be resisted. Whilst subservience to Big Business and US interests may reflect the ideological position that Britain’s leaders desire anyway to take, because it represents the politics they actually stand for, this policy stance is by no means inevitable – quite the reverse.

A very different philosophy is now needed which consolidates Britain’s own interests and our independence and which treats market forces as a means wherever appropriate for social and economic development, not as an untrammelled totem before which national economies are defenceless. Promoting these principles will require radical change in the power structures that now govern Britain.

### **A Making power accountable in Britain today**

The single biggest political issue in Britain today is the systematic demolition of the checks and balances that have constrained the Executive for the last two centuries and their replacement by a presidential-style autocracy. Within the parliamentary system itself, Prime Ministers within the last two decades, first Thatcher and then Blair, have enormously strengthened the dominance of their own position, giving reality to what Hailsham had prematurely described in the 1960s as ‘elective dictatorship’. Outside parliament, virtually unchallenged supremacy accorded to capitalist market forces since the Reagan-Thatcher era has given the central role in running the State to business (the leading trans-national corporations), finance (banks and big City institutions), and latterly the media (the big three press holding groups). The symbiosis between these private forces and the political leadership has

bypassed Parliament, almost wholly swept away democratic controls, and established a centralisation of decision-making in Britain unprecedented since the heyday of Victorian capitalism in the mid-nineteenth century.

Restoring democracy requires addressing the sources of this unaccountable power. Within Parliament the Prime Minister's ascendancy is based on vast patronage, the building-up of No.10 into the dominant powerhouse within Whitehall, the downgrading of Cabinet collegiality, the relentless use of a well-oiled spin machine to try to control the national agenda, the marginalisation of any Party constraints previously exercised via Party Conference and the National Executive Committee, and the ruthless exercise of machine politics (especially briefing against in the press) against any and every rival source of power. Outside Parliament, where prime ministerial influence is more indirect and which is beyond the immediate reach of patronage (though the honours system plays a proxy role here), the approach towards the main power-brokers in the wider economy has been cooperative, even accommodating.

What then is needed to restore the balance of power within Britain which is the keystone to parliamentary democracy? A parliamentary commission should be set up, by collaboration between the three main political parties outside the Executive, to propose a new constitutional settlement to give the legislature a much more independent role and the effective capacity to counter excesses of prime ministerial power. At present the UK has the worst of both worlds: it lacks the checks and balances entailed in the division of powers in the US between the President and Congress, yet its alternative structure of a single line of authority and power emanating from the top cannot control the Executive and can lead (as currently) to a quasi-presidential system with no in-built constraints.

How to counter this over-mighty Executive? Cabinet Minister appointments proposed by the PM should have to be ratified by the appropriate Select Committee, and hire and fire would then be shared with Parliament. Select Committees should be greatly strengthened, with power to require Ministers to attend and be cross-examined and to subpoena the production of documents. Membership of Select Committees should be determined, not by the Whips, but by a secret ballot of all MPs, with a quota reflecting party strengths in the Commons, and the Chair of each Committee would then be decided by the members. The membership and terms of reference of special Committees of Inquiry (e.g. recently the Hutton and Butler Committees), as proposed by the PM, should have to be ratified by Parliamentary vote.

To break the Government's monopoly over the Commons agenda and allow real debate and a binding vote on issues of high national salience which the Government

would prefer to stifle (e.g. the justification for the Iraq War, the Prime Minister's veracity, the increasing centralisation of power, the growing subordination to the US, etc.), Select Committees should have a right to table a motion, by agreement between the Chairs, for debate and vote on the floor of the House at least once a month. In addition, the Royal Prerogative, whereby the PM can unilaterally (claiming to inherit the ancient monarchical right) declare war, make international treaties or authorise military action – as Thatcher did over the use of UK facilities to bomb Gaddafi's Libya in 1985 – without the say-so or even knowledge of Parliament, should be abolished. And the House of Lords should be transformed in a second stage of reform into an elected (at least 70%) Second Chamber or Senate.

These changes need to be paralleled by Party reforms. Annual Conference, which has now been downgraded to a mere backdrop for the Leader's speech, should be respected as the final decision-making body for the Labour Movement. Labour MPs and trade unionists should insist that decisions taken after exhaustive policy analysis through the National Policy Forum, even when unwelcome to the Government (as on foundation hospitals, PFI, pensions, restoring the railways to public ownership, housing rights for local authority tenants who reject privatisation, etc.), must either be accepted or subject to further intensive review with the policy proposers in order to find an acceptable compromise, not simply rebuffed. In addition, the composition, culture and method of operation of the National Executive Committee needs to be changed to make it more independent of the party leadership.

There is a role too for reform of wider political democracy. One vote every 4-5 years is clearly inadequate for the genuine operation of democracy when most key issues never even feature in party manifestos, either because they arise unpredictably between elections or because parties deliberately conceal their real intentions at election time. Other countries have evolved ways of dealing with this deficit either by referenda, the development of political action committees on particular issues at grass roots level (as in the US), or the exercise of direct on-line democracy. All of these should be explored and developed here.

Beyond Parliament, the power structure needs fundamental reform because the untrammelled role allotted to market forces has concentrated power overwhelmingly in very few hands at the top of the largest market institutions in business, finance and the media. As a result, Governments' ability to safeguard basic needs of their electorates for jobs, investment, revenue, and high-quality public services are seriously compromised, and Governments are often reduced to competing between themselves to win corporate favours or even are subjected to corporate blackmail to submit to the demands of Big Business. Too often now Adam Smith's 'invisible hand' guiding market forces does not operate in the wider

public interest, but only in the sectional interests of the biggest private operators, especially their top managements.

How should the super-structure of private power be modified to ensure the interests of the wider public prevail? The most obvious solution might be an OECD Code of Conduct for the operation of Trans-National Corporations (TNCs), but Swedish proposals along these lines in the 1970s were already strongly vetoed by the US and the anti-regulatory mood has hardened since then. Equally any attempt to introduce a proper regulatory framework through the EU trading zone, on grounds that it embraces 40% of world trading and almost half the world's TNCs, is likely to fall foul both of an unreadiness to act unilaterally without the involvement of the US, Japan and China, and of a mindset that sees the EU as a defender and champion of European corporate interests anyway, not their regulator.

But that still leaves several options which are practicable. ECGD should stipulate that in order to be eligible for export insurance cover, companies must demonstrate that they have a properly enforced and comprehensive code of conduct which is fully compliant with UK legislation and OECD rules, and that any significant breach of this Code would lose them ECGD cover. Second, allegations of corruption (e.g. as repeatedly made against arms traders like BAE) should be rigorously enforced. At present, the UK has not launched a single prosecution for bribery in the last 6 years since the OECD Anti-Bribery Convention came into force, and only 4 of the 40 allegations of bribery so far are even being investigated. Third, the huge loophole whereby companies are not held responsible for the actions of their subsidiaries or agents should be closed, and in addition any case brought against a UK company abroad or its subsidiaries or agents should be justiciable in the UK courts. Fourth, there is often at present too cosy a relationship between companies and their regulators. Rules to ensure arms length independence should be strictly monitored and enforced. Fifth, all large companies should be required to publish an annual report detailing their social and environmental performance against measured targets. And sixth, management training should be much more strongly promoted, with formal access (perhaps through two-tier boards) to company data and decision-making for representatives from all employee grades, to foster a more collegiate and less hierarchical style of corporate governance.

Financial institutions also require much closer supervision. A light regulatory approach in the City, almost the lightest in the Western world, led to the mis-selling of private pensions, the collapse of endowment mortgage values, and the disaster of Equitable Life. The powers and speed of intervention of the Financial Services Authority should be greatly strengthened. Incentives should be put in place to discourage short-term churning of shareholdings and to encourage longer term bank commitment to business strategies. The City-driven boom in mergers and

acquisitions should be stopped by reversing the onus of proof so that the predator has to prove there is a genuine public interest in the takeover. Since pension funds are investing the pension contributions of the workforce as a whole, their trustees should reflect the overall composition of the workforce and their interest in jobs and productive capacity as well as financial return. A network of public investment banks, rooted in the regions, should be established to provide local financial expertise across the country and to weaken the concentration of financial power in the City of London. Above all, the privatisation of credit creation in the hands of the big private banks in the 1980s (97% of the country's electronic non-cash money supply now being created by the banks which then charge \$20bn a year interest on these so-called profit-making loans) and the ensuing over-dependence of monetary policy almost exclusively on interest rates, with the risk of excessive financial cycles of boom and bust, should be reversed.

The other major institution which has increasingly abused its proper role within the country's power structure is the press. It should reflect objectivity, balance and diversity, yet all too often it displays (the tabloids in particular) a lack of all three, whilst too much of its reporting is also trivialising, sensationalistic, partisan and relentlessly negative. Several reforms are called for. First, greater diversity should be sought through new titles. A launch fund should be set up to assist newspapers make the difficult transition from sales of 50,000 to sales of a million and hence viability. An advertising board should also be set up to collect and redistribute advertising revenue between different papers, so that lack of advertising alone should never sink a paper (as it did the Daily Herald). Second, the Press Complaints Commission, the voluntary and largely toothless fig-leaf financed and run by the press themselves, should be scrapped and replaced by an Independent Media Authority with power to enforce a right of reply by requiring equal column space with equal prominence to be provided not only to correct errors of fact, but to redress unreasonable imbalance or gross bias.

Third, just as the IBA regulates standards among the television companies and allocates franchises every 7 years according to quality of performance, so an Independent Media Authority should draw up a code of standards for the press. Newspapers would be made subject to franchise-holding, and on the basis of these public criteria it would then every 7 years or so award franchises as between existing holders and any other bidding consortia. For the first time one essential requirement of democracy would be met, that the dissemination of information about public affairs should not be left to the untrammelled and unregulated play of private market forces.

