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Rebuilding social-democracy in 21st Century Britain

Will Hutton recently wrote: ‘One reality is already clear; those who regard the benchmark of 2002-7 as representing normal trading to which the economy will effect an eventual if slow return are wrong. That period was abnormal, unsustainable and ended in collapse.’¹

Is he right? Many on the left take it for granted that there can be ‘no going back’---but this is clearly not the view of the mainstream media, nor of the current Labour Party leadership. At present, Labour’s economic policy differs from the Tories only with respect to agreeing on the timing of ‘fiscal rectitude’; ie, public spending cuts. In reality, such cuts are merely a way of shifting the cost of the crisis from capital to labour.

New Labour has had two recent opportunities in which to change course: first, when it bailed out Britain’s major banks without taking effective control of them, and secondly, when it failed to move leftward in its general election campaign of 2010. Brown has fluffed them both. Britain under the Tories will attempt to return to ‘business as usual’, albeit with a less Thatcherite face. If a left alternative is to emerge in Britain, it must include (and go beyond) Labour and the trade unions. This paper attempts to set out the key issues which social democrats must face in re-establishing themselves as a serious force.

Below are four suggested pillars on which a new social-democratic consensus needs to be established:

- Public goods & redistribution;
- A high-wage post industrial economy with strong trade unions;
- Environmental sustainability (green new deal);
- Constitutional reform.

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¹ See Will Hutton (2009), *The landscape of tough times*, London: The Work Foundation., p 2.

The list is not exhaustive, nor is a hierarchy of priorities implied or intended. What is intended is to provide a point of departure for a debate sorely needed within the 'broad centre-left'. It need hardly be added that the left audience extends well beyond the confines of Labour and the trade unions and will include LibDems, NGO activists, environmental campaigners, Greens and so on. 'Rainbow' politics is an integral part of the contemporary political landscape.

1. Public Goods

One of the most distinctive and destructive legacies of 'new Labour' has been to promote a modified version of Thatcher's anti-State ideology under the twin banners of modernisation and efficiency. It is not just that the distinction between individual and collective choice has become blurred; rather, what we have been asked to believe that that all choice is 'individual' and to be taken in the market-place (or in a pseudo-market). Privatisation, welfare reform and deregulation have been the key instruments of 'getting the state off citizens' backs' while enabling governments to lower taxation for middle and high income-earners. Displacing social or political evaluations of public policy with measures evaluated primarily for their economic efficiency is the proclaimed justification for the privatisation frenzy which started under Thatcher and Major, and has continued (albeit in somewhat more discreet form) under New Labour. The historian Tony Judt has aptly commented on the pauperisation of politics entailed by this reduction:

"This is the second generation of people who can't imagine change except in their own lives, who have no sense of social collective public goods or services, who are just isolated individuals desperately striving to better themselves above everybody else."²

Transport, hospitals, schools, mail, armies, prisons, police forces, pensions and even affordable access to culture ---most are what used to be known as 'public goods' (ie, subject to natural monopoly) and, crucially, all are essential services not obviously well served by adherence to the profit motive. Borrowing a leaf from the New Democrats under Clinton in the USA, New Labour under Blair and Brown has acceded in the Tory privatisation of some services (eg, railways and public transport), while extending

² Tony Judt, quoted in Ed Pilkington, 'A bunch of dead muscles, thinking' *The Guardian*, 9 Jan 2010.

privatisation in others (eg, PFI schemes and the internal market in the NHS; academies in secondary education; hiving off profitable section of the Royal Mail) and stealthily extending privatisation to such areas as prisons and the army through private security firms.

To be sure, there have been some small benefits. For those who can remember, British Rail's sandwiches were inedible and in a few cities (eg, Brighton where I live) bus services are better today than thirty years ago. In the main, however, privatisation has not worked: witness the sorry state of British trains today compared to their high-speed equivalents in much of Europe, or the fact that France has twice as many hospital beds and modern secondary schools per head of population than we do. The list is a long one. And the argument is not just about efficiency either. At the core of the debate is the fact that in most European countries, there is still a sense of national pride in having strong public services as well as an active state role in the labour market.

Consider the most obvious case of the financial sector. Although Britain has incurred a huge debt in bailing out the major banks which are effectively publicly owned, our political class is so imbued with the notion of 'efficient markets' that it has failed to take control of Northern Rock, RBS, Lloyds-TSB et al---at a time when there would have been strong popular support for using state-run banks to finance low-cost housing, help rebuild Britain's economic infrastructure and promote sustainable re-industrialisation.

Free market orthodoxy did not spring from nowhere; the ideology was carefully promoted by multiple institutions over many decades.³ Social democrats need to revive the concept of the 'mixed economy', an economy in which a clear distinction exists between private and public goods and services, and in which a strong state presence is needed in spheres like finance, energy, transport and the media.

Clearly, it will be appropriate in some cases to entrust publicly-linked activities to the private sector, using regulation to ensure that the public interest is served. But, in the main, strategically important public services must be publicly owned, publicly operated

³ For an excellent discussion, see a set of pieces entitled 'Learning from the rise of the free-market right' in *Renewal*, vol 7, no 4, 2009.

and publicly accountable. This need not always entail setting up public corporations; the left should include local, mutual and co-operative ownership. And while the private sector will remain far larger in production and small trade, the state needs to play *both* a facilitating and a regulatory role.

