The Careless State

Wealth and Welfare in Britain Today

Paul Taylor

BLOOMSBURY

The Careless State

This page intentionally left blank

The Careless State

Wealth and Welfare in Britain Today

PAUL TAYLOR

BLOOMSBURY ACADEMIC

First published in 2010 by:

Bloomsbury Academic

An imprint of Bloomsbury Publishing Plc
36 Soho Square, London W1D 3QY, UK
and
175 Fifth Avenue, New York, NY 10010, USA

CIP records for this book are available from the British Library and the Library of Congress

ISBN 978-1-8496-6001-3 (Cloth)
e-ISBN 978-1-8496-6036-5
ISBN (eBook PDF) 978-1-8496-6355-7

This book is produced using paper that is made from wood grown in managed, sustainable forests. It is natural, renewable and recyclable. The logging and manufacturing processes conform to the environmental regulations of the country of origin.

Printed and bound in Great Britain by the MPG Books Group, Bodmin, Cornwall, UK.

www.bloomsburyacademic.com

To Alexander

This page intentionally left blank

Contents

This page intentionally left blank

Acknowledgements

My primary debt is to the journalists and scholars who have reported and analysed political, economic and social developments in Britain and the United States in recent years. They have provided a treasure trove of evidence and opinion. For all the criticisms ventured in the following pages, the book is in fact a compliment to our countries which have remained – more or less – open and free. Reporters and commentators can, within broad limits, do their job without fear of sanction by the state.

This page intentionally left blank

Introduction

This book is about the increasing difficulty of keeping the state civilized in the late twentieth and early twenty-first century. It refers in particular to the case of Britain but is relevant to the experience of all developed states. John Gray commented that 'for at least sixty years the British state was accepted as being fundamentally decent and reasonably efficient' but that now the 'British Government seems no longer fit for any coherent purpose and its authority is slipping away'.[1] Much of the explanation of this, Gray argues, is to do with the injection of the market into 'every corner' of British life. This book argues that it was a product of the political approach known in the US as *movement conservatism*,[2] and in the UK as Thatcherism, and its economic ideology *neoliberalism*.[3] Meeting targets and financial performance were stressed ahead of protecting civilized standards for individuals.

The book considers the problems which arise from the increasing inequalities of income and wealth in Britain. It argues that increasing wealth for some has gone along with increasing difficulties for many. A very wide range of problems for the middle sections of society can be traced directly or indirectly to the appearance of the super-rich, the example they set and the demands they make. It must be made clear at the outset, however, that neither a left wing nor right wing agenda is adopted. Some functions, such as defence, must be carried out by the state. Others, such as the production and sale of toasters, are necessarily for the private sector. A large number can be carried out equally well by either the public or the private sector if the right conditions, such as adequate finance, are met. Pensions or education may be provided by the state or the private sector – the one is not morally superior to the other – as long as they are properly funded (see Chapters 2 and 8). Even medical support can be provided by either the private or the public sector, but if it is to be private, adequate incomes to pay for it are necessary. And the private sector can be just as inefficient as the public.

The civilized state is not the same as a rich state. Indeed states with a high gross national income may contain a small number of very rich people and a large number of poor people who suffer from various kinds of deprivation. More important is the difference between the incomes of the rich and those of the poor. Some economists have claimed that increasing wealth – in developed and underdeveloped countries – is necessarily linked with increasing income difference. They held that the trickle-down effect, beloved of neoliberal economists, would ensure the wealth would be shared.[4] This book argues, however, that the lower the income difference the greater the chance that a state is civilized, and that a state has greater strength if a smaller amount of wealth is distributed more evenly. Among continental European states, especially in Scandinavia, a lower level of difference goes with a more generous welfare system (see Chapter 8).

The first purpose of those influenced by neoliberal ideas was to create wealth. In practice this meant the creation of a class of wealthy people. Increasing prosperity for everyone was a secondary concern, and it was always difficult to find ways of achieving this. Attempts to give neoliberalism a positive social purpose looked like incidental afterthoughts. On the contrary, wealth obstinately clung to the palms of the rich, and was drained from the poorer peripheries to the richer heartlands (Chapter 2).

This book also argues that in the late twentieth and early twenty-first centuries the middle class was under attack in developed Western states. That used to be something unusual: the middle class got wealthier as the liberal state got stronger. It was thought that the first was the cause of the second. Indeed throughout the world, with the possible exception of Latin America, the rise of the middle class promoted more democratic and open societies with more developed welfare systems. The appearance of a more globalized form of capitalism, and the emergence of a powerful transnational class of super-rich, was now undermining the social and economic position of the middle class. Pensions were eroded, employment was less secure and life in many areas was not affordable. There had been times in the past when the middle class had seen their economic position attacked, sometimes with disastrous consequences. In Germany in the interwar period, inflation had destroyed savings and contributed to the rise of Hitler. But this time the threats were long term, concerned deeper changes in the workings of capitalism and concerned major changes in the class system. This was not a short-term crisis.

The capitalist system is morally neutral. But its neoliberal proponents attacked social democracy most skilfully. They said the ideal market was a market free from all restraints, unlike Adam Smith, their putative mentor, who recognized that markets had to be subject to rules for the good of the society, or else they would destroy themselves. They argued that strong welfare systems and social democracy undermined economic prosperity and were hostile to individual freedom. As a result markets had been 'injected into every corner of society' on the assumption that 'no one can be trusted to serve the public interest'.[5] The best motivator was the search for money, be it for workers or management, though the former were to be motivated by the threat of poverty and the latter by the promise of gain. Because of neoliberalism most states became more subtly callous towards their less well off, tolerated more exploitation of those who worked, either with their head or with their hands, were less generous with welfare provision and were more prone to support the ambitions of the super-rich. The extreme example of this new system was the USA, but the states of Western Europe were under pressure to move in the same direction.

The great flaw with neoliberalism was that untrammelled freedom, in the market place, in the domestic or international political realms or in society, always favoured the strong. This point is developed in Chapter 4. The strong would always strive to build and protect the order which suited them, and modern capitalists were very clear that free markets and less intervention by governments would favour them. Weaker states and poorer individuals would necessarily pay for this. Regulation had to be about more than playing the free market game fairly, since this only affected the dominant players. It had to be deliberately designed to serve social rather than economic objectives. So strongly did neoliberals in the US feel about this that they were prepared to damage their country rather than have liberals in power. It was extraordinary that in the USA, which claimed to be the leader of the free world, the word 'liberal' had become a term of abuse.

The new devices of capitalism created an ever-increasing danger of economic collapse, though the rich were at less risk than the poor. Authorities such as George Soros and Warren Buffet, themselves highly successful capitalists, warned of this. The super-rich projected values which had effects on social values in general, on culture and on education, as is discussed in Chapter 6. People came to believe that their greedy ways were worth emulating. In consequence cultural activities became the creatures of capitalism. The modern school curriculum was shaped to equip students for business, and universities were ordered by the Government to adopt business practices and put businessmen in charge. They rushed to set up business schools and downgrade the humanities and pure sciences. Some of this was necessary but was taken too far: the young were no longer being taught to support a civilized state. They were being taught a box of tricks to enable them to fit better into the business world.

Developments within capitalism were not the only dangers facing the civilized state. Other dangers included the increasing threat of terrorism and the increasing level of national and international crime. In Britain the threat of terrorism led the government to curtail the traditional rights of citizens, to greatly increase the level of surveillance of the public, to allow the use in courts of evidence taken from phone-tapping or intercepting emails, to suspend the principle of habeas corpus and to cooperate with the US in the rendition of terrorist suspects for torture in other countries. Among the EU states now known to have been involved in the rendition process, and in some cases, actual torture, of terrorist suspects were Poland, Germany, Romania, Sweden and Italy.[6] None of these responses was a necessary response to the threats.

Governments were now more likely to see their role as being like the managers of a company, driven above all by the need for efficiency and profit. These considerations trumped the ideas and prescriptions of political philosophers and historians. They had to be hard-faced, in the manner of businessmen, about doing what they deemed necessary, and decisions had to be based on utility rather than on civilized values. It was astonishing that in Britain key constitutional principles, which had evolved over centuries and which were thought to be firmly fixed in the constitution, could be casually thrown away overnight. Henry Porter wrote that after a 'decade [of New Labour] the account shows a devastating loss of the freedoms that we once regarded as our birthright, the self-evident and self-perpetuating virtue of the British people and their constitution.'[7]

In the welfare system staying within budget became the primary imperative, even if it meant distress for individuals. Gross targets were set, even if the quality declined – hospital waiting times were forced down at the expense of the quality of care; asylum seekers, adults and children, were treated with a shameful callousness; criteria for assessing the performance of schools and universities were introduced, which businessmen could understand, though the standards of state schools, especially in the city centres, remained distressingly low. The headline goals of welfare provision remained but, as with a private business, the financial bottom line trumped care for the individual. The system was no longer driven by the need to provide care when required but more to help reduce the damage which personal and social failure in general might cause to the economy.

It was remarkable that such changes had happened in a country which, before the great crash of 2008, had never been richer. They revealed a preparedness to be illiberal, and uncaring, inviting surprising comparisons between New Labour and mid-Victorian conservatism. The USA, after right wing Republican administrations, such as those of Ronald Reagan and George W. Bush, was more far gone in carelessness about civilized values than Britain. But Britain was moving that way. These changes may appear at first sight to be distinct and separate. The book shows this is not the case: they are connected by the thread of market economics.

There are many ways of illustrating the high level of unfairness in modern Britain. These cases are considered in more detail in the following chapters.

- The difference between the median wage of the bottom 10% and that of the highest had greatly increased since the 1950s. Those who were paid less, such as lower grade civil servants, had their annual wage increases kept at around 2% while those in management, even in the public service, were awarded salary increases of 10% and over. Top business people, such as bankers and those in management positions in the public sector, were paid massive bonuses. Despite their grossly inflated incomes a significant group of business people, the so-called, non-doms, arranged their affairs so that they paid less tax than their cleaning ladies. They made use of various off-shore sheltered trusts and tax havens (see Chapter 1).
- The level of state pensions was kept at the level of subsistence. After a lifetime of contributions to the National Insurance Fund, a couple received just over £8,000 per annum and, in December 2007, were awarded an increase of about £25 per month. The state pension was described officially as being set at subsistence level (Chapter 2). The process of pension reform was dragged out endlessly because of the domination of the process by those who controlled the purse strings, the Treasury, rather than by those who preferred a civilized level of provision. It was agreed that the problem of adequate pension provision was likely to get worse, but the government lacked the will to deal with it. There was simply drift (see Chapter 2).
- Some public services were under constant pressure to find ways of saving, by postponing necessary improvements or cutting service to the bone. The prison service was starved of resources, even though the number of prisoners was higher than it had ever been before. Public libraries and post offices in country areas were closed. Old people living in care homes were excluded from the terms of the Human Rights Act, which limited their right to sue owners for inadequate provision. The financing of old people's homes by the state was kept at an entirely inadequate level, and it was often difficult

to maintain a reasonable level of care. Indeed there were reports that in some homes tranquillizing drugs were being used to keep order. But such homes became a major target for international investment companies as they could generate good profits, especially if the cost of staffing and provision was pared back further. There was a business opportunity as the total number of elderly was increasing and more cheap labour was available from Eastern Europe. The elderly were usually required to sell their own homes to pay for this inadequate care (see Chapter 4).

- Hospitals were driven by crude performance criteria, such as the reduction of waiting lists rather than the proper treatment of illness. In 2006–7 the measurable indicators showed improvement, but outcomes, which could have been measured but weren't, became worse. The test of efficiency in hospitals was the time a patient spent in hospital, rather than the rate of recovery. The death rate following emergency heart-attack admissions substantially increased in 2006–7.[8] In early 2009 failures were discovered at Stafford Hospital, which were also attributed to stress on reaching targets and financial performance rather than proper health care (see Chapter 6). Because of incompetent management the rate of hospital infections such as MRSA had reached epidemic level, and the longer the stay in hospital the greater the risk of deadly infection. Getting a degree of control of one infection was usually matched by the appearance of a new infection.

  The causes of this included outsourcing of the cleaning of hospital wards to companies which employed low-grade labour, the closing of isolation wards, the lack of effective supervision of hygiene and cleaning in the hospitals, the lack of any clear responsibility on the part of the real bosses, the consultants, for the maintenance of good hygiene and the overworking of nurses and junior doctors who therefore neglected such simple steps as washing their hands between patients. As a result more and more people began to see a stay in hospital as a risky last resort. It was ironic that the earliest example of scientific method in the late eighteenth century concerned the discovery in a Viennese hospital that childbed fever was caused by the doctors' not washing their hands between patients, and not the miasmic clouds hovering over the city. Such established and simple precautions were now often ignored.
- The right to privacy was reduced, for instance with regard to the range of officials entitled to enter a private home without the consent of the owner. Debt collectors and the like were to be given the right to use violence

to gain entry to a home. The state was encouraged to collect as much information as possible about citizens for storage on centralized databases and incorporation in a national identity card (Chapter 4). The purpose of this drive to have up to 60 pieces of information about every citizen stored in databases, and linked to the new identity card, was to help crime detection and counter-terror activities. But there was little confidence that such data would not become available to almost everyone who wanted it, such as the most junior of officials, potential employers and even crooks. The government's record with regard to data protection had been abysmal. There had been several cases of the release of confidential information to the public and the loss of data discs.

- The operation of the asylum policy by anonymous and unaccountable home office officials was eccentric: individuals who had been in the UK for many years, had successful careers in the UK and were clearly strongly pro-British were deported, sometimes to face great personal danger; whereas rich individuals, known to politicians or their friends, had no problem in staying. Russian or Indian billionaires such as Roman Abramovitch or the Hinduja brothers had no difficulty in spending as much time as they liked in the UK. A Nigerian student who had won a place at Cambridge, had lived in the UK since he was eleven years old, had been head boy of his school and had no character blemish whatsoever was threatened with deportation. Those whose application for asylum had been rejected were imprisoned in centres such as that at Campsfield where adults and their children were allowed only limited access to medical treatment. The Children's Commissioner wrote a damming report about the treatment of asylum seekers by Hillingdon Council. Deportation was often carried out with brutality. One pilot refused to take off because of the beating given to a woman who was to be deported.
- But most important was the development of modern capitalism, with its range of new mechanisms for getting rich quick (Chapter 5). Most of these were little more than forms of gambling, which brought little benefit to the wider public, but had helped to create a new class of the super-rich. Indeed the scale of this casino capitalism was so great that it increasingly posed a real threat to the stability of the financial system. There were increasingly dire warnings about the danger of a major collapse of the financial market which happened in 2008 and worsened in 2009. But the class of the super-rich also affected the values of society in general. They suggested that greed

was good, and that no part of human existence should be removed from the market. The consequences of the emergence of so many super-rich was entirely negative (see Chapters 5 and 6 and passim).

All of these developments, and there were many others, must be seen as examples of a retreat from civilized behaviour. Even those who professed to be caring liberals were affected, perhaps unconsciously, by the new ideology. Attempts to improve public services were often spoiled by the application of market principles. Women, as well as ethnic minorities, were in some ways better off than they had been – starting from a low base. In many ways life in developed states, and in a few developing ones, had improved. More people could find a job and had a better standard of living. This is discussed at length in Chapter 7. But this is not the point. After all there were many examples of objectionable regimes in which things had improved in some ways. Overall the liberal state was under attack.

There were obviously a number of challenges facing British citizens. Some were long-standing but had not been well addressed – like the problems of the schools or the hospitals. Others were new, such as the appearance of large numbers of super-rich or the failures of the banking system. What they had in common was that they challenged the principle of fairness in the modern state. They made it more difficult to maintain civilized standards and extend them to the vast majority of British citizens. They made life harder for a large number of people who had previously thought of themselves as being of adequate means.

That is why they are discussed in the following chapters.

CHAPTER ONE

The trickle-up effect: what is the state for?

The modern welfare state should perform a number of duties for its population. It should carry out social activities, such as providing education and welfare support. It should give its population physical security, which includes acting against crime and public disorder within the state and providing a defence against attack from outside. And it should provide a range of relevant functions to the economy, such as establishing a legal framework for economic activity, so that businessmen know what they may and may not do, and a sound-money foundation so that the process of buying and selling can proceed smoothly. It raises money through taxation on individuals and businesses within the state to pay for what it does. In democracies, individuals are elected to office in order to decide the form and extent of state powers needed to carry out these functions.

If the functions work in favour of a particular group over another, because they reflect the interests of a dominant coalition of individuals within the state, they could be seen as being performed unfairly. Unfortunately even modern welfare states may be less than civilized in that the overall balance of benefits is not fair. Some citizens may be favoured at the expense of others. One of the purposes of this book is to explain why some groups might be correct in seeing the state as unfair. The groups who feel they are not well served might well ask: what is the state for? And if it is not for us, who, or what, is it for? Has it become merely a tool for the maintenance of an unfair system which favours a particular group? Such unfairness might be contrived deliberately because of the intentions of dominant individuals or unintentionally because of faults in the system.

One indicator of fairness in the state is the extent to which the incomes of the rich are greater than those of the poor. In the states which approximate to the Anglo-American socio-economic model – Britain and the United States – the income difference is much greater than in the social democratic states of continental Western Europe. The income inequality is the difference between the median incomes of a significant group at the top, say the richest 10 per cent, and a significant group at the bottom, say the poorest 10 per cent. Whether the poorest 10 per cent are above the line of absolute poverty is an important but not necessarily a decisive question: in the absence of absolute poverty, the difference in wealth may be so great as to appear unjustifiable in what purports to be a single community of people.

It was reported that in the United States in the early twenty-first century chief executive officers (CEOs) were on average paid 400 times more than their employees, whereas 40 years ago they were only paid 20 times more. In Britain top bosses earned 100 times average earnings, and their income was rising at a rate of 16 per cent compared to less than 3 per cent for their employees.[1] In April 2008, it was reported that income inequality in the United States had reached its highest level in 37 years. The income of the richest 5 per cent had increased by 60 per cent in the past 20 years, whereas that of the poorest 20 per cent had increased by 11 per cent.[2] In 2006, bonuses in the City of London, the UK's financial centre, totalled £19 billion (US)[3] and had a serious impact on the city. 'The effect of that money has become truly toxic. The presence of so many people who don't have to care what things cost raises the price of everything'.[4] Is there an acceptable and fair difference between the incomes of the rich and the poor? The experience of prices and incomes policies in Britain in the 1960s suggested that the question could not be answered.[5] Perhaps it should not be raised at all and simply left to the market. Yet reasonable people instinctively know that too big a difference is unacceptable, and even bad for the economy.[6] They conclude that if this is what the market does, then the market needs correcting.

This book concentrates primarily on developments in Britain, but it should be stressed that events in this country were very much connected with events in the United States. Paul Krugman wrote a brilliant account of the way in which the difference between the incomes of the very rich and the middle rank in the United States was reduced in the years from the late 1930s until the early 1980s, and how the Second World War and the policies of President Roosevelt led to a more equal society.[7] For about 40 years the United States was a middle-class society, in which most people had a reasonable standard of living and gains in wealth were spread across the social spectrum. Krugman argued that in the 1980s, under President Reagan, great differences in income began to reappear to produce what he called a new Gilded Age. The new inequalities in society, with great differences in income, and gains in wealth given mainly to the rich, were generated not by economic forces, which right wing economists would have us believe, but by deliberate political engineering. Indeed Milton Friedman shaped his theories to suit his politics, not the other way round. (Perhaps this is the case with all economists.)[8] The rich were encouraged in their wealth seeking by lower levels of income tax and corporate taxation. While the middle class relied on earned income, the super-rich could gain wealth in much larger amounts from returns on capital as well as income. Thus by the end of the twentieth century the United States returned to levels of income difference it had not seen since the first Gilded era, which ended with the great crash of 1929.

Across the Atlantic, these trends were mirrored more or less precisely in the United Kingdom. Not only was there an imitation of the policies, with Mrs Thatcher imitating Reagan, and Blair following in her footsteps, but the business world was encouraged to imitate levels of reward for managers because of what they argued was the need to pay the growing rate for talent. Krugman rightly pointed out, however, that the economic explanation of this was weak, and the more persuasive argument was the success of a strategy that was driven by politics, not economics. The people who favoured making the rich richer and the poor poorer managed to regain power. The United Kingdom also became a country with light regulation. No one had the courage to challenge this argument. So the Anglo-American economies moved together, in, as it later appeared, a tragic *pas-de-deux*, towards a greater income differentiation, and partly because of that, a greater carelessness about welfare. Krugman argued that after the early 1980s the number of the comfortably off in the United States was significantly reduced, as the number of super-rich increased. The same thing happened in the United Kingdom, as this book explains, because of, to a considerable extent, the lead given by the United States. This was the flip side of the special relationship.

It should not be assumed that increase in national wealth means everyone was better off. Indeed the opposite might be the case, and this would be an indication of a state that is becoming less fair. In 2007 the Joseph Rowntree Foundation reported: ‘there has been [in Britain] an increase in the number of households living below the poverty line over the past 15 years. These households account for more than half of all families in areas of some cities. In the same period, households in already wealthy areas tended to become disproportionately wealthier, with many rich people now living in areas segregated from the rest of society’.[9] The report stated that since 1970, levels of poverty and wealth in different areas of Britain had changed significantly, with the country now moving back towards levels of inequality last seen more than 40 years ago. While the number of people who were living in extreme poverty had fallen, the number of people living below the poverty line had increased, with more than one in four households classed as being breadline poor in 2001. From the point of view of the stability of society, this was probably a more dangerous situation than would have existed if there were more people in extreme poverty as in Victorian England. The level of active protest tends to increase when things begin to improve.

These developments raise questions about what it means to say that a country is wealthy. If the average income or standard of living has gone down, it means very little that the total wealth has gone up. The easy assumption, much liked by neoliberal governments, is that an increase in national wealth is good. They like to think that the wealth trickles down – a phrase adapted in the title of this chapter. The happy theory was that wealth created by the few was spread out to the rest by the acts of paying for services and buying goods, the so-called trickle-down effect. The wealth of the few permeated through the strata of society to the benefit of the many.

There was no evidence that this happened. The great wealth of some could get in the way of a more general increase in wealth, as is shown later in this book (see, in particular, Chapters 6 and 8). A better definition of a rich state would stress on the percentage of the population that were well off, and the difference between median incomes at the top and bottom, rather than total wealth. A high number of billionaires in Kensington and Chelsea do not improve the economic standing of people in the rest of London and Britain, and they might indeed be a hindrance to the more equitable distribution of wealth. They make the rest worse off.

Increasing differentiation of income, such as that noted above, was normally associated with a number of other forms of unfairness, especially with regard to the functions for which the state was responsible.

- It was common in states with large differences of income that less well off individuals paid a greater *proportion* of their income in taxation than the rich. Most richer people probably paid more in tax in absolute terms than the poorest individuals. But it often happened that in the balance of expenditure and receipts from the state, through tax on purchases and receipts from benefits, the proportion paid by individuals who were poor was larger than that paid by those who were rich. This was the case in the United Kingdom.
- In such states the children of the poor often received poorer educational support than that provided for the children of the rich. Richer parents were able to afford to live in areas where the schools were better, or paid for private education. This was the case even though it would seem

unfair that children, who are innocent of responsibility for their economic circumstances, should be deprived of the opportunity to succeed because of the chance factor of where they were born and to whom. A reasonable view would be that it was fair that the state should make sure that all children should receive a level of education which was sufficient for them to identify their ability and equip them to use opportunities for further education or profitable employment. But this was less likely as the difference between rich and poor increased: it has never been attempted.

- Despite more investment in education by the British New Labour government, inner city state schools remained of low quality. Politicians were inventive in their approaches to putting right the problem – with new privately sponsored academies and the like – but failed to employ enough good teachers. In fact the richness of improvisation of new ways of types of school was a reflection of the underlying problem: not enough money was allocated to schools to teach properly. Classes in the state sector remained too large. Indeed a Minister of Education was booed at the annual conference of the National Union of Teachers in early 2008 when he claimed that a class of 70 was perfectly manageable in the state system. In the private sector in contrast classes were kept small.
- In such a state it was also more likely that the children of the poor would be denied opportunities to enter prestigious employment, such as the professions, or government, even though they were as able as those who succeeded, because of barriers to do with social class or prejudice. In the United States as in the United Kingdom, the idea that there was considerable upward mobility was a myth. For most immigrants, the United States was not the land of opportunity.[10] Some professions in the United Kingdom had been guilty of excluding those whose face did not fit. These included the medical profession, which a few years ago was found to be excluding British students from the wrong background or from ethnic minorities.

A number of books have been written about the tendency for judges, army officers and senior civil servants to come from public schools and the upper middle class.[11] It was claimed that this was because the range of skills possessed by such people, but not by those from other backgrounds, was more suited to the job. It was more likely that existing members of these professions preferred people like themselves.[12] The pool of appropriate talent was invariably much bigger than it appeared to be to insiders. This point is confirmed by the stress placed in a 2008 recruiting advertisement for judges that appointment was now on the basis of merit, which implied that this had previously not been the case. (The advert appeared in *The Independent*, 14 February 2008.) Things are changing but too late and too slowly. Some efforts have been made to alter this situation in recent years – not entirely successfully.

- It was also likely in a land of wide income differences that the legal system would favour the rich over the poor. The public myth was that the law served everyone equally but a glance at the popular press in the United Kingdom would rapidly indicate that this was not the case. The law was too expensive for the poor, or it could be used by the rich to serve their purposes above those of the community. The fact was that the restriction of legal aid in the early twenty-first century made it more likely that the legal system would serve the rich more than the poor (see Chapter 2). In the autumn of 2008, a judge in the family court took the unusual step of publicly complaining that many people, including single mothers, had to defend themselves without the benefit of professional support by a barrister because of the lack of legal aid. It became more likely that poorer elements in society would not risk going to court as even if they could pay to bring a case they could not afford to lose it.
- In a country with wide income differences it was also likely that the rich would be more likely to obtain good medical support than the poor. The National Health Service was in many ways excellent, but the claim that it treated all equally and according to need was false. In practice, priority treatment could be obtained through influence or money which resulted in the postponing of treatment for others. There were also wide regional variations in the quality and availability of treatment. Those who could afford to pay for treatment could be treated privately often by the same consultants who worked in national health hospitals. In countries other than the social democracies of Western Europe, the rich could buy an unfair proportion of the available medical resources, human and capital. In Britain those with influence and money could usually find ways of jumping the queues waiting for medical treatment.

Globalization and fairness

Globalization and increasing differences in wealth were positively related. Various social aspects of globalization reflected the increasing differences and added effects of their own. In a more globalized world, individuals and companies could more easily obtain free exit from the state in various senses, thus avoiding its laws or taxes, or the obligations of citizenship. These individuals were normally the richer members of society. The companies were the larger and multinational ones. They could more easily avoid tax by locating themselves where taxation was low or non-existent as in one or more of the large number of tax havens around the world. Individuals might reside in a state, and benefit from its functions, but in Britain they could claim the status of being *non-domiciled* (non-doms) and thus avoid tax. Companies could avoid taxation by choosing to be registered in a country with lower levels of company taxation.

It was reported that in Britain in the early twenty-first century a large number of well-known companies, which purported to be British, in fact paid little British tax. In 2007 about 112,000 individuals living in Britain claimed non-doms status, an increase of 74 per cent over the figure of 2002 (*The Observer*, 9 September 2007). The Trades Union Council claimed that closing this loophole in the UK tax law would increase revenue to the Government by about £4.3 billion even after allowing for those choosing to leave the country after the change (*The Observer*, 9 September 2007). Spokespersons for the rich non-doms naturally made different calculations.

Non-doms benefited in London from a range of assets, such as a rich cultural life, excellent housing and physical security, and yet paid little or nothing. They were not liable to take on public duties such as jury service. The modern super-rich, in general, with a few honourable exceptions, were singularly mean when it came to charitable giving. They would also find it easier than the less well off to leave a country when accused of wrongdoing. They could choose among countries from which they were less likely to be extradited. In the age of globalization, the number of those who could exit from states in these various senses had greatly increased.

Globalization also added to the difficulty of attaching responsibility to individuals and companies. It was more difficult to identify precisely who was responsible for what because of the impenetrable layers of interlocking decision-making. The practice of outsourcing, in which the work of a company was performed under contract by another company – often in another country, added to the difficulty. Finding who was responsible was hard enough within modern countries but became much more so in the world of multinational business. Multinational companies might be identified as the immediate agent of harm to local populations, but they had become adept at shifting blame onto governments, or local agents, or even local criminals. The behaviour of oil companies in Nigeria damaged the health of indigenous populations and the environment, but was impossible to challenge through the courts. Although organizations concerned with environmental standards and human rights tried to closely monitor the behaviour of such companies, and succeeded in getting them to be more careful about their public face, there was need for constant vigilance. The companies inevitably tried to promote lower standards with regard to the environment and human rights, including labour standards, if they could.

As will be seen in the following chapters, in the age of globalization a new kind of risk for publics had emerged: increasingly complex financial mechanisms, such as multi-layered hedge funds, and trading in a range of opaque derivatives, such as collateralized debt, serviced the financial needs of the super-rich.[13] The ever-increasing range and scale of such instruments made it more difficult for national authorities and international organizations to manage the international economy and to identify the sources of wealth. If things went wrong, as they did in the 1990s and the first decade of the twenty-first century, it was the general public which ultimately paid the price. The mortgage company Northern Rock was supported by a massive £20 billion out of general taxation when it ran into difficulties in 2007–8, a contribution of several hundred pounds by each man, woman and child in the country. (This was but the start of the handouts.) After much delay it was eventually taken over by the government. These new instruments increased the risk of uncontrollable collapse if things went wrong, and the public paid out of taxation to keep banks afloat.[14] At the time of writing in the autumn of 2008 the danger of a collapse in the financial system seemed very real. As will be seen organizations like hedge funds and investment banks found themselves in deep trouble, but it was unlikely, even given more and better regulation, that this would have much effect on the distribution of wealth. Indeed the rich were likely overall to emerge from the crisis even richer, and the less well off even worse off.

There were, therefore, four interlocking developments which made it more likely that corporations and their managers would benefit, and others lose, in a globalized world, even when their states were formally dedicated to a civilized form of government. These were

- Money was earned and business opportunities exploited outside the jurisdiction and beyond the field of visibility of the home state. International controls were incapable of dealing with this problem. Companies could be located in territories where taxes were lower and regulation was light. Individuals could conceal their earnings in offshore trust funds.

- There was increasing difficulty in attaching responsibility to managers or individuals because of the complex multitiered structure of management in big multinationals. No one was to blame, no one had responsibility. Globalization added to the diffusion of responsibility.
- For companies and the rich it was easy to exit from the modern state, in the formal sense of moving beyond its jurisdiction or in the physical sense of escaping from its frontiers. It became common for the very rich to be multinational, or deracinated, and the number of these was rapidly increasing in the globalized world. Any attempt to subject them to national jurisdictions, even as regard paying parking fines in London, or to pay a fair tax, led to threats to exit to more congenial regimes.
- The richest groups within modern states were often dominated by individuals who were not from the community in which they lived or of that nationality. Their group was one that transcended the state. The poor in contrast were more likely to be unable to obtain any form of exit from their state. Their incomes were wholly open to levy by national tax authorities. They were physically more confined, not just because they could not travel, but because their attachments to their state of origin were relatively immutable compared with those of the super-rich.
- The economic crisis of 2007 onwards illustrated another failure of trickle-down. The retailers in the developed world who adapted best to the recession were those in the cheap and low quality sectors, such as the clothing retailer Primark. These were the companies which depended on keeping the costs of their T-shirt producers in the third world as low as possible. In effect the squeeze in the developed world led to a further squeeze of the already meagre incomes of even poorer people.

The visible expressions of trickle-up

It was like the appearance of grand houses on the landscape in earlier times which announced the visible presence of wealth. The modern equivalents were the compounds which separated the rich from the rest of the community and the extraordinary conversions of property within them. In villages within commuting distance all around London there sprang up gated compounds. In London, streets in the better heeled suburbs were constantly disturbed by the re-development of millionaire mansions, the knocking through of walls between adjacent houses and the installation of swimming pools and underground sports facilities. In Europe, the US practice of building gated communities had become more common through the twentieth century. Every city had acquired its Mulholland Drive, the Los Angeles prototypical avenue of gated communities.

In many other countries, including those in Western Europe and in Asia, these became the model in both the physical and the metaphorical senses. The richer individuals were protected on the inside and the poorer individuals, often seen as threatening, were kept at the gate. But there were also centres of wealth, such as London and South Eastern England, which formed separate economies within the larger national economy, where prices were only affordable to the rich, and poorer individuals were unable to pursue lives that would be called normal. Those who did the supporting jobs, cleaners, hospital support staff and the like, had to travel increasing distances to their work. This situation had adverse consequences for those who lived outside the compound. It was not just that the people inside did their own thing but also that they made life more difficult for those outside.

The countryside beyond was also deeply marked. For instance the buying of second, or more, homes, often made housing unaffordable to locals in more desirable areas outside the zone. The situation in the United Kingdom was summarized by Bella Bathurst as follows: 'In the most coveted areas of England, Cornwall and the Lake District, nurses, fire-fighters, teachers and shop workers are being forced to turn down jobs because of the lack of affordable accommodation. In the most picturesque villages there are now so few locals that the infrastructure has begun to break down, forcing primary schools, shops and health centres to close'. (*The Observer*, 2 September 2007) Estate agents reported that there were about 500,000 second homes in Britain, but there was evidence that the real number was much higher. It was also noted that the practice of buying property to let had the effect of driving up the price of housing for those who wished to buy. Those who had wealth were able to make investments, involving what was called building up *a portfolio* of properties, which made things more expensive for others. It was reported that in 2006, 70 per cent of the 20,000 new apartments created in London had been bought up for let. In the crash of 2008 some of these new landlords ran into financial difficulties, but it was highly likely that when the smoke had cleared the concentration of ownership would be largely untouched.

The compounds of the rich were also remarkable in that they became organized transnationally. Their inhabitants, in say, London, maintained affinities and strong social connections with their inhabitants in New York and Washington, New Delhi and Tokyo. There was a sense in which such people in these various cities inhabited a single transnational compound. They often owned property in the other cities, and visited frequently to shop and enjoy the various amenities of the other cities. Rich individuals from Colombo had flats on the fringes of Hyde Park. Russian oligarchs owned one or more billion pound mansions in Chelsea or Kensington – and so on. Hence attitudes and standards were shaped multinationally, across compounds which were linked together across states, rather than nationally. These might be reflected in a mutual reinforcement of confidence in the right to top salaries, the legitimization of money-gauging practices and the general acceptance of neoliberal economic ideas.

Such views were sometimes cloaked in a thin veneer of economic theory that high salaries were necessary in order to attract the best individuals in the international market place as skilled managers. This theory had yet to be tested since the pool of skilled managers was artificially restricted by the habit of giving preference to those who were already insiders. This pool was almost certainly much bigger than insiders claimed.

The transnational compounds of the rich were surrounded by clusters of privileged natives. In Britain members of top schools or universities often appeared to think that only people from their own schools or universities could do the job. The older the school or university the more likely this was to be the case. Evidence produced by the Sutton Trust in 2008 concluded that the way to the top was still through private education.[15] Ninety three per cent of pupils went to state schools. But private schools – called public schools in Britain – still contributed 52.9 per cent of the Oxford intake, and 56 per cent of that of Cambridge – the latter having increased by 6 per cent in 20 years.

It was not just that the private schools had better A level results. It was also that a much larger percentage of their intake stayed on to take A levels. In the state sector many pupils left school before A levels at the age of 16! (Outside Oxbridge, other leading universities, like the London School of Economics, which had a reputation for being left wing, also took most of their British undergraduates from the private sector.) Oxbridge graduates went on to dominate the elites in most areas of British life. In 2007, 81 per cent of the judiciary went to either Oxford or Cambridge, as did 82 per cent of all barristers, 45 per cent of leading journalists and 34 per cent of front bench ministers and shadow ministers.[16] In other words 34 per cent of top politicians come from a cohort of 7 per cent of school leavers, and similar points could be made about the other elites. One view of these calamitous figures was that they confirmed that the best pupils were from the private sector and were rightly selected by the best universities. Another view, however, was that they indicated a shocking waste of national talent.

One enlightened Cambridge admissions officer concluded that allocating places on the basis of a lottery would produce the same degree results.[17] There was little correlation between entry qualifications and the quality of degree, and Oxbridge teaching would still be excellent. It was also alleged that the figures reflected the lack of ambition in the state sector: too few state school students applied to Oxbridge and too few teachers encouraged them to do so. Evidence was still needed to sort this out: what percentage of those who applied to Oxbridge from the state sector gained entry, compared with those from the private sector? Was the dominance of Oxbridge and the public schools a consequence of their discrimination against pupils from comprehensive schools, or was it the result of the low ambitions of the rest? Probably it was a bit of both but the jury was still out. Yet the broad impact of this situation on the structure of British society in the early twenty-first century was clear. It was to make it easier for the off-spring of the local rich to gain the kind of experience, and establish the kind of social connections, which made it likely that they would end up alongside the transnational super-rich. They would be working in the same companies and mixing in the same society. To see this one only needs to attend a game of polo.

What was clear was that there had now emerged an international class of the super-rich which generated a set of norms justifying their wealth and discrimination against others. This class was connected with the class systems of nation states: it was now becoming linked with and helped to sustain the privilege of natives. But it had no hesitation in detaching itself from its states of origin. Often it did so in order to increase its capacity to create wealth, and in consequence achieve political power, and to protect its ability to move on if necessary.

Trickle-up also had an impact on national politics. Local politicians in democracies became more closely linked with moneyed communities, local and multinational, because of the need to obtain ever-increasing subventions to fight elections and maintain political parties. This became a vicious circle since the availability of such wealth to one party made it necessary for other parties to do the same. The attentive public was hugely entertained in October 2008 by accounts and photographs of a party at the holiday residence in Corfu of British millionaire Nathaniel Rothschild attended by Conservative Shadow Chancellor George Osborne, himself from a moneyed family – and educated, like a majority of his Tory colleagues, at a top public school, Eton, and Oxford University.[18] This group was joined by the chairman of the Conservative Party, who also owned an expensive holiday retreat on Corfu, and together they visited the yacht, moored nearby, of Russian oligarch Oleg Deripaska, allegedly to arrange a large donation to Conservative Party funds by the Russian, filtering it, to comply with British electoral law, through a British company owned by him. British New Labour Minister of Business – then Commissioner for Trade in the Commission of the European Union – Peter Mandelson, was a guest of Deripaska on the yacht, and apparently picked up something of what was going on. What was amusing and damaging to the Conservatives – and the Labour Party – was not so much the allegations, which were hotly denied, as the glimpse of the lifestyle of this privileged group and the company they kept. Suddenly the curtain was drawn aside and there was a tableau of top politicians, from both sides of the British political spectrum, at play with the super-rich British and Russian.