## **B Ensuring a fair distribution of income and wealth**

Britain continues to be a grotesquely unequal society and is steadily becoming even more so. This is a direct result of prioritising market forces above all other economic criteria, a policy set in place by Thatcher after 1979, and the abandonment of Government intervention since that date in determining the distribution of income and wealth.

Since 1997 Britain has become a much richer country, yet the division between rich and poor has widened. Paradoxically, most poor people have in fact now become slightly better off, but both the income and wealth of the rich, and especially the very rich, have inflated enormously; hence the gap between them has grown.

More than 3.6 million British families (i.e. about one-sixth) still live below the poverty line, conventionally defined as having an income below 60% of median earnings (about £230 per week). The poorest tenth of the population now command less than 3% of national income, while the richest tenth now control 28% - a slightly greater degree of inequality than existed even under Thatcher. The latest figures from the Government's Households Below Average Income survey indicate that in 2003-4 there were 12.44 million people living in homes with incomes below the poverty line – a slight reduction from the peak of 13.4 million in the mid-1990s, but still unacceptably high. Some 3.62 million of them were children, 2.15 million were pensioners (many on the basic state pension, currently £82 per week), and 6.67 million were working-age adults.

Income distribution in Britain remains obstinately onion-shaped – a large and scarcely reducing under-class at the base, a majority extended around the national average wage of £390 per week, a growing and prosperous professional, managerial and technocratic class, and a tiny group of the mega-rich (less than 1% of the population). This breakdown corresponds quite closely to the power divisions that mark out Britain today – an underclass almost permanently powerless, a majority around the average equipped with basic rights but still often insecurely at the mercy of the economic cycle, a confident and assertive middle class secured by increasing capital wealth, and a plutocracy of the hyper-rich able much of the time to use their immense wealth and influence to circumvent legal and regulatory controls in pursuit of their power or money ambitions.

The concentration of wealth in this tiny elite is huge, and growing. The average pay for the FTSE-100 chief executive, including bonuses, share options and other incentive schemes, last year was £1.67 million (£32,263 per week). That is 408 times more per week than the State pension, and 185 times greater than the minimum wage. And according to Tulip Financial Research, specialist wealth

consultants, the richest 45,000 people, 0.1% of the adult population, now own one-third of all liquid assets averaging more than £8m each.

Labour has not reversed the brutal redistribution of income in the Thatcher era which tripled child poverty from 1 in 9 children in 1979 to 1 in 3 in the 1980s and which left only two other industrialised countries with a worse overall poverty rate – the US with a worse child poverty rate and Ireland with a worse elderly poverty rate. Nearly twice as many people are still below the poverty line as there were in 1979, and as 'Strategies Against Poverty' (Joseph Rowntree Foundation, 2004) has documented, nearly 1 in 4 adults in Britain still cannot afford basic necessities like proper clothing, decent nutrition or repairs to furniture. And poverty is more persistent, deeply embedded and concentrated – half of the 3½ million children living in poverty are in just 6% of the country's 10,000 wards. These deprived communities suffer not only from low incomes, but also from worse housing, more crime, higher joblessness, more remote health facilities and poorer schools.

Does this all matter? It does, for several reasons. One, it demonstrates that the 'trickle down' theory isn't working. In fact, poverty levels are affected more by the distribution of income than by total economic growth. Britain has a similar per capita GDP to France and Germany, but the bottom fifth of Britons are 25% worse off than their French and German counterparts because in Britain income is much more unevenly distributed. Second, social mobility is highest in countries with more equal distribution of income and wealth. Sweden's success in equalising life chances through education and childcare strategies, much admired by Labour, has only been possible against a background of reducing economic inequality. Universal childcare coupled with British levels of inequality will not achieve Scandinavian levels of social mobility. Third, empirical studies show that great inequality produces lower levels of trust among citizens and lower levels of political participation. In general, economic inequality is now on a scale that threatens the core values and key objectives of social democracy.

So what should be done to reduce poverty and excessive inequality significantly? Policies should include:

- Since the largest group in poverty are those on very low wages, the national minimum wage, currently £5.05 an hour, should be raised steadily over a 5-year period at faster than average earnings rate to the Council of Europe Decency Threshold (currently £7.40 an hour). This would take about 6.5 million out of poverty.
- Increase the basic State pension level (currently £82 a week) to the pension credit level (currently £109 a week), and then link it to earnings. The net cost would be £7.3bn, though if it were initially limited to the over-75s where the vast majority of poor pensioners are concentrated, the net cost would be £2.7bn. This could be

more than recouped by raising the higher rate of income tax on the highest-paid business executives and professionals earning over £100,000 a year to 50%, which would raise an extra £5.3bn in revenue - thus redistributing directly from the richest earners to the poorest pensioners.

- A Pay Commission should be set up to examine systems of pay determination which at present are conducted by different mechanisms and criteria as between manuals, non-manuals, managers and board members. The degree of inequalities are so extreme at both ends of the spectrum that they cannot be justified by any single comprehensive measure of worth, and new criteria need to be devised to ensure that all individuals have their pay determined by common criteria that fairly reflect the differences between them.
- In the meantime the process of pay determination should be modernised. Representatives of each main group within any given organisation should meet together at least once a year to review the financial state of the enterprise, to make the case for a certain pay increase for their own group, to defend their claim against counter-arguments by other groups, and thus to try to reach a consensus about what members of each group should be awarded. Transparency and a shared sense of pay justification should boost both morale and levels of productivity.
- Since more and more remuneration at top business levels is now made available in non-monetary form (e.g. as very large bonuses, euphemistically misnamed fringe benefits, and extremely lucrative stock options) in order to escape tax, all such remuneration should be evaluated annually and taxed at the marginal rate, to ensure equitable liability for tax between all pay grades.
- Flagrant tax avoidance devices, particularly the super-rich lobby's non-domicile loophole, should be closed. The Association for Accountancy and Business Affairs recently concluded that the Government could raise no less than £85bn in extra taxation by blocking the shifting of funds to tax havens.

## **C Protecting rights and liberties**

Britain is gradually being turned into a more repressive society, notably in the aftermath of 9/11, the Iraq War and the London bombings of July 2005, but also in its suppression of asylum, trade union rights and parts of the criminal justice system. This trend is now reaching a point where it is undermining the very rights and liberties which it is allegedly designed to defend. This applies both to the increasingly repressive tactics of the State authorities and also the hobbling of powers of redress of individuals or groups disadvantaged or discriminated against within the general population, both of which will now be examined.

An authoritarian State is in the process of construction. The Government had to derogate from Article 5 of its 1998 Human Rights Act obligations against arbitrary

detention in order to legitimise internment, echoing Guantanamo Bay, at Belmarsh high security prison in south London. No other nation in Europe has done this. As a result 14 foreign national suspects were subjected to indefinite detention with neither charge nor trial for over two years before a House of Lords 8-1 decision roundly condemned the policy in December 2004 as incompatible with basic rights. The Government then pushed through the Prevention of Terrorism Act 2005 which introduced 'control orders' (house arrest) against terrorist suspects on the say-so of the Home Secretary based on 'reasonable belief or suspicion' (a lower standard of proof than in civil proceedings, and not even on 'balance of probabilities'), again without giving the accused the benefit of a trial or even knowledge of the charge made against him. In effect, this substitutes the ordinary criminal justice system with a parallel system run by the Executive. This should be scrapped. All 'control orders' should be subject to judicial authorisation and a trial. Equally the Government's acceptance that information obtained under torture is admissible (a policy outlawed in Britain since the 1630s) in the special tribunals created to legitimise the holding of foreign nationals, or any proposed extension to British citizens, should be promptly rescinded. And the extradition treaty with the US, which allows UK citizens to be deported (usually for alleged terrorism) without any evidence provided, should be scrapped.

Following the 7/7 bombings in July 2005, the Government unveiled a further set of draconian proposals allegedly to counter terrorism. This embraced a readiness to send deportees back to countries known to practise torture as well as a new catch-all offence of 'justifying or glorifying terrorism' inside or outside the UK. It created new offences of acts preparatory to terrorism and incitement to terrorism, following the acquittal of defendants in the 'ricin trial' (where it was shown there was no ricin), as if the intention is to convict people on the basis of association with others without evidence of knowledge or intention. It also included a blanket refusal of asylum to anyone of any nationality connected with terrorism – a highly subjective label which in the 1980s would have excluded many members of the current South African Government from refuge in this country. In addition the Government proposed the use of centuries-old treason laws against prominent Islamic clerics promoting terrorism.

All this may fit the Prime Minister's view that the London bombings are the product of brainwashed individuals with a murderous mentality. But it entirely ignores that the slaughter of Muslims by Western-aligned forces in Iraq, Chechnya and Kashmir, televised and broadcast worldwide, has focused a powerful source of political grievance which undoubtedly fuels any Muslim backlash. The fear of terror will only be lifted when this wider politics is addressed – by withdrawal of all foreign troops from Iraq, the creation of a viable Palestinian State on the West Bank, and a rebalancing of Western policy towards Arab and Muslim States away from the

overwhelming US partisanship towards Israel and in favour of justice for the Palestinians.

Nor is it true that repressive measures are now necessary because Britain has hitherto neglected the 'terrorist threat'. By 2000 Britain already had the broadest and toughest special anti-terror laws in Europe. Already there is extended pre-charge detention in terror cases, and the security services have extensive powers to indulge in covert surveillance. The Home Secretary can proscribe any organisation he considers a threat and prosecute its members. There are already offences covering the funding and incitement of terrorism, and of conspiracy to commit a terrorist act. Further, it can be a crime to possess material with a terrorist content.