2. Reforming Public Finance

A political refrain heard time and time again, not just in the Anglo-Saxon world but nearly everywhere, is that globalisation is rendering our economies uncompetitive--- crudely speaking, incapable of competing with China----and that post-war levels of ‘welfare’ are no longer affordable. The drumbeat of this argument is so incessant that it goes largely unchallenged, despite being demonstrably full of holes. Take one example--- imported from the US by New Labour---the reintroduction of means testing. Universal welfare provision has been replaced with a system of ‘work-enabling’ incentives and rewards. But as Tony Judt has noted, what appears to be an ‘efficiency measure’ reintroduces conditionality to social citizenship: only those with a job are full members of the community. The cost of ‘targeted welfare’ is a loss in social cohesion.⁴

Broadly, there are three main reasons why globalisation doesn’t mean abolishing high levels of public provision. First, it is simply false that we can no longer afford welfare. Secondly, the EU is not becoming ‘less competitive’ because of globalisation. Finally, decent job protection, social insurance provision and universal health care correlate strongly with high levels of prosperity.

The notion that Britain is ‘too poor’ to afford welfare---or indeed that ‘welfare makes the EU uncompetitive’---is a right-wing myth. The EU-25 has a combined GDP higher than the United States. Germany ranks consistently at (or near) the top of the world league in the value of total manufacturing exporters, while output per hour worked in the core EU states is as high as in North America. As Europeans become richer, it is a collective political choice whether to devote more of their extra income to private consumption or to public provision. As John Gray has remarked, since 1980 the size of the state in most

⁴ See Tony Judt ‘The wrecking ball of innovation’ NYRB, 54 (9), 6 December 2007.

EU countries as a proportion of GDP has risen.⁵ In economist's jargon, the income elasticity of demand for public goods is greater than one.

In Britain under Mrs Thatcher, extra income went predominantly to private consumption while the rest of the EU, particularly the Nordic countries, spent more on social and economic infrastructure. Of course, higher public provision usually means higher taxation, but the bulk of such taxes are what economists call 'transfer

payments', money put away during the good years to cover the years when we are unemployed, ill or retired. Ordinary working people may not like paying higher taxes, but we know that in the absence of collective provision, we might not have the means to save enough privately to cover our needs. Employers, too, cover part of these costs, but what they recoup is an educated, healthier and more productive work force.

At a time when all major UK political parties seem to accept the inevitability of belt tightening, the question of tax reform is hardly raised. Yet Britain has a Gini coefficient for income distribution of 0.34---one of the highest in the OECD---and for wealth distribution (ie, assets) it is twice that high. At present, the poorest tenth of the population receive only 1.3% of the country's total income while the richest tenth have 30%. The income of the richest tenth is more than the income of all those on below-average incomes (ie, the bottom five tenths) combined. Moreover, the proportion of total income

Figure 1: Economics 101: the Public Deficit

All economists are familiar with the National Income identity which says that, *ex post*, investment (I) must equal the sum of domestic private (S), public (T-G) and foreign savings (M-X), or $S + (T-G) + (M-X) = I$. This expression can easily be rewritten:

$$1. \quad (S-I) + (T-G) = (X-M)$$

where X-M is a simplified version of the current account (CA). In the same way, (T-G) is a simplified version of Government's budgetary balance where T = tax receipts and G = government spending.

The stylised facts of the crisis are that, first of all, for many years Britain has run a CA deficit: imagine for simplicity that $(X-M) = -100$, so that the right hand side of expression (1) is negative. Secondly, in the year leading up to the crisis Britain's private savings (household and corporate) was close to zero; with private investment 'normal' before the crisis, one can assign a value to the expression (S-I) of say -75. If expression (1) is to balance therefore, government (T-G) *must* run a deficit of 25.

The key point is this. As a result of the crisis, households and firms are rebuilding their savings (S is larger) while private investment (I) is shrinking; therefore (S-I) must become 'less negative'---say -25, instead of -50. Under such conditions unless the current account (CA) improves and/or investment rises, government's deficit (T-G) must grow by definition. But a 30% sterling devaluation has done little to improve the current account; moreover, since private investment is unlikely to recover anytime soon, public investment has become the key policy variable.

⁵ See John Gray 'The Neoliberal State' *New Statesman*, 7 January 2010.

going to the richest tenth is noticeably higher than a decade ago: 31% in 2007/08 compared with 28% in 1997/98. Such disparities are not just morally repugnant; there is now ample evidence that income inequality entails high social costs.⁶

Recent research on public finances shows that, far from Britain being ‘broke’, there is ample scope for raising substantial sums through tax reform; between £50bn and £100bn annually, representing 3.5-7% of GDP. At present, not only is Britain a ‘low tax’ country by EU standards, but total taxation is inequitable, the lowest 10% of households paying a higher proportion of their income in tax (direct plus indirect) than the richest decile group. This situation could be redressed through a combination of fairly simple measures; eg, greatly reducing personal and corporate tax avoidance, uncapping National Insurance contributions and introducing ‘minimum’ tax bands.⁷ A Tobin-type tax on sterling financial transactions alone would bring in an extra £34bn per annum.⁸ A Meidner-style share levy could be used to finance decent pensions, not to mention taxes on land and inherited wealth.⁹

Even allowing for the fact that Britain will emerge from the current slump with a smaller economy, a reform of public finance based on the principle of ‘tax fairness’ could raise public receipts by as much as 10% of GDP (comparable to the Nordic countries), making it quite feasible to revolutionise the quantity and quality of public goods and services available.

3. Towards a high-productivity, high-wage economy

Elsewhere I have argued that one of the underlying causes of the credit boom that preceded the great crash of 2008 was the squeeze on wages which has resulted from

⁶ See several earlier books by Richard Wilkinson as well as Wilkinson, R & K Pickett (2009), *The Spirit Level*, London: Penguin Books.