The problem of controlling the rapidly escalating costs of electioneering was related to the development of transnational coalitions of the rich. The biggest donors were often the local representatives of these coalitions. In turn those who donated to party funds expected a say on policies and national structures. Hence companies such as Exxon gave vast sums to the Republican Party in the United States and obtained in return permission to exploit Alaskan oil and large reductions in taxation for high earners. British Labour governments were comically sensitive to the danger of adopting policies which annoyed multinational businessmen such as Rupert Murdoch, as was revealed in Alastair Campbell's diaries. It was very difficult to escape from this vicious cycle. It took great political courage to limit the size of donations from such donors, since it might lead to failure at the next election. Hence there was the prospect of an ever-increasing domination of local politics by transnational coalitions of deracinated individuals.

The policies which emerged from such links were generally to the disadvantage of those with middle and low incomes. The rich succeeded in protecting lower levels of taxation for themselves in the state, but at the same time pushed to reduce the social wage. The norm for the upper limit of income tax in Britain was fixed in practice at 40 per cent, not for any particular reason of economics, but because it had become the acceptable upper level. (The economic crisis led the suggestion, hotly contested on the political right, that this might be increased to 45 per cent.) The 40 per cent limit is an oddity. It is upheld in the Anglo-American economies, partly, as will be seen, because of an economic argument, and partly because it seems to conform to the ideology of the super-rich. They will of course avoid taxation where they can, but, if forced to accept the need to contribute, they draw the line at 40 per cent. In this way they cut off a return to what they see as the evils of socialism which sanctioned much higher levels of taxation, even marginal rates of 90 per cent on the very highest earners.

One effect of this was that advocating an increase in income tax, even when it was clear that this was just for the very few richest individuals, was politically unwise. The Liberal Democratic Party recommended a higher rate of 50 per cent to pay for better schools in the British general election of 2005. They lost votes because of it. The political debate on whether there should be more or less taxation was normally not so nuanced: the politicians, particularly those on the right, were happy for it to be assumed that more taxation meant more for everybody. The New Labour Party was reluctant to challenge this presumably because they did not want to be accused of old style socialism.

The American right wing economist Arthur Laffer proposed in 1971 that government receipts from taxation increased as tax went up from zero and became zero again if taxation reached 100 per cent.[19] In between the two extremes there was an optimum level of taxation at which returns to government from taxation would reach a maximum. Laffer held that the changes in tax returns were smoothly related to tax levels. Those on the far right were delighted to be told that tax reductions could be justified as a way of stimulating an economy as well as increasing government revenue. Apparently a lower tax rate meant more work, higher incomes, and an increase in the amount of tax paid. Those who were not ideologically motivated concluded, however, that the effects of changes in the middle were unpredictable. There was some discussion on the ideal level, but no overall agreement. The best guess – and it was a guess – was that as long as taxes were kept below 40 per cent there would be no economic disincentive to further work and enterprise. This level could just as easily have been 50 per cent or even 60 per cent.

But 40 per cent was the level which stuck in the United Kingdom, as well as other countries, with a hankering after supply-side economics. It was a pretty shaky foundation on which to base judgements about how much money could be taken from the rich to support a state which was fair to, and for, all its citizens. The idea of a smoothly progressive tax system was undermined by a hunch on the part of an ideologically motivated right wing economist.

Before the British budget statement in April 2009, in which an increase of the top income tax rate to 45 per cent was to be proposed, researchers at the think tank, the Institute of Fiscal Studies (IFS), sprang to the defence of the rich.[20] They estimated that such an increase could lead to a net loss of tax of about £800 million a year because the rich would pay more into their tax-free pension funds, take salary in the form of capital rather than income, move funds out of the country or – amazingly – work less hard.[21] A higher level of taxation would also lead to the exit of the targeted individuals and their money. But the rich could simply not be allowed to get away with this argument. Any government concerned to defend the civilized state had to insist that the moral argument must prevail over short-term economic expediency. The IFS study at least revealed some elements of a counter strategy. Pension fund contributions would have to be limited, international movements of money made transparent and substituting capital gains for income and tax havens eliminated.

It was certainly true that capital fled from France in the early 1980s because of President Mitterrand's attempts to make France more socialist. But in the European Union there were several successful economies, and more civilized states, which had found it possible to have a much higher level of taxation than that of the United Kingdom without any outflow of capital (discussed further in Chapter 3). These included Germany and, after Mitterrand, France, as well as the more well-known examples such as Sweden and Denmark. In Britain the business world claimed that the total tax take was the highest in Europe. This was not the case: it was amongst the lowest. The rich were good at threatening exit even for marginal increases. And if, as the IFS argued, top people would not work as hard why not let others take their place who would?

The super-rich put pressure on governments to keep taxes, as well as the social wage to which they contributed, low. In consequence the social–economic arrangements of Britain in the early twenty-first century were concerned primarily to create wealth, and were relatively careless about its distribution. Naturally the greater the wealth the more the government was in thrall to the individuals who made it, and the less attention it paid to the well-being of the rest.

The more globalized an economy, the stronger the pressures downwards on the social wage were likely to be. Hence they were much stronger in the United Kingdom than in most other West European states. In Western Europe the countries with the largest social wage, and the highest proportions of national income paid in taxation, were those states which were less involved in the globalized economy. Britain – and Ireland – with a lower social wage was more globalized than Sweden, which had a larger social wage. As will be seen, there were colossal risks in being so open to the globalized economy. The crisis of 2008 seemed to support the judgement that the continental Europeans had been right to resist the demolition of their social democracies. Their banks and their citizens were less badly hit than those in the Anglo-American Britain.

The international social economy of trickle-up

It paid business to source production in countries with low labour costs. The condition of this was that there should be access to the market. In the age of globalization this condition was likely to be satisfied since the principle of unregulated free trade was one of its orthodoxies. If management had to live near the factory, there might be pressures to locate in areas with good schools, golf clubs and the appurtenances of the civilized life. This was one of the reasons why countries with a higher level of taxation on incomes in Europe nevertheless often had good levels of inward investment. But always, naturally, the condition was that production should be the cheapest, given that the right conditions for a congenial lifestyle were met. It often happened, though, that high level management did not need to be nearby, and in this case only local gangmasters were required. Production could be located in China and management, and research, remain in California. Textiles and shoes could be made by the cheapest possible labour, including children, in Indonesia and the Philippines, and marketed by posh shops in the West.

The consequences of this situation for non-management in the developed state were also well known. The policies of the European Union were illustrative. Labour had to be more flexible, there could be no jobs for life and there had to be more focus on high added value occupations and preparedness to accept lifelong retraining and frequent relocation. Redundancy was now a feature of the labour market at all levels, for the skilled as much as for manual labourers, and workers had to be equipped with advanced transferable skills.

A measure of freeing up the market place for labour, which had been too rigid, might well have been necessary in Europe, and the European Union's strategy for jobs was a reflection of this.[22] But there were problems also. The social and financial costs of adjustment were heavier for the employed than for the employer. The employer might seek to remove jobs altogether, or to insist on worse conditions of employment, and certainly pay as little as possible for retraining and relocation. The process of dealing with economic failure was also likely to cost the workers more than the employers. If a business failed the first claim on assets was that of the tax authorities, the second was that of the banks for repayment of its loans, the third, and last, claimant was the workforce, which might well have to accept a severe diminution of pension funds in order to satisfy the other creditors. It was common for the management of the failing business to come out of the process of receivership and bankruptcy with their personal assets well protected, and with enough capital to start again.

In modern Europe it was the employees who paid most of the costs of business failure. They were required to be flexible. As with states, those with wealth had the power to resist change. The rich had an extraordinary capacity to survive untouched by the outrageous fortune that troubled others. Business failure was no impediment to large bonuses. A collapsed company would lead to a loss of jobs for the employed but not for those who managed. At least not for those with the highest incomes!

It does not seem too long ago that economists argued that there was a case for an international specialization of labour, with textiles and work that relied on physical skills transferring to the developing world, and more advanced industries, and research, remaining in the developed world. This now seems entirely irrelevant. No matter how flexible a workforce, or how highly trained, the outflow of jobs to areas where costs were lower could not be prevented. Technology and education had now moved to the point at which even the most advanced skills were also transferable, and labour in countries such as China and India had already proved highly adaptable and capable. The lower cost centres could also draw in the more skilled jobs of the modern states. The idea that there could be an international division of labour was discredited since most jobs at any level could be carried out anywhere. Getting more flexibility and education was only a holding action since they did not interfere with the longer term process of transferring economic activity, including jobs, to where it cost less, and where it was more likely that managers would be able to hold the labour costs down. If they failed in the new centres of the present, they could move on to other cheaper centres.

Managers now focussed on protecting their interests in the new centres, by, for instance, preventing the unionization of labour. Capital which had relocated to such countries was likely to reinforce illiberal practices in the host country. The poor record of China on human rights and enfranchising workers was one of its attractions for mobile international capital and not a difficulty. One of the benefits of moving production to places where it was cheaper was that it was easier to prevent labour acquiring any collective muscle. In contrast the coalitions of business elites survived largely intact, as long as they remained prosperous enough to generate the necessary amenities, and indeed continued to protect and promote their interests in the old centres as much as in the new. The responses of the modern states, such as those in Europe, have so far not been effective.

Globalization helped the emergence of a group of rich, highly mobile, employers with incomes which were rising further and further above those of the rest. It also encouraged the appearance of massive amounts of highly mobile investment capital which in its most recent form, private equity, could even escape from the disciplines imposed by the stock markets. In consequence the states of Western Europe became less civilized in the sense that they were less capable of carrying out their functions fairly. Those who were treated unfairly might reasonably claim that the state in which they lived did not serve their interests. What was the state for? If the question was interpreted to mean – whom did it serve? – the answer must be that it served the transnational coalitions of rich individuals better, and the middle and lower income locals less well. That was one of the consequences of globalization.

Justifying economic unfairness

Inequalities among populations within a state were analogous with inequalities between developed and developing states. One argument was that these inequalities were the result of the deliberate policies of the developed states, which is analogous with the argument that a failure to act fairly by the rich within states is a cause of disadvantage to the rest. The better off failed to act to put things right, possibly because it was believed that correction would happen automatically, for instance, through the trickle-down effect, or because the rich had hardened their hearts. One puzzle was that whereas the rich were traditionally likely to promote the common good through charity the modern super-rich gave less to charity than those on middle or lower incomes. Perhaps, as already indicated, the explanation was that a good number of the modern super-rich, unlike their predecessors, did not identify with local communities. Globalization, and insulation within metaphorical and actual gated communities, had detached them from those to whom they might have felt obliged to give. There was also an ideological factor: the values of such people might be influenced by extreme forms of neoliberalism which supposed that there was no such thing as the deserving poor. This was the kind of Tory view which in mid-nineteenth century England had led directly to the 1846 Irish famine.

A second explanation, which applied to individuals as well as to states, was that the increasing differentiation was to do with the system. Perhaps it was the system of globalization which dominated and made the exploitation of the poor, and the unfair state, inevitable. No group was to blame, but the system was. It made it inevitable that there would be unfairness. The argument at the international level was that developing states were caught in a system of trade which was bound to be to their disadvantage, as the price of commodities inevitably fell behind that of manufactured goods, and, as trade became more free, the strength of the exploiters increased.

A third explanation was that the unfairness was a consequence of the behaviour of the disadvantaged group. Peter Bauer argued that aid was a way of taking money from the poor of rich countries and giving it to the rich of poor countries.[23] In this kind of view underdevelopment was always the result of the failure of the poor country or those who advised it and was often due to corruption in the developing state. Samuel Huntington argued something similar.[24] There was ample capital available from the ordinary commercial markets to finance well-formulated schemes for new businesses in developing countries. The lack of such schemes was the result of the lack of insight or technical know-how, or the corruption of governments, and had nothing to do with the failures of the capital market. This was an explanation which was favoured by the right of the political spectrum. Even in 2007 it was common to hear from neoliberal think-tanks that aid was part of the problem, not the solution.

There were other theories from the right which purported to explain economic differences within the state. These included

- That there had been a depletion of the gene-stock. This view held that failure now was the result of past success, since the more able individuals had escaped from their deprived background. Only the less intelligent, less competent and less energetic were left behind. These individuals inevitably remained poor and carried out less intellectually demanding more menial jobs. It was therefore inevitable that there would be a degenerate poor: nothing could be done about it. In modern times the ways of expressing these views were limited by the dictates of political correctness. They moved quite close to eugenic or racist explanations.
- That there had been a transmission of expectations between members of less successful groups, and between generations, which meant that they were likely to fail economically. The children of the poor preferred passive and unsophisticated pleasures, such as watching television, or playing computer games, because these were what their parents and friends did. They did not believe in education and had no wish to escape to a more rewarding but more demanding place in society. A version of this view had obvious and tragic implications: that the poor example set by parents led children to link up together in gangs which acted beyond the law and were often violent and deadly.
- That the labouring class was convinced that the natural order required that they should be workers and the upper class the managers. This was an inheritance from an earlier more settled era when the Lord was in his manor – or the church – and the ploughman in his field. Accordingly in Britain the role of trade unions was to obtain higher wages for the workers, not to get too close to management or become involved in any of its functions. Such attitudes were frequently found in British trade unions up to Mrs Thatcher's time. They reinforced the exclusion of individuals from less-privileged backgrounds from top jobs, and explained the reluctance of British labour to be involved in co-management arrangements promoted by the European Union known by the German word *Mitbestimmung*.[25]
- That in modern early twenty-first-century states there was a failure of key elements in the units of the social system, especially the family as reflected in one parent families, or of the community, so that there were no systems for mutual self-help. The right tended to stress the damage to the development of children by the absent father or the out-at-work mother.

> Their own tradition of farming their children out to boarding schools at the age of five did not seem to be comparable. More liberal democratic commentators tended to stress the absence of a strong civil society which could bring out individuals and help them to succeed. This argument was developed in a successful book about the increasing isolation of individuals in the United States caused by the weakening of civil society.[26]

The state could be unfair even when the rhetoric of government suggested that it tried to be fair. Often that was only one of its priorities. A government was interested in being as fair as it needed to be to win the next election. It would satisfy as many special interests as were encompassed in its ideology. Reactions to that unfairness ranged from the view that it was an inevitable consequence of human fallibility, a healthy manifestation of economic development or a situation which had been deliberately engineered by malign interests.

Conclusions

Unfairness was both a consequence of uncontrolled developments, in particular, the appearance of a globalized economy, and the product of deliberate acts by new actors in this economy. In 2007–8 a new set of dangerous economic animals appeared. The multinational companies had become well known in the 1960s, but they had grown bigger and more dangerous than before. There were also now international venture companies which commanded massive amounts of private capital intent on snapping up any likely looking victims and taking them away from the stock exchange where they had been safely corralled. New and dangerous games were also being played with the public money. Casino capitalism had acquired several new layers of meaning.[27] We had perhaps gone beyond Casino capitalism to Sorcerers Apprentice capitalism. This captures its dominance by inventive but out-of-control mad geniuses, uncontrollable by governments, and causing increasing mayhem. These arguments are further developed in the rest of this book.

Several linked conclusions can be drawn from this chapter. They all centre around the central theme that there has been no trickle-down of wealth from the top to the middle and the lower echelons of society. The lot of the last two layers might be improved, but it is not because there is more money at the top. Indeed there are grounds for supposing that the modern British government is now so close to a new class of international super-rich, linked with a group of local disciples, that it has lost sight of the need to promote the general welfare.

There is, however, a new element to this failure. Traditionally the broad picture was of a loose coalition of the rich and the middle class in more or less manageable conflict with the working class. Reluctantly the coalition accepted compromises with labour that improved wages and the conditions of employment. In recent years, however, the lines of conflict have been redrawn. Now the gap between the middle class, the somewhat well off and the rich has become a major cleavage in society. For the first time the economic circumstances and conditions of work of the working middle class are being eroded, and the perception is that this is because of the appearance of increasing differentiation of income and the excessive rewards to a relatively small group of super-rich. These arguments are developed in the following chapters.

CHAPTER TWO

How the somewhat better off became much worse off, and why it made them angry

Emerging patterns of economic conflict

The development of states since the eighteenth century has been marked by the development of characteristic social fault lines. Eighteenth and nineteenth century industrialization led to the emergence of a large group of workers, who provided labour by hand, and a smaller group of managers. In the nineteenth century, the number of middle-class professionals greatly increased. They included office workers, lawyers, public servants in local or central government and others with exceptional talents or skills. The main fault line was between labour and the owners or management, though it was noticed that the disagreements were often marked between those who worked by hand and the lower ranks of the middle classes. Even in the twentieth century, as Ralf Dahrendorf pointed out, when these two groups met and interacted there were often particularly strong tensions and disagreements.[1] The middle class was thought to be the main bulwark of democracy and were relatively content and self-contained. But within the middle class there was a group which was entitled to be discontented. Those who did not own property were usually the last group to be enfranchised, and this included women, who in many western countries had limited rights to own property until surprisingly late.

Labour unions played a key part in increasing wages and improving the conditions of employment for workers with regard to hours of work, holidays and pensions, health and safety protection and security of employment. As unions became more powerful the tensions with management also increased, and in many countries it seemed they had hung on to outdated and restrictive working practices and resisted change. It became a commonplace to argue that the unions had become the enemy of economic development and that their rights and freedoms needed to be curtailed. In Britain Mrs Thatcher was determined that the labour unrest of the 1970s should never recur, and it was striking that the New Labour government which came into office in 1997 did not abandon the restrictions on the activities of trade unions which she had introduced. The restrictions included the prohibition on secondary picketing – where there was action against a second company in support of strikers in the first – an insistence on new democratic forms within unions, and the outlawing of the closed shop by which a union insisted that all workers in a particular factory should be its members.

In other countries the pattern varied somewhat. In continental Europe the battle was more about adjusting – usually reducing – the protections which labour had gained, and making the workforce more flexible by persuading organized labour to accept reasonable adjustments. Unions were accepted but socialized. Sometimes, for instance, in Germany and Scandinavia, the tensions were resolved by involving representatives of labour directly in management. The kind of government this produced was called corporatism.[2] In contrast in the United States the owners of capital vigorously resisted the increase in unionization, often with bloody violence, and succeeded in creating doubts in the minds of Americans about whether labour needed to be organized at all.[3] In the early years of the twenty-first century there were big companies in the United States, such as the retailers Wal-Mart, which refused unionization and used all necessary means to prevent it. New players in the United States, such as the British retailer Tesco, tried to follow the Wal-Mart model when they started operations in the United States in 2006, even though they accepted unionization in the United Kingdom.

There was therefore a historical pattern which was connected with the present trauma. Labour became powerful and inflexible. It had begun to stifle economic progress, and there was a reaction against what had come to be seen as the irresponsibility of organized labour. In consequence more restrictive laws on what unions could do were introduced. As a result the whip hand in the workplace returned to owners and management, which found new ways of reducing the power of workers and limiting their rewards, often in wages, but more often in worsening the conditions of employment. The new disposition of management was linked closely with the increasing power of capital, which was greatly amplified by the creation of a more liberal globalized world economy. Capital was hugely increased, more mobile, and now increasingly concentrated. There was a marked increase in the number of aggressive takeovers of companies, and in a number of sectors a move towards global monopoly. These developments helped capital to resist the claims made by labour. In the United Kingdom, the tipping point came in the early 1980s. In the 1970s it was largely the unions which had the whip hand; by the mid-1980s capital had regained the ascendancy.

The owners of capital, newly energized, did not stop with restricting labour. The next group in line, the middle class, had traditionally felt secure and apart from the struggle of labour and capital. In the new world of rampant capital the middle-class confidence in what they had thought were their rare and valuable skills, and job security, dealt a severe blow. The skills were increasingly discounted and did not prevent redundancy. The only mission for the new capitalism was profitability in the short term, as defined by profits for the investors/shareholders and the incomes of managers. When the crisis came the complaint was often heard that business schools were partly responsible for this as they had stressed that managers should serve the interests of shareholders above all else (see Chapter 6). Attention was given to making the skills of the middle classes in the developed world dispensable.

If they got in the way of increasing rewards to shareholders, or investors from private equity, the skills were either simply translated to countries where they could be bought more cheaply or ways were found of making them unnecessary. One example of such takeovers by private equity, chosen at random, was that of the successful major British recording and audio technology company, EMI, which led to the loss of thousands of jobs (*The Independent*, 16 January 2008). The middle classes were now subject to the rules of a more turbulent and less-civilized market place. Their jobs, no matter how skilled, were not secure. Their pensions were threatened. Their children's ownership of their own houses was put beyond their reach.

What had begun with labour becoming too powerful had turned into an attack by those who commanded capital against both workers and the middle class. In the United States this had reached the point at which the middle classes could barely afford health insurance and had to rely on the value of their house to provide a pension. The elderly and the indigent still had a right to medicare, but this was a stripped down service which no American with money would countenance. In the United Kingdom the middle classes found that management reduced their pension rights, and ruthlessly dismantled what appeared to be perfectly viable companies, often throwing away rare skills in the process. By the last decade of the twentieth century the social democratic states on continental Europe were under pressure to go the same way. The economic systems of the United Kingdom and the United States with their more flexible workforces and more energetic capitalism were seen to be the way of the future. The global economic crisis showed that this was a delusion. It was the social democracies that seemed better equipped to survive the crisis.

In the United States and the United Kingdom security of employment was a thing of the past and for most people the job market became a place of intense competition and change. What mattered now were transferable skills rather than specialist skills. There were attempts at palliative action by governments in Europe, separately and through the European Union, such as programmes for retraining and relocation, but in the United Kingdom these were invariably inadequate.[4]

The new economics of exploitation

One example of the new economics was the appearance of massive venture capital companies funded by private equity, that is, equity not derived from the stock market but held in private hands, be it banks or individuals. The size of this new investment was only realized in the United Kingdom when it tried to take over large and well-liked public companies such as the grocer Sainsbury's. An investment bank called Delta-Two, backed by the Qatari government, had made an offer of £10.6 billion(US) for the company. These developments are discussed further in Chapter 5. One extraordinary mechanism used by private equity amounted to getting a targeted company to pay for its own takeover. The money borrowed to make the takeover was added to the company's debts if it succeeded. When the English Premier League football team Manchester United was taken over by the American venture capitalist Malcolm Glazer the money he borrowed to make the purchase became a debt for Manchester United. When the Spanish conglomerate Ferrovial had problems servicing the debt it had incurred in buying the British Airports Authority in 2006 it persuaded the British regulator, the Civil Airline Authority (CAA), to permit increases in landing charges. In effect the airlines were being required to help with the financing of Ferrovial's purchase of the airports.

Venture capital's single-minded search for profit meant it was indifferent to rare talent among the company's workers. It was not impressed by a full order book for the product of that talent. It was only interested in squeezing out value from the company even if that meant dispensing with the talent, throwing out the order book, and selling its assets. The investors needed only to pay off the debt from the initial purchase to acquire all the price of the now diminished company as personal gain. What was left of the company could be sold on, minus the assets which had been stripped away. This was often the main purpose of the exercise. There was a major incentive under British tax law for the venture capitalists to behave in this way. The financial rewards squeezed from the acquisition were taken by the individual managers as capital gains which were taxed at the low rate of 10 per cent. They did not pay the standard upper rate of income tax, which was 40 per cent, even though the gains were in reality income. There was no question of declaring a dividend as there were no shareholders.

One of the difficulties with venture capitalism, as practiced by private equity groups, was that it avoided the disciplines of the stock market. Companies which had shares available for purchase in the market place had to accept a set of rules about how they managed their affairs, the circumstances in which they could sell their shares and the code of behaviour that governed managers regarding their work and investments. The affairs of a publicly quoted company had to be relatively open to public inspection.

The rise of the private equity venture capitalist was related to another development which in retrospect can be seen as marking a further step in the developing global economic crisis. In brief, the problem arose from the earlier decisions of US mortgage companies to lend money for house purchase to individuals with poor credit records and salaries barely adequate to cover the monthly payments required. This was known as sub-prime lending. The debts of these high risk borrowers were then sold on by the issuing companies to other financial institutions and operations such as hedge funds, which could then sell them on again. The original debts were split and put together with other forms of debt which were better supported, so that the scale of the risk debt in the investor owned utilities (IOUs) being sold on became hard to identify. Banks holding such IOUs did not know, or could conceal, how big a proportion of there holdings was sound and how much unsound. These new financial instruments, which were essentially marketable IOUs, created a new form of wealth which was sold and resold, and became one of the bases of new wealth such as much of that of private equity investors and hedge funds (discussed further in Chapter 5).

When interest rates increased in 2005–6 a large number of sub-prime borrowers found they could not repay what they owed, and their houses were repossessed. In this situation banks found it impossible to restore their position by selling what they held, because no one could work out how big a proportion of the debt instruments was safe debt and how much was worthless. Some banks began to move towards insolvency and had to be bailed out by the central banks. At an early stage the US Federal Reserve acted to protect a number of banks and in the United Kingdom Barclays Bank had to borrow from the British Central Bank, the Bank of England, at a high interest rate. A number of British banks revealed losses because of sub-prime debt. Later events are discussed in Chapter 5.

Questions were asked about the blame that should be attached to auditing companies which had rated the IOUs based on sub-prime mortgage lending as good investments, such as Standard & Poor's and PricewaterhouseCoopers. It was hardly surprising that the auditors declared themselves content when they had also advised on the company's investments. Some venture capitalists holding these debt instruments found themselves caught short in mid-shot at a takeover. The offer to takeover the UK grocers Sainsbury's was withdrawn because the investor suddenly discovered they had less capital than they thought. But the implications of the problem for the future activities of private equity were unclear.

For the time being private equity continued on its predatory way. There was an escalation in the number of companies whose sole activity was to takeover and squeeze value out of other companies. One such company was the Australian finance company Macquarie which focussed on utility and other public service companies in the United Kingdom, such as Thames Water and Bristol Airport. In September 2007 it was involved in an attempt to take over Southern Water (reported in *The Observer*, 30 September 2007). The number of such takeover efforts was so large that it seemed that no company could afford to concentrate on its core business. This tidal wave of company takeovers slowed to a trickle only when the debt market dried up. The banks lost confidence in each other and became much more cautious about lending. The banks and investment companies had recklessly increased their funding gap, the difference between deposits and lending, from near zero in 2000 to £530 billion (US) by the end of 2006 (*The Observer*, 30 September 2007). Now they became anxious to reduce the risks to which they were exposed.

Some of the problems involved in this cycle of massive gain followed by crisis and debt at the expense of non-capitalists can be summarized at this point. More is to come in Chapter 5!

- It was unacceptable that companies should be able to hold massive undisclosed debts off the balance sheet, as was the case with Enron and, apparently, the Halifax Bank of Scotland (HBOS). A requirement for transparency would also prevent the setting up of byzantine arrangements such as the so-called special purpose vehicles created by the UK mortgage bank Northern Rock before its collapse, under which money was allocated to a charitable offshore trust from which the bank then borrowed.

- Transparency should also lead to complete disclosure of any clashes of interest. In the case of Northern Rock the accountancy firm PricewaterhouseCoopers was involved not only in auditing the company's books, but also in advising on the purchase of debt instruments. Indeed the fee obtained for the latter, £700,000, was considerably higher than for the former, which was £500,000.[5]
- It was clear that those operating in the financial world had a strong interest in keeping their affairs mysterious, away from the official gaze – even Nobel prize–winning economists like those involved in the collapse of Long-Term Capital Management (LTCM) in the United States in the 1990s! This was a perfect example of what Susan Strange called *Casino Capitalism* in her classic text.[6] It was a gambling game which was carried out according to semi-secret rules. Ruth Sutherland made the point as follows: 'In their relentless drive for profit, the banks have not only relegated their UK customers, they have also abandoned their role as prudent custodians to become gamblers in the global casino'. (*The Observer*, Business section, 2 September 2007, p. 3). The head of the investment banking division of Barclays Bank was taking an annual salary of nearly £23 million at a time when there were serious concerns about the bank's solvency.
- It was hard to say who benefited from these new arrangements: it was often asserted that they served the public interest, and in some cases this might be true. But the scale of benefit could not be calculated and there were also major costs. A line should be drawn between the kind of game that helped to stabilize the international commodity markets – the commodities futures market (discussed in Chapter 5) – and the kind of market that was based entirely on the undisclosed trading of unsound debt. Unfortunately, governments in the developed world were simply incapable of drawing up rules which would stop such practices.
- Many members of these governments were too close to the people who were gaining from casino capitalism. One of its causes was the social one – that politicians from the left and the right had become part of the same society as the venture capitalists. They went to the same parties, played together, belonged to the same clubs, wore the same ties and lived in the same neighbourhood. They were reluctant to accept that this game was played at the expense of the real economy and the interests of the majority.

- There was an underlying moral consideration. In the age of homely capitalism, when mortgages came from building societies, and the bank manager was a pillar of the local community, it would have been unthinkable that the person who agreed a debt could sell it on for profit. It was arguably morally unacceptable to sell on a mortgage agreed in good faith with a known and trusted building society to an unknown, possibly disreputable institution. Borrowers should have the right to know the person or company to whom they owed money. The conclusion had to be that for reasons of probity and economics the selling of debt should be prohibited by international regulation unless approved by the initial borrower.

Capital and the medium wealthy

This chapter is concerned with the way in which the medium wealthy became less well off. This is not only about their income, in the sense of their salaries, but also about their other assets, such as health, education, pensions and housing. Of these various kinds of quasi-salary provision the most valuable is the pension, since for most people the amount of capital needed for a reasonable pension exceeds that needed to buy a house.

Funding pensions

Most of the developed economies of the Western world faced a crisis in their systems of pension provision in the early twenty-first century. In the United Kingdom there were three main kinds of pension, personal pensions, occupational pensions and the state pension. In this discussion attention is focussed on state pensions and occupational pensions. Occupational pensions provided the pension of up to 30 per cent of British pensioners, and were characteristic of those of the professions and the better off – the middle class. But the largest number of British pensioners depended exclusively on the state system.

In the last decade of the twentieth and the first decade of the twenty-first centuries, companies gradually abandoned the form of occupational pension called final salary schemes. These provided a guaranteed level of pension paid for by contributions by companies at between 10 and 15 per cent of salary, and, usually, a rather smaller contribution by employees of 8–10 per cent of salary. The level of the guaranteed pension was usually half of the final salary reached after 40 years of employment. A large number of companies closed these schemes to new workers and a few closed them for existing workers, even though both sides had made contributions for a number of years. Companies opted instead for cheaper defined capital contribution schemes in which the company and the individual contributed to investment in the stock market at the risk of the worker. The retiree got the capital pot which had accumulated at the time of retirement and was required to invest the pot, following rules laid down by government, in an annuity.

Oftentimes the company availed itself of this opportunity to reduce the amount of its pension contributions, in effect reducing payments in salaries and wages to its workers. Companies increasingly found that they had too little money in the funds to pay the agreed pensions. In August 2008, 80 per cent of defined benefit, final salary and pension schemes were reportedly in the red (at the same time the FTSE 100 executives achieved pay awards of 11.5 per cent) (*The Independent*, 15 October 2008). In February 2009, it was reported that the post office workers fund had a deficit of £9 billion (US).

The range of methods being used by government and companies by the mid-1990s to limit payments into pension schemes, and the excuses used for these evasions, were ingenious and extensive. It was almost as if, regardless of the financial imperatives, companies had suddenly realized that this was a way in which they could save money. There was straight criminality such as that of the businessman Robert Maxwell who in the 1980s simply stole money from the pension fund of his employees at the newspaper the *Daily Mirror* when he found himself short of money. There was also negligence of a kind which ironically financial companies routinely strongly advised their customers against. The companies decided in the 1990s, with the approval of the government and their auditors, to ignore their own warning to customers that the value of shares could go down as well as up. They decided to take contribution holidays from payments into their funds on the grounds that they were already sufficiently well funded to cover the costs of their pension obligations. Employees were not permitted to take such a holiday.

This was at a time when the stock market, in which most such funds were invested, was riding high. When it fell after 2007 companies found that their pension funds were inadequate. There was a shortfall because of the lack of sufficient company contributions in the good times. The imposition in 1998 by the New Labour Chancellor Gordon Brown of a new tax on pension funds, and the requirement of greater transparency of pension commitments in relation to the size of the fund, made a bad situation worse. But there was a strong impression that the reductions were driven as much by emerging norms as by economic and regulatory pressures. Many companies were grateful that they now had cover to reduce their total payments into pension schemes and protect their profits. They were eager to capitalize on the perception that times were bad for pensions.

One of the problems with pensions in the United Kingdom might be described as a problem of ownership. In the case of personal pensions, which were the subject of contracts, the pensioner was the owner of the pension. In the case of the state pension the situation was also clear: the government retained the right with Parliament's approval to amend the rules related to pensions and the level of pension provision. If it did this it would have to deal with the political fallout, and perhaps challenge under the human rights legislation, but its discretion under existing law was wide. The British population regarded the basic state pension as a right acquired by paying national insurance, but the government could change the amount to be paid to a sum even below its present derisory level. Though national insurance contributions (NICs) were hypothecated in that they went into the National Insurance Fund, separate from the Consolidated Fund in the public accounts, the amount spent on pensions was not firmly related to the amount of the fund. Indeed the amount now greatly exceeded the sum spent on pensions.

The situation was confusing when it came to occupational pensions, which used to be seen as one of the perks of the middle class. Employees signed up to such a pension when they signed the contract of employment, and it could appear that this implied a legal right to a pension according to the terms agreed. The employee and the employer both paid into a pension fund. In practice, however, firms had been allowed to play fast and loose with their pension funds. They had been allowed to pay less into them than was necessary to cover the pensions by, for instance, taking contribution holidays. They could transfer ownership of the fund to another company which might use it to generate funds of its own at the risk of the pensioners. They could unilaterally change the terms of the pension agreement, for instance, by abandoning final salary–related pensions for existing employees. And if the company went into receivership the right of workers to pensions was third in line, the Revenue coming first and the Banks second. The employees got what was left.

After the Maxwell episode protection of the rights of workers in company schemes was increased, but companies could still take steps which either changed the terms of the pension or reduced it without the approval of pensioners. It was debatable whether this was good enough for a state that boasted about its welfare system. Arguably in a fair society employees should always be entitled to pension at a level which could be readily calculated, be it under the terms of the state pension, or an occupational pension, and the company or government should put that requirement first. This was not the case in the United Kingdom: it was perfectly possible that employees who had made a lifetime's contribution to an occupational pension fund would find that the cupboard was bare.

Companies and government promoted the doctrine that contributions to occupational pensions from the companies and the employees were not part of salary. This curious assumption ignored the fact that most employees had taken on the job in return for an agreed package of remuneration which they had every right to believe belonged to them. It would have seemed a matter of natural justice that companies which reneged upon this agreement could be accused of stealing. Companies were pleasantly surprised to find how easy it was to tap into pension assets. Once again employees, including middle class people who had thought themselves adequately provided for, came off a poor second to the interests of companies.

But there was another problem: investment bankers realized that pension funds could themselves be a source of profit and began to bid for failing companies to get their hands on the funds. Since the workers had no enforceable legal claim to the assets of the fund, they could be bought and sold at the whim of management. It was reported that the buying of pension funds by the big investment banks was a rapidly growing business. One company in this business was Pension Corporation (*The Observer*, 18 November 2007).

In late February 2008 a subsidiary of the banker Goldman Sachs bought the pension fund of Rank which was in financial difficulties (Goldman, of Goldman Sachs, had played a role in the downfall of LTCM in the 1990s; see Chapter 5). Despite the problems of contribution holidays of the 1990s, it was judged that the fund had a surplus of £20 million which was paid back to Rank 'as a kind of sweetener' for the sale to help with its financial difficulties. The press blithely passed on the companies' message that this was the best outcome (*The Times*, Saturday, 1 March 2008). Naturally the pensioners were not consulted. No doubt the deal generated large fees for the managers concerned, but it would also be found shortly that the Rank workers faced pension restrictions because of a shortfall in the fund.

Over a period of a few weeks the knock-on effect of the banking crisis led to a fall in the FTSE index from around 5,500 points to less than 3,500 points, a drop of around 30 per cent. It was certain that funded pensions were finding it more difficult to cover payments because the value of returns on stock-market investments was going down, but their payments to pensioners were not. Those with the new kind of funded pension, which depended entirely on returns from equity investments, found that the amount of pension had been reduced by a third or more.

The state pension scheme in the United Kingdom was compulsory for everyone, rich and poor, and all individuals in employment paid into it and, regardless of wealth, got benefits from it. It depended upon a promise to pay pensions out of future taxation. When the national pension scheme was introduced in Britain by the Liberal administration in 1908–11, a system of national insurance was also introduced to pay for pensions and unemployment benefit, and this scheme has continued to exist to the present. From time to time the contributions were increased, and every employed person in the United Kingdom, rich and poor alike, paid this insurance out of their pay packet. But things were not what they seemed to be. The money from the NICs was not tied to the exclusive support of pensions – even though it was formally hypothecated – and amounts over and above what was needed to cover the miserly pension obligations could be spent on other things. It was in practice another form of direct taxation.

This was an area where developments were driven as much by changing norms as by so-called economic facts. In a letter in August 2007 to Pat Healey, the head of one of the major British pensioners' organizations, The National Pensioners Convention, the Prime Minister, Gordon Brown, admitted that the National Insurance Fund was in substantial surplus, but money was routinely transferred out to pay for other services such as schools and hospitals (reported on 'Talking Politics', Radio 4, 11.00 am Saturday, 8 August 2007). The Prime Minister admitted that this was to avoid having to contribute to these other services out of general taxation. Indeed the National Insurance Fund had a growing surplus as earnings linked contributions went up at a faster rate than payments which were based on inflation. In March 2006 the surplus was £34.6 billion (US) of which £25 billion (US) could be treated as a usable surplus.[7] One academic commentator referred politely to what should be regarded as a disgraceful deceit, namely, 'the illusionary nature of post-war national insurance'.[8]

In effect the money was being diverted for political reasons from the purpose for which it was intended. State pensions were kept at poverty level to avoid the embarrassment of a marginal increase in general taxation.

The conservative administration of Margaret Thatcher took the downgrading of state pension provision a stage further. It decreed that any increases in the meagre state pension should follow the rate of inflation rather than any general increase in wages and salaries. Hence those who depended on the state pension were now doomed to falling further and further behind average personal wealth. Alongside this was the freezing of the pensions of all those who decided to live abroad after retirement. The worry at that period was that wage indexation together with projected population ageing would over time greatly increase public pension spending to an amount in excess of the NICs. A policy was adopted of managing costs to keep them within the limits of the NICs rather than maintaining pensions by diverting resources or increasing the level of NICs.