Perhaps the most insidious aspect of this whole process is the continuing erosion of the separation of powers between the judiciary and the Executive, which has been a constitutional foundation of liberty in Britain for centuries. The Prevention of Terrorism Act 2005 allows the Home Secretary to restrict individuals' liberty with minimal oversight by the judges. The Inquiries Act 2005 restricts the independence of judges appointed to chair inquiries, allowing Ministers to decide what evidence is given in public and to block the disclosure of evidence. The Criminal Justice Act 2003 through its mandatory penalties could force judges to impose sentences regarded as unfair in all the circumstances of the case. And current proposals to allow police to dispense summary justice, including 'instant ASBOs' (anti-social behaviour orders), add to the litany of restrictions on people's liberty being imposed without a proper hearing or without access to a jury trial.

But this creeping, or even galloping, suppression of civil liberties in Britain has not been confined to the so-called war on terror. A similar approach has been applied to asylum and immigration. The right of asylum seekers to take their case to the appeal court has been significantly reduced, and the legal aid budget in asylum cases has been slashed. The Government refuses to allow refugees to work, but at the same time has refused all welfare support to asylum-seekers who do not apply for asylum immediately on arrival at a port, with a proposal even to take into care the children of 'failed' asylum seekers. Moreover appeals considered unfounded can only now be lodged from the applicant's home country, after they have been deported.

A real Labour Government should reaffirm the right to asylum and restore the right of asylum seekers to appeal in the UK courts. It should ensure reasonable support for asylum seekers while their claims are considered, which should be undertaken promptly. It should end the detention of child asylum seekers and lift the reservation to the UN Convention on the Rights of the Child. It should end the discriminatory system of admitting only skilled immigrants while shutting out the unskilled since this

robs many developing countries of needed workers (already almost a third of migrant workers are nurses), and instead train UK citizens in health and educational skills needed. It should apply tougher statutory licensing of gangmasters so as to end the debt-bondage system used against immigrants paid below the legal minimum wage and housed in squalor in a state of fear. And it should end the racial profiling behind the 3-fold increase in the number of people of Asian origin targeted by stop-and-search since 2001, and only stop citizens when there is a reasonable suspicion of criminal activity.

Yet another area of growing authoritarianism in British society lies in the increasingly coercive powers put into the hands of the police, the security services and the criminal justice system. Building on the deployment of police for violent confrontation against striking miners at Orgreave in 1984 and the later development of police Tactical Support Units for violent suppression of civil protest, the role of the police has shifted away from community policing to hard fire-fighting episodes. Police action has often been well in excess of a proportional response and the minimum use of force adequate for the circumstances. Yet redress for citizens subjected to excessive police force or violence is almost non-existent: no police officers have been convicted, disciplined or imprisoned for such activities, even when occasionally ashamed police colleagues have blown the whistle on them. Even a shoot-to-kill strategy, never sanctioned by public policy and recently deployed wrongly against a man wielding a table leg and against an innocent man (de Manezes) after the London bombings, has never led to a conviction or resignation. If the rule of law is to prevail, then whilst fully resourcing the police for their proper duties in fighting crime, we also need much more rigorous internal monitoring of police racism, fraud and corruption (as shown in the Met and West Midlands force and by the Operation Countryman inquiry) as well as more transparent and rigorous investigations by the Independent Police Complaints Commission.

There is an even greater accountability deficit in the case of the security services. The Security Service Act 1996 gave MI5 agents, subject only to the Home Secretary's approval, the power to search properties, to tap telephones, to intercept post and to bug anyone they suspect of being engaged in serious crime. This invasion of an individual's home without a judicial warrant violates a major constitutional principle established in the 18th century separating the powers of the judiciary from the Executive. The development of electronic technology, including biometric testing, has taken this process further with the attempt in 2005-6 to push through the introduction of identity cards. But whilst they would certainly compromise personal data and individual privacy, they would not achieve any of their ostensible goals of protecting against terrorism, cutting crime, stopping illegal immigration, or preventing benefit fraud. These I.D. proposals should be scrapped.

Recent MI5 lies about the so-called ricin plot in January 2003 (there was no ricin), the alleged 'poison gas' attack on the London Underground in November 2002 (there was no plot), and the fomenting of war in Iraq by claims about WMD (there were no WMD) and in Kosovo by claims about 'mass graves' (no mass graves were ever found) all attest to a readiness to manipulate public opinion rather than protect national security. The spying on and blacklisting of dissenters who can by no stretch of the imagination be seen as a threat to the State, the catalogue of MI5-induced murders in the 'dirty war' in Northern Ireland revealed by the Stalker inquiry, and the illegal bugging of the 6 swing States in the UN Security Council before the Iraq War (revealed by Katherine Gun) – to name but a few recent examples – expose the need for far more rigorous public accountability of the security services. At present the parliamentary Intelligence Services Committee is appointed by the Prime Minister and reports direct to him so that he can edit any material before, and if, it is published. The parliamentary oversight should be made fully independent: its members should be chosen by the Commons and the Lords, and the Committee should then report direct to Parliament, not the Executive.

Yet another area where the freedom of citizens has been restricted lies in the narrowing of rights under the criminal justice system. We are seeing the rebalancing of power towards the State. New Labour believes that the criminal standard of proof ('beyond reasonable doubt') is too high, that accused persons should be required to prove their innocence, that juries are inefficient and irrational, that conviction rates should be higher even at the expense of occasional wrongful convictions, and that pre-emptive detention should be available if there is a risk of re-offending. Such changes, introduced piecemeal, steadily seep into the policing culture and generate new paradigms of State power. Legal principle, though enshrined in constitutional practice for centuries, simply becomes negotiable. This tide of authoritarianism has to be stopped and reversed.

The reverse side of the attack on liberties is the weakening of rights, and this too, the second fundamental aspect of loss of freedom, is clearly manifest today in the restriction of powers of redress. It applies most notably in the workplace, but also in the treatment of minorities and the lack of due protection for those in the institutional care of the State.

Recognition rights at work are still denied to the 6 million employees, nearly a quarter of the workforce, who work in companies that employ fewer than 20. But it is these small firms, which constitute around 85% of all Britain's employers, where employment protection is most needed. These often have the worst health and safety record, and employ more women and black people, on lower pay and subject to more discrimination. Trade union representation should be permitted in all firms employing 5 or more, subject to a ballot of the workers.

'Fairness, not favours', as Tony Blair promised, means that he should not be arguing the employers' case (at the same time as President Chirac, bizarrely, makes the trade union case) over the EU Charter of Fundamental Rights. It means that employees should be protected from unfair dismissal on day one of their employment, not after 2 years as at present. It means, when 400 workers are killed each year at work, that a Corporate Manslaughter Bill is urgently required. It means that when a tribunal finds in favour of a worker that he or she has been unfairly dismissed, they should be entitled to reinstatement. It means that to get their union recognised, staff should be required to achieve a majority in a ballot, not to have to obtain support from at least 40% of those entitled to vote – no government would accept a limitation of that kind in getting itself elected. It means it should be made unlawful for an employer to dismiss workers on a lawful strike, as is the law in many other European countries. And it means that secondary action must be allowed (and of course it must be peaceful) if pressure is to be brought to bear at the point which is the real cause of the dispute – as in the Gate Gourmet case where BA pressure had constantly forced the catering company to lower its prices and ultimately lay off workers. That is what 'fairness' demands; otherwise the law is irredeemably tilted in favour of the employer.

Protection of minorities, discriminated against groups, dissenters expressing protest, and those dependent on care in State institutions is often a litmus test of the quality of freedom in a society. By that standard Britain remains quite deficient. The structural failure of the child protection system still lets down the estimated 2 million children in the UK who suffer abuse, the hundreds of thousands who are raped by parents or step-parents or by the 110,000 convicted paedophiles in the community, the 45,000 who live in some kind of care, the 100,000 who run away from home or care in the UK ever year of whom almost half end up physically or sexually hurt, and the 30,000 forced into prostitution on the streets of British cities – all of which is known in Whitehall. Specialist teams to track down and prosecute child abusers are urgently needed. At least 1400 women a year are trafficked into the UK sex industry; places of refuge for fleeing prostitutes need to be greatly expanded, as well as longer jail terms for traffickers. We should criminalise those who buy sex rather than those who sell it. Secure refuges for women escaping domestic violence, the biggest cause of death and disability in Europe for women aged 16-44, are also needed in many more localities. We should set up an independent inquiry into why the number of convictions for rape has collapsed to an all-time low of 6%.

The record of violence against prisoners in police custody or in prison is also unacceptable. Of the 1350 men who died in police custody in the decade of the 1990s, some 10% were recorded at inquest to be unlawful killings or subject to an open verdict. Over the years dozens of men, often black, have been killed as a result of the use of excessive restraint by police officers, yet none of the latter has ever

been punished. The archaic inquest procedure should be changed so that where there is prima facie evidence of death induced by violence, the case is automatically referred to the courts with legal aid granted so that the families can be legally represented. Successive reports from the Inspector of Prisons has uncovered evidence of widespread brutality in Britain's jails, with inmates subjected by prison officers to sustained beatings, mock executions, death threats, choking and torrents of racist abuse. Inmates who tried to complain were threatened and beaten to keep them silent. There should be more frequent, unannounced inspections with opportunities for prisoners to speak privately if they wish to inspecting staff, and all prima facie evidence of brutality should be investigated and any prison officers suspected should be prosecuted. Above all the penal culture of retribution currently so widespread should be replaced by the principle of restorative justice, already successfully practised in a few prisons like Grendon Underwood and in the Thames Valley. The offender is given counselling to face up to the wrong he has done to others, including a face-to-face meeting with his victim if the latter wishes it, plus education and training, work to be done at low pay mostly returned to the victim, and in the case of the most serious crimes release only on the basis of sustained evidence of genuine remorse.