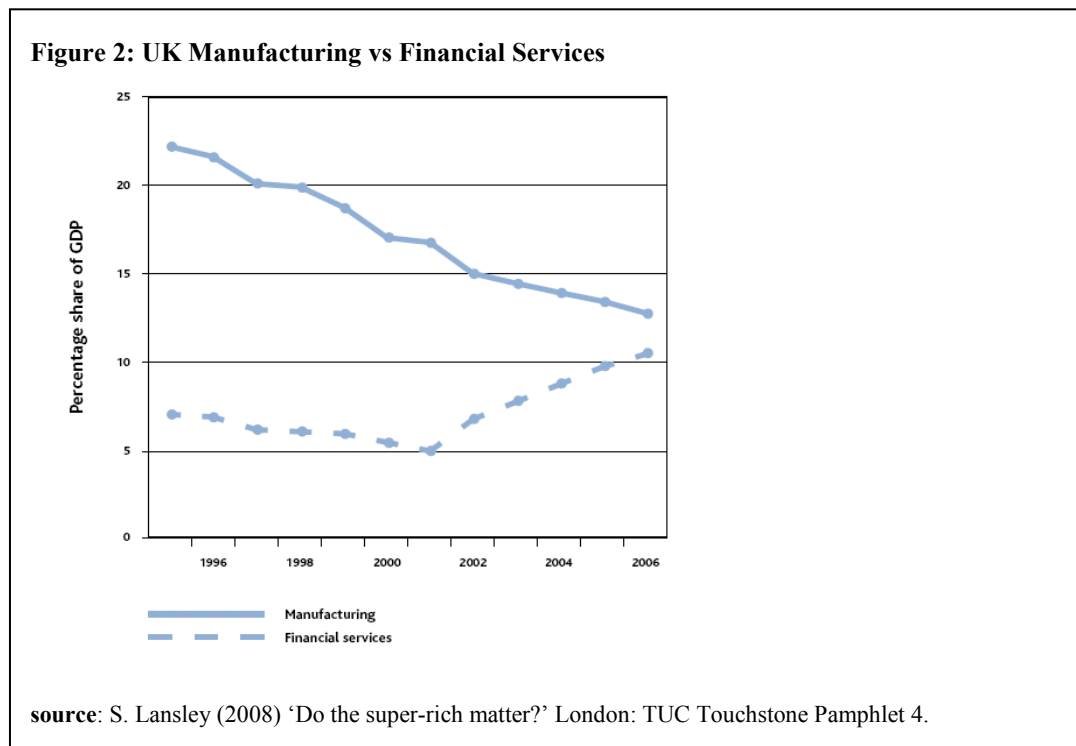
⁷ See George Irvin, David Byrne, Richard Murphy, Howard Reed and Sally Ruane (2009) *In Place of Cuts: tax reform to build a fairer society*, London: Compass Pamphlet.

⁸ See George Irvin ‘[Now’s the time for a Tobin tax](#)’ *Comment is Free*, *The Guardian*, 11 December 2009.

⁹ See for example Robin Blackburn’s prescient book: *Age Shock; how finance is failing us*, London: Verso, 2006.

Britain's deindustrialisation and the weakening of the trade union movement.¹⁰ It follows that regulation of the banking sector alone is not enough to avoid future credit bubbles.

For aggregate demand to be sustained, we need a high-productivity, high-wage economy. Clearly, we will not get there soon. For one thing, even with the stimulus to exports of a major devaluation, output is unlikely to return to its pre-recession level before 2012-13, while returning to a 5.0% unemployment rate may take twice that long. Even then, there has been a loss of potential output of 4-5% of GDP per annum which will never be regained.¹¹ For another, we are not going to return to the traditional industrial structure of the 1970s and the free-market wage bargaining practices which sustained it.



The UK's comparative advantage no longer lies in producing steel, coal, motor-cars and so on; such 'traditional' industries will in future be dominated by the newly emerging industrial powers (eg, the BRIC economies). The Nordic countries, Germany and France have concentrated on high-tech sectors; companies such as Nokia, Ericsson, Siemens,

¹⁰ See George Irvin (2009) 'From profit squeeze to wage squeeze' *Renewal*, 17, 3, autumn

¹¹ See Arestis, P and M Sawyer 'The future of public expenditure' *Renewal*, 17 (3), 2009.

Enercon and Aerospatiale-EADS have benefited from long-term state investment in research, a first-rate infrastructure and a highly-trained workforce to achieve success. By contrast, in Britain industrial output has shrunk while financial services have grown. Figure 2 illustrates this clearly.

Making Britain less dependent on financial services means moving towards a high-tech industrial and services structure. To a degree, Britain has already embarked on this path. As a recent report from The Work Foundation observes:

[Technology and knowledge based industries include] high to medium tech manufacturing, business and high tech services, financial services, education and health care services, and cultural and creative services. By these measures, the knowledge based industries pre-recession provided nearly half of total UK GDP, over half of total employment, and the vast majority of our exports.¹²

If over the coming five years the financial services sector were to shrink to its position in 2001 accounting roughly for 5% of GDP, an equivalent 5% increase in other branches of high-tech output would be required merely to restore the UK to its size in 2007. The Work Foundation calculates that the knowledge economy is likely to grow from a fifth of GDP at present to 50% of GDP within fifteen to twenty years. (To be sure, it will remain a key task of the financial services industry to supply finance capital to expanding knowledge-based industries.) But there is more to industrial strategy than simply backing high-tech companies. As Will Hutton has argued for more than a decade, the ethos of British industrial capitalism must change. Speaking of the so-called ‘normal period’ of 2002-07, he argues:

British companies were particularly exposed to hostile take-over and merger – share ownership in Britain is disproportionately dominated by transient institutional investors and banks from Europe and the US were prepared to offer enormous loans to predators – whether private equity houses or ambitious multinationals – to finance take-over bids. Keeping one’s share price high, always important, became the number one goal of British companies both to fend off acquirers and to secure amazing rewards set by company boards to align shareholder and director interests. The ethos percolated into the warp and weft of

¹² See Ian Brinkley (2009), *Recession to recovery to 2020: A Knowledge Economy Report*, London: The Work Foundation

every British company. For the managers of companies owned by private equity, the message was explicit; hit the revenue and contribution targets and within five years when the company is floated on the public markets you will make a fortune. It was a similar story for quoted PLCs.¹³

In short, one key element in changing the ‘short-termism’ of Anglo-American business culture is to halt the highly leveraged ‘takeover’ culture; this can only be done if there is strict control of the financial sector and---in particular---if a clear dividing line modelled on Glass-Steagall is drawn between high-street banking and the casino-style operations of the shadow financial sector. Here there appears some hope of progress, as President Obama’s recent initiative suggests.

However, a key question remains. Assuming private equity takeovers can be brought under control, is the emerging knowledge economy and its associated innovation culture enough to ensure the growth and prosperity of a new high-productivity (and therefore high-wage) economy? The argument put by proponents of the knowledge economy is that major innovations---major ‘game changing’ technologies sometimes referred to as General Purpose Technologies (GPTs)---entail two changes: first, such technologies move business values away from short-term profit maximisation and towards long-term customer satisfaction; secondly, they entail a commitment to fairness because only through workforce engagement and commitment can successful innovation be achieved.

What of the role of government? Again in Hutton’s words:

The drive for innovation and high performance cannot work at company level alone. It needs to be complemented by government action. ... There will need to be an array of national policies aimed at creating greater resource flows in cash, skills and innovative imagination that support innovation and the wider knowledge economy. Secondly, the UK will need to build on its current strengths to consolidate an institutional framework that supports innovation – in finance, universities, networks and the governing and regulation of innovation eco systems. And thirdly, it will need to develop a framework of ownership, governance, regulation and law that allow firms to develop the organizational

¹³ See Will Hutton (2009), *The landscape of tough times*, London: The Work Foundation.

slack, financial headroom and leadership and managerial capabilities – along with employee engagement – in which innovation can flourish.¹⁴

This sets out one of several possible agendas for industrial change and regeneration. It is an optimistic agenda, but one that covers not just Britain's large corporations but the crucially important small and medium enterprise (SME) sector as well, since it is from the SME sector that tomorrow's innovators will emerge. In France, for example, state funding for worker-run high-tech co-operative enterprise has been impressive.¹⁵ The Work Foundation's agenda provides an attractive broad-brush picture, but it needs to be thought out in more detail. In particular, while the strategy is sympathetic to sustainable ecological development, it says little about it. It is to the 'green alternative' which we now turn.

4. A Green New Deal

Building a low-carbon economy in Britain is not merely a moral imperative; the economic case is compelling. According to the New Economics Foundation (NEF), in the period to 2050 the *cumulative* cost associated with climate change will range from £1.6tr to £2.6tr, while the cost of addressing social problems related to inequality will reach £4.5tr.

The influential report issued in 2006 by Nicholas Stern argues that countries would need to set aside at least 1% of GDP annually to deal with climate change, and that the failure to do so could cost anything between 5% and 20% of global GDP. (Global GDP is approximately US\$60tr.). Stern has since revised his estimates and argues that the UK should set aside 2% of GDP, or some £28-£30bn annually.¹⁶ And although Gordon Brown has proposed giving US\$100bn to developing countries to help them gear up for

¹⁴ See Will Hutton (2009), *The landscape of tough times*, London: The Work Foundation.

¹⁵ SCOPs (Sociétés Cooperatives de Production) are now estimated to account for 10% of SME employment in France.

¹⁶ See Juliette Jowett and Patrick Wintour 'Cost of tackling global climate change has doubled, warns Stern' *The Guardian*, 26 June 2008.

global warming, Britain trails most of Europe in its efforts to reduce its own carbon emissions.¹⁷

The NEF's Green New Deal (which starts with an apt quote from Roosevelt's inaugural speech in 1933) sets out a major programme for Britain's economic renewal aimed at our rapid transformation into a low carbon economy. It is proposed to spend £50bn annually (3.5% of GDP) on this goal which, *inter alia*, would maximise the energy efficiency of every home and workplace in Britain. Crucially, the authors envisage:

Creating and training a 'carbon army' of workers to provide the human resources for a vast environmental reconstruction programme. We want to see hundreds of thousands of these new high- and lower-skilled jobs created in the UK. It will be part of a wider shift from an economy narrowly focused on financial services and shopping to one that is an engine of environmental transformation. The UK has so far largely missed out on the boom in 'green collar' jobs, with Germany already employing 250,000 in renewable energy alone.¹⁸

Other features of the programme include the widespread use of carbon taxes, a windfall tax on energy sector profits, the re-regulation of the financial sector (both nationally and internationally) to provide part of the necessary finance and the reform of taxation.