According to the terms of the Superannuation Acts of 1957 and 1972 the pension schemes of public service workers, including schoolteachers, became the responsibility of Parliament. The funds were still identifiable as accounting devices, especially useful as a way of measuring contributions, rather like the National Insurance Fund. But in future the contributions would not be invested and pensions would be paid out of general taxation. Instead of being financed from invested contributory funds, these pensions would be 'unfunded' and paid for out of general taxation. They had the advantage of being less exposed to the whims of the equity market but the disadvantage of being vulnerable to the whims of government. In the later years of the first decade of the new millennium such pensions were attractive and helped recruitment, but the increasing tax burden could leave public servants very vulnerable to the political decision that they must be drastically reduced. In contrast the pensions of higher education workers, such as university teachers, had remained funded, and, despite the fall in the value of investments, at the time of writing were holding up reasonably well. Some authorities insisted that the only solution was to reduce public sector pensions.

Putting the problem right

The problem of paying for national pensions boiled down to a straight forward relationship between the level of taxation and the level of pension provision. The most important study of the problem was the Turner report published in 2006, generally approved by the specialists and largely ignored by the government.[9] By the late 1990s it was obvious that this was likely to be a burden on the next generation which would be compelled to pay the pensions of the current generation out of their taxes. The government stressed that individuals would simply have to pay more for any level of future pension out of their own personal private investments. There would have to be more saving, and more individual input by employees into their pension pots. This sounds fine for those with adequate salaries – private pension provision is not morally superior or inferior to state provision. But the problem was that for most people in Britain, even those who might have been thought to be reasonably well off, the level of surplus income in the early twenty-first century was not sufficient to pay the further cost of pension. For most people it was not possible to divert money from surplus expenditure to private pension provision.

In the United Kingdom salaries and wages were not calculated to allow for such expenses. One illustration of the difficulty concerned housing. In the 1960s it was possible for those with a modest salary to pay for a mortgage on a small house out of income. Such a small house would be priced at about £4,500 when the income of a modestly successful professional would be about £1,500 per annum. But by the early twenty-first century – until the housing crash – a modest house in most of the country was out of reach of those on average income. It would be unusual for such a house to be priced at less than £250,000, and equally unusual for even a successful professional to be earning as much as £50,000 per annum until well on in their career. Few mortgage companies would agree to a mortgage which was more than four times annual income. High mortgage payments on houses were the biggest element in raising the level of total personal debt in the United Kingdom. In 2006, for the first time, such debt exceeded the annual gross national product.

The British government was negligent in not seeing the crisis coming, but blame does not solve the problem. The demographic trends were clear, and the level of taxation needed to pay for even basic pensions could be calculated within a reasonable margin of error, so it must be regarded as a gross error that this was not done much earlier and remedial action was not taken. The high level of company prosperity in the United Kingdom in the early twenty-first century and the unprecedented national wealth made the argument that proper pensions could not be afforded look laughable.

One commentary pointed out correctly that one of the problems was that the debate about pensions had been dominated by the Treasury which was always anxious to limit public expenditure. This allowed 'pension politics to degenerate into a technical debate on pension finance'.[10] There was no sense that, come what may, a civilized country must look after its old people, and that pensions should be adequate, and certainly above the subsistence level at present afforded.

If pensions must be funded from individual taxation on workers, and there were too few workers, why not increase the number of workers? There were workers now in part-time employment, women who were unable to work because of child minding and other – unpaid – family caring duties and, of course, workers from abroad. There were about 400,000 individuals working illegally, and not paying taxes, in Britain in 2007. But more women working would require more flexible working hours than men and increased provision for child care. Neither companies nor most men had any wish to introduce such changes. Importing more workers would be met with the opposition of existing workers, and xenophobic citizens, egged on by the British right-wing press.

Another helpful change was increasing the age of retirement to reflect increasing life expectancy. People were living longer, healthier lives and retiring too soon – thus an increase in retirement age must be part of reform. This was the change with the most obvious advantages since at a go it would both reduce the need for pensions and increase the amount needed to pay for them. Across the heartland of Europe there was certainly an excessive generosity in allowing retirement at too young an age. In Italy retirement on full pension at 55 was possible, even though falling birth rates had caused a reduction in the workforce and the tax base. In developed countries with increasing life expectancy there was a strong case for increasing the legal age of retirement to the late sixties or seventies, equally for men and women, depending on fitness to work. Perfectly sensible changes in pension provision were possible and would make it possible to maintain civilized levels of payment, as the Turner report in the United Kingdom in 2006 had indicated.

In the United Kingdom it remained undecided whether the legal age of compulsory retirement should be increased, or whether it would be sufficient to allow those who did not wish to retire to continue. In 2009 employers retained considerable discretion to impose retirement, a right supported by the European Court of Justice. But by this stage the injection of money into the economy by the government by purchasing gilts – the policy described picturesquely as *quantitative easing* – was also making things worse for pensioners.

Increases in the number paying tax would depend upon the expansion of the domestic economy so that the new workers could be employed. Even increasing the retirement age entailed finding new jobs for the young. But in the age of globalization mobile capital preferred to exploit the lower costs of developing countries to help solve the social problems of the developed ones. The sort of changes needed to increase the tax base at home ran against the grain. Globalization was for the freedom of capital, not labour. For companies neoliberalism dictated that less-developed countries were a better bet for any economic activity that required action outside the city of London. The only way of countering this was to make it impossible for companies to access developed markets from abroad without having to pay a tariff, but this ran against the liberalization agenda of globalization.

Companies were naturally anxious, having reduced their contributions to their own pension schemes, not to have to pay that charge again through increased wages to fund an increasing number of personal pensions. Capital preferred that labour from the developed world did not follow it to developing economies, bringing with it objectionable habits such as unionization, health and safety legislation and higher wages. It was more likely to win the battle to keep costs low in new centres with poor core labour standards than to reduce higher costs in old ones. This was a mirror of the earlier movements in the United States, which gained pace in the 1970s, when business escaped from welfare payments, as well as the unions, by moving from the north and the east to the south and the west of the country. The international movement of capital not only benefited from lower costs elsewhere, but also hindered efforts to restore the tax base in the location from which it was moving. A bad record on human rights was not a problem. Indeed it was an asset that made it easier to have lower costs. But moving enterprise to China also made adequate pension provision in the United Kingdom more difficult.

The failures of the system meant that around 2 million out of a total of 17 million pensioners were living in poverty in 2007. In 2006 and 2007, it was reported, British pensions were the lowest in Europe, averaging 30 per cent of the average UK wage. The European average was 60 per cent. Donald Duval, the chief actuary of the group that produced these figures, said the UK government held that a pension was to ensure that people did not starve, rather than that they should have a reasonable standard of living.[11] But surely the government of a civilized country should not be balancing the books by paying its pensioners less. Rather it should be focussing on getting the resources to finance a reasonable level of pension for everyone, be they in the private or public sector. The problem of the shortfall in taxation needed to be addressed if necessary by radical measures. But the problem here was obvious: taxation was unlikely to be sufficient if a large number of the rich paid less than they should and a large number of the poor were not earning enough to pay income tax at all (discussed further in Chapter 3). The constraints on appropriate adjustments were social, political and ideological: they were all contingent on policy preferences rather than economic necessities.

Housing and pensions

Another problem was related to that of pensions, namely, the cost of housing. Since the 1980s it had become more and more difficult for young people to buy their own house out of income without the support of their parents. The *Observer* and *Evening Standard* columnist Nick Cohen maintained that there had been a massive transfer of wealth to the older generation over the last decade, particularly because of the inflation of house prices. In one sense this was a fair judgement in that their houses had been bought relatively cheaply in the 1960s and had now increased with the general housing market. He unfairly added that 'the elderly are very selfish: they will take money from the young',[12] implying that house prices were out of the reach of first-time buyers because of a sin of commission by those who were older. This was simply wrong. House prices had gone up, and new younger buyers had to pay the price, because too much money was chasing after too few houses, which came back to the excessive credit made available through the banks.

The reasons for this included the shortage of houses in relation to an increasing demand from young people themselves who increasingly wanted their own place. But there was also increasing demand from single people, like divorcees and single mothers. As this demand increased there was also an increasing supply of credit from banks and building societies fed by their borrowings from the wholesale market and by the importing of liquidity from countries such as China. The housing market was hugely affected by the massive increase in funds available for the purchase of a relatively fixed supply of houses. It was also pushed up by the problems with pensions, as property seemed a safer bet than pension funds. Of new apartments built in London in the late 1990s, 70 per cent were bought to let to those who could not afford to buy because the houses had been snapped up. There was also straight property speculation; it was a good bet for anyone with capital to invest.

As a result the housing market was bifurcated. In one market people were seeking to borrow four or five times their income in order to buy their first home, which was usually only possible with the support of their parents. In the other market there were the super-rich for whom house price inflation was a minor inconvenience, and who even got richer investing in property. For the less well off, the price of housing became a financial burden which prevented them from investing in pensions. For the rich it was a benefit: it meant they got richer.

Profits and the public

The increasing tensions between the corporate sector and its rich incumbents in the United Kingdom and other developed countries and the rest of the population in the early twenty-first century was sharply illustrated by a series of complaints and stand offs. There was increasing publicity for the ways used by the executives of companies and bankers to increase their wealth, a focus on the unfairness of this and attempts to head off future grabs for the trough. All this, one should be reminded, was at a time when the total wealth in the United Kingdom had never been greater.

The cosy coteries of the remuneration committees of public companies were adept at increasing each others rewards. The number of executive and particularly non-executive directors on the boards of British public companies was surprisingly small. Individuals who acquired positions on particular boards tended to be appointed to other boards, so that the happy practice arose of helping each other in different companies to increase salaries, share options and bonus payments. They often knew each other and were happy to do each other favours. Quite frequently it was observed, much to everyone's astonishment, that the failure of managers and companies led to larger rather than smaller executive payouts. There were Golden severance payments, which greatly boosted salaries, and large contributions to the private pension schemes of failed managers, at a time when the pension schemes of workers were in trouble. It was reported at the time of a strike by prison officers in August 2007 over the staging over a year of an agreed pay increase of 2.5 per cent that senior figures in the public sector were getting away with bonuses greater than the total annual salary of their individual employees. On 12 November 2007 it was reported that the top 300 public sector executives received salary increases of 12.8 per cent in 2006 and that the top ten earners received salaries more than 40 times that of nurses or soldiers (information from the 'Taxpayers Alliance', reported in *The Independent*, 12 November 2007).

This level of financial award reflected a feeling for the value of money on the part of company executives which was quite at variance with that in the wider community. It was as if they dealt with a different currency with its own rules of valuation. One example of this concerned the banal subject of the payments package of the ex-manager of the English national football team, Steve Maclaren. He was appointed in 2006 at a salary of more than a million pounds per annum – much more than the amount paid to other European nation's managers. When England failed to qualify for the finals of the European Nations Cup he was fired. His severance package, for someone who had failed, was another payment, but this time of over £2 million. Maclaren was not however to blame for this. The real culprits were the Football Association executives who thought that this kind of deal was reasonable. The point was that it was the kind of deal which they themselves would find reasonable in the management of the companies with which they were linked. An exorbitant sum was payable for performing the functions of the appointment, but failing to perform them should attract massive compensation. These people lived in a different world.

The executive committees of companies had traditionally got away with this because the recommendations of remuneration committees were buried in much larger annual reports about company performance at annual plenary meetings. These meetings were notified to shareholders, as the law required, but very few of the non-institutional shareholders bothered to turn up. It was not until the abuses of the power to reward by the institutions were more widely noticed that complaints began to appear first in the financial press and then in the wider press. Attempts were made by energetic individuals to organize votes against the recommendations of the remuneration committees. Several companies including banks like HSBC faced demands that their remuneration policies should be changed (*The Observer*, 9 September 2007) because top salaries were too generous. (In October 2008 the matter again surfaced with particular attention to the role and remuneration of non-executive board members.) But this was always difficult since the corporate investors tended to side with each other. Thus the practice, though now more widely noted, continued. The evidence of the greed of managers was however widely broadcast, and this brought the corporate sector into disrepute. It also fuelled the increasing bitterness of the public about the ways of the rich, particularly when their incomes were compared with the salaries of their employees. The situation of the non-doms simply added fuel to this particular fire (see Chapter 3).

The greed of the rich, and their success in further enhancing their rewards, had to be put beside the observation that more individuals in Britain were now being paid wages on which they could not live, and which required topping up out of taxation. A system of tax credits was introduced and supported by the New Labour government. This went alongside the introduction of a national minimum wage, fiercely opposed by business, of around £5.00 per hour. The complaint was that such a wage would make British industry uncompetitive. But the minimum wage was set at a level at which it was impossible to survive and income support in the form of tax credits had to be provided. These were paid out of general taxation. A term for such lowly paid jobs became common which was derived from the employment practices of the US hamburger chain Macdonald's – macjobs. The appearance of, on the one hand, a group of rich who found it easy to line their own pockets even further, and on the other of a cohort which was paid wages below what was needed to survive, explained the widening gap between the highest and the average wages. The pattern at the bottom was often that, after a takeover, long established workers would be fired and rehired at a lower salary. One notorious case of this was that of Gate Gourmet, the company that provided on board meals to several airlines, after its takeover by an American company. These practices must be regarded as part of the Anglo-American economic model.

The consequences of these practices on social welfare provision should be noted. Increasing income differentiation had several knock-on effects. One was that a larger group was now emerging which could now be eligible for various forms of support from the state. This support started with tax credits from the income tax system, and income support, and of course corporations were required to pay their share of the cost. Therefore, it can be said that the payment of low wages was not always beneficial to the companies. Apart from tax credits other benefits included state support for housing and paying the costs of meals at school. Other maintenance costs were payable.

Another form of aid from the state was to cover the costs of going to court, known as legal aid. This aid came to be regarded as excessive. One reason was that lawyers and barristers as a group became more proactive in seeking out work through which they could earn legal aid. A second was the increase in the number of people who were claiming legal aid because their income was below the level at which they could pay for themselves. The government determined that the cost of legal aid should be reduced. In January 2008 the government reduced by 75 per cent the amount payable to lawyers for attending police stations on behalf of suspects previously qualifying for legal aid.[13] In consequence the services of the legal system were put out of reach of a large number of individuals. No one could be certain of winning even a strong case in law. The poor could not risk having to pick up the costs of a failed action.

Other effects were the increased effort given to uncovering those who were claiming benefits illegally. One group attracted controversy early in 2007. This concerned the question of cohabiting by unmarried couples. A single mother could claim a wide range of support from the state, and a single man, if his income was below that of eligibility for tax credits, could also claim benefits. But if the two decided to live together their eligibility for such benefits was greatly reduced. The state therefore set up an arrangement for spying on the domestic arrangements of couples who were suspected of living together, and, disgracefully, neighbours were encouraged to report if they thought this was happening. It was reported that lie detectors, itself a flawed technology, was to be used to uncover benefit fraud. Interestingly the right-wing London suburb of Harrow was used to try this method out. Such harsh investigative techniques were one of the consequences of income differentiation, and bound to lead to a more bitterly divided society. The zeal with which the authorities pursued low-level suspected welfare cheats should be placed beside their insouciance when faced with the grossly massive pension funds and bonuses of bankers, even after the crisis caused by them in the global economic system.

Left-wing theorists and Labour Party politicians had long debated whether a welfare system should be open to everyone and whether all benefits should be distributed according to eligibility in terms of universal criteria regardless of wealth. If the level of income differentiation was low, such a system was possible because it amounted to a system of social insurance. Where there was very low income differentiation a society was made up of individuals of roughly equal wealth who would only need state support at points of crisis. Where income differentiation was high state welfare systems became ways of redistributing income from the rich to the poor in the long term. In this case it was natural that the deserving poor should be sought out, and that the undeserving should receive no benefit. In this situation welfare provision had to be more focussed. The rich also had an interest in limiting income distribution. For these reasons as the level of income differentiation increased the number of exclusions from the ranks of the deserving poor was likely to increase. The policy of locating the poor who deserved support and those who did not was also likely to lead to increased social tensions and bitterness.

It was difficult to measure changes in the level of probity of the institutions with which the public dealt. But in the early twenty-first century it seemed that companies were becoming faster on their feet and more inventive in devising ways of extracting greater reward from the public. It was also noticeable that efforts to prevent this were also being made, though it was hard to say whether they were catching up or falling behind the scalpers. The reaction of the companies was a combination of insouciance and self-righteousness.

Banks found themselves subject to massive public pressure to restore unreasonable charges levied on their customers. Those who went over the limit of an approved overdraft, even by the smallest amount, found themselves subject to charges of up to £50.00 when the cost to the bank of pursuing the matter was less than £5.00. Charges levied caused an account to go into deficit and attracted further charges. Those who forgot to pay a credit card balance, even if the delay was only a single day – and that caused by a problem with the mail – would find themselves paying a punitive charge. When an individual began to organize a protest movement, supported by the British Consumer Association, banks found that they had to restore such charges. Some customers were paid back several thousand pounds they had been charged in unreasonable fees. The Financial Services Authority decided to bring a test case against the banks to reach a verdict on a reasonable level of charges, but the outcome of this was not known at the time of writing (see *The Times*, Saturday, 28 July 2007). The legal proceedings began in January 2008 and would not be concluded until the spring of 2009. The repayment of the charges was suspended while this case was being considered, and naturally the banks did what they could to delay the process by legal appeals and other challenges.

In the meantime the banks looked for other means of charging their customers to make up for lost profits. It was as if they believed that they had the right to increase their profits year in year out. One bank suddenly announced that it would charge interest on overdraft accounts which had previously been free as they were part of an offer to attract the custom of university students. When student protest forced the bank to back down, the bank explained that it had discovered that those given such free accounts sometimes switched to other banks after graduation. Some banks immediately announced that they would now levy an annual charge for a credit card, or, oddly enough, make a charge on accounts which were little used, or when the customer habitually paid off sums owed in full on a monthly basis. Sometimes the accounts of customers who got their money back were simply closed. Businesses seemed to believe that they had a right to an ever-increasing scale of profits. When Centrica decided to buy a company which made more efficient gas boilers, involving a fuel cell technology, the reaction was immediately that some other means of making up the profits made from selling less gas would have to be found. One way being considered was to find a way of charging a rent for the new boilers, rather than selling them outright, as at present, to the customer (*The Independent*, 15 January 2008).

Finally in this section about the various ways in which the interests of the public were traduced by companies attention is focussed on the arrangements of what might be called the big heavy-lift companies. These included the companies concerned with public works and those involved in managing big public services such as transport, railways, motorways, ferries, and so on. One issue that came up over and over again in this context was that of corporate responsibility, discussed in Chapter 1. Could anyone in a company be made to take the blame in the event of negligence which led to a fatal accident? An example from an earlier period is illustrative: When the car ferry the Herald of Free Enterprise turned over outside Zeebrugge on 6 March 1987, killing 193 passengers and crew, it proved impossible to pin responsibility on the company, despite the fact that the bow doors had been left open because the company pressured the ship's crew to minimize turnround time. The father of one of the passengers who died in this accident spent the rest of his life attempting to force the company to accept responsibility but failed. The government of Tony Blair said when it came to power in 1997 that it would deal with the problem of corporate responsibility but failed to do so.

More recently a public works company was fined because negligent maintenance on railway track led to a derailment and loss of life. In this case the company was made to pay a fine, but no individuals in the company management were held responsible. This was the latest of a series of errors in track maintenance which led to the closing down of the privatized company that had been given responsibility at the time of the privatization of the British railways in the closing days of the Tory Administration of John Major. The whole privatization process was a financial and organizational mess which benefited those who acted as consultants and the banks at the expense of the public.

Public works companies benefited from a range of tricks and games at the expense of the public. One was the so-called *cost plus* method of financing. This gave *carte blanche* to companies to buy what they wanted to carry out a job, say of bridge building, and then to add a percentage to that as profit. The companies were put under little or no pressure to minimize costs and it was hardly surprising that by the late twentieth century public works in Britain usually went three or four times over budget. They also went on over deadline. This should be compared with the experience of building the first British motorway in the 1950s. This was built on time and under budget. It was also striking that in Britain in the early twenty-first century it was difficult to discover any continental public works company, despite the liberalization of competitive contracting in the European Union.

A trick promoted by Gordon Brown when he was Chancellor was much liked by the public works contractors. This was known as the private–public partnership, according to which private capital paid for the building of new hospitals and schools, or the modernization of the London tube, then leased their works to the public sector. The capital sums would eventually be repaid to the company at the end of the period of the lease. The advantage of this method for the government was that it kept major capital expenditures out of the public accounts for the time being. The advantage for the companies was that it provided a massive new income stream. Unfortunately the new hospitals and schools were often judged to be below standard. The consortium given responsibility for modernizing the London tube went bust and the work was taken over by the public sector through the organization known as Transport for London. In the longer term the bill for the private–public partnership would have to be paid by a future generation of tax payers. They would no doubt find it easy to do this after paying for their personal pensions and contributing to their children's mortgages. At the time of writing increasing doubts were being expressed about public–private arrangements.

Conclusions

All of this adds up to a sorry record of incompetence on the part of government and a record of greed well fed by the corporate world and its rich investors and managers. It explains why the somewhat better off became worse off and why they were so angry about it. The cost for the public was likely to be a massive one. What was new this time was the way in which the conflict was between the corporate sector and the super-rich and the middle class as much as between capital and labour.

There were likely to be increasing bills to be covered by a population that included an increasing number of individuals with inadequate incomes. The underlying problem was that Britain was in fact more like the United States of George W. Bush than was generally realized. The gap between rich and poor was increasing. This was greatly encouraged by the greater degree of British involvement in the liberal globalized economy than was the case for other West European countries. It has to be said that there was ample justification for more vigorous complaint on the part of the British public. It was hard to say what form this complaint would take, though it was undeniable that the increasing feeling of being exploited was linked with an increasing level of anger.

There was a trend towards what was called by Marx monopoly finance capitalism though this was apparently not noticed. It was extraordinary that it became respectable to ask the question of whether Marx had not been right all along.[14] The problem was that this capitalism had an innate tendency to self destruct. It made fewer and fewer richer and richer, but eventually destroyed the one thing on which it depended, the market. As Adam Smith had pointed out – much to the surprise of those who thought he had advocated a market free for all – the market had to be regulated. Capitalism was the best system for organizing national economies, and the global one, but it needed governance. In the early decade of the twenty-first century there was little evidence that governments could establish an effective form of governance for what had become global capitalism. There was an increasing and pressing need for more and better international regulation. But since governments were increasingly subservient to international capital this was unlikely to happen. The predictable crisis of finance capitalism was reached in the autumn of 2008 and is discussed in Chapter 5. But this crisis, as this chapter reveals, is but a further stage in the worsening plight of individuals in Britain.

Their situation was likely to get worse because of the increasing tax burden generated by the massive financial support for failing banks, and the amount spent to kick-start the economy in 2008–9. It was predictable that the burden would fall mainly on the middle income earners. The government was not inclined to ask more of those who had higher incomes.

CHAPTER THREE

The strange ways of spending and saving public money in Britain and their consequences

Money is the life blood of the modern state. It energizes all the essential economic functions: spending, buying, investing, saving, earning. These are essentially the major moving joints of the economy and money is the blood which serves them with oxygen. In modern states money is created in a number of ways principally by governments who issue currency in the form of notes and coins, and control its amount, and by banks and other financial institutions who also create liquidity when, for instance, they borrow from each other. As Mrs Thatcher found, it is very difficult to control the actual amount of money in the system because it exists in so many different forms apart from coins and notes.[1] Indeed modern governments have had major problems in controlling these other forms of money. In 2008–9 they were facing a major crisis in the credit system which led to a sudden and severe contraction of credit available, in the form of mortgages, for house purchase. This looked likely to continue for two or more years.

This chapter is concerned with the decisions about spending, first, in the budget of a government or of a local authority; and second by companies when they decide to invest directly in a state by sending money into it from outside. In the first case the budget necessarily involves a lot of decisions about spending on a wide variety of matters such as hospitals, new roads, schools, welfare, and so on. In the second case the budgetary decisions of companies to invest, say, in Britain, necessarily reflect a judgement about the target economy and the competence of its government. The question considered is whether there is a positive or negative relationship between the decisions of companies to invest from outside – foreign direct investment (FDI) – and the budgetary decisions of governments. Is a higher total level of spending by national governments and the higher level of taxation this implies – and greater commitment of national resources to welfare – necessarily a deterrent to inward investment, as has been claimed by neoliberal economists? Does a civilized system of welfare provision repel FDI?

There is a general complaint about the way that the British budget is made and a number of more specific complaints. The general complaint is that it is not subject to enough scrutiny before approval. The budget of the United Nations was rightly loudly complained about by the contributing states in the 1980s to 1990s precisely for this reason, and reforms were forced upon it.[2] The failures in the United Kingdom were acknowledged in 2009 in the proposal made by George Osborne, the Shadow Chancellor, that it should be possible for every UK taxpayer to scrutinize online every item of government spending above a certain sum. This would enable those who contributed the money to discover how their taxes were spent and to hold the government to account.[3] It would certainly concentrate the minds of those responsible for spending. But, of course, the government in office would be reluctant to let its dealings with money be too transparent, since spending is one of the most important sources of political power. In debates about public spending the big sums might be discussed in Parliament, but rarely in a comparative setting, and for most people the arguments were close to meaningless. The problem of weak overall scrutiny of the budget existed at the highest level: even the Cabinet lacked the time or capacity to look at the whole thing in the light of agreed priorities.

Fairness and the national budget

There was no general principle, even in modern democratic states, which governed the distribution of money from a national budget. The broad pattern was of demands on a kitty which at the local or central level was constantly replenished out of taxation. At the central level there were spending departments and there was the holder of the purse, the Treasury, under the responsible politician, in Britain the Chancellor of the Exchequer. In responding to the various requests for finance the Chancellor and his advisors played a key role. Their allocation of priorities was, however, often mysterious. A central difficulty in Britain was that decisions about public spending were made behind closed doors between ministers and officials, and Parliament was powerless to do much about it except after the deals were done and the final product was brought to them for approval. This was one of the nooks and crannies of government which was not subject to direct democratic oversight.

It may be that the priorities were dominated by the need to serve higher causes, such as the obligation to maintain a stable economy and to balance this against achieving as much growth as possible. This might be said to be an ethically neutral consideration: its objectives are not contentious. Or it could be that budgetary decisions reflected the greater strength of a particular interest, private or public. Or they could be a reflection merely of political expediency: money was directed by politicians simply to buy votes. There is however another possibility that money was distributed through national and local budgets in a country such as Britain largely in consequence of various inefficiencies in the budgetary process. These are considered below.

Resources were allocated to maintain the essential service functions of the state, such as, in the United Kingdom, the National Health Service or the state school system. Problems in these areas were however rarely solved by increasing budgetary allocations but merely alleviated. The government could not bring itself to give a high enough priority in the budget to solve them. Various policies to improve, for instance, state schools were adopted, and money was spent, but this did not seem to have raised their standards to the level of private schools, at least not in the areas where the problems were greatest.

The schools which most needed attention were those of inner cities, particularly in English cities – less so in Wales or Scotland. In Birmingham, for instance, only those who could demonstrate unusual academic ability – mostly from middle-class homes – succeeded and most of the others went to schools where academic standards were not so high. This was because of the scarcity of places in good academic state schools and the intense competition which followed to gain access. As a result even bright students often did not get into university. In Caernarvonshire in North Wales, and other Welsh counties, in the 1950s, in contrast, all students who had academic ability went to academic schools and then to University because there were so many more good schools in proportion to the population. As a result Wales became known as an exporter of schoolteachers. There was little evidence that this unfairness had been corrected in the English cities at the time of writing. Though the number of academic institutions labelled as universities had been increased, English students at good English universities still came mainly from the private schools.

It became an unfortunate truism that there was no end to the amounts that could be spent on public health. In the United Kingdom this was part of the defence of a system which in effect amounted to the rationing of drugs. In the first decade of the twenty-first century, drugs were given to patients in England because they had enough effect to justify what they cost. The British New Labour government institutionalized this unfairness for England and Wales, but not Scotland, when it set up the National Institute for Clinical Excellence (NICE) which was asked to decide upon the effectiveness in relation to cost of new drugs. Though it would never be admitted by government this amounted to a way of rationing drugs. It measured the effectiveness of drugs against their cost, and if, in its judgement, the effectiveness was below a certain threshold it authorized their non-supply by regional health authorities. In consequence the rich could obtain drugs even if they were only, say, 10 per cent effective, because they could afford them, whereas the rest were denied them until they were, say, 80 per cent effective, and drugs might be available in one region, but not available in an adjacent region. A regional health authority could decide to make a drug available in its area which was not available in an adjacent region.

The fair principle, one which would be applied in a civilized state, would be that clinical need should always prevail over all other criteria. A measurable beneficial effect, though it might be small in some cases, should be enough to justify the prescribing of a drug. Similarly the fair principle would hold that schools should always be effective providers of a high level of education, even if they were not all able to afford tennis courts, or one-to-one teaching. The difficulty in achieving these standards derived from a problem with the making of decisions about budgetary allocation. The public position of governments about the inadequacy of the funds available to solve the problem seemed convincing: if the cupboard was bare what could be done? But the facts were different: the cupboard was bare only because the decision had been taken to spend the money elsewhere, or it had been decided to keep it back. This meant that there was a sense in which the cupboard was never bare. In October 2008 the public was surprised to learn that local government authorities in the United Kingdom had lost millions of taxpayers' money in failing Icelandic banks, when they had been told earlier that no money was available to pay for an adequate system of refuse collection. The public could not be allowed to decide which programmes should have a higher priority. It would be hard to demonstrate that even British Members of Parliament could do this.

In February 2009 it was reported that the government, entirely without the explicit approval of Parliament, had spent £34.5 billion on so-called Quangos (quasi-autonomous executive agencies) in 2007–8. The amount spent had increased by 12 per cent since the previous financial year. They were agencies made up of government appointees, headed by officers chosen by government and paid substantial salaries, and had responsibilities such as speeding up the planning process, defence procurement, or overseeing the operations of the Grown Cereals Market. Alongside quangos were other unaccountable organizations which were titled 'non-departmental public bodies'. The amount spent by the latter organizations had increased from £37 billion in 2006–7 to £43 billion in 2007–8.

It was not that these agencies were all necessarily pointless, but rather that there was no way of finding out whether this was the case or not. They were unaccountable. The Conservative Party judged that a good number of them were not needed. The amount of increase was a telling comment on what happens when budgets are not transparent and comparable. The government was accused of keeping spending by quangos under wraps and of using them to avoid being held to account. An increase of almost £6 billion on non-departmental public bodies went through on the nod, while the short fall of £9 billion in the pension fund of postmen was judged an impossible burden on the public purse. There was also a great increase in the employment of professional consultants by the New Labour government. The cost of these enterprises together probably amounted to more than £50 billion* a year at a time when schools were told they could not have the £25 million they had been promised for new buildings.[4]

The national budget was also to pay for the defence of the realm, with appropriate numbers and training for soldiers, and to provide equipment, from boots to aircraft carriers. Here again the needs of the military were determined usually, not by the requirements of the state, but by the self-image of a small number of national leaders, or by the need to finance a military adventure, the second Gulf War, itself decided upon by a small elite of four individuals, namely the Prime Minister, Tony Blair, his unelected but powerful press secretary Alastair Campbell and two officials with links to the Foreign Office. Defence was necessary. But effective national defence was attainable with forces that were not by themselves up to allowing a state to play a global role. The Swedes and the Swiss were well aware of this. But top politicians in Britain hankered after more than a solid defence. They also wanted the military equipment, like an up-to-date nuclear weapons system, or new aircraft carriers to project themselves as major players on the world stage.[5]

* Throughout the book the US billion is used, which is 1,000,000,000.

The idea that Britain *should* be a world power might reflect a tradition of that state, but by well before the twenty-first century it had become a cruel indulgence at the expense of more effective budgetary allocations to such matters as schools, pensions and health systems. Successive British governments also declined to dilute what they believed to be their high status global role by persuading the members of the European Union to form an effective European army, powerful enough to play a role in the global balance of power. In the fairness state the hierarchy of spending should be to make sure that civilized standards were obtained at home as the very highest priority before pursuing heroic goals abroad, and to do what could be done, with others, to share responsibility for maintaining a stable international strategic system. There was little justification for maintaining national forces for a world role if this was in effect at the cost of the proper care of the elderly or the sick.[6] Of course the government should ensure national security, but this does not require heroic unilateralism.

The decision to become involved in the attack on Saddam Hussein in 2003 led to massive expenditure on a military expedition which was increasingly seen to be failing. This single action had huge budgetary implications, but the British system was such that it could be embarked upon against the advice of the Foreign Office, and without much consultation. The end of this expensive adventure was not in sight at the time of writing. Much has been written about its failures, particularly the way it was sold to the House of Commons, which was persuaded to give it its approval, on the basis of the so-called *dodgy dossier*, after the decision had been made. This claimed, amongst other deliberate untruths, that there was an urgent need to act because Saddam had developed the means of launching weapons of mass destruction against the United Kingdom within 45 minutes.

Comparison of the costs of the Iraq war and those of the financial crisis was revealing. Stiglitz and Barnes concluded that the British system of defence spending was ‘particularly opaque’ and in consequence British citizens ‘have little clarity about how much is being spent’.[7] They calculated that the Iraq War would cost the British taxpayer more than £20 billion by the end of 2010. The military costs were around £10 billion, but a further £10 billion had to be added to cover costs such as medical support, and pensions, for soldiers. It would cost the United States about $3 trillion. The on-going involvement in Afghanistan would cost Britain a further £2 billion a year. The IMF concluded in early 2009 that the financial crisis would cost the

British about £140 billion. The British Treasury disputed this figure. Much of its bailout spending, about £2.1 trillion, would make a profit and loans would be repaid, so the net cost would be nearer £60 billion.[8] The costs of the 'rescue' amounted to 12.8 per cent of the IMF figure, and 33 per cent of the cost proposed by the Treasury. Either way this war would cost the British a significant percentage of the bill for repairing the worst economic crisis in 60 years. If only they had seen it coming!

But insult was added to injury: the massive expenditure in Iraq was highly inefficient. There were not enough properly equipped helicopters. Several Chinook helicopters were kept in storage in Wiltshire because the order from the United States had been bungled. There was a shortage of armoured personnel carriers. Soldiers were sent into battle with no body armour – indeed some decided to buy their own. One wondered whether the Ministry of Defence was 'fit for purpose'. Its record in managing its enormous budget was one of disgraceful inefficiency, yet Parliament failed to give it any real censure. The war expenditure alone diverted massive sums away from where it was needed to make the state more fair and civilized. The further £2.1 trillion spent on bailouts for failing banks would have kept the National Health Service going for 20 years.[9]

In other areas where it had been decided to spend, the arguments in favour and against on the basis of fairness could be more complicated. It might be decided to finance a long-term project which seemed to serve a general interest, such as a promising area of medical research, or to help bring a new product to market, or build a better motorway or train network. In each of these cases criteria of fairness applied. It might be that research in some areas brought general benefit and that success made it more likely that there was overall fairness. It was reasonable, and fair, that the budget should finance projects which did not bring immediate obvious general benefit, but could in the future. The calculation became more problematic when a project brought benefits to some consumers at the cost of others. It might be unfair for everyone to be required to pay for a better train service out of general taxation when the beneficiaries were a small group of better-off commuters. In this case there was an argument for a greater part of the cost of public transport to be paid for by those who used it, rather than by all taxpayers. Fairness in supporting expensive medical research lay in its availability to everyone if successful. Each individual carried the risk of needing the product of research, though in practice it might not be needed. Payment out of general taxation for this kind of research was fair because it went to improving health provision available to everyone. It was rather like an insurance policy which paid out if needed.

The budget might also provide a gift to one or other section of society, such as the elderly or unemployed or the rich, in order to win electoral support, or to attract the approval of influential individuals. Such gifts might be in the form of tax reduction, or tax concessions for business. In this case there might be some notion of the need to achieve an acceptable standard, to move towards a fairer society. But this ambition was always tempered with expediency – enough must be given to head off public outrage.

Technical problems in the budgetary process

There are numerous examples of procedural inefficiencies in making budgetary allocations. Some of these are:

- The insistence that institutions such as hospitals should spend all of the money allocated for the current financial year, and punishing those institutions which failed to do so by withholding the unspent sum from the budget for the following year. This was a budgetary principle which was often applied in Britain, not just in hospitals. The government retreated in November 2007 from the proposal that it should also be applied to the budgets of state schools. This procedure was not conducive to budgetary prudence, but to its opposite of spending for its own sake, as it discouraged budget holders from saving a surplus from the current budget to buy something more worthwhile but more expensive in the next financial year. Being careful led to being squeezed rather than rewarded. This budgetary trick was obviously flawed. It was not one that sensible parents would recommend to their children.
- Another failure of procedure was the lack of any capacity for overall prioritizing once the budget had been determined. This problem was a common one in national systems and local authorities in the United Kingdom but which was rightly condemned in international organizations. It led to situations such as the following: a massive road building programme was set in motion at the end of the financial year, paid for out of allocated funds, because they would be lost if unspent, even though it had emerged that the local hospital was in severe need of capital investment. Or the use of hospital theatres was rationed because the budget of a hospital was at its limits, even though there were patients

in urgent need of operations, when, at the same time, massive amounts of money were being spent on new street lighting, or on signalling equipment for motorways. In the financial year 2006–7 British Government Ministers spent £6 million pounds from taxation in their use of cars, and MPs allowances and expenses increased to £95 million, when schools in their constituencies found it difficult to pay for qualified teaching staff (*The Independent*, Friday, 27 July 2007).

- Unfairness in the allocation of funds was often hidden because of the difficulty of comparison across sectors. If an increase were presented as a percentage of a particular account, without any note of what it meant in terms of a percentage loss to other accounts, the real value of the increase was hidden. It was as if the money in different accounts was in different currencies which were not convertible. In consequence there was rarely any discussion in the press about whether a particular spending decision made by government should be changed and the money spent on something else. In illustration of this consider that an increase of say 5 per cent in the Defence Budget, which seemed modest, was colossal compared with a similar increase in total spending on school maintenance. An increase of 10 per cent in spending on universities sounded enormous but in real terms was small compared with a modest percentage increase in defence spending. In the routine of accounting these figures were not set out side by side, so that the lack of any overall principle of allocation, such as fairness, was obscured. Making such decisions about priorities in Britain was entrusted to groups of specialists in the Treasury and in Town Halls. The public had no say in these decisions.
- A major difficulty in the way of even modest increases in taxation was that the public had no confidence in government's promises about how it should be spent. On the one hand was the lack of clarity about how much individuals might gain by a reduction in taxation compared with what they could lose. Reductions of say £500 might be judged to be not worth the candle if it were at the price of an effective health service.