Others committed to State institutions who have committed no crime are also at risk, and regular scandals that come to light suggest a sizeable penumbra of mistreatment which continues to be pushed under the carpet by the authorities. Physical and sexual assaults on children by care workers in children's homes have been exposed over the last decade in Gwynedd, Cardiff, Warrington and Sunderland; paedophiles (of whom there are probably 1.1m at large in Britain today) have been found operating in rings in dozens of children's homes; and violent assaults and humiliating degradation have been regularly catalogued against handicapped adults and elderly people in residential care homes, sometimes lasting for years protected by a 'cult of silence'. Despite some prosecutions, a systematic inspection regime, a register of convicted offenders, appointment by each local authority of a children's and elderly people's complaints officer with protection for whistleblowers, a new disciplinary offence for staff for failing to report suspected abuse, and prosecution of authorities who fail to respond to other care workers' exposure of abuse have still not yet been put in place.

Yet other groups are still persecuted and basic freedoms are still being eroded further in Britain today, particularly regarding political dissent. No Act has been passed over the last 20 years designed to prevent anti-social behaviour, disorderly conduct, trespass, harassment or terrorism which has not then subsequently been deployed to criminalise a peaceful public engagement in politics. Peacefully handing out leaflets complaining about commercialisation of university research has been prosecuted under the 1994 Criminal Justice Act. Walter Wolfgang, an 82-year old

man bundled out of the 2005 Labour Party Conference for shouting 'nonsense' during the Foreign Secretary's speech, was charged under section 44 of the Terrorism Act 2000. This allows police to stop and search people without the need to show they have 'reasonable suspicion' that a criminal offence is being committed. It was used 995 times in 2003 to try to break the resistance of demonstrators against the impending war in Iraq at the peace camp outside the military base at Fairford in Gloucestershire. Section 125 of the Serious Organised Crime and Police Act 2005 has added a new definition of harassment to the already copious Protection from Harassment Act 1997, namely 'a course of conduct... which involves harassment of two or more persons'. In effect this provision can now be used to criminalise any protest anywhere. Section 132, ostensibly designed to prevent the lone anti-war protester Brian Haw from camping on the pavement in Parliament Square, can now be used to ban *any* spontaneous protest outside Parliament and permits the Home Secretary to ban demonstrations in places 'designated' by him to be 'in the interests of national security' – no doubt airbases, arms exhibitions and government buildings. The right to peaceful protest is being legally defined out of existence.

The destruction of civil liberties, insidiously but steadily still proceeding today, is almost endless. It is officially admitted that more than 3,100 human guinea pigs were subjected to chemical warfare experiments at Porton Down over 4 decades, but further tests have not been ruled out by officials. They should be unconditionally prohibited. Gypsy travellers, instead of being constantly hounded, should be provided with authorised pitches and decent services. We need a Single Equality Act to consolidate, extend and harmonise the law to cover gender, race, disability, homophobic and trans-gender discrimination. Legal aid to protect the powerless, launched 56 years ago as a fifth arm of the Welfare State, has been capped and cut back to a pale shadow of its original self. Whilst all commercial cases should be excluded, a plan should be prepared to provide legal aid free to all citizens in social welfare cases – family disputes, child custody, clinical negligence, debt, landlord-tenant issues, immigration, employment, and others. A national network of community law centres should be established to deliver this, with full-time legal aid lawyers working for a guaranteed minimum salary like GPs, and the right to trial by jury should be fully restored.

Last but not least, the openness of information is a key factor in a free society. The Freedom of Information Act 2000, riddled with loopholes in its original draft but later strengthened after protests by 8 concessions, still remains flawed. Whilst there are nine exemptions to the Act, the most serious concern is that an absolute right of Ministerial veto, included in the Act, could be used to block information deemed too politically embarrassing or sensitive by the Government. Moreover the cloak of secrecy is being preserved in other ways. More public interest immunity certificates

(PIIs) were signed by Labour Ministers (100) in the first five years of government 1997-2002 than by Tory Ministers (70) in the previous five years. Information which could give rise to 'an actionable breach of confidence' is wholly exempt from disclosure, and arms manufacturers and others are using this to write legally enforceable confidentiality agreements into their dealings with Whitehall, with 'injunction packages' to threaten officials. There is no requirement on freemasons to declare themselves, though they are believed to include at least 1200 lay magistrates and over 260 professional judges. Clearly, if justice is to be transparent, there should be a compulsory register of Masonic membership for all in the criminal justice system, both police and judges alike. Equally, the corollary to freedom of information – the proper protection of privacy – is also deficient. A privacy law is urgently needed in Britain, though the Government has rejected it because it would offend the Murdoch press. Research by the independent group, Statewatch, has shown that interception of phone calls, email and post by police and the intelligence services has more than doubled since Labour came to power. The Government-funded CellDAR project, ostensibly aimed at anti-terrorism defence, security and road traffic management, now allows surveillance of anyone, at any time and anywhere there is a phone signal. Wireless technologies now being installed in everything from lamp posts to casino chips challenge the entire concept of personal privacy: snooping is becoming universal.

On every front in Britain today the powers of the State are being strengthened and the rights and freedoms of the individual are being weakened. This is not adequately counteracted by the incorporation of the ECHR into British law because judges cannot strike down a law that breaches a basic right; they can only ask Parliament to reconsider. This constraint should now be removed. In addition, the whole range of legislation over the last 2-3 decades should be systematically reviewed to fillet out the anti-civil liberties bias in so many of the key Acts. Proactively, a Commission for Human Rights and Civil Liberties should be set up with the role of active promulgator for these rights in every aspect of British life and to press for new legislation to restore a much more just balance of power with the State which currently has become so damagingly distorted against the individual.

## **D Securing a better way to run the economy than the American model**

However poor the New Labour record has been on extending empowerment, reducing poverty and inequality, and protecting rights and liberties, economic policy since 1997 is widely perceived as an unmitigated success. The Anglo-Saxon neo-liberal model has triumphed over the failure of 'old' Europe's socio-economic policies to adapt to globalisation. What however is not recognised is that Britain's

impressive employment and growth record in recent years is not due to 'flexibility', de-regulation and Americanised working practices, which is the New Labour neo-liberal agenda. It is due to a monetary policy designed specifically to suit Britain (after Britain under the Tories was unceremoniously pitched out of the ERM on 'Black Wednesday' in 1992), a fiscal policy that has allowed sustained investment in public services, and a credit and housing boom that has created an unprecedentedly long consumer spending spree, though at the cost of record levels of private debt. By contrast, the Euro's single one-size-fits-all monetary policy and budgetary Stability Pact have been doing the exact opposite – starving the Euro-zone of the oxygen of domestic demand. Pay restraint, unemployment and growing insecurity in the workplace in these EU countries has then engrained a tradition of saving, despite exhortations from their Governments to go out and spend, thus deepening austerity further. The upshot for the European project has now been played out in the referenda on the European constitution.

There is simply no evidence that Anglo-Saxon workhouse welfare and flexible labour markets deliver higher growth or lower unemployment, as studies by the normally pro-market OECD show. And in terms of productivity, manufacturing, hi-tech industries and transport infrastructure – key measures of an advanced economy – the European performance is distinctly better than Britain's.

However, this simplistic comparison with the stagnant French and German economies (though the latter is showing clear signs of recovery) is misplaced because the true picture is rather more complex. There are three models currently operated in Europe, not two, and the third, the Scandinavian model, has clearly been more successful than the British. Whilst the Nordic welfare states are unquestionably expensive in terms of tax take, they are clearly better adapted to the pressures exerted by post-industrial change, largely because of their service-intensive and women and child-friendly public policies. Denmark and Sweden adopted a policy of high public employment in the 1960s, and this expansion of so-called welfare state jobs steadily drew more and more women and lone parents into the labour market. This led to very high levels of employment for both men and women alike, less early retirement, and relatively high birth rates. All these trends have contributed to reducing the long-term strains on pension systems, and also have largely eliminated social exclusion due to poverty and long-term unemployment.

The main problem for the Scandinavian model however is of course the financing of the welfare state. Several factors have exacerbated this – high capital mobility, the fiscal and budgetary constraints imposed by an ageing population structure and by European monetary integration, as well as political resistance to high taxes. As a result of the latter, tax revenues as a proportion of GDP have not increased since

the 1980s, so neither has public employment. Any further enlargement of the job market must therefore come from expansion of private sector jobs. But that presents the Nordic countries with the dilemma – either to liberalise private services, which would generate more wage inequality, or to continue to pursue relative wage equality, but at the expense of higher unemployment because of budget constraints.

The Continental European welfare state profile, by contrast, is built on very different foundations. The main problem here is very high fixed labour costs, and this high wage floor is the main impediment to private sector job expansion. On the other hand public sector employment growth is limited by the fiscal burden of supporting a very large inactive (non-employed rather than unemployed) population. This overall job stagnation derives mainly from the particular method of payroll-based social insurance financing. This framework has bred a self-reinforcing cycle of retrenchment. To break out of stagnation – both Germany and France currently have unemployment rates roughly twice as high as Britain's – economic policy has been directed at boosting international competitiveness through a combination of early retirement and increasing labour productivity via high-quality vocational training and education. The problem with this strategy is that ever fewer workers must shoulder ever more not in employment, which substantially increases the 'tax' on labour. It leads to rising labour costs and the exit of less productive workers, which then ratchets up a further notch in the vicious spiral of more productivity increases accompanied by another round of workforce reductions through subsidised retirement exit.