It is tempting to see the Green New Deal (GND) merely as a useful pump-priming mechanism to extract Britain from prolonged stagnation and drive growth over the coming decade. While a GND would doubtless serve this purpose admirably, there are clearly deeper reasons for wanting it. There are two strands to this argument. The first is the need to combat global warming; ie, to limit the rise in global temperature to 2^C or less. The second is to recognise that the world is running out of oil and gas more quickly than most people recognise---oil supplies will almost certainly peak in the coming five years---and that the ensuing energy shortage will be gravely disruptive.

In early 2007, the Inter-governmental Panel of Climate Change (IPPC) issued a report saying that the likely average rise in global temperature by the end of the current century would be a disastrous 4-6^C, but that a switch to clean, environmentally friendly

¹⁷ It might be noted that Brown's US\$100bn offer depends heavily on cutting other DFiD budgetary lines.

¹⁸ New Economics Foundation (2008) *A Green New Deal*, London: NEF, p3.

technologies might limit the rise to 2^C, a target already adopted by the EU in 1996. In all, some 2500 scientists collaborated in drafting the IPCC report.

Since then, new research suggests that feedback effects have been underestimated such as the CO² released by dying forests and warming oceans. Some scientists believe that mainstream climate damage projections may be underestimated by as much as 50%. ‘Perhaps unsurprisingly, climate change is now increasingly seen more as a security concern than a scientific issue. Just one impact – the melting of the Greenland ice cap – could have an impact on the UK (or any other) economy far worse than an invading army.’¹⁹

If climate change is a danger for the developed world, crucially the main losers will be in the developing world. As Mike Davis observes, a major study by the respected US economist William Cline concludes that ‘the agricultural systems of Pakistan (minus 20 per cent of current farm output) and Northwestern India (minus 30 per cent) are likely to be devastated, along with much of the Middle East, the Maghreb, the Sahel belt, parts of Southern Africa, the Caribbean and Mexico.’ Moreover, Davis adds, ‘[The IPCC’s] ... mitigation targets necessarily presume that windfall profits from higher fossil-fuel prices over the next generation will be efficiently recycled into renewable energy technology and not wasted on mile-high skyscrapers, asset bubbles and mega-payouts to shareholders.’²⁰

The growing irrelevance of G-8 summit meetings, the absence of strategic thinking by the IMF and WB and, most obviously, the failure of Copenhagen to agree on a legally binding framework for capping carbon emissions do not bode well for the future.

Quite independently of our ability to deal with climate change, the second reason for believing that the world cannot return to free-market policies of ‘business as usual’ is the

¹⁹ New Economics Foundation (2008) *A Green New Deal*, London: NEF, p17. Another excellent account of degrees of climate change is Mark Lynas (2008), *Six Degrees: Our future on a hotter Planet*, London: Harper.

²⁰ Mike Davis, ‘Who will build the arc?’ NLR 61, Jan-Feb 2010,

coming energy crunch. ‘Peak oil is the point where further expansion of global oil production becomes impossible because new production is fully offset by production declines. ... That is a manageable proposition if the peak is several decades away. It is a major problem if the peak is imminent.’²¹ In 2006, the *World Energy Outlook*, the annual publication of the International Energy Commission (IEA), concluded it was highly likely that the expansion in oil and gas supplies could keep pace with growing energy demand; a year later, the IEA forecast that oil supplies would peak in 2012, while other experts believe the crunch will come in 2015---at a daily oil output of 100mn barrels.

Leaving aside oil from tar-sands and shale, expensive and short-term palliatives at best, one might argue that natural gas will eventually replace oil. But finding new gas fields is becoming as elusive as finding new oil reserves, in part because oil and gas fields are often co-located. At present, the world’s largest gas reserves are in Russia and the EU is its main customer; but Russian domestic demand is eating into its exportable supply and few new gas reserves have been found. Nor is Britain well placed: in 2004, the UK became a net importer of natural gas, while at the end of 2009, UK gas imports exceeded total domestic production for the first time.²² And why is all this not in making headlines? In the words of The Guardian columnist, Madeleine Bunting:

But so far in facing this huge challenge, our political/economic system seems unable to cope with reality. We are forced to carry on living in an illusion that we have so much time to adapt to post-oil that we don't even need to be talking or thinking much about what a world without plentiful oil would look like. Reality has become too dangerous.²³

The emerging consensus in the scientific community is that the world has less than a decade in which to stabilise global warming at or below 2^C and shift to renewable energy sources. NEF argues that ‘the UK economy must be re-engineered.’ Some EU countries have begun to deal with the problem. Germany, currently on 15%, is far ahead of Britain in meeting the 20% EU renewable energy target by 2020, while Sweden has set itself a

²¹ New Economics Foundation (2008) *A Green New Deal*, London: NEF, p18.

²² See <http://www.reuters.com/article/idUKLDE5BL0ZI20091222>

²³ See Madeleine Bunting ‘Too fearful to publicise peak oil reality’ [guardian.co.uk](http://www.guardian.co.uk), 10 Nov 2009; <http://www.guardian.co.uk/commentisfree/cif-green/2009/nov/10/peak-oil-fear-economic-establishment>

far more ambitious target of 49% and has already achieved 43%.²⁴ While Britain's Secretary of State for Energy, Ed Milliband, has recently published a helpful document entitled *The UK Low Carbon Transition Plan*, Friends of the Earth believes that Britain will be hard pressed to achieve a renewable target of 6% by 2020.

For the NEF, what is required in Britain is no less transformational than FDR's New Deal in America of the 1930s. Like Roosevelt's exemplar, the GND involves three major components:

1. Strict regulation of the financial sector, the major culprit in causing the current slump, and worsened by governments thinking they had to let the market rule.
2. The provision of funding for infrastructure, part of which is paid for by an increase in taxes on big business and the rich, a measure which also has the positive effect of dramatically decreasing inequality.
3. Large-scale investment (measured in billions per annum) in a wide range of infrastructural projects such as highways, dams and bridges, as well as in training and better working conditions, its purpose being to get people back to work and generate business opportunities.