  On the other hand a proposal to increase tax on individuals by £500 in order to put the health service right was not believed. The fear was that such an increase would simply disappear into general taxation and that it would be hard to measure any benefit. One answer would be to have a guarantee by ring fencing, sometimes called hypothecating, an allocation of money. Money raised by a particular element of taxation would have to be spent on a stated purpose. There would have to be a formal procedure for diverting money from a hypothecated fund if there were another genuinely more pressing need for finance. The lack of comparison across national systems was relevant here. It was difficult to persuade taxpayers in a particular country that their overall level of payment of tax was low, compared with that in another country. In the United Kingdom the public was completely persuaded that taxes, at 36 per cent of GDP, were higher than those in any other state in Europe, even though this was quite untrue. The highest level was in Sweden at around 50 per cent. The right wing political parties were of course very happy to promote this untruth.

  Lower taxation did not necessarily mean worse public services but it probably did. Traditionally a central principle of the philosophy of the Conservative Party in Britain was that tax should be reduced to a lowest possible level, but the implications of such a policy for the public services was usually left unconsidered. Since the 1997 election there was, however, some evidence that this had changed. New Labour promised it would not increase taxation after coming into government in 1997 for at least two years. In 2007 the Conservatives promised they would not *reduce* taxation if they won the next general election.

- Often public money was used to subsidize the private sector, as when large sums were spent on roads which were intended to service speculative housing.

The conclusion from an examination of the budgetary process was that ethical considerations played a small role. It was not aimed at perfecting the fairness state, but rather at satisfying a range of conflicting utilitarian demands, each aimed at strengthening a particular narrow interest. At the head of this pyramid of demands was of course the demand of the government for re-election. It was likely to meet the needs of those who it thought had to be persuaded or rewarded, and did not reward those who it judged to be weaker or less important electorally.

In the history of modern states this failure led to a characteristic pattern of evolution. The French and Russian revolutions, and the emergence of trade unions and, later, the Labour Party in Britain, were all the result of budgetary unfairness. They were a response to the extreme privilege of the few, but this was brought home by the juxtaposition of great poverty and enormous wealth, the result of miscalculations by governments about what they could get away with when they made their budgets. This is the point: budgetary decisions were at least as much about what a government could get away with in benefiting favoured interests as it was about that great amorphous thing, the public interest. Indeed the modern developed state was getting to be like a pork barrel. Developing states were often best seen as containers of valuables which individuals struggled to get for themselves, their families and their tribes at the expense of the other citizens. But this image also seemed to fit the modern USA quite nicely. It had become a pork barrel from which those who could helped themselves. The idea of the public interest, so strong in the minds of the founding fathers, had become a fig-leaf for private greed. The need to return to some sense of the public good was one of the themes of the 2008 Presidential election, and in Britain the overall unfairness of the balance of tax contributions and budgetary expenditure was brought home by the financial/economic crisis.

The total take of taxation was of course relevant to the problems of making budgetary decisions. Deciding between budgetary priorities certainly becomes more difficult when the tax take is lower. In Britain, at one end of the scale, there were significant numbers of workers who earned too little to pay income tax and who received contributions out of tax in the form of tax credits. At the other end were the rich who avoided tax by various means, from tax havens, to non-dom privileges. If there was not enough in the pot part of the reason is now clear: on the one hand were those who earned so little that they could not pay, on the other hand were those who earned so much that they could ensure they did not pay.

Private or public?

There may be good reasons for not having higher levels of taxation, such as the difficulty in trusting governments about how it should be spent. But it did not follow that doing more through the private sector was necessarily better. The right wing of the political spectrum had it that government should be small and individuals should be allowed to keep most if not all of the money they had earned. But a little thought would lead most people to conclude that it was better if society, that is people in general, took on responsibility for some actions since that way they could be done better.

For instance every society required some common infrastructure such as a road system or an effective way of dealing with fire or flood. For these activities it was not very important whether they were built by the government or private enterprise, as long as they existed and were efficient. There were however many others where the general feeling would be that the market should decide. As pointed out in the Introduction most would accept that the purchase of toasters should be left to individual decision among a range of products produced in competition between different designers and manufacturers. The problem of course is finding the right place to draw the line between these two ways of meeting the needs of individual citizens. The financial crisis of the autumn of 2008 reopened a debate that many thought had been settled. The crisis was largely the result of leaving too much to the private sector and inadequate governmental supervision and regulation. Much to the surprise of those who had become resigned to the triumphalism of neoliberal free marketeers, there was now a realization that the market could not be left to itself.

No one should be fooled into accepting that it was necessarily morally superior for individuals to carry more personal responsibility directly and for the state to carry less. There were political philosophers at the time of Mrs Thatcher's government who argued that the state should retreat from performing charitable functions such as coping with orphans, dealing with abused children and providing homes for the destitute. This should be regarded as an objectionable view. Thatcherism was an ideological bandwagon onto which many ambitious right wing political philosophers in the universities climbed, some of whom now prefer to keep this quiet. They held, in the fashion of the times, that it was morally better that charities should deal with the sick and destitute, that labour in this should be voluntary and the money provided by gifts from individuals. But few, even under Mrs Thatcher, went so far as to say the government should have no role in welfare. Leaving so much to private charity also became problematic when it emerged that the super-rich were not very good at giving.

For the right wing in the universities and the political system the next step did not need arguing. It was an obvious truth. Health should be privately funded. Unemployment benefit should be minimal. Indeed every activity previously carried out by the state could be a candidate for transfer to private hands. In Britain the business ethic and the skills of private management were mysteriously judged to be superior to those of hallowed public institutions such as the universities. Despite the world class reputation of British universities and the notable failure of British business managers, universities were put under pressure to appoint a majority of businessmen to their governing councils. In Britain, electricity generation and distribution, gas manufacture and distribution, the railways, and water supply were all privatized by Mrs Thatcher or by her successor John Major.

This great experiment in the transfer of wealth did, however, have the useful consequence that its advocates were shown to be wrong. Placing more and more in the hands of businessmen did not lead to greater efficiency. In some cases efficiency declined. At the centre of the range of government activities that affected the lives of most individuals in the modern state were the welfare services. These could be better in providing support for those in need, or they could be worse. Better generally meant higher taxation and more done by the state. Worse generally meant lower taxation, and more done privately. Both systems could be efficient, both could be inefficient. The difference was that privatization meant that more individuals were able to impose a levy as profit on activities that had previously been not for profit. There was certainly an expanded revenue stream for a few, but most individuals noticed no improvement either in the more efficient provision of services or the lowering of taxation.

The US experience was that private provision could be highly inefficient, with impenetrable bureaucracies, impossibly slow and evasive responses, and an energetic commitment to limiting obligation. This was a fact of life known to most Americans which the ideological right wing in Britain would not acknowledge. This system worked well for those who could afford to pay more for excellence. It worked badly, if at all, for those who could not afford health insurance, which was true for around 40 million Americans.[10] Middle-class Americans lived in constant fear of long-term illness for themselves and their dependants, which could drain their personal resources dry. Such illness could literally pauperize families. Beneficiaries from this system were the rich, the medical profession, which was ludicrously overpaid, the drug companies, which could charge what they thought the market would stand, the owners of hospitals and the insurance companies which demanded their profit.[11] This system of private medicine was strongly defended by the doctors' management committee, the American Medical Association, for reasons which were essentially and selfishly commercial, rather than for any argument about the responsibility of doctors to patients' health.

In contrast the British NHS was free for everyone, it had a system through which it negotiated the price of medicines with the drug companies, and did not pay a rake off to insurance companies – except to cover cases of negligence. The problems with it were that there were often waiting periods for treatment in non-urgent cases. Conditions in hospitals might be less congenial with mixed sex wards, rather basic food and excessive pressure to free up hospital beds, non-use of some expensive drugs and, by the 1990s, problems in controlling hospital infections. These were certainly good reasons for vigorous complaint. But they were not because the system was run by the state, but rather because the system was in some regards badly run by hospital authorities. One reason for this was that generations of British governments had kept the system short of funding, providing around half of the resources per capita compared with other European health services.

Another reason was a consequence of Thatcherism: the outsourcing of responsibility for essential work such as cleaning and hygiene to private companies which let standards slip to increase profits. Tony Blair's government determined that the amount spent in Britain on health should be increased to the level of other European countries. Unfortunately the increases in funding were not spent entirely sensibly. Some very serious errors were made. For instance the salaries of general practitioners were increased by about 50 per cent from the mid-1990s and their workload reduced. Another reason was the entrenchment of bad habits among middle and senior ranks of the medical profession which tolerated inefficiencies and sometimes shielded negligent colleagues. A further problem, which was revealed as overwhelmingly important, was the increasing commitment of hospital managers to achieving targets and good financial performance. The output in terms of the health of patients became of secondary importance.

By the later years of the first decade of the twenty-first century it seemed that both right and left had committed themselves to spending more on the NHS and getting rid of its inefficiencies rather than going private. There was some realization that individuals could receive their wages either directly from their employer, or from the state in the form of what was called a social wage. It did not matter morally or from the point of view of efficiency if one was higher than the other. But there were some gains in efficiency in having a higher rather than a lower social wage. For instance an NHS could more easily force down the price of the drugs it needed and would deny profits to intermediaries such as the insurance companies. It could also more easily reduce the social costs of having an unequal distribution of health support. Such costs were entailed in the form of untreated illness and inadequate vaccination programmes, which amounted to an informal transfer of the failures of the private sector to the public sector. This was the root cause of the reappearance of significant rates of tuberculosis infection in some US cities, such as New York, in the late twentieth century.

Given enough spending a private system could be as comprehensive as a public one, but only if every potential customer had the means to pay for private treatment. This would mean that in a civilized state with high levels of private provision, wages had to be high enough to cover the necessary payments. But in practice the argument for more private provision was an argument for having a worse system and paying less for it. In the United States in the twenty-first century almost the first step taken by the Ford Motor company to get itself out of the red was to reduce its support for workers' health.

Privatization did not always improve things. The British record on stripping business away from the state and selling it to the private sector was a mixed one. There were obvious failures, such as the privatization of the railways (see Chapter 5) and some cases of good performance, up to a point. The privatization of electricity and gas manufacture and distribution could be rated a success. It was able to capitalize upon a surprising discovery that the distribution system for the various forms of energy need not be owned by the energy-producing companies. Gas was gas and could be put in the system anywhere by any supplier and taken out anywhere by the consumer. The same was true for electricity. The one probable source of inefficiency in these two sectors was that there appeared many separate companies at various stages in the system each of which took a profit. The company that bought or made the energy was separated from the company in charge of distribution. The company that maintained the boilers or wired the houses was separated from the first two. Before all of these there had been one public supply company which aimed to cover costs. Now each bit took its profit.

Another problem with the private sector's control of energy appeared in 2007–8. This was the lack of any mechanism for acting quickly in the consumer's interest to reduce charges when the price of oil fell, which happened in October 2008. The privatized companies had an obligation to shareholders which naturally obliged them to make as much profit as they could. The government was left with no option but to appeal to the companies to reduce their charges more, and more rapidly, to reflect the reduction of costs to consumers.

Does the British experiment with privatization lead to any conclusions about where the line could be drawn between the public and private sector? There were natural local monopolies which should have remained in state hands. An example of this was the supply of water. This industry could not be competitive since there was no national distribution system. Water companies became notorious for their inefficiency with regard to the maintenance of the local systems of supply. They also became notorious for their reluctance to spend their regulated profits on the improvement of the supply or purity of water. (Profits had to be capped by regulation to prevent the exploitation of monopoly.) The owners of water companies often spent their earnings on investments in other more profitable companies such as television companies for the greater benefit of managers and shareholders. They were also sometimes sold on to companies which had a reputation as asset strippers. Thames Water was bought first by a German company and then by an Australian company, Macquarrie, which had a reputation for asset stripping. (More about this in Chapter 2.) The conclusion had to be that water privatization was a costly failure.

Having lower levels of taxation, and a bigger role for the private sector, rather than paying higher levels of taxation and receiving a bigger social wage was neither morally superior nor necessarily more efficient. Indeed some degree of lower efficiency in the public sector was more than offset by the profit taking and asset stripping on transfer to the private sector. Too frequently the essence of the budgetary nonsense in this context was that the debate was not about efficiency, rather it was about ways of reducing the social wage. It was easier to pay less in total, from the public and private budgets together, if more was done by the private sector. In other words the argument for privatization was often an argument for a less civilized state, and a moral argument in favour of making individuals self-reliant. This was precisely the argument which led a Tory government in 1846 to view with indifference the mass starvation of the Irish because of the failure of the potato crop. It would have been possible then to reduce the export of wheat and to use it to feed the Irish, but the government insisted that such help would undermine self-reliance.

The line between what was better privatized and what should not be privatized did however need to be discussed. There were privatizations in Britain that seemed to be successful, though attempts to prove this beyond any reasonable doubt were not persuasive. Economists used arguments in support of privatization which rested more on political ideology than economic logic. It was extraordinary that it could be supposed, as it was by some right wingers, that those who decided to pay their taxes so that the state could pay for welfare were being less moral than those who supported charities directly.

The above argument has demonstrated that decisions about how to spend and save public money in Britain were made for various reasons, some ideological, some virtuous, and some to do with political expediency, and often they were subject to technical constraints which affected ability to target resources where they were needed. The conclusion has to be that the budget in Britain was only loosely related to the idea of achieving a just society. Rather it was a forum for contention between political philosophies with rival views about the role of the state. It had little concern with achieving equity as between individuals, and, it follows, in moderating the increase in the inequalities of incomes which led to the appearance of a class of super-rich. The next question to be considered is the external consequences of this kind of budget – was it better, from the point of view of inward investment, for Britain to have a budgetary process which allocated money in such a way that, according to the Anglo-American socio-economic model, the social wage was kept low and the private sector was favoured? Were the social democratic states in Western Europe, with high levels of welfare spending, likely to lose out?

Money from outside

Neoliberals held that the correct budgetary priorities of successful modern states should rest on low levels of taxation, lower levels of government spending, less regulation and as big a role as possible for the private sector. Their view was that high tax and welfare spending discouraged economic development and frightened investors away. In other words their views supported the development of private capital ahead of public capital, and encouraged the emergence of the inequitable distribution of wealth found in modern Britain.

It was not, however, as simple as that. The pattern of direct investment (FDI) flows into the EU states in 2004–5, and other indicators, according to OECD figures, appeared not to be correlated with tax levels, and did not reveal any noteworthy differences between the states that had generous welfare systems and those that were not generous (see Table 3.1). International business found the economies even of countries with generous welfare systems attractive. There was some indication that the form of taxation rather than its level mattered. Total company taxation and higher employer social security contributions seemed to correlate with lower inflows of FDI. The figures suggest that changes in inflows and outflows of FDI changed rather quickly.

Table 3.1 Direct Investment Inflows and Taxation[13]

Direct investment inflows as Per Cent of GDP			Taxation 2003				
Country	2005(04)	1995(94)	Total as Per Cent of GDP	Per Cent from Personal Tax	Per Cent from Employer Social Security Contributions	Per Cent from Corporate Income Tax	Per Capita GDP in $ Defined PPPs[a]
Belgium and Luxembourg	16.50 (22.17)	3.69 (3.32)	Belgium 45.4	Belgium 31.4	Belgium 19.1	Belgium 7.4	Belgium 32,500
Luxembourg			41.3	17.1	12.4	19.1	67,700
Czech Republic	8.98 (4.17)	4.92 (1.99)	37.7	13.0	28.0	12.3	20,200
United Kingdom	7.48 (3.69)	1.73 (0.89)	35.6	28.7	10.3	7.8	32,100
Netherlands	6.99 (?)	2.97 (?)	38.8	17.9	11.6	7.6	34,200
Hungary	6.14 (4.16)	11.30 (2.73)	38.5	18.9	24.1	5.8	17,200
Sweden	3.83 (–0.53)	5.82 (2.98)	50.6	31.3	22.9	5.00	32,700

France	2.99 (1.19)	1.90 (1.15)	43.4	17.5	25.7	5.7	30,200
Germany	1.17 (?)	0.67 (0.34)	35.5	23.9	19.9	3.5	29,800
Italy	1.11 (0.22)	0.40 (0.22)	43.1	25.1	20.6	6.6	28,500
Ireland	–11.28 (7.75)	2.17 (1.56)	29.7	26.5	9.2	12.9	39,200

[a]PPPs: Purchasing Power Parities, obtained by evaluating the cost of a basket of goods and services between countries for all components of GDP.

(?) Not available or negligible.

Source: OECD in Figures, 2006–2007 Edition, Paris, 2007, pp. 12–13, 60–61, and 64–65.

In 1998 the only countries which had a positive position on direct investment flows defined as a percentage of GDP were Austria, Denmark and Ireland. All the rest, including the United Kingdom had a negative position.[12] Close to balance, though still in deficit, were Sweden and Belgium/Luxembourg. The United Kingdom had a negative balance, with outward flows at 55 per cent of inward flows.

The figures on flows of direct investment in Table 3.1 are revealing in that they reveal very little. They do not demonstrate that the new members, with their relatively ungenerous welfare systems, or the older ungenerous members, such as the United Kingdom and Ireland, had a great advantage when it came to attracting inflows of foreign investment.[14] Measured as a percentage of GDP the winner in 2005 was Benelux, with Belgium a generous provider of social benefit, and Luxembourg a less generous provider. Among the older members of the EU the United Kingdom seemed to have done well in 2005, but in 2004 was behind the new members, Benelux and Ireland. Ireland's performance was somewhat erratic in that there was a significant outflow of foreign investment in 2005, though there had been significant gains in earlier years. The United Kingdom's good performance in 2005 was, according to one report, largely due to a major one-off international merger.

The performance of the heartland social democratic countries varied from very good for the Netherlands in 2005 at 6.99 per cent – only marginally behind the United Kingdom (and well ahead of the UK's 2004 figure) – to modest improvement for France, Germany and Sweden. France benefited from inflows to the amount of 2.99 per cent of GDP. (One report stated that inflows from the United States into France had exceeded those into China in 2006.) But France and Germany, like most EU members, had moved strongly upwards since the mid-1990s.

The difference in performance between the member states was not strong enough to justify the claims of neoliberals that social democracy was a failing system. A glance at the figures on direct investment positions in the heartland countries and in the United Kingdom and Ireland confirms this point. With the exception of Ireland there was marked increase, and though the United Kingdom was ahead on inward and outward investments, the other countries showed significant totals (Table 3.2). The figures on per capita GDP suggest that their economies were well capable of generating high incomes for their citizens. The value of inward investment in France and Germany was less

Table 3.2 Leading EU Direct Investment Positions in Billions of US Dollars

	Inward		Outward	
Countries	**2004 (2003)**	**1994**	**2004 (2003)**	**1994**
United Kingdom	707.9 (609.0)	189.6	1268.5 (1235.9)	276.7
Germany	675.6 (659.5)	87.5	754.6 (718.1)	194.5
France	619.6 (520.2)	163.5	829.3 (720.2)	182.3
Netherlands	501.1 (433.4)	93.4	595.4 (544.4)	142.9
Ireland	(?) (217.2)	0.0	(?) (238.9)	(?)

(?) Not available or negligible.

Source: International Direct Investments Statistics, OECD, Paris, 2006–2007.

than in the United Kingdom, but the difference did not seem to justify the claim that the Anglo-Saxon model was necessarily superior.

The figures on direct investment reveal only a part of the pattern of economic improvement in Europe. In 2006 it was noted that, though further legislative and regulatory reform was needed, there were various signs of the growth of European economies.[15] By 2003, of the 20 biggest non-financial multinationals ranked by foreign assets, 13 were European. In 2005 direct investment out of Europe was 20 per cent higher than in 2003, and exports rose from 17.6 to 19.2 per cent of world market share between 2000 and 2005, despite the rise of China. Inflows of FDI into the 15 pre-enlargement states between 2000 and 2005 amounted to half of the global total, and equity returns in Europe outperformed those in the United States. There was new confidence in the recovery of the traditional leader of European growth, Germany. Though unemployment remained high there were signs that it was beginning to decline. The point here is not to demonstrate that all was well, but rather that the view that European social democracy was a recipe for economic disaster could simply not be sustained. As reforms were being introduced, be it too slowly, so growth was beginning to accelerate. But even before reform had got off the ground – around 2002 – improvement was taking place.

The consequences of the global economic crisis made this even more apparent. The social democracies seemed to be weathering the storm more effectively than the Anglo-American economies, and they had stronger welfare systems to cushion the individual distress caused by the crisis. If any economic model could be said to be the cause of the collapse of international banking it was the Anglo-American, light regulation, lower social wage, and lighter taxation one, and not the social democratic one characteristic in various forms of the rest of Europe. There was suddenly in the autumn of 2008 a new enlightenment about the value of a strong government role, and the costs of the arms length relationship of government with banking which had been previously recommended. In other words the experience of the autumn of 2008 is revealing about the overall error of having the kind of economic and social arrangements which encouraged the appearance of the class of the super-rich and lodging it in London. The most successful exporter in Europe remained the social democratic Germany, not the United Kingdom, and poor internal demand was a reasonable explanation of high levels of unemployment. Worker productivity in Germany was the highest in Europe.

Conclusions

In the early twenty-first century the debate about European economies revolved around the question of whether the 'the European Welfare state must die'.[16] The key problems to be tackled were slow economic growth and high levels of unemployment – amounting to 10 per cent in France and Germany in 2006. The discussion of the real problems in the press was greatly confused by the intrusion of ideological considerations. Neoliberals and right wingers saw the issue in moral terms: publicly supported welfare was bad for individuals, since it sapped their will to work, and the rich were robbed through high taxation. Little regard was given to the view that there was such a thing as a civilized state, marked by justice for all, the protection of the weak and a low level of differentiation between the mean salaries of the top 10 per cent of the population and those of the bottom 10 per cent. Too often, also, the debate employed weasel words: the word reform was used to mean spending less, and the word poor meant idle and undeserving.

Real reform could take place without abandoning the European social model. But the right wing rhetoric, pushing for its view of reform, made real reform less likely because of the fear that change if accepted would mean tolerating extreme poverty and the kind of private affluence and public squalor found in parts of the United States and, increasingly since Mrs Thatcher in the 1980s, in the United Kingdom. The difficulties found by governments in France and Italy, in particular, in bringing about reform was partly because of this and partly because the leaders were not themselves clear about the possibility of defending welfare spending, accepting sensible reforms, as well as introducing beneficial change. They could not free themselves from the shadow of neoliberal economics. This situation was much changed by the economic crisis: it was the Anglo-Americans who were now on the defensive.

The welfare states of continental Europe were also criticized for having excessive support for their labour force, which therefore became inflexible, and too expensive. This was the point where the arguments of the neoliberals collided head-on with those of social democracy. The neoliberals interpreted flexibility of labour as the employers' right to fire, and the workers obligation to look after him- or herself. Social democrats in contrast realized that the need was for effective systems for helping workers to move from one job to another. This would mean a number of forms of support: it would mean protecting incomes during the period of adjustment, providing effective retraining, and providing efficient systems for advertising work and facilitating the new placement. The right wing would argue that workers needed the threat of extreme poverty to adjust. Some might – and some incentives might well be needed. But the overall system in a civilized state had to be one which supported, retrained and re-placed.

The moral codes of the mumbo-jumbo right wingers, so powerful in neoconservative America, and highly influential in Britain, had to be met with greater clarity and less fear.[17] It was also necessary for them to grasp the reality that the over-rich would have to pay more. One of the greatest benefits of the economic crisis was that it took the wind out the sails of the neoliberals. Their righteous condemnation of the civilized state was revealed as a cloak for making themselves richer come what may.

Nevertheless the principle of fairness was not the predominant one when it came to public budget making in modern Britain. What seemed to have happened was that the government placed more stress on the appearance of success for the country as an organic entity, as is summed up in the expression now often used, of the UK Ltd, rather than on the achievement of good standards for all its citizens. In the election of 1959 the British Prime Minister told the British people 'you have never had it so good'. At the time this seemed fairly non-contentious and no group sprang up to say 'not for me mate'. Fifty years later a British government could not be so direct in its claims for fear of being contradicted.

In contrast, however, the experience of other European states supports the view that Britain could strive for higher standards of fairness with regard to all its citizens, through what was conventionally called social welfare, without losing FDI. Greater national fairness did not come at a price.

CHAPTER FOUR

Projecting the trends: another dystopia?

In this chapter observable trends are deliberately pushed to see where they might lead. In the later decades of the twentieth century, and the first decade of the twenty-first century, there were developments which to this writer seemed ominous. They carried a potential for serious disruption of existing orders. They were not just developments within states – the developed states are the focus here – but developments in a globalized international society. These arguments might be seen as a commentary on the case for stronger international governance.

It had been pointed out many times since the 1960s that the international economy was morphing from a system of linked national economies into a system which in many ways was a single international economy. By the early twenty-first century this process had been taken a stage further. The single world economy had now been populated by formidable creatures with formidable powers which were not just capable of getting what they wanted for themselves but could also impose upon state governments and impoverish their populations. It was as if the world had turned into eighteenth century India and the East India Company had spawned a clutch of siblings, which, separately and in alliance with each other and state authorities, could drain out wealth, and head off protest. The formidable creatures were the massively endowed multinational companies which concentrated capital, bought up national companies greedily and submitted them to the will of the new international class of managers.

In the world of the globalized economy governance was even more inadequate than in the 1960s in relation to the forces and flows that needed to be governed. Indeed the scale of the problem had massively increased with the increasing scale of mobile private equity, increasing multinational concentrations of manufacturing companies and banks, and the extra-national ownership of key enterprises within states, such as public utilities, water, gas and electricity. In Britain ports were now owned by the state of Dubai, and defence facilities such as nuclear installations and defence training grounds were run by American companies. The British Airports Authority was bought in 2006 by the Spanish conglomerate Ferrovial. It was rumoured that one of the main centres of the BBC, Bush House, was owned by a Japanese company which leased back the building. These were new developments. No one knew where they might lead. Some observers were uneasy that economic arrangements were being made that were not fully understood, new forces for instability had been unleashed, and risks taken with national sovereignty. But governments and public authorities did nothing. Generally there was complacency which culminated in the great crash of 2008. No attempt was made to outlaw practices that took the international economy closer to the point of collapse.

But developments across a broad front, not just economic ones, are relevant to this account of an emerging dystopia. This is important because too much analysis has been one-dimensional. Neoliberal economists have stressed only the economic aspects of the increasing level of transnational investment and have left its political and social implications largely unconsidered.

Surveillance

Britain had taken the lead among the states of Europe in the early twenty-first century with regard to the extent to which individuals were subjected to surveillance as they went about their daily lives. The existing mechanisms for supervision included the placing of cameras in public places. Some were to deter and detect crime where there were particular temptations such as banks or art galleries. Others were to record the movement of individuals in public places, such as streets or parks, not so much to check actual wrongdoing, though this might be the case, but rather to capture the movement of people whom the authorities had decided should be observed. The effect of this, it was claimed, was that most British were under surveillance for 90 per cent of the time they were outside their own homes. On the main roads of Britain cameras were installed as part of a national system for enforcing the speed limit, but also to record the movements of cars. The latter could assist with the pursuit of those suspected of having committed an offence. (Ironically when police behaviour was in question, as in the G20 demonstrations in London in April 2009, photographs from mobile phones, not CCTV cameras, provided the evidence.)

The system for dealing with car parking offences required that notice of an offence, and demand for payment of a fine, should be given directly to the driver or affixed to the offending vehicle. As with speeding offences the courts would only be involved if the accused decided to defend the charge.

In early 2008, however, this power was extended. Local Councils were given the power to levy fines for offences detected by street cameras. The accused would not be aware of the charge until the penalty claim arrived through the post. He/she would be at a severe disadvantage with regard to establishing innocence or mitigating circumstances since the charge would only appear as much as two weeks or more later. The balance of advantage with regard to any resulting legal charges was increasingly on the side of the authorities. This was part of a more general trend towards undermining the traditional assumption that the accused was innocent until proved guilty.

But this was only one, perhaps even a minor, aspect of national surveillance. Governments were pushing to extend it over a broad front. A series of laws had been passed, often without the members of the House of Commons becoming fully aware of their significance, which allowed further intrusions into the privacy of the individual. It was agreed that the police could now take samples of the DNA of individuals who were questioned about a crime even if they were not charged. The idea was to build up a national register of DNA records against which the DNA of future malefactors could be checked. By 2007 about 4.1 million samples were on the database – more than any other western country – and some senior police officers and judges proposed going on to add the DNA evidence of every UK citizen and every visitor.[1] It was being collected at the rate of 30,000 samples a month. It was made much easier for the police to intercept messages between individuals such as emails, and to eavesdrop on phone conversations. A British court also agreed that evidence obtained through torture outside the United Kingdom could also be admitted if it provided evidence of proposed acts of terrorism.

Just as worrying from the point of view of individual freedom was evidence of the increasing monitoring of people at work. In January 2007 it was reported that 52 per cent of UK employees were subject to computer surveillance at work (Economic and Social Council, 'Future of Work Programme', reported in *The Observer*, 13 January 2008, Business section, P8). Employers were determined to squeeze more labour out of fewer workers. Technology was indeed helping to increase productivity, but not just by making work faster but also by being more efficient. It was increasingly being used to make it more intense and in consequence more stressful. In addition to spending more time at work than workers in any other EU state, British workers were now being required to work harder under hands-on taskmasters. No doubt this kind of surveillance would become standard practice throughout the developed world.

It was surprising how frequently any opposition to increasing surveillance met the retort provided by authoritarian regimes everywhere: 'if you have nothing to hide you have nothing to fear'. There were two obvious practical objections. First what happened when individuals refused to offer an example of DNA? Were they to be forced to comply? Even when the alleged crime was as minor as dropping a piece of litter in a public place? Second it was often unclear whether such data collection would help or hinder the judicial process. It could be extremely useful as with cases of rape or murder. But it was not the infallible route to the truth. Criminals would be quite capable of collecting body tissues from someone they wished to finger and placing it at the scene of a crime. Data in the wrong hands could be used to help with the committing of crime. A moment's thought would suggest that the collection of everyone's DNA was hardly worth the effort or expense. Unfortunately a good number of senior police officers and politicians had not found this moment.

There was also progress towards establishing an identity card for individuals which would include a wide range of data. The full extent of this has not yet been agreed, but it would include health records, as well as evidence on past misdemeanours, and contacts with the social services. The new system would also allow public authorities to have access to information collected about individuals by other authorities. An act was passing through the House of Commons in early 2009 which would allow public authorities to share all collected data about individuals with each other – from health data, employment records, financial records to information about computer usage and travel. The proposals were sufficiently ambitious as to arouse the strongest suspicions of the defenders of our traditional liberties.

Nevertheless the government decided to require all non-British UK residents to have an identity card, and in the next few years groups working in sensitive areas, such as airport staff, would be required to have one, and by 2010 young people would be able to choose to do so. Social networking sites such as Facebook, My Space and Bebo could also be required to disclose data. The policy Director of the lobby Liberty, Isabella Sankey, commented that 'the proposed central communications database is a terrifying prospect. It would allow the Government to record every email, text message and phone call.'[2] Despite general opposition in the country, and a failure to get a clear mandate from Parliament, the government nevertheless ploughed ahead with the cards. In future individuals were required to be able to show 19 pieces of information, including mobile phone and credit card numbers, when wishing to travel abroad. One comment was that 'after a decade the account shows a devastating loss of the freedoms that we once regarded as our birthright.' 'An almighty surveillance structure is envisaged'[3] though Parliament seemed casually indifferent to this.

Many of the ancient rights of British citizens, such as the right of habeas corpus (the right not to be held in prison without being told the reason), the right not to be tried twice for the same offence, the right to conceal previous offences in a current trial and the right to silence – the British equivalent of the American fifth amendment – were all casually abandoned by the New Labour government. All of these developments were part of a pattern of demanding increasing public disclosure and limiting the right to privacy. An increasing number of organizations, including public utilities, were granted the right to enter private houses without the approval of the home owner. For many this extension of surveillance and the curtailment of civil liberties was a reminder of the society described in George Orwell's *1984*.

The defence of these new ways was that they were a necessary part of the equipment needed to deal with modern crime, and particularly terrorism. Whether or not this was true was hotly disputed. Perhaps they arose simply because they were now technically possible. The balance to be struck between the help they gave to the police and their negative impact on civil liberties was hard to calculate. Although in principle everyone was subject to the same increases in surveillance and curtailment of civil liberties, in practice one group, even though it was itself under surveillance, had the power to undertake surveillance over the other; and the other group, the vast majority, did not have this power. Individuals were constantly thwarted in their attempts to discover how much information about themselves authorities had in their possession. The government of Tony Blair had introduced a Freedom of Information Act, but the scope of this act was then reduced. Governments quickly became frightened about what might become known about their ways, particularly about those whose advice they sought in policy making. Individual members of parliament tried to retreat from the terms of the Act with regard to their communications with constituents. The effect was that a great amount of information was collected which was kept secret from its subjects. The Freedom of Information Act did lead to easier access to some information, but the use of the Act was being restricted, due to charges for its use and the need for specialized knowledge, as well as huge determination, to exploit its possibilities.

In sum, surveillance led to the restriction of personal liberties for the individual and an increasing power for public authorities. It became easier to make proposals which would have been abhorrent in earlier times, such as making illegal any act that had not been explicitly made legal. This ludicrous proposal could now look serious. A person's home was no longer his or her castle but could be defended only in so far as the state permitted.

In the age of terrorism some of these measures might be defended as necessary, but they indubitably gave greater powers to the authorities, and the safeguards against their unreasonable use often seemed fragile. Sometimes the approval of a judge was needed, for instance when the police wished to hold a suspect for more than 28 days. There was constant pressure from the government to increase this period to 42 and then to 56 days. Too often the public was asked to rely on little more than the goodwill of the surveillance authority, trusting that it would not abuse its powers.

What were the social costs of increasing surveillance?

- Knowing that public protests/demonstrations were planned would permit more effective restraints and prohibitions and surveillance made it more difficult for protest to be effective. Leaders could be warned and threatened before the event. It was already the case that the police took and kept photographs of individuals at public demonstrations, regardless of whether they were peaceable or not. There were fears that the police in London were not merely acting as neutral marshals of large protests but were now actively siding with the authorities against the protesters.[4] Undoubtedly some police now looked forward to a good punch up, and in the G20 protests in London in April 2009 actually wore masks to conceal their identity. The law had already been changed to make it necessary to have police approval for public protests in certain areas, such as Parliament Square or ground adjacent to defence installations such as radar facilities. Two elderly women had been arrested and briefly imprisoned for protesting at the perimeter of the Mendwith Radar station in Yorkshire about the location in this country of parts of the new US star-wars system. The vast majority of people in Britain were opposed to this, but the government had powers to approve such systems in secret and force them upon the public.
- Making it more likely that information about individuals from the past could be kept in view, thus stopping promotion or new employment, and making it more difficult for offenders to start again. It was indeed necessary that police checks should be made before the appointment of individuals to

particular jobs. Paedophiles had to be kept away from working with children. A criminal record for robbery was an unlikely qualification for a bank manager. But the danger was that computer held information could be accessed by unauthorized individuals as a matter of routine who could then use it simply in order to damage the reputation of a rival, say, for a job or an election, and not because the individual was unsuitable. The promises of the government that effective mechanisms would be in place to prevent this were laughable. The operative rule was the obvious one – Murphy's law – which states that if something could go wrong it would. And too often things had gone wrong with the government's data systems.

- The experience in Britain was such that there could be little confidence that data could be kept confidential. In 2007 a wide range of personal information about newly qualified doctors seeking employment had accidentally been made openly accessible on the Internet. Another example was the loss of several computer discs which included private information of individuals receiving income support. In the nature of things, it was a certainty that data placed on the national register for individual identity cards would become accessible to unauthorized agents, including those with criminal intent. The government had a naïve misplaced confidence in its ability to protect data. Those taking the decisions had little knowledge about the new technology and could easily be taken for a ride by the computer salesmen, who of course were all too ready to assure the politicians that all would be well.
- Private companies could make a point of obtaining access to the whole range of information about individuals kept by public authorities. There was the danger that the situation would arise in which any company could obtain a complete set of personal information about every individual in the country whenever it wished. The crooked dealing made possible by this could be readily imagined. Credit rating agencies already collected a massive amount of information about whether individuals could service their debts: whether they were credit worthy or not. Much of the information was curiously constructed, so that it did not seem relevant to its purpose. Some of it was also inaccurate. Imagine the situation if all available personal information could be accessed and held on file by such agencies – especially if the individual affected had in practice little capability for checking the accuracy of the information held. The further danger existed that such data could fall into the hands of governments and individuals outside the country.

- Identity cards were not a certain proof of identity and gave new opportunities to those with criminal intent, who wished to take on another identity. It was not just that there was no guarantee that access to the computers holding the data could not be engineered. The skill of computer hackers was frequently underestimated, leaving those who thought their computers were secure with egg on their face. But there was no guarantee that the new identity cards could not be forged. This would make the card just another difficulty in the way of establishing true identity, rather than a way of simplifying the process.

The conclusion is hard to avoid that the great increase in surveillance and the resulting collection of personal data made it easier for public authorities as well as companies to exploit individual citizens. It became more probable that there would be casual injustice. It became easier for governments to head off what they found disagreeable and for companies to identify and exploit commercial opportunities. The level of unfairness experienced by honest individuals would be massively increased. If one had nothing to hide one needed to be particularly concerned.

Private global governance and state power

In the later part of the first decade of the twenty-first century observers were alarmed by the increasing foreign ownership and management of companies in Britain. It was not just that companies in services and production were falling into foreign hands, but so were utility companies. One analyst commented that 'the biggest single change in the structure of British industry in the past 20 or 30 years [is] its drift into foreign ownership.'[5] Such invasions of foreign capital were defended by the British government as reflections of its commitment to the liberalization of the global economy. But British overseas investors were not acquiring a similar status in other developed economies. On 4 March 2008 the Office of National Statistics reported that the value of UK-based companies bought by foreign predators reached £81.4 billion in 2006, the highest level ever. The British had spent £58.1 billion on foreign companies (*The Independent*, 5 March 2008). The British attitude was a reflection of a prejudice in favour of greater liberalism, and a blind faith in its benefits, rather than of a careful calculation of costs and benefits, and a balancing of British investments abroad and inward investment at home.

Little attention was given to the dangerous aspects of this invasion of foreign capital. It was an aspect of not only the greater power and mobility of capital but also its greater concentration. It was possible precisely because of a tendency to concentration of capital. This was noticeable particularly in banking and in agri-businesses, but was detectable in a range of other industries such as the manufacture of cars. In 2009 it remained to be seen whether the global economic crisis had challenged this. It was also apparent in service industries such as insurance and in the appearance of investment capitalists commanding massive amounts of private equity. Sometimes the bonds of concentration were visible sometimes they were not.