The Anglo-Saxon model represents a very different response to these dilemmas, but one where the balance of gain is heavily countered by significant downsides. New Labour has in effect abandoned the pursuit of greater equality in the interests of jobs and budgetary restraint. Redistribution on moral grounds has been rejected, and such egalitarianism as remains is sought solely through increased employment incomes, most notably through the welfare-to-work programme and working family's tax credit.

The advantage of this approach is that it is much more likely to be financially sustainable. But it comes at a heavy price. It encourages wage inequalities and the expansion of low-paid jobs, with a significant polarisation of incomes. The poor have become marginally better off under New Labour, while at the same time remuneration for the rich (often through bonuses, so-called fringe benefits, and stock options) has soared, so that inequalities have widened sharply. Equally, access to social insurance has become ever more uncertain and unequal, so that those who can afford private insurance are fully covered while those who cannot are at risk of poverty. Furthermore, again because of the bias against market intervention, the rise

of female employment in the UK has not hitherto seen much determined policy to reduce gender inequalities. Equal pay for work of equal value remains a mirage, with a pay gap between men and women of up to 30%. Moreover women are often forced to accept low-quality part-time work. However, this may be about to change with the Government's latest proposals for a nationwide system of quality day care provision for working mothers.

But the most striking feature of Britain's Anglo-Saxon (for which read Americanised) model is the labour market de-regulation which deliberately tilts the balance of power in the workplace heavily in the interests of employers – and significantly there has been no increase in pay in real terms for the average-paid worker in the US since 1973, a record which is hardly for emulation in the UK. The power of the trade unions was emasculated by Thatcher in a series of anti-trade union Acts in the 1980s, and this framework has been maintained largely intact by New Labour. The result has been that the co-operative management of industrial relations between employers and trade unions as seen in Continental Europe is absent from Britain. Britain continues to have a poorly trained workforce, and the combination of skill shortages, low wages and poverty continue to produce the inter-generational cycles of social deprivation which have so marred the country in the past.

It is also worth noting that over the past decade some of the EU countries have had considerable success in breaking out of the confines of these in-built dilemmas. Denmark and the Netherlands have in particular managed to increase jobs in the service sector in a virtual full employment economy (Netherlands unemployment rate 2.7% and Denmark 4.7% compared with UK 5.5% - EC figures 2000) *without* abandoning their commitment to either relative wage equality or fiscal restraint. Indeed both countries have amassed large budget surpluses. Equally, Sweden and Finland succeeded in overcoming the deep economic downturn of the 1990s by reducing their budgetary deficits *and* sharply cutting unemployment.

The Scandinavian model therefore provides the best resolution of the latent conflict between economic competitiveness and social cohesion. Sweden matches the UK in growth, GDP per capita and low unemployment, while at the same time it has a current account surplus of \$10bn compared with Britain's \$40bn deficit. Even by New Labour's favourite neo-liberal criteria, Sweden wins. It has lower inflation, higher global competitiveness, and a better business record for creativity and research. And when it comes to quality of life, Sweden is streets ahead. Its life expectancy is much higher, its poverty level is less than half Britain's, its illiteracy rate is a third of Britain's, it has high environmental standards and low greenhouse gas emissions, and its social mobility is far higher. The key to Sweden's success – which holds big lessons for the UK – lies in the remarkable triangular relationship between the State, powerful trade unions committed to modernisation, and a number of

global corporations which genuinely practise social responsibility while still competing in open markets. Swedes believe that growth is created not merely through competition, but through the cultivation of trust and 'social capital' since security allows people to embrace change, whilst insecurity puts employees on the defensive, and that leads to inefficiency. There is consensus about resisting the advance of market principles into every facet of life, and about coping with modernisation through strong intermediate bodies including trade unions, professional associations, and pressure groups as well as companies. For its part, the State gives a lead in the use of IT, stimulates new markets and fosters social responsibility.

The Tory/New Labour model in the UK however is beset by serious failures for which no remedy is at present in sight. Despite a decade of continuing labour de-regulation and resisting EU measures to produce a better work-life balance, many of the new jobs have been very low-wage (even despite the welcome minimum wage legislation because the floor has been pitched so low) and productivity has crucially remained very disappointing. The much-vaunted success of the British economy compared (temporarily at least) with some European countries is thus likely to be unsustainable. Product market de-regulation, liberalised labour markets and low taxes have not produced the big growth returns or the breakthrough to long-term competitiveness that were promised. Worse, the Economist Intelligence Unit's quality of life index ranks the UK bottom among the EU15 States because of its poor public services and high rates of family and social breakdown. And it is high quality of life disseminated broadly across the whole population rather than GDP accumulation per se which should be the real goal of both economic and social policy. By that standard Britain is currently doing badly.

Other aspects too of New Labour's laissez-faire reverence towards untrammelled market forces are now coming home to roost. Whilst the malaise in UK manufacturing has been apparent for decades, it is not being addressed, and in some respects is actually getting worse. In 1973 the US produced an estimated 22% more manufactured goods per capita than the UK; by 2000 the difference had widened sharply to 91%. The US remains a strong manufacturing nation; Britain does not. Back in 1970 less than a tenth of manufactured goods sold in the UK were made abroad; today it is nearly 60%. It is true that Britain is not the only country where manufacturing has been falling – France and Japan for example have seen similar declines. However, it is also true that manufacturing output has been rising in other industrialised countries, even though the service sector has been growing more rapidly. In Britain in recent years, on the other hand, there has been both a relative and an absolute fall. By the late 1990s almost 90% of the increase in demand for manufactures has been met through imports.

This is disturbing for several reasons. Manufacturing is a major source of innovation and real productivity growth which has spillover effects into other sectors of the economy. Exports of goods are worth more than five times the value of exports of services, so that a robust manufacturing sector is necessary if the current account deficit is not to become unmanageably high. Furthermore, growth in modern service industries has been concentrated largely in the already-wealthy south, when what is needed is well-paid jobs in manufacturing for regional regeneration.

New Labour's view is that abolishing boom and bust plus a good dose of market forces is the appropriate remedy. To pretend the first, given the capitalist cycle, is ridiculous, while the second has never been accepted even in the US. America's industrial renaissance was built, not on unbridled market forces, but on activist government procurement policies, military Keynesianism, trade protectionism, heavy spending on R&D directed through the universities, and a low interest rate and cheap dollar macro-economic environment in the late 1980s and early 1990s. What is now needed in Britain is, equally, a raft of measures – including bigger tax breaks to stimulate investment, lower interest rates, a more productive use of the Government's £109bn public procurement budget to benefit British manufacturing, a cheaper pound to make the export business worthwhile, and a more dirigiste policy towards safeguarding UK strategic industries rather than letting market forces rip irrespective of the national interest (e.g. the proposed sell-off of Britain's nuclear industry for £10bn, probably to US trans-nationals). What is needed most of all is a clear and active industrial and regional strategy, both conspicuously absent at present. Current events speak for themselves: after the Rover collapse at Longbridge, for example, the takeover of the factory is mooted by the Chinese state, but not by the British state; and after over-concentration on services and finance in the south-east has grossly over-inflated house prices there, pricing hundreds of thousands of public service workers and others out of the market, the short-termist Barker plan is adopted to build a further ¼ million houses in the already most densely populated region in the country, rather than seeking a sustainable long-term solution of incentivising a much more even distribution of industry across the country. Just as building more roads is no answer to the problems of congestion (except in the very short term), so building more houses in the south-east is no more than a short-term palliative before the inexorable pressures of demand build up again.

Unfortunately however New Labour's preoccupation with market forces has not only generated a policy of non-intervention in manufacturing; it has also taken even further the Thatcherite dogma of privatisation, de-regulation, and out-sourcing which are now becoming the distinctive themes of the third term. This is curious when the record has been so consistently discouraging. National Air Traffic Services was privatised in 1999, but, left with a heavy debt burden and the fall in air traffic

after 9/11, it suffered a near financial collapse in 2001. British Energy, which produces a fifth of the country's electricity and was privatised in 1996, was forced in 2002 to ask the Government for a £650m loan to stay afloat and then reported in 2003 a loss of £4.3bn. Under the PPP scheme on the London Underground, two industrial consortia, Metronet and Tube Lines, were awarded 30 year contracts worth £15.7bn to modernise the tracks, stations and tunnels, thus splitting the tube's infrastructure from its operation. The contract was so complex that it cost the taxpayer £455m in lawyers' and consultants' expenses. Subsequently, in 2004 Metronet and Tube Lines earned profits of nearly £100m while losses on the tube soared 15-fold from £50m in 1998 to £756m in 2004.

Significantly, even when privatisation has demonstrably failed, the Government has adamantly refused to restore public ownership, even where that is supported by a large majority of the public. After the Government put Railtrack into bankruptcy in October 2003, it has still refused to bring back passenger services into public ownership. After terminating Connex's ownership of the South Eastern railway franchise, there were big improvements in punctuality figures and Network Rail halved delays caused by infrastructure failures. But the Government's policy has been automatically to re-privatise the service, regardless of performance, without considering a long-term public sector option. Ideology is now being placed above common sense and sound finance – not a way to run a railway, or the country.

Britain's Anglo-Saxon economic model with its Americanised labour markets yielding low wages, low skills and low productivity is not sustainable. We should rather be deploying our own version of the Swedish model which both economically and socially has been proven to be far more successful, and which has learnt that inculcating trust and valuing social capital produces dramatically better economic outcomes than the constant insecurity induced by unbridled market forces. Manufacturing, which is still the lifeblood of the economy, has been badly neglected, losing nearly 1 million jobs in the private manufacturing sector in the last decade. The urgent need for a proactive and robust industrial and regional strategy is now patent. And a policy of privatising for its own sake, driven by political prejudice, should be abandoned in the interests of Britain when the actual record of privatisation has been shown historically to be consistently worse.