Regulation of the financial sector, we have argued, will involve far more than reinstating the Glass-Steagal type division between commercial and investment banks, regulating hedge funds and breaking up the mega-banks, desirable as such steps may be. In the US, the size of the banking sector is roughly equivalent to US GDP; in the UK, the size of the banking sector is five times the size of GDP (which helps explain why the crisis has so deeply affected the UK economy.) The UK banking sector is simply far too important to be 'left to the market'. The obvious solution is to bring it under public control---not so difficult since the major banks are already publicly owned---in order to direct financial resources towards socially useful ends. There is strong public support for 'taming the banks', as the grass roots campaign for re-mutualisation of Northern Rock suggests.²⁵

²⁴ See <http://www.nordicenergysolutions.org/performance-policy/sweden/renewable-energy-in-sweden>

²⁵ See Hilary Wainwright <http://www.compassonline.org.uk/news/item.asp?n=6854>

The second and third components of the NEF's GND then fall into place, as does the need for a large new 'stimulus package' to get the UK economy moving again. If Stern's recent target of £30bn per annum sounds a large sum, it should be borne in mind that this represents only 2% of UK GDP. Indeed, Stern called for a fifth of the international recovery package to be spent of green measures.

It might also be noted that while the UK has committed nearly £800bn to bailing out the banks, Labour's stimulus package has been relatively small by international standards (less than 1.7% of GDP), it has been directed largely at temporary tax cuts and its environmental component is only £0.5bn or 0.0004% of GDP. As noted in a recent Brookings Institution report, Britain's fiscal stimulus has been largely based on tax cutting; by contrast, most others have concentrated on public spending, particularly investment, although the green content varies considerably.²⁶

The US economic stimulus package has represented about 5.5% of GDP (considered too small by some economists) while its environmental component is only 13% of the total. The green portion of the EU recovery plan is slightly higher at 14%: Germany's green investments account for 19% of its stimulus plan, although France is spending only 8%.²⁷ By contrast, South Korea devoted 66% of its US\$36bn recovery package to green investment while China allocated about 33% of its US\$580bn recovery plan to the environment, particularly energy efficiency.

In short, by international standards, Britain's record is woefully inadequate. Given the pitiful growth recorded in Q4 of 2009 (between 0.1% and 0.3% Q/Q) and the likelihood of major public spending cuts whichever party emerges victorious in May 2010, a double-dip recession now looks likely---and a second major stimulus package is imperative. Merely to match the US effort to date, Britain would need to spend over 4%

²⁶ See Prasad, C and I Sorkin, 'Assessing the G-20 economic stimulus plan: a deeper look' Washington, DC: Brookings Institution, March 2009.

²⁷ See Susanne Goldenberg, 'Great clean-up - can economic rescue plans also save planet?' *The Guardian*, 24 Feb 2009. Also see the Reuters factbox at: <http://www.reuters.com/article/idUSL993215120090409>

of GDP (about £60bn). To meet Stern's 2% target, at least half of this should go to green investment.

What about jobs? The American stimulus package passed in 2009 is intended to generate 4mn new jobs, of which the green component (US\$100bn) accounts for 2mn jobs over 2 years. The US package concentrates on building efficiency (insulation, sealing, and double glazing) and renewable energy. On a *pro rata* basis, a UK stimulus package with a 50% green component would generate an extra million jobs---such an achievement is not only desirable, but would be hugely popular politically.

Finally, does environmental sustainability require us to renounce growth; ie, to adopt the 'zero growth' position first proposed by Ed Mishan two generations ago? There is a strand of thought that supports 'recovery without growth' from recession.²⁸ In my view, the argument is simplistic and misleading. First, zero-growth and environmentally sustainable growth are not the same thing: 'the environment' is a public good and as societies become richer, the demand for a sustainable environment grows stronger. Zero-growth is merely stagnation.

Secondly, at present, to the extent that zero growth halts job growth, the future for both the current and future 'lost generations' would look very bleak indeed. Finally, even were the rich western powers to 'give up' growth, one cannot expect the poor in China and India to remain forever poor in order to satisfy our environmental views. What the rich countries can do is to help minimise the environmental damage caused by such growth both by reducing their own pollution and by compensating poor countries for the cost which environmental damage has imposed on them. Luckily, some industrialising countries like China are already investing heavily in sustainable technologies.

5. Constitutional Reform

It is abundantly clear today that a progressive political project requires building a broad alliance of political support. In electoral terms, this means that the old first-past-the-post

²⁸ See for example Tim Jackson 'Recovery without growth' *Renewal*, Vol 17, No 3.

(FPTP) system is dead. Labour may have won a third term in 2005, but its majority of 55 seats was secured with the backing of only 35% of voters, an absurdly disproportional result. More than a decade ago, Roy Jenkins was wise enough to see the need for some form of Proportional Representation (PR) if a long-term progressive alliance was to be forged.²⁹ Of course, PR is not the end of the story---Britain's over-centralised political system needs far deeper surgery---but PR is a good place to start.