The risks attendant on such developments were invisible to economists, especially those of a neoliberal persuasion, because they were political, social and lifestyle risks rather than economic ones. The economists tended to be happy if they saw that the pie increased. What they saw less often was the social damage which the activities of such concentrations could do in a liberalized world. This is discussed frequently elsewhere in this book. Less obvious were the lifestyle costs as with damage resulting from the concentration of the ownership of land and food production in the hands of small numbers of massive agri-businesses. These were likely to have little time for the positions of those who opposed the use of genetically modified seed, or who preferred finer and rarer types of meats and vegetables. In abandoning all support for farmers in the developed world governments risked handing its control to massive multinational private monopolists. In the poorest countries, land would be bought and production re-tooled to serve the world market with a narrower range of foodstuffs. In countries such as Paraguay large tracks of forest had been cleared by big agribusiness in order to grow soya for biofuels. (Information from the BBC documentary series, *Tropic of Capricorn*.) The environmental damage that this could do in places like Africa would be considerable.

But there was another more serious danger behind this concentration of capital in a liberalized global economy. That was a political danger. The international political system of the future may acquire new and formidable players made up of coalitions of the private multinational companies and links between them and governments of various political persuasions and size. The precursor for this development was the British East India company as it operated before the Great Mutiny of 1857. It was a company which had state-like powers, increasingly dominating in India and increasingly capable of bending the will of the British government. It was also in effect an agent and ally of the British government.

In the twenty-first century the appearance of what were called sovereign funds was hardly noticed. These were investment funds which were financed by national governments and were directly under their control. They included Temasek, owned by the Singapore government, the Qatari-owned Qatari Investment Authority and Dubai International Capital. Sovereign funds also moved into alliance with private investment companies. For instance Dubai International Capital bought a 9.9 per cent share in the New York Hedge Fund Och Ziff on 31 October 2007 (*The Independent*, 31 October 2007). In late November 2007 Citigroup was rescued – for the time being – from serious financial trouble by a $7.5 billion investment by the Abu Dabi sovereign investment fund (Hamish McRae, *The Independent*, 28 November 2007). As US banks ran into problems with debt they increasingly turned to sovereign funds to help them out. The sovereign funds could make decisions quickly, because they were run by a small number of people, often only a single individual.[6] They could be rightly described as the 'new power barons', riding to the rescue of run down western financial institutions. These were small scale compared with what was to come: the Chinese government had begun to develop a sovereign investment fund to buy up foreign companies. There were private companies which were close to government, such as Exxon and Halliburton, which had close links with members of the Bush administration. But there were now powerful investment vehicles which were investment arms of national governments.

Direct investment helped the British economy, if only because it bought in foreign management to replace 'incompetent, amateurish home-grown management'.[7] But the risks were also considerable. Of all the European economies the British economy had become the most involved in the global economy. The dangerous side of this was that there was a lack of effective management of the global economy. It lacked effective governance, was very inadequately supervised and was at the mercy of unscrupulous risk takers. It was as if the British government had opted to climb aboard a vehicle which had lost its brakes and steering but was accelerating rapidly.

In Europe a looming giant was Gazprom, managed by the deputy of Russian President – later Prime Minister – Vladimir Putin, and said to be the second biggest company in the world. In 2007 this company was already the sole supplier of gas to a number of European countries, such as Finland and

Slovakia, and it was anxious to take over national energy companies including those in the United Kingdom. The dangers of succumbing to such companies were apparent. In February 2008, and again in January 2009, Gazprom threatened to cut off gas supply to Ukraine – the most recent of a series of such episodes – nominally because of a disagreement about payment but more likely in an effort to put political pressure on President Victor Yushchenko's pro-Western government. *The Independent* newspaper warned about the dangers of becoming too dependent on Russian gas. "The sad fact is that Europe has allowed itself to sleep walk into an ever-growing dependence on Russia for its energy and that this relationship now circumscribes our ability to influence, let alone criticize, the Kremlin." (Editorial, *The Independent*, 11 February 2008).

Why should the increasing role of sovereign funds matter? In the case of Gazprom the answer is obvious: a threat to cut off or limit the supply of gas is a powerful foreign policy tool. OPEC used its control of the supply of oil to influence Western attitudes towards Israel in the 1973 Yom Kippur war. Sovereign funds which have a controlling investment in the supply of scarce commodities like copper, zinc and tungsten have comparable power. Arrangements similar to OPEC were threatened for such essential materials in the 1970s as part of the New Economic Order proposed by a coalition of developing states. The World Economic Conference in Paris in the mid-1970s succeeded in heading off these proposals, but alliances of material suppliers could now be formed under the leadership of a country such as China, or one or other of the Middle East states. A threat by the government of Dubai to impose a charge on containers entering Felixstowe could be a way of putting pressure on the British government, though coalitions of key raw material suppliers would be more threatening. Pressure in Felixstowe together with the exploitation of Chinese interests in Africa, say with regard to the supply of Katanga copper, could persuade the British that supporting Taiwan in a period of Chinese pressure was not worth the candle. A further development could be imagined: sovereign funds could ally with private funds to gain control of key industries in a target state. Just as the East India Company gained control of the Indian trade in spices and other valuable commodities, so a coalition of investment companies could gain control of the European aircraft industry.

In cahoots with governments companies could now become a geostrategic threat. They were capable of forming alliances with each other for political as well as economic purposes, and governments could suddenly find themselves in effect under the control of a coalition, made up, say, of Gazprom, other companies with holdings of the victim's national assets, and, say, a Middle Eastern government. It has to be said that the movement was not all into the West. It was reported that US Private Equity companies were negotiating to buy a minority stake in China's Social Security Fund (*The Independent*, 31 October 2007). But such companies would be well capable of committing resources to the establishment and maintenance of client governments. There would then indeed be international governance of the global economy but not quite of a type which national governments in the West would have preferred.

Such developments regarding private companies, especially when linked with governments, threatened the capacity of states for independent action. Any government which commanded significant resources might play this game, but the government with the largest resources, the USA, was likely to be the best player. Matthew Parris wrote of the US attempts to prevent the development of the Galileo system by the Europeans, since it could undermine US monopoly of satellite global positioning technology, which provided a significant military advantage. Parris wrote that the strength of US hostility alerted the Europeans to the need for a separate capability. He added: 'We become so easily aerated over constitutional changes that may appear to threaten what we call our "sovereignty". These make the headlines. But beneath the headlines, technological and commercial shifts – quiet but continuous – can leach autonomy away in less sensational by finally compelling ways.' (Matthew Parris, *The Times*, 3 November 2007, p. 19). An American company, Raytheon Systems, had become the main contractor for new British travel security systems, at a cost of £1.2 billion. Coincidentally this same company was a significant contributor to security research at the New Labour think tank, the Institute for Public Policy Research.

The precursor of the leaching of sovereignty by private enterprise would be the fruit company Fyfes and its control of Guatemala – the original banana republic. Modern concentrations of capital have created the possibility that many more states could become banana republics. This could be a game in which some governments would happily become involved. They could work with the companies covertly to move the tectonic plates of international politics, creating and destroying alliances, determining the areas which were to be prosperous and those that were to remain as cheap labour. They would be the instruments of the super-rich, making the political arrangements and policies of states seem fragile and unimportant, and their attempts to achieve social justice futile.

The rich, poverty and crime

Most observers would agree that extreme differences between the richest and the poorest in society are likely to be associated with an increase in crime of some kind among the poorer classes. Those who have different views may be safely regarded as eccentric. Mrs Thatcher insisted that the increase in crime during her time as Prime Minister was nothing to do with the increasing visible wealth of some citizens and the increasing number of those who were very poor. It was, she insisted, entirely to do with a lack of proper values, the decline of morality among the less successful.

There is, though, a strong link between extreme poverty and increasing resort to violence and theft, though this might take several forms. It may be seen in increasing normal crime rates, such as crimes involving theft of property or violence against the person, such as mugging. It might also take the form of revolution, as when there is a spontaneous and general eruption of protest, probably violent protest, against authority. In support of this view is the evidence that crime increases as the gap between the median income of the rich and that of poor increases, and that revolution tends to occur in societies with great disparities in wealth. In January 2009 one commentator expressed surprise that there had not been any stronger public protest in Britain about the excessive greed of bankers and investment institutions and the resulting crash of the world financial system (Simon Caulkin, 'It's got so horrible that we ought to be revolting', *The Observer*, Business Section, 11 January 2009, p. 8).

The characteristics of these kinds of crime are that they involve a jealous reaction to the observation of what seems to be the unreasonable wealth of others, the appearance of a feeling of entitlement – that the criminal has a right to what the rich possesses – and identification with a larger group of the deprived. There are some exceptions to the latter, but waves of criminal behaviour in this sense are linked with broader social movements, and are not just a reflection of the envy of the rich on the part of a few eccentrics. Some crime, such as terrorism, is excluded from this definition, since terrorism has an ideological character and specific political goals. Surprisingly perhaps the appearance of gang warfare may well be included as it is usually the result of the wish to establish the ownership in some sense of a territory claimed by another gang. It is a functional equivalent of the search for wealth.

Revolution in the sense of a massive protest against an existing regime has usually been instigated by the middle class not the poorest in society. When one group becomes hugely richer than the mean of the middle income group it is more likely that there will be active protest eventually and that this will turn violent, unless there are strong countervailing restraints. The poorest groups are less likely to protest, but may begin to do so in alliance with the middle income group if their circumstances begin to improve. This was the observed pattern in France in the late eighteenth century and in Russia in the early twentieth century. The poorest group, until things begin to improve, is locked in poverty that is so abject that its members are likely to be deeply resigned. They may also be held in a traditional society in which there is a strong sense of deference to the local rulers. That India is a country made up of villages is important in keeping it relatively stable despite the abject poverty of most of its people. In this situation it is difficult to start a mass movement of protest against rulers which links the poor of many villages together. Some traditional rulers in India have been viciously determined to stamp out any local movements, such as trade unionism, which could lead to effective protest.

The danger of more strident – possibly even violent – protest against the super-rich increases when the middle class begins to feel that things are becoming unbearable, and when the poorest elements have been mobilized by some degree of improvement in their circumstances. Several other developments could assist with the process of mobilization of these two groups. One is the feeling of entrapment due to increase in surveillance and the unreasonable extension of the powers of authority. Another is the observation that the super-rich have fixed the rules of economic competition in their efforts to get rich – that they and government have colluded in fixing the terms of the game to their advantage, as with investment and free trade. This could strike one as a fair conclusion to draw from the Bush administration's enormous tax hikes in favour of the rich, the opening of national parks to the exploitation of pro-Bush companies, the impossible domination of right wing agendas in the media, the peculiarly low level of representation of the sons of the rich in the US army, as seen in Iraq, the increasing difficulty in obtaining a reasonable level of pension provision and the inadequacy of health provision for middle income families.

It is difficult to be clear about the catalyst which could lead to a more active and organized movement of protest, and how far this could involve violence. But it is clear that economic and social circumstances in the United States, and perhaps in the United Kingdom, have moved in that direction. In Europe the countries which are probably furthest away are the Scandinavian countries and Holland, where income differentiation, though increasing, is relatively modest. The United Kingdom is probably the closest because of massive and increasing differentiation. But 'it seems clear that the more unequal a society the greater the sense of disaffection' (Will Hutton, *The Observer*, 2 September 2007). One authority concluded that the kind of inequality which was becoming common in the United States and the United Kingdom in the early twenty-first century also led to a futile race among the better off to outdo each other in extravagance.

Freedom and oppression

In 1939 E.H. Corr published a book about the drift to war in the 1930s, *Twenty Years' Crisis*, which became a classic of its kind.[8] The main theme was a criticism of the liberal/rational approach to international relations which held that peace would be preserved by rational people working through the League of Nations and seeking the resolution of disputes between states through diplomacy. The underlying assumption of this approach was that war was always an irrational approach to problems and that a peaceful solution was always possible. Carr pointed out that much depended on the view which was taken about the overall character of the society of states, and that in the 1930s it made sense to take a different, realist view. The world was simply not the kind of place where rationalist and liberal approaches could work. This might change, but not yet.

Carr argued that in the society of states war could be a rational response to the problems they faced. For instance there were strong explanations of the resort to war by the Japanese in the 1930s. The Japanese lacked raw materials and oil in their own state, and needed to import these from elsewhere. They also needed new markets where they could sell the products of their expanding economy. Attempts to prevent the Japanese from obtaining necessary resources and markets were bound in the world of states to result in increasingly aggressive attempts to obtain them. Japan became increasingly hostile towards the United States, which seemed determined to prevent Japanese access to essential raw materials. Satisfied states, like

Britain, the United States, and France were inclined to think that the existing international order was fine, and the Japanese should be content with what they had. This view was repugnant to the dissatisfied states. Germany and Japan, found it intolerable.

This preamble introduces the following five propositions:

- Actors which find the existing order to their liking are baffled by the attitude of other actors which are dissatisfied.
- The satisfied actors will resist the attempts of the dissatisfied actors to change the order so that it is more to their liking.
- The satisfied actors are likely to be the strongest in the system.
- The strongest actors will strive for a system which is as open as possible, where regulations are at a minimum, and where rivals can be kept in check, and their own powers exercised freely. They are likely to get stronger as long as that system endures.
- It is rational for the weaker actors to seek to modify the principles of the international order, in this case the economic order, which favour the rich and powerful, by any means available to them. This is merely a version of common arguments about the balance of power which holds that a dominant state will strive to protect and increase its ability to dominate, but other states will emerge as balancers. In modern terms the United States protects its dominance; it is likely that a rival will appear to balance the United States, such as Russia, China or even the EU; the United States resists this tendency.
- As with power politics in the 1930s there is constant tension between those who want to protect the existing system and those who want to change it.

In sum: dominant economic agencies, governments or companies, or both together, will attempt to remove restrictions on their ability to further extend their economic power. Their view is likely to be that the international economy will be improved by removing all restrictions on trade or investment, all attempts to regulate the market place and all attempts to impose levies on economic flows to pay for non-economic purposes such as social welfare. Neoliberalism as a view of the economic world order is akin to realist views of relations between states. The two ideologies tend to go together. It is an ideology of the strong. Think of the neoconservatives in the United States. These ideologies suit the most powerful, just as the status quo suited the states which dominated in the inter-war period.

It was consistent with the psychology of neorealists that they were blind to the longer term consequences of practicing neoliberalism. There was no distinction between the rules that should apply in the short term, and those in the long term. They did not countenance that, for instance, unrestrained operations of the market carry social risks which might damage the market in the long term, or that a completely free market might destroy itself. The crisis in the international economic system could have been predicted as easily from looking at *how* neoliberals think as from *what* they think.

Economists such as Joseph Stiglitz, who was the Chief Economist at the World Bank, came to the conclusion that social regulation was necessary as a distinctive operation to oppose the natural tendencies of free market economics to help the strong to get stronger and the weak to become weaker. Similarly it was necessary to have a distinctive set of policies for development since without them wealth would flow mainly upwards to the rich. Unless there were strong social market restraints social justice for poorer states as well as poorer individuals would be undermined.[9] This was not because the less well off were necessarily less deserving of economic success, but simply because of where they stood in the market place. Free trade, free market economies, freedom to invest and move investments without conditions or restraints favoured the rich and powerful, be they individuals, companies or states, and did not help the poor and weak. As with the dominant states in the 1930s, they could not understand that others were deeply discontent with the existing order. It remained to be seen whether they could be brought to realize this without large-scale violence. Of course neorealists liked to pretend this was not true, and invented half-baked theories to justify the dominance of the satisfied actors: hence the trickle-down effect.

This argument is now illustrated by two case-studies:

1. Liberalization of investment

First the argument can be illustrated by reference to attempts to liberalize international investment in the late twentieth century. The failure of the New International Economic Order (NIEO) in the 1970s was an opportunity to push further liberalization with a less regulated regime for international investment. This led to the attempt to negotiate the Multinational Agreement on Investment (MAI).[10] Although this failed, the arguments presented illustrate the stance of the powerful. The major economic lobbies, dominated by those from the United States, argued that the regulation of foreign investment created significant economic costs. An investment agreement like the MAI should eliminate controls that existed only to protect special interests. The argument was pressed that everyone would benefit from this, though the definition of special interests was a very wide one and the way in which liberalization would benefit most people was left unclear.

What was being sought was the creation throughout the world of a single deregulated investment space, in which investors would be as safe as they were at home. In order to accomplish this a set of rules were proposed to limit the ability of governments to impose conditions on foreign investment. These rules would curtail a nation's regulatory authority over both foreign and domestic corporations. The basic principle was that of non-discrimination. From the perspective of proponents these rules would do no more than ensure a level playing field for international investors and protect the security of investments in countries that were party to the agreement. From the point of view of the weak – the hosts of the incoming investment – the proposals were intended to eliminate their ability to pursue a social agenda. International investment was a fund which could in principle be tapped to redistribute wealth, just as general taxation could be so tapped within a state. The rules proposed in the MIA were intended to prevent this. They were to protect the rich who provided the money for investment.

Specific rules would include:

- Countries were to be required to treat foreign investors and investments no less favourably than domestic ones. They could not place special restrictions on what foreign investors could own, maintain economic assistance programs that solely benefited domestic companies or require that a corporation hired a certain percentage of managers locally. Laws that had a discriminatory effect against foreign investors would be prohibited whether or not such discrimination was intentional. But there would be nothing to stop governments from treating foreign corporations more favourably than domestic ones (for example, by offering special incentives to attract foreign investment).
- Governments were to treat all foreign countries and all foreign investors equally without favour to one over any other. This would prevent host states from discriminating against investment by companies from countries with poor human rights records. This policy was an attempt by US business lobbies to restrict their own government's actions against countries with

poor human rights records, by for instance requiring that US companies in other countries should follow US law. This was before the time of the George W. Bush administration!

- Performance requirements were to be excluded. These were rules which, for instance, required investors to meet certain conditions if they wanted to establish an enterprise in a particular locale or if they wanted to be eligible for tax incentives or other government aid (for example, low-interest development loans). A requirement that corporations used some percentage of *domestic* inputs was an example of a performance requirement that would be prohibited by the MAI. Performance requirements would be banned even where they applied equally to domestic and foreign firms.
- There was to be a ban on the uncompensated expropriation of assets. The MAI would require signatory governments, when they deprived foreign investors of any portion of their property, to compensate the investors immediately and in full. This might seem reasonable and indeed it was right that simple expropriation should be excluded.

  But expropriation would be defined not just as the outright seizure of a property but would also include governmental actions 'tantamount to expropriation'. Such a rule would appear to exclude any takeover or nationalization of foreign assets. Investors should be able to sue national governments, and seek monetary compensation, in the event that a law, practice or policy violated investor rights, but the case would be heard before an international tribunal rather than in the country's domestic courts. The proposals would limit the jurisdiction of the host government, not just their ability to impose conditions.
- Governments were to be forbidden from any limitation of an investors' right to export its profits, by, for instance, moving profits from the operation or sale of a local enterprise to that investor's home country. Nor could countries delay or prohibit investors from moving any portion of their assets, including financial instruments like stocks or currency. The question of whether an exception would be made in the case of national financial crises had not been resolved when discussions about the MAI were suspended.
- The proposals *did not* include any binding code on the responsibilities of investors regarding fair competition, treatment of employees, environmental protection or other issues. Proponents evaded this issue by arguing it should be tackled in the framework of other international

> institutions. There was discussion of including existing OECD codes of corporate responsibility in the MAI, but these provisions would be non-binding. How these various proposals would affect businesses, workers, consumers, the environment and the general public was an area of intense disagreement among opponents and supporters of the agreement.

These proposals in the MAI were illustrative of the kind of goals to which the liberalizers were committed. At the high point of neoliberalism, represented by the so-called Washington consensus in the 1980s into the 1990s, it was regarded as laudable that international investment should be able to impose upon the governments of the developing world to the extent of incorporating them in what was essentially the investor's home territory. They did not obtain formal success in the sense that the MAI negotiations were abandoned without agreement. But they were highly relevant in that they indicated the expectations and aims of investors whenever they sought admission to a country. This was a plan to turn as much of the world as possible into a fiefdom of big business, rather like Cuba before the time of Castro.

It looked as though there had been, in the late 1990s and early twenty-first century, a drift back to the view that there should be *special* policies for development, as well as for social improvement and poverty reduction, as opposed to the universal policies of neoliberal globalism. There had to be special means to help the less fortunate. A freeing of everything would simply help the strong to prosper in the status quo, to protect themselves as the satisfied states. The push towards freeing up the rules on trade and investment would have been fine had it gone along with building a system of global regulation which did not discriminate against less developed states and had a built in social dimension. But this did not happen. Indeed it was matched by deregulation within states.

Development economists noticed that a sharp increase in inequality had coincided with the acceleration of the process of globalization. In the United States, the equalization of income and wealth that took place between 1945 and 1970 had been reversed. In the 1980s and 1990s almost all of the income gains from national economic growth went to the top 5 per cent of American families. It was only after the mid-1990s that the majority of US workers began to see a degree of improvement in their real wages, though this trend was reversed through the period of the Bush administration.[11] On a global scale, in the last 30 years of the twentieth century the richest 20 per cent of the world's population had increased their share of world income from 70 to 85 per cent, while the share captured by the poorest 20 per cent had declined from 2.3 to 1.4 per cent.

These two trends – increasing economic integration and growing inequality – were causally related. The increasing mobility of transnational corporations enabled them to play countries and localities against each other, looking for the lowest cost and the least conditionality, and fuelling thereby a 'race to the bottom'. Environmental standards, workplace safety rules and similar safeguards would be weakened as governments came under increasing pressure to accede to the demands of highly mobile corporations which could always find another place to locate. The Multinational Agreement on Investment had not been formally approved but it became the blue print for big business in all its dealings with the less well off.

2. Liberalization of trade

Second, the argument may be illustrated by reference to free trade. It became a truism that free trade was good for everyone and that tariffs and quotas were bad. There was a considerable body of economics literature by such authorities as James Meade and Jacob Viner to demonstrate the value of free trade. It removed protection from less efficient producers so that they went out of business. This made way in the market for more efficient producers who were able to locate themselves where the cost of manufacturing inputs was lower. The resources used by the less efficient producers could be redirected to other industries where they had a comparative advantage. The specialization of production was encouraged in the larger freer market so that more was produced and products could be sold more cheaply. More people could be employed and paid wages.

The problem, however, was that this was only true up to a point. Successful economies, such as those of the United States, the United Kingdom, Germany and France, developed behind a wall of protection. Likewise modern developing states needed to encourage their infant industries, to give them some cover in their early years so that they might grow strong and compete effectively. Complete openness gave the whip hand to the economies and the companies which were already successful, and made it impossible for the industries of new states to grow to their size. For developing countries the best arrangement was complete freedom for them to export to developed markets, and continuing protection for their own infant industries. But this was unacceptable to the developed states.

Free trade also encouraged the production of goods for sale in world markets, such as cash crops, rather than goods required in local economies. A good example of this was the production of foods such as *mange–tout* peas as cash crops in Kenya for sale in the United Kingdom. Such practices were diverting resources from the production of food for local or regional consumption, and caused great tensions in the local farming communities.[12] The sensible conclusion must be, not that Meade and co. were wrong, but that the introduction of free trade had to be managed very carefully. The problem was that free trade had become a doctrine, too often accepted uncritically, and without nuance, by the righteous. Indeed complete free trade would certainly help the rich to grow even more dominant and the poor even more abject. In the context of the global economic pressures of 2009 it was important to resist any general resort to protectionism to defend national economies. But some states, in some circumstances, could be helped by well-considered protective measures.

- Attention should be given to the adequate protection of new industries.
- A measure of protection might be justified, even for developed countries, to protect national security in strategic industries, or to encourage a reasonable level of local food production.
- Local food might also be protected for reasons of taste and lifestyle. Even trade within the EU respects this principle, as with the purity principle for German beer, or the system of *appellation controlle* for French wine.
- Tariffs may be used to manage the location of industry so that investment does not simply follow the lowest costs, which in any case may be deliberately engineered by the investors. For instance the European Union would be justified in seeking a level of protection which was sufficient to persuade companies to locate inside the European market.
- In the age of climate change there were good arguments for preferring local production of some goods, with a smaller carbon footprint, and discouraging companies from exploiting cheap labour in the Philippines or Africa in their production for Europe and America. There might however be objection to local food production if it was dependent on extensive use of energy. It might be preferable to import tomatoes from sub-tropical areas in winter, rather than greenhouse grown local ones. The argument had to be careful and nuanced!

- The social costs of economic adjustments resulting from free trade must be covered. Where benefits seemed to be all for companies and not for workers a measure of continuing restraint of trade was justified.
- Freeing trade should promote general economic development, not merely shift development from one country to another. Free trade worked best as a means of development if other factors of production, particularly labour, were also free to move. In practice, of course, economic migration was resisted, for all sorts of reasons – attachment to traditional homelands and cultures, as well as the prejudices of people in target states. Labour remained stubbornly immobile.

Conclusions

The roots of the new dystopia were different from those proposed by George Orwell in *1984* or Huxley in *Brave New World*. It was not the kind of dystopia that was managed by an authoritarian power, backed by irresistible police forces and gulags to contain the disaffected. This kind of dystopia was much more about the abuse of freedom and the failing of resolve to prevent that.

1. There had been a progressive erosion of the private realm and the reallocation of powers between the public and private sectors in favour of the former. But, the new surveillance potentially helped any actor that chose to use it by either overt, legal means, or by covert and illegal means.
2. There was a new separation of powers. To the traditional trio of actors in a democracy, legislature, executive and judiciary, must now be added big business and the community of super-rich which were separate powers in the state. Though living in a state many of the rich, the non-doms, now asserted their right to live outside its jurisdiction. It should be stressed that the companies had become political as well as economic actors.
3. Private companies emerged with power to resist changes they did not like and cause changes they wanted. They worked hard to promote the environment which suited these gaols. The ideology of the free market and its supporting doctrines, free trade, unconditional investment and the like, favoured the dominant actors. Even governments of developed states such as Britain were increasingly open to blackmail by companies and super-rich individuals. Both could withdraw essential assets or impose costs if they chose.

4. The society implied by these dystopic trends in western states was a sharply divided one. It featured very large differences of income, a group of super-rich, an increasingly exploited and disaffected middle class, and an unskilled and under-educated proletariat. The managers of financial institutions in particular made hay. For them, for a while, the sun shined.

CHAPTER FIVE

How the bubble was inflated in Britain – and elsewhere – and the trouble it caused

Homely capitalism

The core of the capitalist system is the market where goods are bought and sold and money is earned and spent. There is a basic, homely view about how it works. Agreement is reached about price through the interaction of supply and demand. Banks issue money in the form of currency which is guaranteed by real assets such as gold, or a promise, underwritten by the government, to protect its value. Trades and professions emerge to repair the goods when they break down, to offer them for resale, to find ways of resolving disputes between producers or customers and to make sure that the skills needed to produce them are preserved and handed down. There is a kind of homeliness to the system which suggests that good and honest work will be rewarded. A good working economy will be conducive to general prosperity and kindliness, and only the idle or unfortunate will not benefit from this enterprise. Overall this view has prevailed. The other major economic model, communism, failed: we are all capitalists now.

It follows that business organizations like companies are necessary, even though their habits often need critical examination. What is needed is a much clearer account of what a good company looks like, what they should be doing, rather than what they should not.

This is not a peculiar exercise. The books of Charles Dickens and of Anthony Trollope, amongst many others, are full of descriptions of bad and good practice, of bad bosses, and good ones. In the current economic crisis a recurrent complaint is that there has been too much concern with shareholder value and too much short-termism. In other words, too many companies have been concerned with getting rich quick and making their chief executive officers very rich indeed as quickly as possible. The opposite is better – thinking of nurturing the company for the long term, of rewarding investors reliably and of keeping the incomes of CEOs at a reasonable multiple of those of the least well rewarded. A good company also looks after its staff by making sure their facilities are comfortable, their health is protected and their pensions adequate. Companies in general should make sure that redundancy packages are sufficiently generous to allow a comfortable transition to new employment. The list is long and need not be repeated here. There can be such a thing as a good company – this is clear. There is also such a thing as a bad company – these have become more common.

Yet this homely view of capitalism was always flawed. There have always been speculators who took the market for a ride, such as those involved in the South Sea bubble, and people like Mr Mellmotte in Anthony Trollope's *The Way We Live Now*. Traditionally, cheating the market involved lying about the value of assets owned and profits to be made or manipulating the price of shares. The hero of Patrick O'Brian's novels about the Royal Navy during the Napoleonic wars, Captain Jack Aubrey, was wrongly found guilty of the latter. After the Second World War the range of ingenious ways of getting rich in Britain which were critically reported in the press, while still formally within the law, increased to include Rachmanism, unscrupulous property development, the selling off of state assets at knock-down prices by governments to favoured individuals and various new ways of exploiting what are called market inefficiencies.

How to get rich quick

Rachmanism, named after its chief perpetrator Peter Rachman, involved the exploitation of those who rented property by unscrupulous landlords. It afflicted the inner city areas of Britain, especially London, in the 1950s and 1960s. It was eventually suppressed by changes in the law. Property development remained a favourite way by which the less scrupulous could get rich quickly by shoddy building and shady deals. The selling of state-owned assets by the Conservative governments of Mrs Thatcher and John Major, called privatization, usually led to some individuals getting seriously rich. The worst case was probably that of the privatization of the railways. They were broken up in haste in the dying days of Major's government into a complex system of operators, maintenance companies and rolling stock owners, and sold at a price well below their market value.

There are also a number of international and secret conduits of private wealth. In the modern world, it has been alleged, one of the quickest ways of getting rich quick was to be involved in the financial arrangements of the international oil trade. Almost all the world's financial centres, including the City of London, were involved in 'the secretive world of tax havens, shell companies, pricing schemes and shielded trusts', through which oil money was filtered for the benefit of bankers and the political elites of oil producing countries.[1] These schemes led one commentator to label the world's financial centres as 'Dracula Zones'.[2] They sucked out money and brought little or no benefit for local populations. Nigeria earned oil revenues of $350 billion per annum, but more than 90 million Nigerians lived below the poverty line.[3]

The arrangement after the privatization of the railways in Britain required that the rolling stock was owned by three companies (ROSCOs) which turned out to be massively profitable. These companies then leased carriages and locomotives to the operating companies which were denied ownership of their own stock. Before transfer to the ROSCOs rolling stock value was quite artificially inflated by Treasury officials to literally twice the amount first thought of. Ownership of the ROSCOs was acquired by three of the major high street banks which were able to make about 30 per cent profit per annum on their investment. The track maintenance companies proved dangerously inefficient and had to be taken back into the public sector. The result was that railway travel in Britain became the most expensive in Europe and public subsidy continued at a level higher than that which had been enjoyed by the nationalized system. Each of the privatizations led to a flow of large fees for the selling of the assets to the friends of the government in the city. Several of the ministers involved joined these same companies for fat salaries shortly after leaving office. The whole saga looked like just another of the scandals that marked the period.

The privatization of public assets in the United Kingdom, described by an earlier Prime Minister, Harold Macmillan, as selling the family silver, was not quite as badly managed as that in the ex-Soviet Union. The rapid transfer to the private sector of Russian state assets in the 1990s was a tragic consequence of a coincidence of political events, the fall of the Iron Curtain and the intellectual dominance of right wing economists, particularly from the Chicago School. This led to the selling off of Russian industry, including production of oil and other raw materials, at breakneck speed and knock-down prices to individuals who in consequence became massively rich. The process was driven by the mistaken belief that any form of privatization was preferable to state ownership. Many of the new super-rich 'oligarchs' then moved their new wealth out of Russia into countries such as the United Kingdom, and, of course, Switzerland, where it was used to buy city mansions and football clubs. The privatization of Russia also contributed to the emergence of a Russian mafia. The government of Vladimir Putin had genuine cause to be angry about how the assets of the Russian state were squandered under the tutelage of neoliberal, largely American, economists, disciples of the ideologue Milton Friedman. It was a sobering thought that the malevolent touch of Western neoliberal economists contributed to the re-emergence of a more intransigent and illiberal Russia.

Not all of the new wealth emerged as the result of such misdeeds. London also acquired a range of successful businessmen from the emerging economies, especially India. These included the Mittals and the Hindujas. There were also a number of oil rich individuals from the Middle East who bought property in Western cities and invested in assets in the developed world. These often used their new found wealth to purchase British and other Western assets, as described in Chapter 4. Added to them of course were the new rich from the world of pop music and sport. Footballers and singers of popular music from the 1960s onwards now earned super-salaries. The market for their product was international. Their earning capacity was expanded by the setting up of highly profitable deals in advertising and the branding of goods such as clothing. Their reputation could be exploited in a large number of ways in the world of commerce, and their rare and popular skills probably justified their share of earnings.

Other ways were found by which individuals became massively wealthy, and some of them were thought up by clever people in the universities. There had been super-rich before, but not so many, and not so rich, and not by so many routes. The social science known as economics followed a path similar to that in other areas of knowledge: developing understanding, increasing control and discovering opportunities for exploitation. In a first phase, scholars such as Adam Smith in the late eighteenth century struggled to understand how the economy worked. As knowledge improved there was a greater awareness of ways of controlling the system, and disagreements between specialists about how best to do it. After the Second World War some followed the ideas of Maynard Keynes and favoured the management of demand, while others later followed Milton Friedman and argued for controlling the money supply. Some inventive individuals in the new field of Financial Economics then realized that a range of new devices could be added to homely capitalism by which they could extract profit. This development was a natural product of increasing understanding of the economy on the part of a few gifted specialists. The defining characteristic of these new devices was that they exploited the inefficiencies of the market and were designed to generate targeted returns and absolute performance. They did not rely on marginal improvement in the value of invested funds to derive profit, but exploited market failure, such as the collapse of stock prices or the value of currencies. Generally they relied on the exploitation of volatility, the word use to describe the spread, or gap, between the values of assets; they assumed that the spread would narrow and prices converge. They could also increase the amount available for investment by borrowing amazing multiples of the original sum from banks and investment companies.

The techniques used by the actors to generate and protect profits – the new devices – may be reduced to four:

- Futures trading.

  The futures market. Trading in futures took various forms, but the most regulated involved a standardized, transferable contract in which the trader agreed to buy a named asset, a commodity, bond, currency or stock, at a specified price at a specified future date. They were applied to products such as coffee, cocoa and the wide range of raw materials. The idea was that an option would be agreed now to buy a future harvest or commodity at an agreed price. Futures became important in Chicago in the later nineteenth century as a way of stabilizing the market price of agricultural products such as corn or pigs. The farmer would have an assurance about the future price of what he grew.

  Such contracts were traded in a futures market under an overseeing agency and were subject to various rules. Only registered members could trade directly. The contracts were guaranteed in a clearing house, and there were interim accounts which had to be settled on a daily basis. For the buyer, winning depended on the market price of the asset increasing above that specified in the contract. For the seller it depended on the price declining below that specified. The gain of the one was matched by the loss of the other. The seller of the asset and the buyer gained or lost equally.

  Traded Options. These were agreements between individual traders which typically involved selling short or selling long. In the case of selling short the owner of an asset agreed in return for a fee that a trader should sell that asset. The trader gambled that the price of the shares would fall and in this event bought back the shares at the lower price for return to the owner. The trader thus made a profit without the risk of directly investing his/her own capital. If they rose however the trader would lose. The trader might also use the mechanism of selling long if he/she believed the value of a share would go up. A contract would be made to purchase shares at today's price at a future date. If the shares increased in value they could be sold at that price and a profit taken. On the other hand if the future price collapsed the gambler would lose. Any asset such as financial instruments like stocks and bonds, or commodities such as the classic pork-bellies, could be dealt with in this way.

Derivatives. Futures trading created an instrument that dominated the international financial market in the early twenty-first century – the derivative. The options thus agreed, which became known as derivatives, also became a kind of product in themselves and could be bought and sold. They were derivatives because they were derived from a selection of assets put together in a single envelope, which could be bought or sold. The price of the derivatives depended on complex calculations of risk, interest rates and price volatility. A breakthrough in understanding this complexity was made in an article published in 1973 by Fischer Black and Myron Scholes.[4] They used advanced mathematical techniques to develop formulae for calculating the price of derivatives, and movements in the market. Even more complex derivatives, and even more refined ways of calculating their price, were invented, so that by 2003 the total value of derivatives was much greater than the total value of the planet's economic product. Almost any asset, including, as we learned to our cost, sub-prime mortgages, could be the root of derivatives, making up such esoteric products as Securitized Investment Vehicles and Consolidated Debt Obligations. As pointed out, it became more and more difficult for non-specialists to understand how they were made up and how their value was calculated. The world's leading stock market investor Warren Buffet strongly warned against them on the grounds that even he could not understand them and that they were a risk to the whole capitalist system.[5]

Spread Betting. This was also a form of futures trading. One of its forms was a bet on the future movement of a share index, and might be a bet on daily, weekly or quarterly movements. There might also be rolling bets which were let to run until such a time as the better quit because of the scale of losses or gains. A bet could be made on the index offer price – related to the value of all the shares on a list, like the 100 shares on the Financial Times index of 100 selected shares. If the index then increased so that the bid price exceeded the original offer price, a profit had been made and the share of the index could be sold. If the gambler calculated that the index would fall he/she would sell now at the bid price and buy back after the fall at the offer price.

In all of these forms of futures trading the gains and losses could be very high depending on the movement of the market. Winning depended on detailed understanding of the market in the kind of asset which was bought or sold, and the ability to predict accurately future movements in the price of that asset. The latter became the object of study of clever mathematical economists, such as Black and Scholes, and later, Robert C. Merton.[6] Obviously a trader was constantly faced with the risk of disastrous losses. But he/she might also make enormous gains for herself/himself, his/her fund and the client. Much of this depended on the ability of traders to greatly increase the scale of their bets by enormous borrowing on the collateral they held, a practice known as leverage. This was easy because no money actually changed hands. The reckoning would come later.

- *Arbitrage*. This was a method by which complex formulae were used to generate profits from buying and selling assets such as currencies to take advantage of movements in their value against each other (cross rates) in the relevant market, and the short delay between one movement and the other. The trick was to spot the profit to be made by buying and rapidly selling, say, up to 5 currencies, moving from one to the other, ending up with greater holdings of the original. It could involve simply buying or selling a single currency, say the pound, values against another, say the dollar. This could be done on a very large scale operating through contracts to buy rather than actual currencies bought and sold and could generate massive profits. The speed and scale of the purchases and sales was determined by formulae which were often highly complex algorithms.

Currency arbitrage was much the same as short selling when it involved the large scale selling of a particular currency as happened when George Soros sold sterling in September 1992, calculating that the pound was overvalued. In this case the amount of currency sold was so great that those holding it forced the British government to lower its value – to devalue – so that profits could be taken when it was repurchased. Soros judged that the currency was overvalued when it joined the Exchange Rate Mechanism of the European Union in 1992, and that the government lacked the resources to defend it in the market place. But there was also a powerful self-fulfilling prophecy in that if enough selling took place – and this was the feat of organization managed by Soros – a devaluation could be forced. Success depended on whether the calculation was correct that the currency was overvalued and that it could not be defended at a particular exchange rate value.