## **E Improving public services better than via the marketising model**

Whilst New Labour's economic/industrial model is clearly inferior in terms of optimising the balance between economic competitiveness and social cohesion, so New Labour's business model for the delivery of major services is also inferior at achieving either long-term value-for-money or the quality of care goals of public

service. This has now become a top-level political issue because whilst the other key issues of this pamphlet – non-accountability of power, growing inequality, suppression of rights and liberties, downsides of the Anglo-Saxon economic model, and over-dependence on the US – have been marginalised to the edges of public debate, the marketising of public services is now emerging as the commanding theme of the entire New Labour project. The frontline of this assault is now concentrated on the NHS, where a manic cascade of ‘reforms’ is now accelerating and changing the nature and quality of health care out of all recognition.

It is true of course that the NHS, like all other institutions, had problems and deficiencies which needed to be addressed. It was greatly under-funded, though given the very large health under-spend, it achieved a high level of efficiency and value-for-money. In 1990 UK health expenditure per capita was only two-thirds that of the EU and OECD averages, and a mere third that of the US. As a percentage of GDP, health expenditure stood at 8% in the EU and 12% in the US, but only 5.7% in the UK. The Government has now corrected this, and raised health spending to 8.2% of GDP by 2008, though the channelling of large extra funds into the contracts of GPs, consultants and dentists has been wastefully bungled.

Apart from under-financing, other problems of both structure and performance were indeed recognised. Hospital operations and treatments in certain specialties varied as much as 5-fold across the country. The power of senior consultants undermined a balanced management of resources in some hospitals. Funding was overly focused on the hospital sector, weakening the role of general practice and especially preventive services. But the measures enforced by Thatcher – the financial strangulation and end of comprehensiveness in the 1980s and the ‘internal market’ of the 1990s – all later taken further by New Labour, had very different objectives.

From the start it was clear that New Labour’s idea of health service ‘reform’ was to expose more and more of an integrated public service to the business model of private sector competition. No significant Tory privatisation was reversed, PFI was vigorously promoted even when it proved far more expensive, local authorities were pressed into privatising the remainder of their care homes and domiciliary services, foundation trusts were introduced to enable NHS hospitals and Primary Care Trusts to operate like commercial companies, and a fully-fledged mixed economy of health care was brought into being.

PFI was assiduously courted as a means to secure new buildings without having to raise taxes or admit the cost as part of public debt. Taxpayers would of course however have to pay over the lifetime of the 30-60 year contracts through the top-slicing of public expenditure in favour of the private contractors, and unlike hire purchase the land and buildings mostly remain with the private owners, not the

NHS, at the end of the contract. The arguments against PFI in health are overwhelming. PFI schemes are more expensive, often vastly more so, than traditional public procurement. It locks the public sector into extremely long commitments during which time health needs may change radically, but payments must still be honoured for a system that may be well past its sell-by date. It changes the focus of planning from local health needs to the requirements of hospitals and private capital. And because the cost of these privately built and operated buildings is required to be met out of NHS operating revenues, the new hospitals have to be smaller so that bed numbers and staff can be cut. Thus in the first wave of PFI hospitals bed numbers were cut by 30% and budgets and clinical staff by 25%.

These huge disadvantages were justified on three grounds. One was the supposed inefficiency of public sector procurement; but the latter costs alleged by PFI were exaggerated 2-5 fold beyond actual cost overrun experience in the 1990s. Secondly the discount rate adopted by the Treasury (which determines the total payments which hospital trusts undertake to make throughout the PFI contract) was eventually admitted to have been deliberately fixed at a figure designed to give PFI an apparent cost advantage. And thirdly it was said that any higher costs were warranted because future risks were transferred to the private sector. In practice, however, whenever things went wrong, as they frequently did, the taxpayer still had to bale out a PFI failure because essential health provision cannot be allowed to collapse.

Other devices adopted complemented PFI with the same marketing motive. The NHS Plan, published in July 2000, opened up hospitals not only to insurance companies and private hospital and nursing home owners, but also nursing agencies, pharmaceutical companies, property development companies, and facilities management companies. Independent Treatment Centres (ITCs) were introduced in December 2003 to carry out ¼ million routine hip, knee and cataract operations on NHS patients at a cost of £2bn a year. For standard low-risk surgery, they are paid substantially more than the rates laid down in the NHS national 'tariff' or price list, effectively cream-skimming for the private sector. After originally selling the idea as supplementing public provision, the Government then allowed these privately owned ITCs not only to poach 70% of their staff from the NHS workforce, but to go further still and take patients from the NHS who were actually being treated in good time in existing NHS hospitals, leaving these with excess capacity and making them suddenly high-cost. This had the dual purpose of deliberately destabilising the NHS as an effective competitor and acting as the thin end of the wedge to make the State the enabler and the regulator, but not always the provider.

Even more significantly, foundation trusts, introduced in 2003, provided the fundamental base for commercial operation from within the NHS itself. Whilst they

cannot charge fees to NHS patients and have no shareholders and hence no profits, they are free to set their own pay scales, borrow on the private market, enter into contracts with private providers, are not subject to Department of Health control, and they (not the State) own their own assets. Even what they are prohibited from doing by the legislation they can do if they enter into joint ventures with private sector companies, including charging fees, financing private loans, making profits and distributing them to shareholders.

The combined effect of all these measures (with no doubt more to come) has been to end the NHS's founding principles of universality, comprehensiveness and equity. The emphasis is now on 'choice' and 'decentralisation', but with no mechanism to secure democratic local control. With the emphasis now on the balance sheet bottom line, not on meeting patient needs, only profitable services get priority with predictable consequences – costly services such as mental health cut back, new PFI hospitals with too few beds and too few staff to cope with demand, outsourced meals too unappetising to eat, substandard cleaning by underpaid outsourced workers contributing to the rise in dangerous infections like MRSA, and medical accidents arising from faulty work by private pathology labs. As the so-called mixed economy of health care now costing some £4bn a year in taxpayer revenues steadily gathers pace, the comprehensive cover of integrated health and social care is being progressively dismantled to the point where the NHS ceases to exist in all but name.

Whilst this manic (untested and un-piloted) drive to privatisation is concentrated on health care, it is by no means confined to it. It now covers every form of public service construction, with the Government already pledged to make revenue payments to PFI contractors by 2028 of over £110bn, a gargantuan hostage to fortune equivalent to a tenth of current GDP. Nor is this an optional process. Government has regularly made clear to public service managers that they will only get funding if it is provided by the private sector – “It's PFI or bust”, as one Minister delicately put it. Yet it is bad value for money as the taxpayer bailing out of private contractors has repeatedly shown – in the case of Railtrack, the Channel Tunnel consortium, the Criminal Records Bureau, Air Traffic Control, and the Benefits Agency, to name but a few. Still nevertheless some PFI contractors have made huge gains at the expense of the taxpayer. In the Fazakerley Prison scheme, for example, the expected return to shareholders increased 61% as a result of refinancing. This involves, once construction is completed and the risk is then much reduced, re-borrowing the same loan against future earnings (guaranteed by the Government) at a much lower interest rate and then paying off the original creditors, thus pocketing the difference as a huge lump sum gain. Ironically, what makes clear that this whole PFI project is not rationally but ideologically driven is that it was never necessary in the first place. Public sector net debt fell so far as a proportion of GDP

after 1997 (from 42% to 31%) that all the PFI schemes could easily have been funded by public expenditure, at much cheaper borrowing costs, without raising public sector net debt above 40% of GDP and thereby without breaking the Government's sustainable investment rule.

Educational services, whilst a wholly different context from health, have been subject to similar treatment. Though New Labour has rightly set a limit on infant class sizes, put the focus on early years, and overseen the repairing and replacing of run-down school buildings, it has also promoted selection and privatisation as the instruments to raise school standards. The 168 surviving grammar schools have been allowed to expand; specialist schools have been invited to select up to 10% of their pupils; and hidden selection has been quietly encouraged in church schools and city academies.

Academy schools (reminiscent of the Tory City Technology Colleges), seen as the private sector answer to 'failing' schools, are independent of the LEA, can set pay rates for teachers and design the curriculum, and allow private investors who fund up to £2m (less than a tenth of the full cost) to nominate a majority of the members of the governing board. The financial risks of academies however remain with the public sector because capital overspend, salaries, overheads and all future costs are borne by the State in perpetuity. Despite these substantial concessions to the private sector, the results have so far been disappointing. Though academies are more expensive than State schools and often select pupils from the top of the ability bands, data published in January 2005 showed half of the 17 academies had not improved their GCSE performance and in some cases it had worsened. There are fears too that they will destabilise integrated educational provision in an area, or simply decant problems into neighbouring schools. Concentrating £5bn on just 5% of secondary schools (the 200 academies planned for 2010) is not the best use of resources when the other 3,300 secondary schools contain a great many children with complex, disadvantaged home lives and when the real answer to educational under-achievement are community-wide solutions.

Housing again is another service where Government funding has been restricted only to those who accept privatised solutions. The Housing Green Paper of 2000 estimated that Council housing, serving most of the poorest households in Britain, needed £19bn of investment for repairs and improvements. The previous Tory Government largely created the problem by siphoning £13bn out of Council Housing Revenue Accounts since 1990 and also by refusing to reinvest the huge accumulated capital receipts from the Right to Buy. This policy was not reversed after 1997, and Ministers further insisted, clearly falsely, that the only means to pay for the necessary repairs was through outsourcing to the private sector either via stock transfer or PFI or ALMOs (Arm's Length Management Organisations).