Besides multi-round elections (as in France), there are many types of PR systems. Some are based on a single (open or closed) national list, others multi-member constituencies, and still others single member constituencies with 'alternative voting'; ie, a form of voting in which voters rank candidates and, when a single candidate fails to achieve an absolute majority, the 'preference' votes are counted. Different systems produce different amounts of proportionality: for example, a single national list gets quite close to 'ideal' proportionality, but has the disadvantage of encouraging the formation of many small parties, sometimes giving the small parties 'kingmaker' status in forming the governing alliance (eg, The Netherlands, Israel). That is why under many PR systems a 'threshold' (say 5% of the total vote) is imposed before a party can send representatives to Parliament.

Equally, where the list is 'closed' (ie, the order in which candidates appear on the list is determined by the party leadership), while the result will be proportional, voters may not get to pick their favoured candidates. In Ireland, which has operated a single transferable vote system using 3-4 member constituencies, the results have not always been very proportionate. In the extreme case, an 'alternative vote' (AV) system based entirely on single-member constituencies can produce nearly as unrepresentative a Parliament as under FPTM.

For historical reasons, Jenkins favoured retaining the single-member constituency with voters able to rank candidates according to the principle of the AV. At the same time, he

²⁹ See HMSO *The Report of the Independent Commission of the Voting System*, Vols I and II, London, Oct 1998; (aka Jenkins Commission Report).

recognised that if greater proportionality were to obtain, a proportion of constituencies would need to operate on a list basis. So he proposed what he called ‘AV top up’ and is general known today as ‘AV plus’. Under this system, 80-85% of MPs would continue to be elected for the current set of constituencies, although using AV rather than FPTP. The remainder would be selected for ‘top up’ seats (specific to a country or a metropolitan area) by means of a second vote given to all voters. In the words of the Report:

The Commission recommends that the second vote determining the allocation of Top-up members should allow the voter the choice of either a vote for a party or for an individual candidate from the lists put forward by parties. They should therefore be what are commonly called open rather than closed lists.³⁰

In short, the system Jenkins proposed would not produce full proportionality, but it would be ‘fairer’ than either FPTP or AV while maintaining the single-member constituency.

As we know, although Blair initially supported Jenkins, Labour’s large 1997 majority reduced the pressure for voting reform. Opposition came from sections of the Labour Party (including cabinet members such as Jack Straw, John Prescott, Gordon Brown and Margaret Beckett), while the Tories strongly opposed any such reform. Although Gordon Brown has since come to favour a referendum on PR (although he proposes AV rather than AV-plus recommended by Jenkins) one must be sceptical about the chances of achieving a favourable referendum result after the May General Election since the legislation may not get through in time and the Tories, who currently hold a lead in the polls, would oppose change if they formed a Government.³¹

What are the implications of failing to reform the system? There are two key points here. First, there is some evidence that FPTP has favoured right wing politics, both in allowing the Conservatives to rule for so long in Britain and in Labour’s subsequent ‘shift to the centre’.³² Ironically, the current boundary system favours Labour quite strongly. An

³⁰ See HMSO *The Report of the Independent Commission of the Voting System*, Vol I, London, Oct 1998; (aka Jenkins Commission Report), Chap 9, para 4.

³¹ According to Michael Crick, the adoption of legislation in late January 2010 which would have forced the Tories to hold such a referendum was scuppered by the Cabinet Minister, Ed Balls. See: http://www.bbc.co.uk/blogs/newsnight/michaelcrick/2010/01/alternative_vote_referendum_sc.html.

³² See Jonathan Hopkins, ‘Electoral Reform and the Left’ Compass Think Piece No. 58; <http://clients.squareeye.com/uploads/compass/documents/CTP58HopkinsElectoral.pdf>

incoming Tory would doubtless make boundary changes which, combined with a 10% reduction in the number of (mainly Labour) seats, would make it nearly impossible for Labour to win an absolute majority in subsequent general elections.³³

6. Conclusion

The left does not need an entirely new narrative. Attempts at the sort of Grand Theorising (eg, the Value Theoretical debate) which occupied so many left-wing academics for the decades after 1970 will serve little purpose in 2010. What *is* needed is a clear analysis of the current crisis and a set of consistent and coherent policies to deal with it.

I have argued above that there are four key areas in which new policies must be developed. First and foremost is the notion of the public realm, of public goods, of ‘the common’ or what you will. Britain has had four decades of neo-liberal indoctrination about superior private sector efficiency, shrinking the state and suchlike. The left---by which I mean a broad coalition of people ranging from trade unionists, NGO members, environmental campaigners including many who belong to no political party---must rebuild the distinction between the private and political spheres, between individual choice in the marketplace and collective choice in the political arena. Politics is not---and cannot be---about ‘better branding’.

The second area in which policies are needed is in facing up to the nature of the economic crisis. The left has proclaimed that the neo-liberal era is over, that there can be ‘no going back’ to the *status quo ante*. But that is precisely where current policies are leading us. Whether we’re talking about the power of the bankers, the need for ‘aspirational’ Britain or simply looking at the opinion polls, the evidence overwhelmingly supports the view that a majority of Britons want to return to business as usual---to the golden decade of 1997-2007. It is even possible that a second round of recession will leave this view unchanged. What then?

³³ For details of why Labour may never form a majority government again unless PR is introduced, see the Compass pamphlet ‘The last Labour Government’ Compass: London, 2009.

The arguments to be made are difficult, but they are crucial. ‘Wealth creation’ is not about the City attracting loads-of-dosh to Britain (just as Adam Smith argued that ‘wealth’ was not about accumulating gold bullion through mercantilist policies). It’s about creating productive capacity ‘both by hand and by brain’.