- *Leverage; gearing*. This was when money was borrowed against the security of assets held to purchase some other asset such as a company or a futures option. At a time of low interest rates and massive system liquidity, which, because of a massive weight of derivatives, was the case in the first years of the early twenty-first century, leverage could hugely increase the available investment funds so that the quoted shares of even the biggest companies could be bought. This was a method particularly favoured by hedge funds and private equity companies. The investment company took the risk that the assets on which the leverage rested would be shown to be worthless than was supposed, and the money borrowed might have to be repaid, as was the case in 2007 with debt based on consolidated debt obligations. But if they succeeded in buying a majority of the shares of the target company the debt used to purchase the company could be transferred to its books. The company was thereby forced to pay for its own takeover. But this would lead to high gearing for the company, meaning a poor ratio of its debt to assets. The debt would have to be reduced out of profits or by selling the company's assets. Eventually what was left of the company could be sold on and the investors take their profit.

Leverage – essentially borrowing – was a way of gaining the finance necessary to force the takeover of a company, usually so that the new entity would dominate the market and extract higher profit. With companies such as Lazards in pole position, aggressive investment banking became a key feature of capitalism in the United States and the United Kingdom, and beginning in the 1960s Lazards emerged to position themselves at the centre of the capitalist system in the United States and the United Kingdom.[7] The narrowing of the number of significant shareholders in the world's major stock markets made it easier to set up deals, as there were fewer players to persuade, by a relaxed attitude towards extravagant deal making especially in the United Kingdom, and by the energy of a small number of ruthless and inventive individuals. No more than 50 insurance companies and mutual fund groups were important holders of shares in New York. In Lazards there were three key individuals who became fabulously wealthy. According to Hutton the deals left the purchased companies worse off but the merger makers extremely wealthy.

- *Swaps; hedging*. These two methods were similar only in that they were both methods of reducing the risk of massive losses inherent in the other techniques. Swaps involved the arrangement of an exchange of obligations, say to pay interest on a loan. A private equity company might find it prudent to do this if it found it had borrowed extensively – it had leveraged its assets – in order to take over a company. The effect was to spread the risk of losses arising from increases in such interest rates. In effect deals could be made between those who took a positive and those who took a negative view of future movements in interest rates or other values. Hedging was also a way of reducing the chance of massive loss if, say, a deal in futures options went wrong. Such a loss could indeed be massive and could bankrupt a large bank. Further deals were therefore made – the hedge – which bet on the opposite outcome to the one predicted. If the deal went wrong this would reduce the scale of the disaster. It should be remembered that often the bets were not made with the gamblers own money but with money borrowed, or contracts on future deals.

In the modern system three new kinds of actor emerged as important players, in addition to the traditional range of investment banks and dealers. They were hedge funds and private equity companies, though the line between the two was sometimes hard to draw, and a new kind of bank. Hedge funds appeared soon after the Second World War and were typically managed by a small group of specialists under the leadership of a dominant partner. They had the great advantage from the point of view of their partners of being very lightly regulated compared with normal banks. They built up a pot of funds from financial institutions or wealthy individuals that were rich enough to risk substantial losses in order to make substantial gains. They became skilled in getting money to breed money. The funds' investments could be hedged in the way described. They made gains which were described as *absolute* because they were not dependent on marginal accrual of asset value in the market. For this the fund was able to charge substantial fees, as high as 25 per cent of the gain.

The second new player, private equity funds, had access to the wealth of individuals, financial institutions and, more commonly in the early twenty-first century, governments such as those of Qatar, Dubai and China. At the time of writing the EU was considering limiting the ownership of public utilities by such funds in member countries, a natural response since such ownership could be an effective lever of political power as explained in

Chapter 4. Unlike hedge funds, private equity groups aimed to use their wealth to purchase established companies. Money was made by increasing efficiency in the companies, by such practices as reducing staff, paying them less and trimming services, by selling off parts of the company and eventually reselling the company at a profit. Such takeovers were often financed by highly leveraged borrowing, as is explained below. The private equity partners could exploit the tax law in the United Kingdom by taking their returns in the form of capital gains which were only taxed at 10 per cent per annum, as opposed to 40 per cent payable on earned income. In the autumn of 2007 the new British Chancellor of the Exchequer promised to do something about this, but struggled to find a way which would continue to help small start-up companies, as well as preventing exploitation by the super-rich. He proposed that the tax on capital gains be increased from 10 to 18 per cent.

A third type of actor emerged out of the existing banks. The latter had concentrated on taking assets from depositors and lending this money to other customers. The banking formula allowed the banks to lend more money than they took but they were required to keep, as it were, in their cellars, enough money to pay back the money of depositors. They gambled that not all depositors would want it back at the same time, so only kept in house about 8 per cent of their liabilities. The rules governing these traditional institutions were however changed in the 1990s: they were deregulated. The result was that all banks became investment banks – they could borrow much more from derivatives, and act more like the traditional specialist investment banks, with fewer assets kept in the cellar. Building societies, which had taken money from savers to finance house purchase mortgages, increasingly went down the same route. They became massive investment banks, borrowing on the basis of derivatives and investing speculatively in the various games mentioned above. There was a sense in which in Britain all banks, and most building societies, took on the colouring of investment banks. As will be seen there were great risks in this, but the process of deregulation went on regardless, and was even a cause for boasting in good times by the British government.

Finding fault with the new ways

The above description of the ways in which modern capitalism departed from its homely form implies criticisms of the new ways which some thought were unfounded. Gordon Brown, the British Prime Minister, described them in 2007 as a reflection of the inventiveness of businessmen, which was a welcome and productive thing, part of the dynamic quality of capitalism. By the autumn of 2008 after the crisis in the financial markets, and the beginning of recession in the economy, he had changed his mind. Others pointed out that as long as business activities were within the law it was unreasonable to find them objectionable. Pride should be taken in facing economic realities and exploiting every opportunity for gain: capitalism implied that there would be winners and losers. The game had to be played hard, using whatever weapons came to hand, and winners must have characteristics such as foresight, ruthlessness, determination and be prepared to take high risks. It was objectionable to frustrate such ambition.

There were points to be made on the other side. Certainly towards the end of the first decade of the twenty-first century a large number of people felt uncomfortable about the appearance of Über-capitalists, the new capitalist devices, and the clear evidence of the weakness of national and international regulation of the system. This feeling proved well justified by the unprecedented failure of the credit market and the banking system in 2008. Indeed what was now believed was that those who were responsible for regulation often did not understand the changes, or their dangers. Forms of exploitation were being invented so quickly that they always escaped from the net of control. The personality type of the Über-capitalists, together with their enormous wealth, also made them hard to pin down. Their ruthlessness and their cunning, as well as their wealth, meant that they were likely to break loose. One of the essential parts of any critique of modern capitalism had to deal with the character of the dominant individuals and their impact upon the modern society and economy. In Chapter 6 the question of whether we were now being led by a group of deeply flawed individuals is discussed.

Criticisms of the new ways of capitalism boiled down to the following:

- Investors benefited from falling prices as much as from increasing prices, e.g. in shares and currency values, through short selling and arbitrage. In Britain hedge fund traders were severely criticized for engineering falls in the shares of HBOS by aggressive short selling. They had borrowed and sold a large number of HBOS shares, then started rumours that the bank was in trouble, so that the shares could be brought back more cheaply and the originals returned to their owners.[8] (Such are the mysteries of the financial markets: why would any bank lend shares to traders in this way?) Improvement in the economy was increasingly irrelevant to the interests of the most successful capitalists. There was a value in crisis and declining values – as long as they were not catastrophic – and there was now an incentive to take actions which risked system failure. Indeed greater profits could be made in periods of economic turbulence, though the risks of catastrophic failure and system collapse were also greater. The Über-capitalists often preferred disorder to order, damage to damage limitation, regardless of the number of losers. In April 2008 a group of hedge fund traders tried to land an even bigger fish. They attempted to engineer a collapse of the banking system in Iceland in order to benefit from the resulting opportunities for short selling. Again the method used was to start rumours that Icelandic banks, like ING, were in trouble. They did not succeed mainly because the Icelandic authorities were told about this scam in time to act.[9] In the autumn of 2008 the Icelandic banking system did indeed collapse, and it remained to be seen how much of this had been engineered by short sellers. The fear that short selling could be damaging led the British government to ban it for a while in 2008.

- If the gambles went wrong, the general interest also favoured the gamblers, as government was pushed to shore up the very system which was exploited by the gamblers. This is seen in the case studies below. Otherwise the damage to the general interest could be even greater. After all if a bank moved towards bankruptcy it was a good idea to guarantee the deposits of its investors to avoid what was called a "run on the bank" and tipping it over the edge. If the banking system itself failed everyone would be in deep financial trouble – with the possible exception of the super-rich. The failure of banks such as Lehmans in the autumn of 2008 did not prevent its managers from picking up considerable sums in the form of bonuses and forms of compensation.
- Effective regulation became increasingly difficult as the methods of gambling become harder to understand and monitor. Some economists were motivated to invent more and more complex and opaque ways of exploiting the system, such as the complex algorithms applied in futures trading or spread betting.
- The players in the gambling games were faced with pressure to conceal weaknesses rather like doctors who ignored each others' mistakes. For instance those who held a flawed asset were unlikely to broadcast this, hence the sub-prime problems in 2007–8. Auditing companies also had an incentive to conceal asset weakness when they had themselves supported

its purchase. This was not a new problem. In the 1990s the accountants Arthur Andersen had been found out in this practice in the case of Enron. Institutions that were part of the regulatory process, such as auditing firms, actually made great profits out of the suspect practices. 'They often treat the regulated institutions as constituents to be protected.' (*International Herald Tribune*, Tuesday, 18 December 2007, p. 14) In casino capitalism, malfunctions were concealed until a stage of system crisis was reached. The specialist companies responsible for rating as Triple A what became known as toxic securities – meaning that they were completely secure – such as Standard & Poor and Moodys, were also under attack. They seemed to have completely failed to detect the toxicity in the securities they examined. So much for the expertise of the insiders!

- The *International Herald Tribune* provided convincing evidence that the US authorities had been warned well in advance about the risks in the sub-prime market, but failed to act. (Front page article, 18 December 2007) This is discussed further below. The Bush regime actually intervened to prevent Georgia and North Carolina from passing tougher laws against abusive lending practices and stopped investigation of local subsidiaries of nationally chartered banks. By 2003–4 increasing numbers of people were defaulting on their mortgage payments and having their houses repossessed. The inflow of foreign funds, especially from China and Japan, as well as the slashing of US interest rates from 2000 to 2004, created a 'global savings glut' which encouraged more and more risky lending to mortgage applicants (hence the expression sub-prime lending). Banks began to accept applications for mortgages without verifying the borrower's credit status, encouraging purchase without deposit and the taking of repayments holidays. Yet Alan Greenspan, then Chair of the Federal Reserve, and other top officials were impervious to appeals to act from housing advocacy groups, from staff in the prestigious Federal Deposit Insurance Corporation and even from individuals on the staff of the Federal Reserve itself. There was a wilful neglect of the approaching storm.

One reason was probably the lack of understanding of the world of derivatives and its most recent form, sub-prime instruments, though Greenspan is on record as saying that he could see there was a problem. Greenspan also claimed that his people were not qualified to understand and prevent bad practice as against illegal practice. There was probably a degree of wishful thinking: maybe the ingenuous new ways would indeed work, and sub-prime lending helped the less well off onto the property ladder, despite the evidence of huge profit taking in the form of high start-up fees and transfer to high interest rates after an initial teaser rate. This was a wonderful opportunity for the financial whiz-kids, who could masquerade as social benefactors while raking in profits. This was not an unforeseen crisis, an unexpected breakdown in the financial machinery, a kind of accident. It was rather an example of incompetence, reinforced by a paralysis of the regulatory authorities, both in the United States and in Britain. The underlying cause was probably that the authorities were too close to the practitioners. They were part of the same community, and likely to be taken in by assurances that all was well. Thus the authorities were taken in, given the sucker punch, conned.

To add insult to injury, they failed to understand a simple economic lesson that greatly increasing the quantity of money available to purchase a relatively fixed supply of housing was bound to force up house prices. In the United States there was a savings glut. In Britain mutual building societies, which traditionally borrowed from individual savers to lend to mortgage investors, were translated, for short-term profit, into banks which increased funds by borrowing wherever they could. The result was that more money was lent to less reliable customers for increasing profits.

- The rules of the game as played by the Bank of England, the Treasury, and the Financial Services Authority (FSA) in Britain were astonishingly imprecise. No one seemed to be sure about the correct move to any play made by the other side – the investors and bankers. It was like a football game, played in mist and rain. New rules were made up by the players as the game went on but the referee, peering through the mist, did not take the trouble to discover what they were or consider their implications. At the same time there was an astonishing degree of insider hubris. It was assumed that the game was between insiders, including the referee, and that outsiders need not bother themselves with it. There was also a structural problem in the system of oversight. In Britain it was tripartite in that the Bank of England, the Treasury and the FSA shared responsibility. But it was not clear who was responsible for what and very quickly the buck was passed from one to the other.

The case of the crisis in the British Mortgage Bank, Northern Rock, in 2007 illustrated some of these difficulties.

- There was an astonishing lack of foresight about what could go wrong. Economics analysts promptly traced the failure of Northern Rock back to the problems which affected South East Asian countries in the early 1990s. The IMF then imposed such hard conditions, it was reported, that the authorities in the affected states decided that in future they would avoid putting their fate in the hands of outsiders. They would save internally and buy dollar or Euro bonds. In consequence global interest rates were reduced, and domestic authorities in the United States and Europe reduced them further to encourage domestic demand. The amount of available credit hugely increased. This set in train a vicious circle of increasing borrowing by financial institutions, at low rates, for investment in ever riskier projects generating ever higher returns. Eventually the borrowing got to the point of drawing debt from the sub-prime market in the United States. Lending to people who could not pay back the debt seemed a good way of using up some of the surplus money sloshing around in the cellars of the investment companies. The rest is history.

  What was amazing was that this story suddenly became the obvious account in 2007 but had not occurred to any of the financial wizards previously. At least they were not prepared to shout about it. Suddenly it appeared that there was a direction of movement in the financial markets which had led directly to the precipice. The story was simple and obvious. Why was it not noted by the financial authorities? One reason was that the calculations of those concerned with economics, either in the universities or the banks, often had no regard for history. Hence brilliant minds were applied to the solving of problems without historical context. No one bothered with historical trends leading from then to now, or the lessons to be learned from previous economic cycles, until too late.
- In the United Kingdom a problem arose which some might say – including the present writer – was a typical error of the English. The financial authorities, the FSA and the Bank of England and the Treasury were conscientious in their oversight of staff in the financial and banking industries but paid little attention to the numbers, the amount of debt, the assets on which it was based and the ratio of lending to assets. They concluded that the chaps were decent sorts and well qualified so the sums would look after themselves. No one, as far as they knew, had been in prison. No one bothered to check what games they were playing. There was astonishment when it was discovered that 'Northern Rock was itself

a gigantic Securitized Investment Vehicle (SIV).' (*The Independent*, 6 November 2007). Its mortgage lending was derived not from the deposits of savers, but from massive short-term borrowing from the credit markets for onward lending. The heart of its problem was its so-called business model[10]: its borrowings were repayable in the short term, but what it had lent was repayable in the long term. In late November the bank HSBC had to bail out two of its SIVs to the tune of $35 billion when lenders demanded the return of their money (*The Times*, 27 November 2007). Northern Rock was not so fortunate: when its creditors demanded repayment it simply could not repay what it owed. It was a relief at least that the British regulatory authorities now saw they should get a better understanding of the banks' business and that the monitoring of liquidity should be upgraded![11] But it was astonishing that this penny should have taken so long to drop. In matters of such grave importance such *sang froid* was unbelievable.

- As the Northern Rock crisis unfolded in 2007 the authorities eventually accepted – since Northern Rock reported that it was bankrupt – that something would have to be done to help out. The discussions about this were disastrously protracted and public. Eventually after much discussion of the various ways of providing support, including abortive early discussions with LloydsTSB about a possible takeover of Northern Rock, the Bank of England agreed to provide the necessary resources as the lender of last resort. It found itself 'on the hook for more than £23 billion of rescue money to bail out the small, regional mortgage bank.'[12] It was predictable that individuals with money with Northern Rock were likely to decide to try to extract their funds. This was partly a result of the low level of liability of the Bank of England for the losses of investors. In the United Kingdom little cover was provided then over a loss of £2000 in a failing bank (this was later increased to £50,000); in the United States changes in the 1990s meant that the Federal Authorities backed deposits up to the sum of $100,000. The result was the first run on a British Bank for 150 years, meaning that there were queues round the block of customers wanting to get their money back. There were subsequently several offers from various consortia of investors, including private equity groups, to buy Northern Rock.

The IMF lending to help the SE Asian countries in the early 1990s largely went to bailing out the Wall Street bankers that had recklessly lent money to the countries in the first place. Similarly it might be assumed that the

Bank of England's rescue at that stage of Northern Rock was more to do with the damage its collapse would do to the authorities' associates in the City of London than with concern for the small investors. Northern Rock was put up for sale in November 2007 and there were several private bidders, including private equity groups. It appeared that a private sale was likely to release great profits for the new owners, since it was likely that the debt would be transferred to what was called a zombie fund, to be run down slowly over a number of years. The remaining profitable parts of the company, thus insulated from the debt, would fall into the pockets of the new owners. Once again the Über-capitalists stood to gain from an economic failure. (Later the Government was forced to make further significant investments of public money in Northern Rock: the company was technically not taken over by the state, but relied on state support. It was quasi-nationalized.)

The authorities, in the United Kingdom, the United States and by 2008, France, seemed incapable of learning from past errors. The case of LTCM was described by one commentator as a case of *When genius failed*.[13] The history of LTCM was essentially the same as that of the events leading to the later great crisis, but, of course, the economists failed to learn and shout. LTCM appeared in the early 1990s, made massive profits in the mid-1990s, and folded disastrously in 1998. It was astonishing that the dangerous games played by financial traders then were still tolerated by the authorities in 2007–8. Then, as later, politicians, often the friends of the traders, appeared to be mesmerized by the magic formulae for making money and were unable to understand how these new devices took the capitalist system closer and closer to disaster. They were like the rabbits who became afflicted by 'big eye' in the face of the headlights of the oncoming car and found it impossible to move out of the way.

The sheer mad greed of the traders at LTCM was extraordinary, and their financial failure was catastrophic. Their intellectual sins were obvious. The underlying assumption was that the value of assets such as bonds tended to converge. All bets were based on this assumption. The trick was to spot matched pairs of assets which had a spread, in the sense that there was a current difference in their value, and then to bet short and long on the assumption that they would converge. Volatility was the spread over a period. If volatility reduced – there was convergence – the trader would win, but if it increased the trader would lose. It was assumed that although markets were random they followed patterns which were mathematically predictable according to the Scholes–Black formula, as further refined by Robert C. Merton. The most probable outcomes were around the centre, in the same way that the most frequent outcome of throwing pairs of dice is any outcome between 5 and 7. The traders could hedge by betting long on one asset and short on the other. The formula was all that was needed: no real world evidence was necessary. In its first two years of operation LTCM produced a 43 per cent and 41 per cent return on equity and had amassed an investment capital of $7 billion.

The confidence of the traders in their own suspect formulae was psychotic. They took enormous gambles with massive amounts of borrowed money, but they felt they were sure to win. As already pointed out, being largely unregulated, hedge funds could pile up massive leverage in the sense of borrowing massively to make their trades. LTCM borrowed fifty times its underlying assets and had several additional multiples of derivatives which were not recorded in their accounts. The various trades were all interrelated and there were many thousands of them so, as with the later crisis, it was virtually impossible for outsiders to grasp what was going on. LTCM made a point of making this more difficult by keeping their bets and sundry operations to themselves.

It was extraordinary that the banks that gave them capital, like Merrill Lynch and Goldmans – both later in much trouble – did not check LTCM's exposure to possible losses and tolerated its refusal to reveal the underlying financial position. There were huge gains to be made and other banks were investing: they did not want to be left out. So persuasive was the promise of gain that even the Chair of the Federal Reserve, Alan Greenspan, opposed increased regulation in 1996–7 and deliberately avoided a situation in which the regulatory authorities in the United States actually checked the numbers. He argued that the banks would do this without the intervention of the authorities. They didn't! Hence no one knew the extent of the exposure and the risks that were being taken until too late. Even other insiders did not necessarily understand what was being done by the brighter sparks among them. There was magic about financial success, and the enormous gains made, that led financial chums to simply have faith.

The area where LTCM traders had the greatest empirical knowledge was that of bonds trading. But they expanded into betting in areas, such as merger risk volatility, the spread on bank rate (the rate charged on lending from the

Central Bank) and Libor (the interest charged on money lent between banks), and most dangerous of all, equity spreads where they had little practical expertise. They relied on the magic of the formula and their belief that values always converged and all markets were subject to the same rules. The Russian default on currency convertibility in 1998 started the rot as did the sub-prime mortgage failure in 2008. As confidence fell the bonds moved in ways that defied the Black–Scholes formula. The margins between Treasury bonds and other (company) bonds widened to a level which the formula had not predicted, and continued to widen. The values of other assets, especially the equity markets, similarly defied the formula. The declining confidence in the financial markets led the banks to move into more secure and less profitable assets such as Treasury bonds, rather than company bonds.

The question was whether the banks were prepared to lend enough to LTCM to cover their possible debts until confidence returned. They were not. The falling away of the banks' confidence meant they became less willing to borrow from each other, and eventually determined to call in their loans to LTCM and other traders to reduce their exposure to risk. In consequence LTCM went from triumph, in the sense of making massive profits – showing genius – to disaster, facing bankruptcy, in 5 weeks. Greenspan mistakenly judged that the problem was just a matter of not enough credit and lowered the federal reserve rate. All that happened was that more credit led to LTCM further increasing its leverage in an attempt to recover the losses. The Federal Reserve eventually stepped in to put pressure on other investment banks to bail out LTCM with new lending conditional upon disclosure of the extent of LTCM exposure. This was a further dangerous step as it raised the spectre of moral hazard.

The traders were encouraged to think that as long as the risks they took were truly massive they would be safe as the authorities dared not risk the collapse of the system. The traders did not face the discipline of ultimate failure. Indeed a number of them emerged from the bankruptcy of their firm with large personal fortunes intact.

What happened later?

All this took place in 1998. It was remarkable that at the time of writing ten years later effective regulation was still not in place and the monitoring of trading activities remained entirely inadequate.[14] In February 2008 the most recent of a long list of failed trading gambles was that of the French bank Société Général, involving one of its traders Jérôme Kerviel who allegedly gambled and lost more than 4.9 billion Euros. He was described as a rogue trader. The unfortunate truth – as admitted ex post facto by the French authorities – was that, as with LTCM, the responsible authorities and the Bank did not have in place adequate systems for monitoring his performance. He was no more a rogue than his colleagues who had won their bets rather than losing them.

In early 2008 a hedge fund failed in a manner much like that of LTCM. The *Financial Times* reported that 'one of London's most successful hedge funds imploded when Peloton Partners put the assets of its $2 billion flagship fund up for sale … after geared mortgage bets left it unable to meet lender's demands.' Shortly after, the hedge fund Carlyle Capital Corporation, one of the biggest players, found itself in trouble because of failing asset values and calls for the repayment of debt. The US Federal Bank released up to $200 billion of emergency finance as 'the global credit crisis plunged to new depths' (*The Times*, Saturday, 8 March 2008). Once more the authorities had learned nothing. In October 2008 it was reported that as a result of the banking crisis some hedge funds were now in trouble. *The Times* reported that investors were withdrawing their money on an unprecedented scale; there had been 'a twenty five percent cull'. In the three months up to the September 2008 $210 billion had been withdrawn from hedge funds, which had assets which topped $2 trillion a year ago.[15]

These figures should not be understood to mean the end of hedge funds. Of their nature they are vehicles for a quick buck for footloose funds – if the going is good they move in, if it is bad – unless it is too late – they move out. The fact that some hedge funds have gone bust does not mean that more will not appear when things get easier. And most of the money is still around, waiting only for the storm to pass before it returns to the managements of another group of whiz-kids. The point is that this is turbulence but not a tsunami – hedge funds as a generic type are not under threat. They will still make a few people very rich, still cause instability for the rest and still need regulation. The lessons of LTCM are still to be learned and applied.

Up to the time of writing the most serious failure of an investment bank was that of Bear Stearns, America's fifth largest, which announced in March 2008 that it was unable to cover its debts. (Later there were a series of failures including the two massive US mortgage security institutions, Fannie Mae and Freddie Mac.) What was astonishing – again – was that the pattern of failure was exactly the same as that of LTCM over a decade earlier. The bank had indulged in excessive leverage, meaning that it had £11.8 billion of capital and $395 billion of debt helpfully provided by other Wall Street banks, without due diligence. Some of its debt – how much was not known – was in the form of sub-prime mortgages. Even the dimmest of economics undergraduates could have predicted what then happened: the increasing mistrust of the market, fuelled rather than mitigated, by the Federal Reserve's unprecedented decision a week earlier to release massive credit, led the banks which had lent money to Bear Stearns to demand its return. This it could not do. Bear Stearns turned again to an obliging Federal Reserve for special support. Since the danger was to the system, as well as individual bankers, the Fed obliged. Once again it was the managers of Bear Stearns, and their friends in the other banks, who survived with most of their personal fortunes intact courtesy of the general taxpayer. One of the few commentators who saw through the incompetence and selfish deceit explaining this series of bank failures, Will Hutton, wrote: 'the United States is about to be trashed by perhaps the greediest, most arrogant, self-deluding financial class in the country's history.'[16] This damning criticism also applied to their counterparts in the City of London, and the world's other financial centres. It was striking however that the specialist financial press failed to place blame in this way, and reported the failure as if it was just the result of inclement weather. The reason for this was, of course, so as not to offend their friends in the city.

The Black–Scholes–Merton formula fell into a pattern of assumptions about social phenomena which assumed that past behaviour could be reduced to neat formulae and accurate predictions made about the future. There had been other illustrations of this fallacy in recent US history. There seems to have been an oscillation between being overly confident in the capacity of scientists to predict everything, and simply denying, as President Bush on climate change, clear scientific truth. For instance 'scientific' strategists in the United States had reasoned in the late 1960s that if the Vietnamese body count was increased to level X, the United States would be assured of victory since no society could tolerate a kill level above a certain rate. Robert McNamara, the US defence secretary, was persuaded by this, but afterwards expressed great regrets about the complete underestimation of the Vietnamese will to win. As always the rational approach to understanding society and economics failed completely because of a false understanding of human nature. The madness was that economists were awarded the Nobel Prize for this kind of thing, even though their theories were not merely wrong but actually pernicious. Then other economists were awarded Nobel prizes for proving them wrong. In the case of Black, Scholes and Robert C. Merton the one who put them right, also getting a Nobel Prize, was Merton H. Miller.[17]

There were therefore a set of drivers of instability. These seemed to be gaining greater power and leading the system to take on ever greater gambles, in declining transparency and a weakening capacity for regulation. A key development was that the new players had discovered a way round the problem of moral hazard. The gambles they took had now increased to the point at which the risks of losing were transferred to the government and ultimately the public. Gambling losses were now to be paid for out of general taxation. For the gamblers it was a wonderful arrangement.

In the short term the odds were in their favour. It often happened that though they might ruin the companies for which they worked they themselves emerged with great wealth from their own failure. In the fall of 2007 the boss of Merrill Lynch, Stan O'Neill, resigned when it emerged that his firm would lose $7.9 billion in the sub-prime market. His parting gift for this failure was a golden goodbye of $161.5 million. The head of Citigroup, Chuck Prince, similarly falling short, was given $90.00 million (Editorial and Opinion, *The Independent*, 6 November 2007). On 18 November bankers at Goldman Sachs shared bonuses of $18 billion, despite the general turmoil in the credit markets (*The Observer*, 18 November 2007). *The Times* business commentary said that past bonuses paid to top performers were also not repaid when they turned out to be failing moves. The wan hope was that such payments for failure should cease. 'Otherwise it will continue to be perfectly rational for self-interested future Chucks and Stans to take unacceptable bets with their shareholders' money.' (*The Times*, Saturday, 10 November 2007, p. 61). In Britain the attitude of the public towards such rewards for failure became increasingly hostile. The government made some sympathetic noises but seemed curiously reluctant to step in firmly to stop rewarding the executives of failed banks.

It was hard to understand how the head of the failing bank Northern Rock could have been awarded a bonus of £750,000 on departure and a share of £2.5 million in the bank's pension fund (*The Observer*, 30 March 2008). What could possibly explain such a travesty?

Conclusions

At the time of writing the crisis was still unfolding. Massive amounts had been spent by the government to bail out an increasing number of failing banks and to encourage them to start lending again. There was evidence of a wider collapse of the economy, with a decline in Gross Domestic Product – a very unusual event – and an increasing number of business bankruptcies. People became more reluctant to spend, and although the business of some retailers held up, such as the food supermarkets, others were worried about declining sales. There was also an increase in the number of unemployed, with the figures at just under 8 per cent in the worst hit areas. These included the City of London, though it is doubtful that they referred to the bankers – more likely to be their cleaners. In this book no prescription is attempted. In the final chapter the reasons for this are mentioned.

This was a world of sorcerers' apprentice capitalism. The inexperienced magicians had found some new tricks which conjured up heaps of money for the favoured few. The regulators stood by mesmerized until the crisis had reached catastrophic proportions. They claimed that the sorcerers knew what they were doing and that they would check each other for any practice of the dark arts. They neither understood what was going on, nor particularly cared to find out until it looked as if the place would be flooded or burned down.

The community of the regulators, the FSA, the Treasury, the Bank of England, as well as the responsible politicians had to carry most of the blame. Indeed a feature of their response was doing too little too late, and always having to try again. In the last week of March 2009 a significant point was reached when the Governor of the Bank of England, Mervyn King, declared that there was no more money for bailing out the system. There were two further desperate measures: increasing the amount of money released into the system, which was at the risk of inflation and, finally, calling in the International Monetary Fund.[18] If history was to be believed this would bring further misery for the worse off, as the Fund's usual habit was to cut government borrowing at the expense of welfare. So not only was the public asked to pay for the gross gambles of the bankers, but beyond that they were to have their welfare assets stripped.

The government decision in 2009 to inject money into the system by buying gilts made things worse for both final salary and personal pensions. The yield on gilts was reduced as a result and this had the effect of cutting the returns on annuities which personal pension holders were required to buy.

It also reduced returns to the funds which paid final salary pensions. This was a double whammy for the less well off: their taxes were being used to bail out failing banks and their pensions were reduced as a side effect of the medicine. The irony was that much of the money released was deposited in off shore accounts and did little or nothing to help the British economy.[19]

The British Financial Services Authority, the Bank of England and the US Federal Reserve belatedly admitted that they should get more familiar with the magic spells and start counting the numbers. Then they stepped in to help out the wrongdoers and to set them up for another session. The sorcerers learned that they would always be bailed out and continued to take the same old risks. The potion known as the Black–Scholes formula was still applied, even though responsible investors like Warren Buffet and, later, George Soros, warned loudly about the dangers involved in this. The investment banks could still not be bothered to keep a firm check on their traders. Each time something went wrong a major plank in the structure of capitalism collapsed.

The losers in this game were the general public, the taxpayers. The sorcerers themselves did not invariably emerge unscathed when things went wrong, but they usually did. In the mad magical world of derivatives and futures trading the price of failure was often high reward. The sorcerers became figures of envy, and models for how to succeed. As will be shown in the next chapter their ways were introduced into a whole range of other areas of social life. The modest claim was that the market should be applied everywhere. The new criterion was not success in dealing with failing humanity but rather success according to the magical formula of business quality assessment. Hence patients could be left to die as long as performance targets were met. And there were managers who saw this simply as harsh necessity. These points are explored in the next chapter.

CHAPTER SIX

In the company of Über-capitalists: living with the extremely rich

Are the super-rich just like any other group of citizens, some good, some bad, in the same proportion as the rest of society? Or are they a sub-group with particular characteristics, personality types and behaviour patterns, which might justify attaching a general label to them, such as Über-capitalists?

They were said to be ambitious, to have unusual energy, to have focus and to be clever and inventive. These were praiseworthy characteristics, laudable in honest citizens. For a time, before the economic crash, leading British politicians like Peter Mandelson and Prime Minister Gordon Brown saw them like this. But other characteristics must be added to the list. Before the First World War P.G. Wodehouse wrote of one of his characters, the super-rich Mr Peters, that 'he was suffering from that form of paranoia which makes men multimillionaires. Nobody would be foolish enough to become a multimillionaire, if it were not for the desire to prove himself irresistible.'[1] Many of them were also aggressive, had an overwhelming need to own and possess, avidly collect and deprive others, were impermeable to deep criticism, had no feeling for justice and lacked empathy with their fellow citizens. Will Hutton wrote of such people: 'They move from deal to deal over whatever they prize – company, mansion, women – careless of the implications on others' lives.'[2] They naturally saw the law as an obstacle or as a useable instrument. It was not difficult to describe what must be necessary in the character of an Über-capitalist. The newspapers contained enough about the behaviour of the individuals who had power through wealth for us to draw conclusions.

The character of these people was suggested by their reaction to the proposal that they should pay a fee of £30,000 per annum after 7 years residence in the United Kingdom if they were not domiciled there. They paid little or no UK tax (see Chapter 3 for a fuller discussion of the issue). At a dinner of the worshipful Company of International Bankers in February 2008 the British Chancellor of the Exchequer, Alistair Darling, who had supported the fee, was treated to loud jeering and banging of fists on tables after his speech. Will Hutton commented that this rudeness revealed the bankers' self-righteousness and 'extraordinary sense of entitlement and self-worth'. '(They) believe they uniquely contribute to the wealth of the nation. It is an article of faith that they have an inalienable moral right to design their affairs so that all but a trivial amount of their earnings is held offshore to escape British taxation, despite the fact that many of them are de facto British residents.' (*The Observer*, 17 February 2008). Hutton had hit the nail on the head. They believed, and governments in the United Kingdom and elsewhere had encouraged them in this, that they were uniquely gifted. In fact their skills were approximately at the level of street jugglers, and most of them contributed rather less to the gaiety of the nation. As Hutton said that if some of them decided to leave then so be it. But the advantages of living in London meant that not many would move to Zurich or Dubai.

The drive to win led capitalists to behave as close to the limits of what the law allowed as was possible. This was not a bad thing. A sign of vigorous capitalism was necessarily that rules were sometimes broken. To the Über-capitalist regulation was always objectionable regardless of its quantity or quality. Hence in the United Kingdom it was as much a norm of the business ethic that there was too much of it, as it was in France, even though there was much less of it in the former than in the latter. Some describe Britain as the least regulated economy in the developed world. Liberal values were useful but not necessary. Hence Rupert Murdoch and the Internet company Google, both professing support for liberalism, saw no difficulty in adjusting the behaviour of their organizations to suit the Chinese government. Murdoch refused to publish Chris Patten's book on Hong Kong because it criticized Chinese policies there. Both Murdoch and Google allowed the Chinese government to impose restrictions on what they could broadcast in China. Murdoch was happy to collude with the exclusion of the BBC from his Star satellite channel when the Chinese objected to BBC content. In the United Kingdom in 2007 the Financial Services Authority (FSA) warned of the lax standards of hedge funds with regard to insider dealing and the use of privileged insider knowledge and promised to exert greater control in future (*Financial Times*, 30 October 2007). Such behaviour illustrated that Über-capitalists were highly pragmatic when it came to the way in which they dealt with legal and social constraints. The rule was: bend or ignore them if you can but, regardless of their content, accept them, even if they imply accepting the infringement of human rights, if they get in the way of profit. Left to itself Über-capitalism could deal with any regime however objectionable.

The ways and artefacts of Über-capitalism were reported with approval in television, radio, glossy magazines and in the lifestyle sections of the newspapers. The public saw automobiles which cost as much as a substantial house, select and expensive holiday destinations, ridiculously over-priced clothing and accessories, clubs that existed precisely because of the huge cost of membership, high maintenance trophy partners and wives, expensive styling of living spaces, multimillion dollar houses, private jets and all the other over-priced paraphernalia of the super-rich. It was amusing, but a rather sad comment on the values of the super-rich, that the number of wives seeking divorce from them rapidly increased when the economic crisis struck. Yet they captured the public's imagination and set standards by which people were invited to measure their own achievements. Their behaviour was the red meat of highly successful magazines like OK and Hello! Everyone was enjoined to reach for the golden apples. The public were told they should not feel jealous, but rather feel the ambition to struggle to emulate their owners. Greed was good. This was the modern equivalent of religion: the new opium of the poor. If the lifestyle could not be afforded then borrow what was necessary and pay later. The huge increase in credit card debt was one of the causes of the economic crisis.

The super-rich often competed with each other in driving up the prices of the golden apples to extravagant heights, quite unrelated to the worth of what they sought. The best example was that of modern art as analysed by Tom Wolfe with such insight.[3] He argued that the modern art market was controlled not by the merit of the creations but by the willingness of the Über-capitalists to compete to buy, and the success of dealers in talking up prices at auction. The inner compulsion was to demonstrate wealth. The exercise was like the parties of the tribal leaders of native North American Indians, such as the Kwakiutl, who celebrated their wealth by burning the items which to them were the most valuable, their exquisitely worked bark blankets. A really good party would confirm the wealth of the host by consuming all his stock of blankets and burning down his house! The market of modern art was just like this: the purpose of its buyers was to demonstrate wealth by consuming as much money as possible in its acquisition. The price paid did not reflect the merit of the art, but the wealth of the purchasers, who competed – and sometimes colluded – to drive up prices, though it impressed their friends.

It was not just that this stuff set the gold standard of possession. It also made it seem reasonable that those who succeeded in getting the golden apples should be asked to tell others how to improve the way they performed. The business world began to encroach upon areas of the system of national culture and society in which it had previously played a minor role. Groups that believed that their members were obliged to each other for long-term support had to be made to recognize that those who did not pay could not stay. Monasteries and churches were still beyond the reach of such commercialization – just! But universities, some members of which still believed in an academic community, were increasingly dominated by the drive for output in the form of publications and student grades. The research exercises measured output mainly in terms of short-term impact, and teaching performance was subjected to quantitative evaluation, regardless of the benefit it conferred on the students in the long term. But universities competed, following the business ethic, on the level of grades awarded, and even reduced their standards so that the scores were higher.

It was decided to ask businessmen to take on a bigger role in managing the universities. Energized by the bench marks of the wealthy, politicians ruled that one of Britain's biggest success stories, its universities, were to be managed by business people, even though the track record of British businessmen, for most of the years since the Second World War was mediocre. Over and over again business people from outside the country were brought in to replace failing British managers. One commentator, in a fit of enraged insight, ironically commented that British managers as a class were so incompetent that companies only succeeded when they brought in managers from abroad.