Pensions is yet another area where the instinctive New Labour approach has been to maximize the switch to the private sector rather than pursuing the less risky and more socially just approach of improving public service provision. Currently 2.2m pensioners, more than a fifth of all pensioners in Britain, are living below the poverty line. And the Government's own projections estimate that workers on average earnings retiring in 2050 can expect to receive a pension income of around £100 a week at today's prices – below the level at which means-tested supplements are payable. An adequate pension level in retirement can therefore only be secured by three means. Either the lowest earnings levels have to be substantially raised to project a pension above the poverty level as of right, or the array of means-tested assistance in retirement has to be even further extended, or the rules for calculating the pension have to have a strongly redistributive element built into them. New Labour has chosen the second route. The earlier Wilson-Callaghan Labour Government chose the third route by introducing the State Earnings-Related Pension Scheme (SERPS) in 1978 which, if allowed to mature, would by 1998 have taken almost all pensioners above the poverty line. It was however emasculated by the Thatcher Government and finally replaced by New Labour in 2002 as part of its plan to shift pension provision to the private sector.

This over-reliance on private provision then exposed a huge swathe of pensioners to the collapse in private pension values in the bear market of 2000-3. This led to a colossal funding gap in occupational schemes, estimated at £54bn in the case of FTSE100 companies alone. It also led to a large fall in the proportion of companies with final salary schemes open to new employees from 56% in 2002 to 38% in 2005. This matters when the shift from final salary schemes, where employers contributed 16% of pay, to much more exposed money purchase schemes where employees have to shoulder stock market falls themselves and employer contributions are cut to 6%. A further problem with private pension schemes was exposed in the long bull market of the 1990s when employers took unilateral contribution 'holidays' and, according to the Inland Revenue, skipped contributions worth £27bn during 1988-2001, leading to enormous and still mounting liabilities in their pension schemes and depriving their employees of their pension rights.

In all these main areas of public service therefore – health, education, housing and pensions – New Labour, whilst genuinely wanting to raise standards, has for ideological reasons pursued the wrong model for delivery. Public services involve a host of intertwined social networks if they are to be successful, and the *reductio ad absurdum* of the business model – the obsessive one-solution-fits-all pretension of privatisation for all problems, regardless of circumstances – is not only far too crude, but actually itself generates a mass of new and very serious problems of its own, as this analysis has shown. What policy clearly needs instead is a genuine public service model – identifying failings that exist in delivery of the service and remedying them,

but retaining the structure and concept of a public service with its unique capacity to lay the foundations that express an equal citizenship and nationhood for all. What public service is about is making our society more fair, more civil, more caring, more participative as a whole in meeting essential needs.

What this means in practice, in the case of health care, is restoring the principles of comprehensiveness, universality and equity that the market has subverted and sweeping away the enormous transaction costs and waste that the market has generated. It does mean tackling the delays and queues that were allowed for too long to develop – partly by the extra resourcing gradually coming on stream, partly by greater internal management transparency to drive up standards, partly by much stronger local democratic involvement and a rigorous system of complaints and redress – but at the same time enhancing the core professional ethic of care and altruism at every level of working in the NHS.

In the case of education, it requires the abandonment of selection on the practical grounds that there is powerful evidence from research both in this country and overseas that secondary schools that have a 'balanced intake' – a mix of rich and poor and able and less able – are the ones that do best, whereas schools that have mostly deprived and unmotivated children drag everybody down. Instead of the New Labour strategy of helping middle-class parents opt out of the 'worst' State schools (i.e. those with lots of under-achieving children from poor homes) by offering more choice and new types of school to create a hierarchy, we need genuinely comprehensive schools whose pupils are not creamed off by a variety of fee-charging schools, grammar schools, church schools and academies. The market mechanisms of choice via opt-out, inequality, private sponsorship, closure, and low teacher morale are the wrong model. The right model is better resourcing targeted at lower-achieving schools in tougher areas, more support for teachers to lift morale and improve performance, rigorous inspection to ensure that problems are identified and dealt with, maximizing choice within a highly diversified single system, and more staffing and funds directed at tackling the deep problems of home and background that so often underlie poor motivation and low achievement.

The same inclusive approach should apply elsewhere throughout the public services. In housing, instead of trying to force local authority tenants into a privatised alternative by denying them funding for repairs and improvements, Government should be tackling rising homelessness and deteriorating estates with high-quality, affordable new build, not only for the quarter of the population who cannot afford to buy a house, but also for those who at different periods of their life might prefer it, especially if it set higher benchmarks for energy efficiency. And in the pensions field, where recent experience has highlighted the disastrous downsides of over-reliance on private provision, a much stronger State pensions sector urgently needs

to be restored with a strong in-built redistributive component to benefit the poorest third. Only a new and much bigger State pension foundation designed to produce incomes around half average earnings will end the continuing capitalist cycle of impoverishment in retirement.

## **F Achieving a better world development than through the US, IMF, WTO model**

There is a widespread view in the West that the rich countries shoulder a heavy burden of annual aid donations to the poor developing countries of the Southern world even though much of it, it is often argued, is wasted by bad and corrupt governments. What this simplistic and rather self-congratulatory view neglects however is that, whilst very modest aid flows do alleviate some of the worst global poverty, they are in fact but a drop in the ocean compared with the effects of the world trading and economic structure which constantly entrenches them ever deeper in poverty. And British policy is a regular purveyor of this perverse model of growing world inequality.

That inequality is now on a stupendous scale. The ratio of real incomes per head between the world's richest and poorest countries was 3:1 in 1800. By 1900 it was 10:1, and by 2000 it had risen to 60:1, and it is still widening. The richest fifth of the world now earn 86% of global income, the poorest fifth just 1.3%. The assets of the world's top 3 billionaires now exceeds the GNP of all of the 48 least developed countries with a population of 600 million. Yet despite all the hand-wringing about aid levels, the net financial flow (aid netted out against debt interest payments) continues to increase, not from North to South, but from South to North. The total external debt of developing countries rose from \$90bn in 1970 to almost \$2,000bn in 1998. At the end of this period, between 1996-9 debt payments from the HIPC's (highly indebted poor countries) actually increased by 25%, and in 1999 the HIPC's repaid £1.7bn more back to the World Bank and IMF than they were receiving in loans. Yet these countries are the poorest within the 2.8bn of the world's 6.4bn people who live on less than \$2 a day (less than the \$2.20 subsidy per cow per day in the EU dairy herd) and the 1.2bn people who live on less than \$1 a day.

Against that background the dominant world trade framework, overseen sporadically since 1945 by the IMF and World Bank and much more intensively and aggressively since the 1980s by GATT (superseded by the WTO after 1995), has been one of globalisation, free trade, de-regulation, and privatisation. The ostensible rationale is securing the benefits of economic growth, political democracy and technological advance. The reality has been domination of the world economy by the strong (the West), mercantilism, and the subordination of the weak (the poorer

developing countries). When HIPCs, over-dependent on one or a few commodities and exposed to sharply fluctuating world commodity prices, are regularly driven into debt, they are obliged to seek assistance from the IMF and World Bank, but subject to 'conditionalities'. Debt cancellation is made dependent on their submitting to a string of neo-liberal demands (the previously so-called 'structural adjustment programmes') – and even the Gleneagles G8 Summit did not end this. These include privatisation of services (water, electricity, telecommunications, public transport), cancellation of subsidies for basic products (bread or other food staples), increased taxation of the poor through generalising VAT, abandoning customs protection (exposing local producers to competition with multinationals), liberalisation of capital inflow and outflow (usually resulting in massive capital outflow), privatisation of land, and cutbacks in health and education expenditures. In effect, the whole economy is restructured towards the earning of foreign exchange for the payment of interest.

The effect of these policies on the 40 or so HIPCs has been crippling. The World Bank's own figures show that across the 20 years (1960-80) before it and the IMF started imposing conditions on countries that accepted their loans, median annual growth in developing countries was 2.5%. In the 18 years after (1980-88) it was 0.0%. For Africa during those latter years it was minus 2.6% annually, while total employment there shrank by 16%. The African continent lost export earnings estimated at some \$54bn. IMF policies subordinated Africa to the role of raw material supplier and encouraged countries to increase production of cotton, copper, coffee, tea, sugar and rubber where markets were already saturated, with the result that prices slumped and export earnings collapsed.

However, this globalised free trade model benefited the rich North and their transnational corporations (TNCs) enormously. They were guaranteed raw materials at low and sometimes knock-down prices, and their high profits from processing and retailing of the finished product were protected by prohibitively high tariffs on processed products from developing countries. They were assured of untrammelled investment access to developing country markets, thereby being able to drive most local producers out of business, secure rock-bottom costs from very low wage local labour, and transfer all of their profits out to their home country.

This open trading model of globalisation has also worked to the immense advantage of the TNCs and the richest countries in other ways too. First, whilst industrial trade is largely de-regulated, agricultural trade on which the poorest countries overwhelmingly depend is subject to the biggest protectionist regime in history. US-EU subsidies to their own farmers now total a staggering \$350bn a year, seven times the total of all development aid to the Third World, and the hugely subsidised products they can then dump on to developing markets destroy subsistence farming

across whole nations. This has produced the bizarre absurdity whereby the US annual \$4bn illegal subsidies to their 25,000 cotton farmers have wiped out the 6 million cotton farmers of West Africa, though the latter produce a far higher quality crop. Second, aid budgets have been heavily used to promote business exports. Nearly 80% of the US Agency for International Development's contracts and grants go directly to US firms, while in Britain UK Trade and Investment is the Government's export promotion arm for aid-funded business. Third, the charity ActionAid has calculated that a staggering \$20bn of annual global aid, 40% of the total, never reaches developing countries at all, but is creamed off by consultants providing 'technical assistance'. DfID has even paid £34m to the right-wing lobby group, the Adam Smith Institute, to oversee privatisation programmes in developing countries.