Or again, take ‘budget balancing’ hysteria, the knee-jerk Thatcherite reflex which is premised on an economy having to balance the books just like the local corner grocer. Businessmen, bankers and even a few Fleet Street hacks may believe this, but it’s utter nonsense. Britain does most of its borrowing at home, so an (unlikely) reduction in our ‘credit rating’ would not result in Britain’s ‘bankruptcy’.³⁴ Our stock of public debt is not ‘unsustainable’---it remained well over 100% of GDP from 1918 to 1963.³⁵ Under conditions of near zero inflation, Britain can and should ‘monetise’ part of its deficit through quantitative easing. Keynes’s insight is as correct today as it was in 1936: a government must use active monetary and fiscal policy to lift a country out of recession, else run the risk of falling into a prolonged slump.

While Brown and Darling have ‘saved the banks’ by pumping liquidity into the system (a principle accepted and advocated by Milton Freidman), Labour has produced one of the poorest ‘stimulus packages’ of any OECD country, far weaker than even South Korea and China---indeed, China is rapidly becoming the Keynesian locomotive of the world economy. What is worse, and perhaps unforgiveable, is that the Labour leadership has acceded to the conservative view that deep cuts must be made to sanitise public finances, thus legitimising the ‘budget balancing’ argument. Here for example is Peter Mandelson praising the Chancellor’s budget-cutting PBR in 2009:

It is bold and tough: the equivalent of something approaching an £80 billion turnaround in the public finances. This is the sharpest reduction in the budget

³⁴ The real danger for overseas investors holding UK debt is not default; it is a possible run on sterling.

³⁵ See for example Paul Krugman *A Country is not a Company*, Boston: Harvard Business Review Classics, 2009. Also see Robert Peston’s view that the Tories may try to engineer a sterling crisis before May 2010; http://www.bbc.co.uk/blogs/thereporters/robertpeston/2010/02/tories_withdraw_support_from_t_1.html; for an account of the negative long term implications of the debt crisis see MGI, ‘Debt and deleveraging; the global credit bubble and its economic consequences’, London: McKinsey Global Institute, 2010.

deficit for any G7 country. This is vital for credibility, vital for attracting inward investment.³⁶

Even when, in 1937, Roosevelt acceded to the balanced budget demands of the US Treasury and some of his own economic advisers, he had little taste for this policy reversal---which resulted in a further 30% fall in US output over the ensuing 18 months.

A related argument has to do with the distribution of income and wealth. Like the US, Britain has become one of the most unequal countries in the OECD. As the recent Report of the National Equality Panel chaired by John Hills shows, the huge income gap which opened up under Thatcher has not narrowed.³⁷ Although New Labour has recognised that ‘persistent inequality of social class’ is a key factor in perpetuating disadvantage, inequality in Britain remains as widespread as ever, as does its social costs. The recession has deepened the divide.

But what is not generally recognised is that the huge income gap goes some way towards explaining the state of public finances. New Labour’s obsessive need to please the City opened the door not merely to a culture of ‘greed is good’, but to one in which the super-rich could boast about their success in avoiding tax. Elsewhere, I and a group of colleagues have shown that Britain could raise an additional £50bn (and potentially double this amount) in revenue through tax reform---more than enough to finance a Green New Deal.³⁸

The third main argument is that one of the main reasons for the crisis has been the low-wage, low productivity economy to which protracted deindustrialisation has given rise. To be sure, the UK has made progress in developing ‘knowledge based’ industries and is now a world leader in some areas of computer software. But British business culture is still dominated by short-term profit targets and ‘shareholder value’. It is an argument

³⁶ Peter Mandelson ‘Going for growth: building Britain’s future economy’ Speech to The Work Foundation, 6 January 2010.

³⁷ An Anatomy of Economic Inequality in the UK; report of the National Equality Panel, London, 2010. (aka Hills Report)

³⁸ See George Irvin, David Byrne, Richard Murphy, Howard Reed and Sally Ruane (2009) *In Place of Cuts: tax reform to build a fairer society*, London: Compass Pamphlet.

which Will Hutton and others have put for years, but which made negligible impact on the government. One must raise such questions as ‘to what extent can government provide both the financial backing and supporting economic and social infrastructure for developing a knowledge economy?’; and ‘does the development of game-changing technologies not require a major commitment to workforce engagement and education?’ The suggestion that government has no role to play in this respect----that only the free market can foment such development---flies in the face of continental European, Nordic and East Asian experience.

The fourth main argument is that all this is for nothing unless the left commits itself to a rapid and massive programme of combating climate change. While it is true that sections of the left have campaigned tirelessly on this issue, it is not an issue which New Labour’s modernising mission of introducing consumer choice into public services has emphasised. At least a decade has been wasted. To those who argue that the precarious state of public finances made major green investment impossible, that we shall have to be content with slow progress, the answer is that they themselves live in an Alice-in-Wonderland world of ‘business-as-usual’. It is abundantly clear that a 2-3 degree rise in global temperature by 2050 will produce a dystopia in which civilised life itself will be under threat. Indeed, every day brings fresh evidence that we are closer to the ‘tipping point’ than we thought. Urgent action is required.

Not only must such action be taken, but major investment in a Green New Deal is precisely what is needed to pull ourselves out of the present crisis. But one ingredient is missing.

And here I come to my final argument. A new politics is needed, a politics of coalition building between the different parties, organisation and campaigns across the spectrum of the left. An essential ingredient of such politics is a change in the voting system, a new constitutional settlement which breaks with the smug insularity of those who argue for the unique virtue of age-old British institutions and character. Theirs was the language of

Thatcher and Sons, a language which must finally be abandoned if any trace of social democracy is to survive in Britain.

ENDS