Gordon Brown, then Chancellor of the Exchequer, was the driving force of this. He set up the Lambert Review which recommended that every university in the country should have a majority of people from business on its governing council. Oxford and Cambridge rejected the Lambert recommendations and successfully fought to keep a majority of academics on their councils. It was pleasing to note that one of the individuals who fought Oxford University on this was Sir Victor Blank, who later presided over the downfall of the bank LLoydsTSB.[4] Some of the individual businessmen who became involved were honourable men and women, but it was the golden apples of the Über-capitalists, rather than real business success, that made it seem a good idea.

The new orthodoxy was that companies owed no duty of care to their workers beyond what was necessary to maximize profits. In its extreme form any deceit could be justified to avoid trouble when workers needed to be fired.

Typical was the case of flight caterers Gate Gourmet, mentioned earlier. On 10 August 2005 this company called its workers to a general meeting in their coffee break and told them by megaphone that they were now fired and could not re-enter their workplace.[5] Some cynics wondered where this would stop. Could even marriage be subject to performance criteria, and partners fired for poor performance? As suggested above this was indeed happening: the divorce rate for failing bankers went up significantly when the crisis struck.

Conspicuous success made it appear that commercial values were superior to any others and that the criteria of a good education should be that it qualified the student for commerce. There was of course a good case for having this as one of the points of education, but this was a dangerous game if pushed too far. G. K., Chesterton, the British novelist and essayist, commented that 'education is simply the soul of a society as it passes from one generation to another.' There was now the risk that this soul would be lost. It was a short step from arguing that students should be fit for business to assuming that the other purposes of education, such as acquiring cultural awareness, and a rounded understanding of the origins and potential of the modern world, were less important. The profit motive impinged on the curriculum.

The way this was done was subtle. The new education stressed the idea of transferable skills, which meant that something had to be extracted from the study of, for instance, history which could be transferred to other areas, such as that of business problems. This was fine, except that it should not be at the cost of understanding and knowing history. It was necessary to understand the historical process, how events led to other events and how the explanation of particular events had cultural and contextual dimensions. Instead teaching tended towards being less concerned with enlightenment, the highest form of learning, and more with lessons about how to cope. Like other subjects history was now often seen as a medium for teaching non-historical, though necessary skills, like the use of evidence, the use of statistics and other evidence and the ability to present arguments.

This was the picture with regard to the humanities. On the science side the picture was equally gloomy, and again the influence of business ethics was part of the problem. The government was well aware of the need for more students at the highest level in engineering, physics, chemistry and the other sciences: the government habitually diverted funds to the science and engineering faculties away from more highly rated arts and social science faculties. Yet in 2008–9 even a high status university like Imperial College

London had difficulty in finding enough acceptable candidates especially in engineering. The explanation for this, according to the government's own exams regulatory body – yet another quango – was the dumbing down of science at school level, especially at GCSE, which led schools with high-flying candidates to ditch this examination in favour of the International GCSE, which was at a higher standard.[6]

Why had this happened? The standards were lowered so that targets set by the government would be met. (There would be more science passes.) They had also gone down because the school examination boards, having been privatized, competed for custom. (A reputation for setting easier exams was likely to attract more candidates.) The schools also had targets to meet, so making science exams easier for their pupils suited them. Meeting these targets did not however help the universities, since even pupils who did well were not equipped to move on to the relevant higher school exams, the A levels in Chemistry and Physics and Biology. As a result there were too few qualified applicants. All in all the introduction of business approaches at school level, specifying target pass rates and encouraging the exam boards to compete with each other, led to fewer good scientists at the university level. It was a disaster.

The modern way of education led to a drift away from scholarly subjects. The practical skills, so useful for business, were stressed by the modern inspectors of schools, the government's agents in the form of the officials from OFSTED who were cordially disliked by teachers. There was a trend towards looking at themes in history at the expense of narrative,[7] presumably because they could be selected more easily to fit today's needs. School children were encouraged to think that history was an option, rather than a core subject which was vitally necessary for understanding themselves and their place in the modern world. The time spent on history in the national curriculum was one hour per week, and fewer children continued with the subject in senior schools. Only 30 per cent now studied history for GCSE. Other subjects fared less well. Studying classics or languages at school was now unusual, and as a result university departments in these subjects were in trouble.

The business ethic in education is also shown by the obsession with testing, measuring and assessing in schools.[8] As in business, children's progress had to be measured at every stage, as if they were toasters on a production line, at the cost of creativity and individualism. Those who did not measure up to the established criteria had to be put right or discarded. Dinah Birch reported

John Ruskin's view that such approaches to education risked turning man into 'an animated tool'.[9] She commented that we need to learn to temper our 'unremitting scrutiny and testing' of children with some flexibility and allowance for individual creativeness. In the world of the super-rich, however, individual creativeness was only a good thing to the extent that it served the bottom line. Indeed unless properly channelled it was a bit of a risk.

The new techniques for quality control also illustrated the trend, pushed by the government, to develop more and more intrusive ways of measuring and checking performance. Much energy, and, indeed a whole new pseudo-science of quality assessment, involving such notions as bench marking, good practice, fit for purpose and due diligence, was devoted to developing ways of making the performance of professionals intelligible to non-professionals. This boiled down to making professionalism and specialization subservient to the default authority of the age, the business world. The new doctrine was based on the belief that professionals, including teachers, and also the whole range of the professions, were not to be trusted. They must be asked to explain themselves to the chap with the MBA. This had two unintended consequences: it demoralized professionals and it empowered the custodians of the purse. But it also diverted people away from doing what they were supposed to be doing to sitting in front of a computer checking boxes. This point was made in a whole range of areas in the mid-years of the first decade of the twenty-first century: teaching, the practice of medicine and even the practice of social services in caring for children at risk.[10] Too often individual cases of child neglect went undetected even though the correct procedures, including 'best practice', had been followed.

Examples about the effect of new capitalist values on culture abounded. Letters to the *Independent* on 5 December 2007 were a response to the cutting back of provision to public libraries in Britain. There had been a weeding out of difficult or complex books in favour of more accessible reading. Following this policy Waltham Forest council had culled 239,344 books from their public libraries and sent them to the council incinerator. Professor Bob Usherwood of Sheffield University regretted the dumbing down of public libraries. He wrote: 'Importing a vacuous culture and tabloid values into public libraries is to betray their past and an abuse of public funds' (Letters Page, *The Independent*, 5 December 2007). The process of closing down public libraries continued: by the end of 2007, 40 more had been closed, with more to come (*The Independent*, 31 December 2007). The number of professional librarians had also been sharply reduced. This vacuous culture was a product of modern capitalism, and the Über-capitalists were its flagship exemplars.

Universities found it necessary to increase their provision for teaching accountancy, economics and law, and competed to set up the factories of mumbo-jumbo called business schools.[11] Businessmen were flattered to be asked to finance institutions to pass on what they thought they knew. Universities found it more difficult to get funding for research which had no direct and obvious economic spin off, and indeed the HEFCE funding system for research in higher education actively discriminated against less directly useful research and favoured practical subjects. The results of the four-yearly research assessment exercises (RAE) in the universities, which were expensive and time consuming, were ignored.[12] Research centres which were acknowledged as outstanding were passed over for funding in favour of those whose work was more likely to produce profit. World ranking scientists had to constantly defend pure science in the face of the questions put by the ignorant: "what is it for? What profit can be made of it?"

In the 1960s the University of Warwick became the first university in the United Kingdom to deliberately cultivate close relations with the business world and set up its own business park. No doubt this was necessary. It paid the universities to bring in more high-fee paying students from overseas, and business courses and connections were attractive. But a very careful line had to be steered between keeping up pure, academic science, and creating business opportunity. Overall the values of the Über-capitalists came to impinge upon the educational system of the British from early schooling to advanced post-graduate research.

Some commentators placed the blame for the values of the class of new business people on the business schools. They argued that the Schools stressed the development of skills for creating wealth above all else, and played a part in developing some of the new financial instruments. Two books containing these criticisms were discussed in a piece in the online blog *Huffington Post*: Rakesh Khurana's *From Higher Aims to Hired Hands*, and Henry Mintzberg's *Managers not MBAs*. Mintzberg was a Professor of Management Studies at McGill University and Khurana was Professor at the Harvard Business School. Some of the flavour of the criticisms was conveyed in Khurana's remark that the business school graduates too often do not 'feel constrained by norms arising from a sense of moral responsibility, often playing fast and loose with other individuals in relationships of trust and responsibility'. They were 'loose individuals who do not feel constrained by norms arising from social values such as fairness or equity'.[13] Business schools also shared responsibility for the crisis in that they had trained managers to think of themselves as agents of the shareholders which 'absolved managements of any responsibility for anything other than financial results'.[14]

There were signs, such as British Prime Minister Gordon Brown's suggestion that Britishness should now be taught, that the British were being separated from their cultural heritage. (From their soul?) But those who wished to defend traditional educational values found themselves up against a position that was entrenched in government: that the lead should be given to what was needed for commercial success. David Kynaston described this as city cultural supremacy. 'In all sorts of ways (short-term performance, shareholder values, league tables) and in all sorts of areas (education, the NHS, and the BBC, to name but three), bottom-line city imperatives had been translated wholesale into British society.'[15] It should be noted that these were the imperatives of people who were anxious to pay as little as they could get away with to the British state (see the accounts of the non-doms, Chapter 3 and *passim*).

Perhaps the worst example of the effects of introducing business practices into public services was that of Stafford Hospital, in the West Midlands, reported in March 2009. The management of the hospital was determined to cut costs and achieve targets – to focus on financial and performance targets – in order to achieve the privileged status of Foundation Hospital, regardless of health outcomes for patients. As a result of this policy it was estimated that death rates at the hospital were at least 27 per cent higher than they should have been, and there were between 400 and 1200 deaths more than the national average would have indicated in the period 2007–8. There were several aspects of this finding which needed investigation, not least the reason why it had taken so long to find out, and how many other comparable cases remained to be discovered.[16] But the point to be stressed here is that the failures occurred because the conduct of the Stafford Hospital was driven entirely by the ethics of business. What mattered was the bottom line.[17]

It was hardly surprising that New Labour found it so easy to abandon central principles of the British legal system, or to fundamentally alter the British constitution, without undue protest. Government Ministers often showed little regard for the key principles of their democracy and its legal system.

Such matters were of lesser importance. More and more school leavers knew hardly anything about the history and geography of their country, or its regional and global context. Of course there were major and intractable problems to be solved, such as how to deal with the threat of terrorism and the economic crisis. But in the proposed solutions less regard was now paid to the cultural, democratic and legal norms, than would have been the case twenty-five years earlier. Indeed the main causes of the economic crisis can be traced at least in part to the values which the Über-capitalists represented. The damage was due to the impact, direct and indirect, of the new capitalism. The new security problems happened to coincide with this. The way in which the problem of terrorism was tackled also bore the imprint of the values of business, indirectly in a disregard for traditional freedoms and constitutional principles.

Über-capitalism and politics

Under the instruction of the Über-capitalists, companies tended to become more concentrated. Takeovers became a primary form of economic activity, dominating the pages of the financial and business press. Companies also tended to take on the colouration of the whole. Successful companies tended to become more like each other and to duplicate each others business. It was likely that a successful company would sooner or later set itself up as a bank with all the opportunities that provided (see Chapter 5). Richard Branson's empire set up as a bank; Sainsbury's, which had been a high-class grocer, became a bank, as indeed did their main rival Tesco. With few exceptions successful companies, be they banks or supermarkets, were also determined to become global players. This was made possible by the de-regulation of the banking system and sustained by the view that to be really successful all companies had to move in into Casino Capitalism. They all wanted to be everywhere and to be everything.

This was linked with the process of moving business closer to government. Governments of the Right and the Left, or somewhere in between, began to take on businessmen like left wing governments once took on union leaders. When he became Prime Minister in 2007 Gordon Brown adopted this strategy by including non-elected businessmen like Digby Jones, previously head of the Confederation of British Industry, as one of his ministers. Jones did not apparently feel that his capitalist values would be compromised by such a move. This was natural because politicians of all persuasions were fascinated by the super-rich and once in office tended to seek out their company. David Blunkett, a remarkable blind man who became a New Labour Minister, had been a firebrand Labour left winger in local politics in the northern English city of Sheffield. When Labour formed a government, and he became a minister, it did not take long for him to acquire high profile business friends in the capital's smart set. There were many examples of shady super-rich businessmen making large donations to New Labour and its senior politicians. This became an on-going scandal in 2007–8.

This was typical of new Labour politicians as much as Conservatives. Über-capitalists and top politicians had a lot in common. Indeed Über-capitalists wished to become Über politicians, as successful politicians wished to become Über-capitalists. In consequence it became more difficult for democratic governments to hold to the centre ground. Centre left governments were pushed to the right because of the company they kept. Conservative governments either had to follow them and occupy the same political space or move to the extreme right. In Latin America politics had always been highly polarized and part of the reason for this was the existence of a class of super-rich and its opposite, a class of super-poor. This development weakened democracy because whichever government was returned to power was likely to have to compromise with big business and the preferences of the rich under pressure from the United States. Those who did not faced a continuing risk of covert intervention from their northern neighbour. There were of course some differences in the practices of right and left wing governments in power, but there were also remarkable similarities. There were overwhelming pressures to make friends with the super-rich.

The connection of political and business elites with each other across national frontiers helped to explain the increasing gap between the rhetoric and the practice of politics. In Britain and the United States the rhetoric was still about freedoms, the upholding of the law and the principles of the constitution, democracy, civic virtue and the like. In both countries these principles were still a part of the national ideology and were the common currency of political discourse. But alongside the rhetoric were practices which challenged it. In the United States elections went to the richest and best organized, blocs of voters were disenfranchised, constituencies were gerrymandered to ensure a majority and the election techniques of the likes of Karl Rove were used to win elections. Some wondered whether such a system deserved to be called democratic. In Britain the principles of the constitution were dispensed with to suit the needs of the moment, public enquiries were carefully managed to get the required result, news was fitted to the chosen agenda and election spinning techniques imported from America were used by both the main parties. On the one side was a rhetoric which reflected the highest level of national political values. On the other was an altogether less praiseworthy practice which politicians picked up from colleagues in other countries.

Über-capitalism was not picky in its decisions about the areas of the economy in which it should invest. On the invitation of new Labour it moved into partnership with the government in the building of schools and hospitals, as discussed in Chapter 3. It was also quite happy to move into the area of social provision if a buck could be made. By 2007 it was taking over various areas of social welfare provision in Britain, such as orphanages and old peoples' homes. The Blackstone and 3i private equity groups bought and sold their elderly care businesses for considerable profit, and there was massive interest in new investment in the area from funds such as the Qatari sovereign fund (*The Observer*, 4 November 2007). This investment was seen as promising because of the increasing number of elderly in Britain and the supply of cheap labour from Eastern Europe. Security companies like G4 moved into the business of airport security, and in Iraq a number of private security companies were hired to look after the security of soldiers.

Private takeover of old people's homes promoted a regime of constant change and disturbance in which homes were sold on, assets stripped, support staff dismissed and if necessary patients moved on to other places as dictated by the imperative of maximizing gain. No gain without pain! The elderly became commodities open for commercial exploitation. In Britain this was the most recent expression of a tendency that went back to Mrs Thatcher's government in the 1980s when the government decided that there should be private jails. There were now companies which benefited from crime and had an interest in seeing it increase. They could now benefit from the increasing frailties of society. National and international capitalism began to cherry pick social provision in Britain when it thought a profit could be made. Capitalists, especially the city traders, had learned how to profit when the capitalist system mal-functioned, and now they were finding ways of profiting from the malfunctions of society.

Time spent in public service could be useful for those planning the entry of private capital into the public provision. Simon Stevens had been a manager of Guy's Hospital in London and an advisor on the National Health

Service (NHS) to Tony Blair. After leaving office he became a senior figure in UnitedHealth(sic) a company that was a growing player in the US health insurance market. His contribution to date – 2009 – to the British NHS was the taking over of two GP practices in Derbyshire, but more was to come. The company had also been given permission by the government to bid for much bigger contracts from primary care trusts. Stevens was naturally a persuasive defender of the ways of privatized medicine, careful to admit that American ways to health had their problems, but also to insinuate that the strengthening of insurance-based medicine in the United Kingdom could bring benefits. One of the problems was that in the United States insurance rates were increasing so fast that half of all personal bankruptcies in the United States in 2006 were due to patients being unable to pay medical bills (Jo Revill, writing in *The Observer*, 11 November 2007). Even those who had a plan often found they were not covered. A deft touch by Stevens was to let it be known that the NHS could not be reformed without such private entryism. This was a sophisticated point. The NHS learning curve could provide fat consultancy fees for specialists such as Stevens.

John Gray pointed out that the effect of introducing the market into everything was to undermine the trust of individuals in the state, and threaten the professionalism of its servants. 'Wherever possible services should be out-sourced and labour costs reduced to a minimum by the use of information technology. Honed in new right and New Labour think-tanks in the Nineties, this is the orthodoxy that has given us the British state as we have it today, an impenetrable chaos that ministers or watchdog bodies are unable to control.'[18] This was the way in which modern capitalists had affected the way we were. It was blindingly obvious that the need to maximize profits was hardly likely to support or improve standards.

The market in everything?

In the sixteenth and seventeenth centuries mercantilists proposed that the amount of wealth in the world was finite and that economics was about struggling to increase ones share. Such a view fitted with a world in which economic competition often took the form of struggling to plunder the precious metals of Latin America, often by legalized piracy on the high seas. Adam Smith challenged this view when he wrote in the late eighteenth century that there was an invisible logic to the competitiveness inherent in capitalism according to which we all gained. This was what he called the hidden hand. Free market economics actually increased the size of the pie, and the economic struggle in which each of us thought only of our own interest actually helped everyone. Economic competition increased the size of the pie. There was a kind of miracle in the mutual benefit of what, viewed narrowly, appeared as merely a struggle to gain wealth for oneself.

This was the liberal view of economics which had prevailed since Adam Smith wrote his epic treatise. But by the first decade of the twenty-first century there was evidence to suggest that mercantilism had re-entered the new capitalism, in that the factors that produced poverty were inherent in those that produced wealth. The Adam Smith argument was often misunderstood as giving free rein to the market. But if it was unregulated liberal capitalism naturally turned into mercantilism, since the drive to business success necessarily led eventually to a zero-sum relationship with other players. One side always wanted to win and to take all from the losers. The effects of this drive were all too clear when it came to dealing with the economic crisis in 2008 and 2009: the damage done by the rich, who were determined to cling on to their ill-gotten gains, had to be put right out of the pockets of everybody else. It was only the regulated market that could prevent this and protect the hidden hand.

Some people got richer because others got poorer, exactly as Spain had got poorer when British and Dutch seamen took their gold. The number of absolute poor had increased in the age of globalization and the difference between the income of the top 10 per cent and the bottom 10 per cent had greatly increased. There was an increasing struggle for essential raw materials like oil and water, the new gold. Modern states made deals to secure supplies of these, and to gain access to markets, at the expense of others, no matter how awful the human rights records of the partner states, just as the English and Dutch had fought for Spanish gold. The wealth of the metropolitan areas in developed countries contributed directly to the poverty of others, as when house prices were forced beyond the reach of locals by the competition for second homes. The terms of trade inevitably meant that those who produced commodities got poorer in the system of international trade because the price of commodities never increased as fast as that of manufactured goods. Indeed it was difficult to identify any location producing commodities, be they water, oil, diamonds or sapphires, where local populations had drawn any benefit. Wealth did not trickle down, which was the hopeful fallacy of right wing economists, but was rather siphoned off or drawn into the richer areas. This was the new mercantilism.

The modern system of capitalism was therefore a way of keeping people out. As it became unacceptable to oppose immigration for reasons of race, so it became more fashionable to resist immigration for economic reasons. Immigrants, no matter how productive, and no matter how much they contributed to the public purse through taxation, were seen in the pages of the right wing press to be here to steal our wealth, that is, unless they were visibly of the super-rich. Why this view became a commonplace was hard to explain except in terms of the all embracing mercantilist drive to get all the pies for oneself, another product of the dominance of business values. But it led British political parties to compete on the toughest policies on immigration. In the United States policy on immigration led to an extraordinary conflict among right wing members of the Republican party. On the one hand the right wanted to throw out all the illegal immigrants. On the other the right also wanted them to stay to provide cheap labour for fast food cafes, car washes and fruit picking. The rich right wingers who housed Mexican servants in their sheds wished the issue would just go away.

Conclusion

In the period after the end of the Cold War the capitalist system changed. The developments referred to, often very imprecisely, as globalization included the increased interconnectedness of the parts of the international economy, the increased scale and mobility of finance through the system, a declining ability of public authorities to understand and regulate what was going on and the appearance of increasing numbers of super-rich, who attached or separated themselves from the world's major cities as they saw fit. Of course these changes helped to increase the total amount of wealth, and increasing numbers benefited from this. But the development also had powerful social and cultural consequences.

The level of unfairness in society, as described in the first chapter, increased, and even more insidiously the values of the new capitalism weakened the public's hold on civil and cultural values. What was particularly unpleasant was that the new values led to the more common perception that community should be replaced wherever possible by a more competitive society. Mrs Thatcher famously said that there was no such thing as society: what she might more accurately have said was that there should be no such thing as community. She advocated the universal application of the principles of market competition even in institutions that were more communities than societies. As already said, if you could not pay you could not stay. Her values would have favoured the view that every institution and individual should pay its way, that all interactions should be subject to cost–benefit analysis and that nowhere should be beyond the reach of those who were seeking profit. Her ideology led directly to a situation in which good companies, which tried to treat their workers well, were being pushed out by bad companies like Wal-Mart which treated their workers without respect.

Free market economics and the civilized state were deeply incompatible. Without regulation the free market was inevitably dominated and exploited by Über-capitalists for whom cultural values and human rights were toys. It was not just the system, but also the people. Money making was essentially an anti-cultural activity. Even though it might be used to support the arts it was important to keep it separate lest it contaminate and debase the product. In an age when it had become the sole virtue, it was likely that culture would be damaged. The Über-rich naturally strove above all else to obtain power and money. They also had the ability to put a surprisingly low price on human suffering.

Über-capitalism had become both powerful and pervasive. This was the Gordon Gecko world.[19]

CHAPTER SEVEN

Good things and bad things: the new front

Progress or not?

The front between developments that were beneficial for mankind and those that were not was constantly moving. The previous chapters painted a rather dark picture of developments in the practice of capitalism affecting people in modern states in the early twenty-first century. But there were related changes in circumstances and modes of thinking that could increase or diminish human happiness in the longer term. Some of these amounted to an anti-renaissance captured in the rather unfortunate term denaissance; others seemed to be a step towards a new enlightenment and a more civilized existence.

In this chapter an ambitious task is attempted in finding an answer to the following question: What were the developments that were conducive to a more civilized existence, and which were not? Very few of them were entirely positive. They covered a wide range, from direct gains and benefits for the individual to international and transnational gains and benefits which affected the individual indirectly. An overall evaluation of the positive developments which might justify the view that there has been progress is worth attempting. Something has to be said about the other side of human achievement other than that captured in John Gray's depressing account of humans as straw dogs.[1] The case for the positive is discussed in the following sections.

Improvements in incomes and lifestyle

It was undeniable that in Britain and the rest of the world, more people were able to earn incomes that could be regarded as comfortable. But it was also clear that this increase went along with an increase in the numbers of those who were living in absolute poverty. The increase in average incomes, driven by economic take-off in China and India, went along with greater absolute poverty in Africa.

In the developed world too, the number of those in absolute poverty was not going down. This was true of the United States and of the United Kingdom. A study reported on 15 November 2007 said that in Britain one in three children lived in poverty, a total of 2.8 million, and many of these did not have enough to eat.[2] This was not the 1930s, when certainly there were children who starved and went barefoot in Britain, but there were still too many near the breadline. As indicated in previous chapters, the idea that wealth would trickle down from the rich to increase everyone's income was not true. In a number of developed countries there was a further problem: that the difference between the incomes of the middle group of earners and those of the top group had greatly increased. It seemed likely that this difference would continue to increase, with implications for pensions and health, and possibly for the stability of states.

But anyone living in the developed world would have to report a range of improvements in standards and lifestyle. There had been a ban on smoking in most developed countries, despite the lies and prevarications of the tobacco companies. This undoubtedly saved many lives. In most developed countries outside the United States, including the whole of the EU, the barbaric practice of capital punishment had been abolished. More women could get jobs. They could also take on mortgages, which in Britain amazingly had not been possible for most women until the 1970s. Men and women could no longer, in most developed countries, be imprisoned because of their sexual orientation. Despite the fears of the doom-mongers, television and the Internet had led to more books being published than ever before.

Improvements in medicine

Health care and diet for most people in the developed world had greatly improved since the Second World War. Life expectancy had steadily increased. There were, however, departures from the highest standards in the Anglo-Saxon world. In the United States those who could not afford health insurance were denied treatment, unless they were entirely lacking in resources or were elderly. For those who had average income, ill-health was the biggest cause of personal bankruptcy. In the United Kingdom, under the National Health Service, although treatment was available to everyone, there were certainly areas of the country where treatment was likely to be below average. There were also instances where treatment or drugs were denied for reasons of cost-effectiveness. Once again an overall improvement, perhaps most clearly seen in dentistry, had to be qualified. In some parts of the country it was very difficult to get access to National Health Dentistry, as most dentists had gone private. As pointed out earlier, the better off were likely to benefit more than the less wealthy. One dystopic vision was of a world of super-medicine, involving, say, nanotechnology, which hugely extended the lives and comfort of the super-rich and was denied to the increasing number of those who were beyond the pale.

In 2007 there were also reports of failures to continue with vaccination programmes in developed countries as well as the least developed. People thought, usually mistakenly, that they might cause other illnesses. In Britain many parents mistakenly decided that the single vaccine against measles, mumps and rubella was a cause of autism and refused it for their children. In consequence, cases of measles increased and became a matter of national concern in 2008–9. In some cases, medicines were being used carelessly so that the illness they were intended to cure got worse rather than better. For instance it was observed that failure to use antibiotics properly in treating tuberculosis encouraged the appearance of more resistant strains of the disease. Antibiotic-resistant strains of tuberculosis had reappeared in some US cities. In Africa the retroviral drugs used for treatment of HIV were misused, and in consequence, new and resistant strains of the virus began to appear. There was still a serious shortage of effective and affordable retroviral drugs in the poorest countries, and the drug companies constantly dragged their feet on this. There was also the problem of obesity in the United Kingdom and the United States, and its associated illnesses, which was caused by excessive consumption of fast foods and insufficient exercise.

Greater levels of literacy and cultural engagement

In most developed and developing countries, the number of people who could read and write continued to increase. In some areas, such as Kerala in India, the education of women was particularly stressed as a way of improving the educational level of children and contributing greatly to family welfare. In developed countries the fear that television and the Internet would lead to fewer books and less reading proved to be unfounded. But the fear that cultural standards were in decline seemed valid. Attention spans seemed lower. Changes in the programming of television and radio supported the view that they were dumbing down.

The insertion of advertising made it more difficult for high culture to be effectively presented. One imagines the cultural dissonance of placing an advertisement for Sainsbury's Taste the Difference Lamb in a television performance of King Lear immediately after the scene where Gloucester is blinded. This had not quite happened, but the increasing incidence of television advertising made it seem possible. Advertising certainly played a part in dulling cultural sensibility. Indeed, in the message statements of the broadcasting companies and other media, that they were there to entertain and enlighten, it was the former that increasingly dominated. There had always been broadcasts aimed in a rather condescending way at a mass audience, even directly at workers,[3] but the commercialization of culture meant that enlightenment took second place to generating profit outside a small number of regulated channels.

A developing popular activism

There was an increasing degree of activism by groups and individuals committed to improving living conditions and stopping abuses of human rights. A number of well-funded non-governmental international organizations concerned with humanitarian crises, such as Oxfam, Amnesty, Save the Children, Christian Aid and Caritas International, functioned throughout the world. These had become skillful and rich particularly in the last two decades of the twentieth century. They benefited massively after the early 1990s from the development of information technology, which brought reports of human suffering closer to home. In consequence, their budgets had vastly increased. It was now more likely that human rights abuses and natural disasters would be widely reported and the public conscience stirred. This development was usually named after the current affairs specialist television channel, CNN, which had scored a major coup in remaining in Baghdad during the first Gulf War of 1991 – the CNN effect. Populations were more likely to be moved to demand action from their governments, though of course, this might have no effect. Of course the development of the Internet was also a part of this. As Gordon Brown said in his Mansion House speech on 12 November 2007, ‘it is possible in this century, for the first time in human history, to contemplate and create a global society that empowers people’.

There were also an increasing number of interest groups which focused on specific causes within the state, such as civil rights, child poverty, cancer relief and environmental issues. In Britain these included organizations such as Liberty, which dealt with infringements of civil rights, and environmental groups such as Greenpeace and the World Wildlife Fund. There was an increasing amount of less organized popular activism and protest about environmental issues, the treatment of farm animals, planning problems, road building, green belt development, countryside issues and war. Overall it looked as if the civil society of developed states had been enthused and organized to promote the interests of individuals.

But against this was the opposite tendency summed up in the title of the book *Bowling Alone*.[4] Some people were more involved; others were more isolated. Many elderly were living further away from their families. In developed countries, changing work patterns meant that those in work were often relocated away from their families. More carers, particularly women, were unhappily left in isolation by the social services to cope with the sick and the elderly by themselves. It was easy to be trapped on a metaphorical desert island. More were involved, but the number of those who were cut off had also increased.

Since the 1980s, international institutions in the UN system had been better organized to deal with economic development and humanitarian crises, whether caused by wicked or incompetent government or by natural disaster. This was a real step towards a true international community, marked by a capacity to act effectively in tragic circumstances. The institutions in this list included the UN's new Department of Humanitarian Assistance, and its successor in Geneva, the Office of the Coordinator for Humanitarian Assistance. They also included the so-called Funds and Programmes, UNICEF, UNDP (United Nations Development Programme), UNCTAD and UNFPA, which Kofi Annan made more effective in his Track Two reforms. The logistics of aid provision had also been greatly improved by the World Food Programme. The development process was pushed forward by the adoption of the Millennium Development Goals at the millennium meeting of the Security Council and by the follow-up meeting in 2005, despite the best efforts of the Bush appointee to the UN, John Bolton.[5] This is not to say that development was now well advanced – it was not. But it does reveal that for one reason or another, including the pressures generated by rock stars like Bob Geldof and Bono, the world did continue to organize for the development of the poorest states.

Global health monitoring was improved by the World Health Organization. The UNFPA promoted more responsible population planning policies. Considerable effort was made in the area of developing and applying core labour standards, and a number of conventions were agreed in the UN framework to prevent abuses of human rights, such as those on the rights of women and children, child labour, torture and genocide. It should not be assumed that this was all political posturing. The increasing anxiety of governments to see that such codes were upheld, and their reluctance to be found out in their breach, was an indication that they were becoming global norms. To be found out in their breach was never without cost, though some governments might be prepared to pay the price. George Bush's administration became anxious that it should not be seen to be in favour of torture, though it did so partly by attempting to redefine what torture meant. But no one was fooled into believing that water-boarding was not a form of torture.[6]

Countries in regional groupings of states such as the EU were subject to both formal, legally enforceable codes as well as informal ones that indicated a desirable standard. Legislation on gender equality in the workplace would not have happened in Britain had it not been for the EU. Compliance with regulations on the use of food additives was a EU matter. But there were also informal standards. New Labour Ministers constantly referred to EU norms when they discussed the amount spent on health care or the standards attained by the graduates of state schools. The absence of membership of a similar regional agency in the United States meant that there could be a more relaxed attitude to such matters. External comparisons were less likely to be made, and unlikely to be published if they were unfavourable to the United States.

Democratization and international organizations

Since the late 1980s, international organizations, including the UN and the EU, had become more directly involved in helping the emergence of democracy. This was an activity which was motivated both by reasons of interest and by reasons of morality. It was possible because of the end of the Iron Curtain and the happy coincidence of power and liberal democracy in western states. But it was also related to the changing concepts of order and, indeed, to the process of globalization.

A letter from the EU to the UN Secretary-General picked up a theme which was increasingly visible in UN and UN-related documents, namely support for enhancing the role of the UN in helping the development of a civil society in states that had experienced internal crises.[7] The use of the term *civil society* was striking: it was now often found in UN documents, but had rarely been found before the late 1980s. It appeared in this case in the context of support for the recovery of states in which there had been serious humanitarian crises, but it often had a wider reference: support for actively promoting democracy.

By the early twenty-first century, the major development international institutions, the World Bank, the UN system and the EU, were making the adoption of more democracy a condition of their support. The then head of the UNDP, Gus Speth, stated in 1998 that 40 per cent of the resources of his organization were spent on activities that had an element designed to improve governance. The Commonwealth devoted most of its funds and activity to the furtherance of democracy. The human rights mechanisms were also directly involved in this process, stressing the introduction of liberal judicial and governmental procedures. They had an impact in a few states in the Middle East, like Bahrain, and in Latin America.

The EU urged that democratization, police training and institution building should be an essential part of peacekeeping operations and the delivery of humanitarian assistance. There should be long-term planning to support the building of stronger civil society.[8] The EU imposed what was called *multiple conditionality* in its relations with the African, Caribbean and Pacific (ACP) countries: strings were attached to economic support, which included democratization.[9] This approach also became a part of the strategy towards those states in Central and Eastern Europe which were seeking membership of the EU. The change in this direction could be traced to the mid-1980s when Margaret Thatcher became the first European leader to attempt to build human rights conditions into provisions for European Community aid to ACP countries under the Lome Conventions.

The setting up of an International Criminal Court (ICC) in 1998 took this further by creating an international jurisdiction under which criminals, including those accused of war crimes, could be tried. Rather surprisingly, most states agreed that this further level of judicial action could be placed above their own. One of the exceptions was the United States, which remained implacably opposed. It took a fundamentalist view of the superiority of its own laws and procedures, which many thought were misplaced. But the US government also feared that its soldiers and generals might find themselves brought before it. There was, however, success in setting up a more specialized international court to try those accused of war crimes in ex-Yugoslavia. It found ex-President Milosevic, and a number of other Serbian leaders, guilty of war crimes. Later, as mentioned in Chapter 9, the ICC achieved what could be regarded as a first: it issued a warrant for the arrest of President Bashir of Sudan for his part in war crimes committed in Darfur.

Peacekeeping

Although the use of peacekeeping forces goes back to the UN action to separate Israel and Egypt after the Suez crisis in November 1956, they were more widely used and more forceful after the end of the Cold War. Peacekeeping forces were part of a spectrum of involvements in failing states.

Increased use of peacekeeping started with the involvement in Somalia, went on to include involvement in ex-Yugoslavia, culminating in the action to protect Kosovo against the activities of the Federal Yugoslav Army. The first Gulf War was also illustrative of peacekeeping. The second Gulf War was a different matter. It departed from the model, in that it was run by two lead states and had no authorization by the UN Security Council. This is discussed further in the second part of this chapter.

The value of greater interventionism has been disputed. One reaction was that it had done more harm than good and that it would be less costly in terms of life and resources if warring groups within states were allowed to fight it out, until one side or the other had prevailed or there was mutual exhaustion. Intervention by the UN, it was argued, had only served to create a series of interludes in which the parties to a dispute could rearm and prepare themselves for further onslaught. An example of this depressing argument was put forward in an article in *Foreign Affairs* in the summer of 1999 by Edward Luttwak.[10] The key question in this discussion is: Is peacekeeping a positive development?

The arguments *against* the opt-out view are as follows:

- The development of a crisis cannot be foreseen in advance, and to decide to do nothing at the outset of a crisis is an evasion of responsibility. The safer course must always be to strive to reduce suffering: to have a general assumption that there will be action to alleviate suffering.
- Those who supported the opt-out position argued that the record was disastrous. True – there have been too many cases of doing nothing in the face of crying human need, most recently in Darfur and the Congo. But in Cambodia there was a high degree of success. In Cyprus there was success in the sense that the UN forces seemed to have succeeded in keeping the warring Greeks and Turks apart, even though the island remained divided. In Somalia there had been a period in which things seemed to be moving the right way but then a new descent into chaos brought very mixed results. In the series of crises involving Croatia, Bosnia and Kosovo, there were phases of appalling failure. But overall the UN actions seemed at least to have given some cause

for pause to the Serbs who would surely have killed far more people in the absence of an international presence. The new state of Croatia emerged from the turmoil reasonably well founded, and the Dayton Agreement appeared to give Bosnia Herzegovina a deal which, though flawed, had potential for success. In Angola the intervention by the UN seemed to have succeeded, despite continued action by the forces of Jonas Savimbi.

The various outcomes did not demonstrate the total failure of the actions of the international community through the UN or associated regional organizations. Rather they indicated some successes and some failures. The lesson from all of this could not be that it had to stop, but rather that much was to be learned about how to improve the process.

- In his article, Luttwak remarked that the natural sympathy of observers with the suffering of others was a ‘frivolous’ reason for government action to help (p. 38). One difficulty was knowing exactly who the others were. Were they folks from the next village or the neighbouring state in the region, or from another continent? The difficulty was to decide the extent of the backyard.
- The logic of the opt-out position suggested a course of action which could have been recommended by Jonathan Swift, the seventeenth-eighteenth-century satirist, who had suggested that the Irish could solve their economic problems by selling their babies as meat for the English table.[11] Outsiders could supply both sides equally with as much military material as possible so that the war would be fought to a standstill in the shortest possible time. Perhaps the international community could find a way of offering credit to the warring parties to facilitate this process and, of course, low-cost export guarantee coverage for arms exporters!

The conclusion can only be that, though flawed, peacekeeping has achieved something and that it should be made to work better rather than abandoned. In the second part of this chapter, attempts to do this are discussed.

Developments in the denaissance

In the first part of this chapter, developments have been identified which seemed to be positive from the point of view of individuals. The message was not always clear. Mostly there were positive as well as negative elements even when the overall direction of development was favourable. But there were also a number of darker developments.

The new political science

The second half of the twentieth century and first years of the twenty-first century also saw movements in thinking, which some marked as a return to the dark ages. (We need not go back as far as the fascist movements of the first half of the twentieth century.) If the Renaissance had been the time when Europeans rediscovered a search for knowledge and enlightenment, the late twentieth century saw the appearance of increasing numbers who supported fundamentalist religion, who denied the hard won discoveries of science, and who sought secular power to force those who took different views to conform. In the West, especially in the United States, the religious right became a political force to be reckoned with, closely connected with right wing Republicanism; in Islam, fundamentalism, especially Saudi Arabia-based Wahabism, led to anti-Western terrorism; and in India, a land long marked by religious diversity and tolerance, there appeared more assertive practitioners of Hinduism, organized in a powerful political movement, the BJP, prepared to step up the use of violence against Muslims.