The commitment of the richest countries and their biggest businesses to the globalisation and free trade model of world development is therefore entirely understandable. But it is also hypocritical. Almost every rich nation has industrialised via mechanisms now prohibited by the rules of global trade – infant industry protection and theft of intellectual property. Only when Britain had established technological superiority in almost every aspect of manufacturing did it suddenly discover the virtues of free trade and open up most markets in the 1850-1860s. The US, which now insists that no nation can develop without free trade, imposed a tax on almost all manufactured products of 40-50% in the early nineteenth century, and remained the most heavily protected nation on earth till 1913, during which period it was also the fastest-growing. The 3 nations that have developed most spectacularly over the past 60 years – Japan, Taiwan and Korea – all did so not through free trade, but through land reform, industrial protection, and active export promotion by the State. So why shouldn't the developing countries now be allowed, indeed encouraged, to do the same?

We need a fundamentally new world order which rejects globalisation and free trade until countries have reached a level of domestic capacity when it is in their own interests to accept this. Instead of universally forcing all poor countries into compliance with an open trading regime they cannot manage, we need a staged development model which exposes countries to free trade according to their industrial strength. There is a precedent for this in international treaties: the Kyoto Protocol and other environmental treaties refer to developing countries, taking account of their lower level of development, as having "common and differentiated responsibilities". This alternative model then entails several corollaries. Developing countries should be permitted to build up their domestic industries behind protectionist walls, exactly as the UK, US, Germany, Japan and the Asian tigers all did before them, until they are ready to face the full blast of international trading competition. Conversely, rich country markets should be fully opened up to HIPC

exports without technical or tariff barriers. This would have more effect than anything else in reducing and then eliminating global poverty. Trade restrictions cost poor nations \$100bn a year – twice as much as they get in aid. A 1% increase in export share for each developing region would reduce poverty by 12%, with the biggest reductions in sub-Saharan Africa.

Of course this is not going to happen unless the post-1945 IMF-World Bank-WTO settlement is redrawn. But the reasons for doing so are very compelling. First, the globalisation/free trade model imposed so intensively over the last 3 decades has actually increased world inequality and has not prevented – indeed has precipitated – the poorest HIPCs falling even deeper into poverty and debt. Second, the power of the rich country TNCs has grown enormously over the last half century to the point where they control 80% of world trade and have the industrial-financial muscle to dominate most developing countries – a power they exploit ruthlessly in their own interest and often to the detriment of their host countries. Thirdly, astronomical levels of indebtedness have developed in the Third World following the recycling of petro-dollars in the 1970s and the subsequent deep recessions, from which it is impossible for the poorest developing countries to escape and which IMF prescriptions only make even worse. And fourthly, it is not even in the economic interest of the richest and most powerful countries, notably the US, to continue to enforce a global regime which holds down the market potential of almost half of mankind. Faster development for the poorest countries, and the removal of the trading restrictions holding them back, would do more than anything to achieve a massive expansion in Western exports to supply and underpin Third World industrialisation.

But this whole process is itself dependent on a major shift in geo-political power. The post-1945 international economic instruments were dominated by the US and the West: the US-EU controlled 47% of the votes at the IMF, the US alone possessing 17%, while China had only 3% and India 2%, and all 47 sub-Saharan countries of Africa only 7%. Recently however there have been clear signs of resistance to US hegemony. A G21 alliance of developing countries emerged at Cancun in September 2003 to thwart US-EU efforts to reinforce the globalisation-free trade model. It included the rising superpowers of China, India and Brazil which separately have been challenging US efforts to monopolise remaining oil supplies by huge long-term deals with Iran and Venezuela. Brazil has also recently won its case at the WTO against US cotton subsidies, a success which may be aimed next at the \$180bn increase in US agricultural subsidies which cynically followed Doha. And America has been weakened significantly in 2005 both by the Iraq imbroglio and by climate change catastrophe (which promises only to worsen in future).

This is a gradual but momentous change in the balance of world power which the EU, and in particular the UK, should now guide in two new directions. The first is a much stronger assertion of regional interests in the newly emerging multi-polar world. Whilst the US will remain for some time the strongest economic and military nation, its power is already in relative decline, and the EU should now increasingly be exercising leadership towards a new world order very different from a US-dominated one which has been coercively unilateralist, backward-looking on climate change, and obsessively fixated around control of oil. The UK, which under New Labour has become obsequiously aligned with American interests across the spectrum, should now re-establish its independence. We should be demanding, not only the full empowerment of developing countries within the community of nations, but also a stronger role for the UN in support of multilateralism and the rule of international law, a much more vigorous global regime to uphold human rights and outlaw torture everywhere, and a more mutual and co-operative relationship through a series of new global agreements with the emerging Asian continental blocs over resource depletion, energy and climate policy.

Under current policy however Britain's dependence can only intensify as the US disproportionately funnels increasingly mega budgets into reinforcing its military dominance, and then that growing dependence colours the subordination of so much of the rest of the relationship. We therefore have no alternative but very deliberately to develop a more independent technological base as the US under Bush sharply restricts the scope of technology transfer and puts pressure on the UK to align with the US in inter-operability both at the command level and in capabilities. We should also be demanding significantly greater reciprocity for any co-operation we offer over international security and intelligence-gathering. And we should be prepared to criticise the US more openly where we fundamentally disagree with them – over the US renegeing on the Kyoto Protocol, boycotting the International Criminal Court, refusing to sign a nuclear test ban treaty, withdrawing from the international bioweapons treaty, watering down efforts to reduce small arms, and breaking its promise at the Doha WTO meeting to provide cheap drugs to counter epidemics in developing countries.

The second shift in realpolitik which Britain should now be leading concerns the two greatest threats (along with the ever-present threat of nuclear war) now facing the human race – climate catastrophe and the end of oil. Because climate change could overwhelm mankind within 2-3 centuries causing human populations to plummet (if they survive at all), Britain and the EU should now as a top priority be staking out a world plan to arrest and reverse global warming which scientists on current trends expect to increase this century by between 1.4-5.8 degrees Celsius (when by comparison a drop in average global temperatures of a mere 5 degrees generated the Earth's entombment in ice in the last Ice Age). This plan must include several

elements. Now that the Kyoto Protocol is ratified and in force, it must extend its coverage to all countries, especially China and India (another reason for more co-operative, and less competitive and antagonistic, partnerships in the new world order) as well as the US once Bush has left office in 2008. It must raise the goal for CO<sub>2</sub> reductions worldwide by (say) 2020, compared with 1990, far beyond the Kyoto target of minus 5% to at least minus 30%. It must bring the fastest rising cause of greenhouse gas emissions – air travel – within the ambit of Kyoto, after the Americans insisted in 1997 that it be left out. And above all, the international treaty successor to Kyoto after 2010 must contain precise targets, timescales and mechanisms, not the absence of these and a mere reliance on improved technology and R&D as Bush and Blair are proposing.

There are further profound implications here for the new world order. Since it is overwhelmingly developing countries that have been devastated by the increasing frequency and ferocity of climate change phenomena, they may well have a legal case to set off accumulated ecological debt, owed by the North as the main generators of global warming to the South, against the accumulated financial debt owed by the South to the North. It could also be argued that the US opt-out from Kyoto, by avoiding the costs of reducing carbon emissions, is in effect a subsidy to domestic US businesses, and therefore actionable at the WTO. The advent of peak oil now, and the likelihood that oil supplies will begin to run out in 40 years' time, require, not a last frenetic effort to corner the world's remaining oil repositories if necessary by force of arms as the US is bent on, but a globally planned shift to a new world energy order based, via a transitional gas-dominated economy, on renewables – windpower, tidal power, hydrogen fuel cells, and ultimately solar power. And in the meantime Britain and the EU should be championing the cause of energy efficiency when the waste of energy worldwide is still prodigious. US power stations, for example, discard more waste heat than is needed to power the entire Japanese economy. And even a modest improvement (of around 5 miles per gallon) in the fuel efficiency of American cars and light vans would be enough to forego US oil imports from the Gulf – a better solution, one would have thought, than launching an unprovoked and illegal war against Iraq. All these trends are now leading inexorably to the end of the old US-European capitalism and the opening up of a fundamentally different world order built, not on hegemony, but on interlocking partnerships with Asia and the rise of a non-oil civilisation observant of the ecological limits that will transform human society.

# 4

## The Centre-Left project whose time has come

The demands made by this overall programme are enormous, but then so is the need for them. For all the New Labour talk about modernisation, Britain is at present still run on traditional, old-style capitalist lines, dominated by big business corporate interests, driven by an ideology of unremitting market forces and ineluctable globalisation, and locked into external power relations of virtually permanent subordination to the US. Breaking free of these inherited constraints from a past age will unleash new economic, social and democratic forces that are currently repressed.

It will also be highly popular with groups and classes for whom a fundamentally different economic and social system will open up new opportunities. That will certainly include skilled workers more involved in decision-making in a more open and inclusive company governance, women including young mothers with much improved job opportunities and equality of pay in a strengthened public sector, low-paid workers getting fairer wages from a transparent annual review of pay levels by representatives of all grades within the organisation, workers feeling greater security within their workplace from a charter of industrial rights, the poorest families and especially pensioners through measures of redistributive justice, to name but some. .

This programme will also in many ways inject a much more democratic tenor into the currently secretive and repressed quality of public life in Britain today where so much is decided top-down without consultation beforehand and without accountability afterwards. There is a yawning gap between the governing class and the governed on a greater scale than for a very long time. Closing that gap, holding authority in all its forms to account, bringing to power those now constrained by the traditional hierarchies of class and discrimination - those are the mechanisms for the re-democratisation of Britain that is now long overdue.