It was not merely the reappearance of intolerant religion. There also appeared a new denial of scientific truth, the true anti-renaissance, which began with an arrogant refusal to understand anything about what was involved in scientific method. The new ignorance led to the appearance of people who believed anything from that the earth was flat to that the universe, and all it contained, was created by an individual inventor, God, about 4,000 years ago. In some schools in Britain – a small number of so-called academies – and in some states in the United States, it was decreed that the theory of evolution, as developed from the ideas of Charles Darwin, had to be taught alongside theories of creationism and intelligent design. The folks who insisted on this were probably sincere believers, but they were ignorant about the nature of scientific truth.

Others were less scrupulous. Many in the United States, in particular, took up what can only be described as the new political science, according to which science could be denied or accepted according to political interests. Accordingly, right wing Americans decided that ideas about climate change were mistaken and cleverly exploited the views of the small number of dissenting scientists to uphold their view. It was not that they had made a careful evaluation of the evidence and decided reluctantly to reject the idea of climate change, but rather that they sought whatever evidence they could scrape together to justify policies against climate change. Hence, it was OK to continue as the world's main producer of carbon dioxide, it was OK to exploit the Arctic wilderness to tap into new supplies of oil and other raw materials, and it was OK to ignore the evidence of melting ice caps resulting from increasing global temperatures. This was short-term political expediency, which allowed a desperate search for power to dominate over hard-won scientific truth. It was one of the consequences of what Krugman called *movement conservatism*.[12] One result was the appearance of an increasing number of thoughtful denunciations of religions of all kinds, especially the organizations through which they were promoted. The election of President Obama seemed to mark a defeat for this kind of political science, but across America the religious right and the deniers of science remained a powerful force.

People were more vulnerable to the blandishments of the unscrupulous because schooling was now more about teaching a box of tricks for succeeding in the marketplace than it was about gaining enlightenment. It became easier for the greedy because more people were gullible: they had no intellectual anchor or sense of history to set against the lies of the anti-intellectuals. The appearance of US mega-churches was an excellent illustration of this. Individual religious leaders realized that they could get rich quickly by talking persuasively about faith and getting their congregations to give generously. In America a large number of these leaders were exposed as not just greedy but also immoral frauds. It was reported that the religious organizations were becoming major economic actors in the United States, rather like the army in Pakistan, Turkey or Franco's Spain. There were now 1,300 giant churches that were expanding, at the expense of their congregations, into the world of business.[13]

The new darkness also involved an increasing laxity in what was considered intellectual progress. The new sciences of management led to new obscure languages and the use of mumbo jumbo, which concealed more than it revealed. The language of politicians and hawkers of books on self-improvement was marked by neologisms, which amused and annoyed those who were concerned about accuracy in the use of words. A new breed of people were adept at the use of such useless inventions as mission statements, rafts of policies, best practice, benchmarking, interfacing, line manager, engaged and participating strategy, a broad brush piece, governance, dialogue, closure and, in particular – usually a way of avoiding action – holding a great debate. In December 2007 the Centre for Policy Studies published a comprehensive list and claimed that they debased modern politics.[14] These afflicted the likes of politicians, businessmen and university teaching quality assessment officers alike. Francis Wheen noted with glee that those who wrote books about how to succeed in business had usually failed at business themselves.[15] Naomi Klein wrote a deservedly successful best seller about the use of the logo in branded goods. In a sense the name of the product became more important and valuable than the product itself. This was the Nike world.

The new black arts of politics

In politics there was more mystification, more obfuscation and more denial of the truths which were important for individuals, both for their current existence and indeed for their survival. Much of the malpractice was a consequence of the increasing role played by money in winning elections in the United States and the United Kingdom. One area of political management began to look like a challenge to democracy itself. Political fixers such as Karl Rove became masters of techniques that went back to Joseph Goebbels, including the well-known maxim that if you tell a lie often enough, people will believe it. The new US politics included such devices as push polling, which involved phoning voters to ask if they would vote for a rival if they knew that he or she was a liar, a lesbian, a paedophile, a drunk, or any other form of undesirable, regardless of whether there was any truth in the accusations. The answer would be no, but the impression would be left that there might be some truth in them. Another scam was simply to invent and broadcast known untruths about an opponent, a practice known as *swift boating*. The foundations and think tanks endowed by deeply conservative family trusts in America were particularly fond of these methods and were guaranteed amplification in the right wing press. It was notable that such trusts, often made up of religious right-wingers, had no scruple about lying for political advantage.

In the United States, another way of defeating the arguments of political opponents was to assert that they derived from an underlying prejudice and should therefore be dismissed. Hence, criticisms of the Israeli government's policies were countered with the accusation that they arose from anti-Semitism. When Jews criticized the Israeli government's policies, they were labelled as self-hating Jews. Criticisms of US policies were labelled as anti-American. The accusation that a critic was a *liberal* immediately cast doubt in the public mind on his or her views. Whether or not these accusations were valid was immaterial: they were simply a rhetorical device to undermine the opposition. It got to the point at which no reasoned criticism was possible: there was no such thing as a conclusion fairly drawn from the available evidence. It was all a matter of an underlying prejudice.

The same technique was applied to other matters. When Hans Blix, the head of the Iraq Weapons Inspections Team, concluded in 2002 that there was no evidence to suggest that Saddam Hussein had weapons of mass destruction, the reaction of the US Central Intelligence Agency (CIA) was to look covertly for ways of impugning his integrity. Was there some cause or prejudice which would lead him to draw a conclusion they disliked or which devalued his conclusions? Those who concluded that the evidence suggested that man-made pollution caused climate change were accused of visceral anti-capitalism. A good phrase to describe this neo-Goebbels technique remains to be invented. Strangely, however, it was rather like the techniques used by the Nazis to denigrate anything achieved by Jews. What they had achieved, in science or the arts, was bound to be suspected simply because they were Jews. Any criticism of the US health system was bound to be invalid if its author was shown to be a liberal.

It was hard to understand why such an approach could be successful. One explanation could be that large numbers of Americans were themselves possessed by deep-seated and often irrational prejudices, which had been strengthened by people like the right wing shock jocks on American radio. In the United Kingdom it was a method frequently used by right wing writers in newspapers such as the *Daily Mail*, or even *The Times*, especially with regard to those they could label as liberals. One favoured insult used by the right about their critics was the phrase ‘bleeding heart liberal’. The technique could work only if the accusation of prejudice was aligned with the prejudices that already existed. It was noticeable that the technique was used by right-wingers in a number of countries – in the United States, the United Kingdom and Australia. One conclusion from this has to be that the denaissance of the twenty-first century – the success of anti-science, or political science, and the demeaning of political debate – was a feature of right wing politics. It became an aspect of the campaigns of movement right wing parties in a number of countries. It might be used by the prejudiced left as much as the right, but in the early twenty-first century, it featured more in the rhetoric of the right.

Rudi Giuliani, once Mayor of New York, in an election broadcast in the New Hampshire primary campaign in 2007 said that only 44 per cent of prostate cancer victims recovered under the British National Health Service, when the truth was that 74 per cent did. He was anxious to prove that private insurance health provision in America was superior to what Americans called socialized medicine and conveniently forgot that 40 million Americans lacked the insurance to obtain the kind of early treatment he or she received. Much to the irritation of those who complained in the United Kingdom, the Giuliani camp's reply was that he had got these figures from a magazine article. No attempt was made to correct them in the United States. The Giuliani lie was allowed to stand. It was appealing because it relied on the now popular US prejudice that liberalism was a bad thing and that so-called socialized medicine was a low point of its expression.

These devices were common practice in American elections. They had also been used by Rove and his acolytes in Australian and British elections in the cause of right wing parties. Behind all of this, of course, was the role of enormous sums of money in winning elections in the United States. It was hard to say that elections so skillfully and unscrupulously bought could be a part of a working democracy. Did the United States indeed deserve to be called a democracy when elections in effect went to the highest bidder?

It was not just that there was a new trickery available to get into office. Once in office – to some extent in the United Kingdom, but particularly in the United States – a whole box of tricks was available to control public opinion and fix the next elections. At least in Britain it was not possible for the party in power to redraw constituency boundaries to suit itself, which was the case in the United States. In America the old technique of gerrymandering was still alive and well. But in both countries, governments managed information to get their messages across in the techniques which became known as spin. The methods included burying bad news by releasing it at a time when other more prominent events dominated the agenda. A British spin specialist was fired when she sent an email on 11 September 2001, the day of the Twin Towers disaster, which said it would be a good day for the government to release bad news. The classic case of unscrupulous spinning was connected with the events leading up to the invasion of Iraq in 2003. The evidence that there was an imminent danger of Iraq's using weapons of mass destruction was always known to be very weak and indeed was taken in Britain largely from an unpublished Ph.D. thesis. But when this point was made by a BBC reporter Andrew Gillingham, the organization was pilloried, in an assault led by the government's spin master, Alastair Campbell. One Defence Ministry official, David Kelly, committed suicide rather than lie for the government.

One spin master described Kelly, an honourable man, after his death as a Walter Mitty character.

There were two public enquiries – one on the dodgy dossier and one on the suicide of the official – under terms of reference that were carefully crafted to avoid any conclusions which laid blame on the government. Despite the enquiries' duly-reaching conclusions which let the government off the immediate hook, the evidence was clear. It quickly became the general conclusion that Gillingham had been right, that the dossier had indeed been dodgy and that the evidence had been fixed to justify the war. The one point which came out of the enquiries, which was directly critical of the government, was that under Tony Blair too many decisions had been taken by too few people. These techniques were serious abuses of the democratic process and were entirely detrimental to the interest of individual citizens.

The abuse of peacekeeping

It rightly deserved to be seen as a good that there was a greater preparedness and capacity to help people in distress. But any progress made in this area, in the interest of individuals, arguably up to the first Gulf War, must be set against the events of the second Gulf War. The conclusion has to be that progress made up to then actually made it easier for the regime of the neoconservatives under George W. Bush to pursue their own agenda in Iraq.

The Bush people arrogantly asserted US global dominance in their new security strategy for preemptive action on their own account. They stated that they would work with the UN only if it suited their interests, and their extraordinary UN Representative, John Bolton, did his best to bring that institution to its knees. The US administration said that the UN Security Council approval of its use of force against Iraq was irrelevant to its decision to act. This was a blow to one of the key principles of peacekeeping: that it should be approved by the international community, even though in the past this had never been quite explicit. The usual formula was an expression that could be interpreted as granting approval, such as that used in the Security Council resolution on the first Gulf War. The governments of the countries in coalition with the government of Kuwait then used the expression 'all necessary means' to cover military action against Saddam. The Security Council resolution on the Kosovo action needed more interpretation to be understood as a licence to act. But in the second Gulf War, this was impossible.

More than ever before, the US action in Iraq looked like a ruse to establish US strategic dominance in the Middle East, to strengthen their Israeli allies, to create a pro-American regional power and particularly to establish a dominant claim to Iraqi oil. One of the complaints lodged against Saddam Hussein was that he had exploited the funds released by the UN through the oil-for-food arrangement. A charge had also been brought against Kofi Annan's son that he had benefited from the scheme. In the event the biggest beneficiaries of all were American companies after the invasion. The enormous revenues from Iraqi oil simply disappeared into their coffers. The company of which Vice-President Cheney had been chief, Halliburton, was awarded reconstruction contracts without the benefit of competitive bidding.

The events after the declaration of victory were a testament to the incompetence of the Bush administration and its ruthless greed. There were no preparations for the governing of Iraq after the war; the endless civil war was not anticipated. The Iraqi adventure was a disastrous example of the dangers of near-unilateral action undertaken in a moment of hubris by the dominant world power under the management of a group of corrupt and misguided politicians, namely the neoconservatives Perle, Wolfowitz, Rumsfeld and others, all under the guidance of the ideologue Norman Podhoretz. This was the nadir of movement conservatism. Yet it has to be admitted that the preceding interventions of the UN made it possible. All the United States had to do was to say that it had been done before, but as the UN would not approve, the United States would act for it.

Nevertheless, the positive remarks about peacekeeping in the first section of this chapter remain valid. It was important to protect the emerging norm of intervention so that people could be helped when necessary, and the chance of war between states reduced. The British Prime Minister Gordon Brown encouraged this view in his speech on British foreign policy on 12 November 2007. He argued that it was 'to the shame of the whole world' that it failed to prevent genocide in Rwanda. There should be 'procedures to prevent breakdowns of states and societies' and more should be done to link peacekeeping with stabilization reconstruction and development, already part of the UN mandate. Jonathan Powell, who had been Tony Blair's chief of staff for ten years, with a particular responsibility for foreign policy, took the same position in a long article in *The Observer* on 18 November 2007. It was to be hoped that the terrible experience of the second Gulf War, for which George W. Bush and Tony Blair were mainly responsible, would never be repeated. In Chapter 9, some of the more positive developments affecting the UN are discussed. These took place in the latter period of the Bush administration – even he was brought to realize that the UN was necessary.

The new medievalism: torture, rendition and abuses of civil liberties

The point has already been made – it is worth repeating – that dealing with the threat of terrorism led to the use of techniques on the part of the governments of the United Kingdom and the United States, which were incompatible with the values of a civilized country. These methods included torture, imprisonment without trial or legal defence, the suspension of habeas corpus, the method known as rendition and the holding of suspects for questioning for periods of time that were difficult to defend. It was hard to understand how a Western state that had long regarded torture as one of the most bestial of human practices could find it possible to tolerate its practice by an ally, especially when it had a long experience of terrorism on the part of the Irish Republican Army, without resort to torture. The explanations that occur are that the new torture was of brown people, not white people, who could be treated more roughly. There was certainly no difference between the quality or quantity of the new terror compared with the older version. But it seemed to be more feared and to justify an uncivilized response that was not made to the earlier threat.

The British government certainly colluded with the technique practised by the United States, known as rendition. This was an outsourcing of the torturing process to countries which had special skills, and it allowed the United States to treat accusations of using torture as deniable. The British knowingly permitted CIA planes carrying victims being taken for torture to land and refuel at UK airports as was admitted, after considerable media and political pressure, in the House of Commons. It seemed likely that proof of this would appear from other sources.[16] A British resident released from Guantanamo Bay in early 2009 stated that British officials had been complicit in his torture. This was denied, but in a way that was transparent legalese. But the government was pushed to the point of accepting that there should be an enquiry – after the withdrawal of British forces from Iraq in July 2009. It was probable that British security officers had been directly advising those who were actively carrying out the torture. The ex-US Secretary of Defence, Donald Rumsfeld, had cheerfully admitted that unusual methods for extracting information were now justified.

The techniques of questioning now favoured did not apparently involve the medieval rack or the iron maiden. But they did involve the repeated immersion of victims to the point of being near death from drowning, sleep deprivation, constant bombardment with high levels of noise, the use of aggressive dogs and various forms of electrical torture. Much of this went on in the US base at Guantanamo Bay in Cuba, which, being outside US territory, allowed US authorities to deny the protection of the US legal system to the prisoners. At the same time the US authorities argued that the people held, whom they labelled as enemy combatants, were not subject to the laws of war. The prisoners found themselves in a kind of legal no-man's land. Eventually the US courts judged that US legal process must apply, but the administration used every delaying tactic it could to avoid this. This was not happening in Britain, but it was known to the British government and, like the forms of the new capitalism, was tolerated.

The anti-terrorism procedures extended from the denial of legal process to a wide range of infringements of personal liberty in both the United States and the United Kingdom. There was a vast increase in the collection of personal data about all individuals, as described in Chapter 4. At the time of writing, immigration authorities in the United Kingdom had been authorized to stop and check individuals at the country's main railway stations. In general, young brown men were increasingly likely to be stopped. It was reported that it planned to question travellers both when they left and when they returned to Britain and that up to 53 pieces of information would be collected. Those flying to the United States had already been told that their travel plans had to be reported in detail in advance to the US authorities, and these included how the ticket and travel had been paid for. One cynical civil liberties commentator suggested that the next step in Britain would be exit visas.

There was rightly an energetic search for illegal immigrants, for instance by stopping and searching trucks entering the channel ports. Illegal immigrants should, in principle, always be pursued and sent home. But the policy should be applied in a humane way, with generous acknowledgement of mitigating circumstances. As it was, the process of exclusion used techniques which were a disgrace to a society that claimed to be civilized. Equally, care should be taken to prevent the exploitation of recent immigrants. Eighteen Chinese immigrants were drowned when picking cockles in Morecambe Bay on

5 February 2004. Gang masters had exploited their lack of English, ignorance of the dangers of fast-moving tides and willingness to accept low wages.

International crime and terrorism

A development which should certainly be placed on a list of new dangers facing citizens in modern developed states is certainly terrorism. There may be better dentistry and health care, but there was also a greatly increased chance of being killed in terrorist violence.

International crime and terrorism challenged the states' monopoly of force, and their agents were capable of enforcing codes of behaviour and systems of private taxation, which were alongside or hostile to those of the state. They clearly challenged the security of individuals and threatened order within the states and had an obvious international dimension. It could amount to a special form of warfare: in some cases, states orchestrated the use of violence in other states through groups or individuals which had been infiltrated into the territory of another state. Modern technology and sophisticated skills in evading recognition could make it very difficult for the target state to identify such individuals: all of these were features of the Al-Qaeda group responsible for the September 11 attacks.

The impact of such forces on the civil order, and life and property, in the targeted state could be very serious, and for the initiating state, it would have the effect of war without the need to acknowledge responsibility. Of course, comparable developments had occurred in earlier periods, such as the infiltration of Soviet Communist elements into capitalist countries after the Second World War, which actively pursued the goal of fermenting revolution and the overthrow of the government. But the new practices were different in that they involved a preparedness to use deadly force in the pursuit of private gain and influence, or particular systems of ideas and values, on a scale not seen before. They were also qualitatively different in that the agents of violence were now often prepared to sacrifice their own life. Suicide bombers were a feature of modern terrorism.

The September 11 attack strengthened the case for more multinational approaches to deal with crime and terror. International cooperation between police forces had to be strengthened, and better coordination instigated. States and their individual police forces were likely to find dealing with criminal and terrorist groups separately and individually impossible precisely because the crime was transnational. The criminals were capable of withdrawing from one state and regrouping in others only to be reactivated in the target state later. It was also difficult for police forces in particular states to gain access to the command and control structures of the organizations in other states without themselves transgressing the rules of exclusive national jurisdiction.

Sometimes members of other governments or police forces might have direct links with the criminals and profit from their operations. In this case the weight of an extraterritorial authority would be a great asset. Modern crime and terror were not like earlier forms, as they could have strong international connections requiring strong international responses. They were on a continuum extending from the problems of disorder within the state, and those dealt with by new forms of peacekeeping, to security problems of a more traditional kind.

Sophisticated investigative techniques were needed, which could work on an international basis and which could, if necessary, demand answers from individuals who were close to governments. The new information techniques also demanded a greater degree of transnational penetration of the various civil societies, both those acting within the law and those acting outside it. The new terrorism was in fact an aspect of the development of international civil society, and in order to cope with it, it was necessary to promote the appearance of adequate countervailing forces within that society. The individual in the modern state needed defence from criminal and terrorist groups as well as from traditional intra-state aggression. Defence against the former indicated a transnational police force which would have a presence in what used to be entirely domestic arrangements.

The EU was one group of states where advanced police cooperation existed and was being strengthened.[17] Of course, most crime was rightly the exclusive responsibility of national police forces, but other crime was transnational and therefore the proper responsibility of a higher police authority. In the modern age, the individual needed protection against both kinds of threat.

Conclusions

This chapter has been about the moral setting of individuals in a modern, purportedly liberal country such as Britain. It has of necessity covered a broad front since the impression has to be conveyed that in the early years of the twenty-first century, there was a unique mixture of beneficial trends for individuals and trends that could be harmful. The moral setting has elements of what is good as well as what is bad. There were indeed obvious improvements in the lives of individuals and stronger agencies for dealing with crises within their society and in international society. There were new opportunities for strengthening international order and helping individuals to do better. The gloom had to be set beside the possibility of enlightenment. A transcendent gloom about the idea of progress is certainly much more tolerable if one has the benefit of modern dentistry and antibiotics.

It should not be forgotten that efforts to improve the economic circumstances of the poorest in the world and to promote peace and security, and human rights, have been maintained and indeed extended. The efforts in this direction might well have been driven by mixed motives – it was ever thus – and the techniques used dangerously wrong-headed. But they have persisted through national, regional and global machinery and have been extended rather than reduced. It would be wrong-headed to dismiss all of this as meaningless.

And yet there have been an increasing range of discomforts and challenges. These are not the products of uncontrollable developments for all the attempts of politicians to pretend otherwise. The economic crisis may be a global phenomenon, but it is not natural, as politicians would like us to believe. It was produced by failures of individuals. People can be and have been misled. Going with the flow is a dangerous inclination if the current leads to the whirlpool.

Is there any way of reaching the comfort zone in this challenging world? Can there be an effective resistance to the blandishments of the über-capitalists? The strategy must involve an adjustment of personal ambitions and entitlements. It must involve a redesign of the comfort zone, as well as the construction of a new framework of norms and rules to keep it safe. These are discussed in the next chapter.

This page intentionally left blank

CHAPTER EIGHT

A modern Walden: having sufficient means and being comfortably off

In this chapter an attempt is made to formulate a set of proposals to correct the anti-civilizing tendencies of modern capitalism. This is not to suggest that capitalism is in itself an evil system. It is necessary, and it is the system we have. The problem is how to strengthen the good side of capitalism so that it supports the best possible kind of life in the circumstances of a developed state, such as Britain, in the globalized world.

The norms of the business world have led to carelessness about the problems of individuals. The response to cruel failures, in institutions such as hospitals and care homes, and for groups of people in the community, was too often that overall things were much better in the sense that targets had been met or financial performance had improved. Hardly any attention was given to sharing the wealth and too much was given to creating it.[1] The implication was that exceptions were less important than the overall achievement. The events at Stafford Hospital, and the failure of twenty-one National Health Hospital trusts to meet minimum hygiene standards, which came to light in early 2009, showed how damaging for individuals this approach could be (see Chapter 6).

It seemed clear that the new US president, President Obama, not only faced the obvious problems of war in the Middle East and the global economic crisis. If he wanted to make America a better place, a fairer and more civilized country, he also had to deal with a massive inheritance of legislation which discriminated in favour of the rich and against everyone else, the middle class and the poor. He had to steer the ship of state away from the course that it had followed since the time of President Reagan. For about 30 years the United States had been a more comfortable and civilized state with relatively few super-rich and a vast number of comfortably off, with the majority gaining the benefits of economic success.[2] Slowly, however, what Krugman called *movement conservatism* changed the rules of the game. George W. Bush did his best to entrench this vision, even in his final days as president, signing off legislation which favoured the very rich. Obama, and the British, needed to deal with specific problems, but there was a more fundamental problem: it was necessary for them to deal with the whole fabric of the state as it had been shaped by the greedy right.

Change had to start with a vision of what the individual should expect by way of economic success. Many thoughtful people have discussed this question. There cannot be complete equality, but how much inequality should be accepted? Christians subscribe to the view that the poor have the best chance of salvation, but somehow this thought has shaped the actual behaviour of very few. Mostly it was something recommended rather than practiced. Others advocated simply taking as much as one could get, the behaviour referred to below, after Thomas Hobbes, as *glorying*. Very few sought to find a virtuous life at some point between these two extremes. Some might come to a renunciation of wealth late in life as some kind of conversion on the road to Damascus, like Hindu Indian businessmen, who turned to begging outside temples, or multi-billionaires, who took to charity. But that middle position was precisely what gave society most contentment, as was shown by the middle-class societies of the United States from 1945 to the early 1980s, and by the Scandinavian model.[3]

The proposals have to be relevant to the good life. But what could be the nature of a good life? It is a concept which must be related to a particular time and place, but perhaps the core principles of the good life in liberal societies are constant.

A Thoreau good life

One of the great books about how to live well was David Henry Thoreau's *Walden*, first published in 1854, which was an account of his life between 1847 and 1849 on the edge of Walden Pond in the US state of Massachusetts, just south of the city of Concord.[4] This book has also been seen as one of the great books on environmentalism, since it explains that it is possible to live an enjoyable and rewarding life with little money and little dependence on others, without exploiting nature. The book was often seen as being solely concerned about the defence of the environment: it was also concerned to argue that there was no need to adopt hair shirts in order to achieve this. The good life could be comfortable and pleasurable. The details of what Thoreau recommended were directly relevant to the nineteenth century, not the twenty-first, but the underlying principles, which he explained with such brilliance, are still relevant.

He built his own simple house at the edge of Walden Pond. It was strong enough and warm enough to survive several very cold winters. He grew his own food from seed and used the resources around him to add to his diet. He enjoyed company, and liked to be hospitable. He enjoyed the wildlife around him in the woods and pond. Though he disapproved of modernizations like the coming of the railway to Concord, and the invention of the telegraph, he could find in them some positive aspects. He wondered why it was good to travel faster than a man could walk, because travelling with one's eyes closed was no better than staying at home, and a telegraph was more likely to be used to report trivial nonsense than good ideas.

But he was delighted to find that the railway embankments quickly became a rich environment for plants and animals. Modernizations could bring incidental benefits. He found advantage in the exchange of goods, especially the crops he grew himself with those of his fellows. This was not a man who shunned enterprise. He wanted comfort, not austerity, and company, though he wanted time and freedom to write, read and contemplate his environment. The lesson for modern man was that technical progress was irrelevant to human happiness: that had to depend on inner spiritual and mental resources. The argument was not unlike that developed by John Gray in his *Straw Dogs*,[5] except that Thoreau was optimistic and Gray was not.

His was a way of living which showed a joy in simple things. He argued that people often deceived themselves in thinking that they had to have a particular comfort or pleasure. He referred to the effort expended by a farmer to earn enough for tea and coffee rather as a modern observer might report the case of someone short of food who had nevertheless purchased a large-screen television. It was important not to be conditioned by conventions into wanting things that were not necessary for a good life. For Thoreau, life on the edge of Walden Pond was indeed like that of the modern rich on the edge of Central Park or Hyde Park, in one important sense: he thought he had what he thought he needed. But it was unlike theirs in that he looked beyond the reputation of what seemed to be necessities. He insisted that people should not work excessively in order to buy things that were irrelevant to comfort or pleasure. In good places like Walden there was plenty of time to enjoy what really mattered without grinding labour.

His lifestyle meant that he damaged nobody, and no part of the environment. Indeed he left what he found better than when he found it. So he was one of the super-rich of his time, but found he could achieve this condition with surprisingly few resources. The goal was one which every realistic but ambitious person would choose, but the rules for living were almost the opposite of those held up for emulation today. The rules for living which may be deduced from Walden are:

- Have high expectations and demands, but for things of real value.
- Do not accrue beyond what you need. This is like Thomas Hobbes's injunction against 'glorying' in Leviathan, meaning being consumed by a drive to acquire more and more, both goods and the symbols of status, in order to feel superior.[6] It was important not to let one's life be dominated by the search for the conventional symbols of superiority, since the acquisitive impulse could never be assuaged. The problem with glorying was that it inevitably led to disappointment.
- Be as self-sufficient as possible, without imposing any excessive burden or discomfort on yourself. In modern terms this would translate as 'use resources economically', but be comfortable.
- Try to create a sufficient surplus to exchange for things you lacked, but really need, or money. The surplus could of course be in terms of social gifts, like the gift of time or attention. For Thoreau this meant in part having enough money to purchase seeds and other necessities, as well as a surplus of what he had grown to barter for stuff he did not have. But also the time to converse with neighbours – including in his case the Native Americans.
- Do not use natural resources to excess and not so that they were depleted. Protect natural resources. (Thoreau would certainly have condemned buying intensively farmed chickens, especially if this was the result of not knowing how to make the most of an expensive one, or saving to buy some expensive toy.) Have the eyes to see what made for contentment and do not be deceived by fashion – in modern terms resist the blandishments of the advertisers to spend hard-earned money on disappointing knick-knacks.
- Know your social and physical environment: do not isolate yourself from people, climate or territory. Work out your relationships with these, know them and have the protections you need against the dangers they present.
- Be social and generous as a host but not beyond your means. Know your means! Thoreau told a story about an Indian who offered nothing to his guest on the first night but gave no explanation. On the second night he provided generously for his guests because now he could. The moral is that there should be no expectation of lavish hospitality, but always the assumption that a host will provide what is possible.

- Avoid becoming dependent on a pattern of consumption that puts you in thrall to a system, an individual or a company. Limit your borrowing and avoid it altogether if you can. Thoreau's house required no mortgage!
- See that development is in tune with what exists, does not spoil nature but allows it to blossom in new ways. Thoreau was opposed to the coming of the railway to Concord. But he found it useful in that he could walk along the tracks, and the embankments were places where plants and animal life prospered. It created a new environment which nature could use. He opposed the railway because he believed it was irrelevant to human happiness and was costly in terms of the lives of those who built and the destruction of forests it required. But there was a positive side.

There were some modern needs that Thoreau does not mention. These would include good medical treatment, welfare support and pensions. At the time when *Walden* was being written, medicine was relatively simple and inexpensive, and pensions were not something that were much thought about.

The ideal of sufficient means

The Thoreau agenda needs some translation for civilized life in a modern developed state. The concepts which in the twenty-first century in Britain are most suggestive of what Thoreau set out for the nineteenth are those of *being of sufficient means* and, at the maximum, being *comfortably off*. Wealth which exceeded that of the comfortably off would be excessive in that it would lead to glorying and excessive environmental costs. With Thoreau's world in mind, what would be the reasonable expectations of a person of sufficient means in the early twenty-first century?

- Possession of a shelter – a house – with enough sheltered space to cover the occupants' normal non-commercial activities, for example a place for withdrawal, sleep and hospitality, a kitchen and a bathroom.
- Connection with drainage systems, energy supplies, and communication facilities.
- Location in a clean and safe environment, with good access to open country or parkland.
- Access to good medical treatment and, on retirement, an adequate pension, payable out of either general taxation or private funding.

- A means to earn an income which is sufficient for normal expenses, such as food, reasonable holiday travel, shelter and to pay for private health and pension, if these are not provided from general taxation.
- Access for the young to a good liberal education, and training facilities, in schools, universities, libraries and museums.
- Access to higher cultural expressions, such as music, theatre and literature, as the individual chooses.
- Affordable, honest and effective insurance against catastrophic events.

The reader should notice that having these resources reliably assumes a particular kind of society, an open liberal one. It would make no sense to talk about the life of a person of sufficient means in, say, a Communist state or in a military dictatorship. Having sufficient means implies the right of the individual to choose what to buy. The reader might also be allowed the quibble that these conditions are those of the 'comfortably off' – not rich or super-rich – rather than of adequacy. It is indeed hard to draw a clear line between the two: the lower end of 'comfortably off' overlaps with the upper end of 'sufficient means'. Below them are poverty, defined by some authorities as receiving less than 20 per cent of the median income, and absolute poverty, being in destitution. Above the standards of the *comfortably off* are those of the rich, the very rich and the super-rich. These imply a set of exclusions from the Thoreau ideal, as discussed in the following sections.

What is not part of being comfortably off

- Possessing several houses.
- Acquiring levels of exclusive accommodation, which exceed the requirements of a reasonable person, such as the ownership of large estates, islands, castles and palaces.
- Purchasing privileged access to health facilities, educational institutions or any other limited access provision, so that others with equal needs or abilities are excluded.
- Earning an income which is an excessive multiple of that needed to sustain genteel poverty.
- Acquiring goods which could be categorized as super-luxuries, which is further discussed below.
- Carrying out any act which deliberately or incidentally reduces the capacity of any other person to acquire the status of genteel poverty.

- Exercising any function, or the creation of any instrument, which could be reasonably expected to disturb the balance of an economy, a society or an environment to the extent that the resulting damage could be judged as catastrophic.
- Avoiding making a proportionate contribution to the funding of public services through gifts or taxation, at either the local government or the national level, by the use of offshore funds, tax havens, non-domiciliary status or other devices to avoid taxation. No resident should pay less than the amount payable by other residents of comparable wealth. Those with greater wealth should always pay a greater proportion of their income in taxation than those who are less well off.

The life of those with middle income, between having adequate means and being comfortably off, in the twenty-first century could be reminiscent of the life recommended by Thoreau, but the life of the super-rich would be light years away. Thoreau provided a relevant model for them even in his aspiration to be thoughtful about his relationship with the environment, physical and human, and find delight in the rewards of the mind. But the life of the super-rich would be a deviant and damaging one – it does not satisfy many of the conditions derived for the good life from Thoreau.

The proposals for change set out below are intended to be illustrations of possibilities. The reader is invited to think about how they might be improved, whether they could be applied and how or whether they are impracticable for the present or could become practicable in the future. This writing is not just a tract for the immediate future, like the electoral statement of a political party! It follows from a set of complaints about the current situation and a range of principles on which a new order could be based. It assumes that total wealth is not the key to a successful state. It is better to have civilized standards for all than colossal wealth for the few.

A modern Thoreau agenda

The principles on which Thoreau based his norms of behaviour are as relevant today as they were in the mid-nineteenth century. But governments now ignore them. The reform packages which follow are intended to head off some of the more pernicious anti-Thoreau tendencies in modern developed states. Various themes recur: the need to tackle the grosser inequalities in income and opportunities, the need to limit the damage done by unrestrained greed, the need to oppose the ever greater concentration of wealth and power, the need to protect the environment and to ensure that it remains a common good and the need to have instruments which can detect activities which threaten orderly capitalism. What is proposed below may be wide of the mark, but the goals stated here are undeniable.

It should be remembered that the present arrangements were the product of a deliberate political agenda, created by chosen instruments. The present writer is with Krugman on this. They were not the result of some natural evolution which could be checked only if people changed their ways, by, for instance, becoming more moral, as Mrs Thatcher suggested, or having a greater deference towards authority. It is simply mistaken to rely on a kind of counter-evolution of society, back to a better place. The society we now have was deliberately engineered by movement conservatism in the United States and by a kind of emulative right wing drift, affecting New Labour and the Conservatives, in the United Kingdom. And it therefore needs to be deliberately unengineered! Specific and positive measures are needed to achieve this.

Two propositions, that there is little evidence to support the idea of the trickle-down effect, as argued in the first chapter, and that a high level of income differentiation is damaging to the economy as well as society, are closely connected. Trickle down is intended to justify high levels of income difference as it holds that wealth is concentrated at the top at early stages of economic development but that over time it will spread to the wider community. It is related to the argument about the development cycle proposed by Simon Kuznets.[7] The failure of trickle down is itself an argument against the idea that the appearance of greater numbers of super-rich is a positive development. But there are others.

This is an area where pure economic arguments fail. They have to be placed in a social and political setting. The rich are able to purchase a greater share of available resources and deny them to others. Their character leads them to think in the short term and to acquire as much wealth as possible as quickly as possible. They tend to encourage a grab-and-run culture in which economic enterprises are grown and stripped, regardless of their long-term viability or the interests of workers and shareholders. They seek policies which deny a greater share of national wealth to others by influencing and, where possible, controlling politicians. They seek advantage even at the cost of damage to national assets or long-term prosperity. Hence the right wing administration of George W. Bush complied with big business interests in licensing oil exploration in national parks, giving the rich tax concessions, preventing the tighter regulation of banking and investment and reducing welfare spending.

The ideology of the rich is normally neoliberal – there are very few exceptions to this – and this requires the freeing of markets and the elimination of welfare spending. To achieve this, political influence is sought by creating a plethora of advocacy agencies and lobbies and, if necessary, through bribery or other forms of influence. In the United States this was the content of *movement conservatism*. As argued in Chapter 6 these arrangements are embedded by the encouragement of a culture of greed. The super-rich develop a sense of the priority of their entitlement, which is illustrated by the difficulty bankers found in 2008–9 in accepting the idea that super-bonuses were unacceptable. They believed they were entitled to a giant share of the cake. The rest were encouraged to borrow to live beyond their means and to strive to obtain the same tokens which the rich advertised.

The effect of the presence of the super-rich is not trickle down in the local community but rather a creaming-off to export elsewhere. The point is missed by the economists who argue for trickle down that the super-rich are themselves part of a larger international community – their interest in the local community extends only to the point that it gives them what they want and poses no threat to their interests. Hence the money of the super-rich goes to offshore funds, or is spent on goods that bring little benefit to locals. They collude in the compression of the group of taxpayers. At the top are those who avoid tax; at the bottom are those who do not earn enough to pay tax.

The standard justifications proposed by economists for trickle down and wide income differentials are that money accumulated by the rich is the source of new investment and opportunities for growth and the creation of new jobs. It was often argued by economists that the wealth of the city was a source of general benefit and investment opportunities. The Mayor of London, Boris Johnson, said in a television interview in March 2009 that the city brought about £9 billion to the United Kingdom every year. To oppose this view before the crisis of 2007–8 was to risk ridicule. But the economics argument was always a flabby one relying on carefully selected statistics and ideological assumptions. In practice the money made by the super-rich went mainly into financial instruments, of the kind discussed in Chapter 5, and not into new business. Their money was used to breed money and ultimately to finance a life of luxury and privilege. Or it went into private equity and was used to generate opportunities for asset stripping, destroying rather than building enterprise. And the enormous cost of putting right the mess caused by the city has to be set against the £9 billion. The view that the super-rich of the City of London brought general benefit became unfashionable quite suddenly in 2008 when the sins of the greedy became all too apparent.

And the benefits were certainly not brought to the local communities. These experienced rising costs for housing, restaurants and the whole range of goods and services required locally by the super-rich. Mostly the goods and services they needed, as well as the company, were brought in from further afield. The economic impact of the super-rich on the localities where they chose to live was largely negative.

There is no natural benefit of acquiring a significant population of super-rich. Indeed there is much to be said against it. In the following paragraphs a set of positive instruments for reducing their number, and using their wealth more effectively, is suggested. It consists of five packages of proposals.

A package on excessive income differentiation

Excessive income differentiation is one of the root causes of poor performance as regards environmental protection and support for human rights. The best performers in these areas are Scandinavian countries, which have relatively low levels of income differentiation. The worst performers are the countries containing significant numbers of super-rich. One thinks particularly of the United Kingdom and the United States, but there are of course other examples, such as the oil-rich autocracies or rapidly developing states like India and China.

Accordingly the minimum wage should be fixed at a level which ensures a reasonable basic standard of living – towards the lower end of the spectrum required for genteel poverty. It should not be at a level where no income tax is payable and tax credits are necessary. These are merely a subsidy provided by the state for the private sector, paid for mainly by the average wealthy. They surely reduce the total available level of government revenue.

A number of steps need to be taken to reduce the range of wealth-generating mechanisms available to the super-rich and to draw down more of it for the general good. One of these should be a range of measures to reduce the ability of the super-rich to draw their wealth from capital rather than income, which might include an increase in the level of corporate taxation. The appearance of the super-rich in the United States and the United Kingdom after the 1980s was closely linked with this facility.

Top rates of income tax should be deliberately increased to a point at which there is real evidence to suggest an outflow of personal wealth. This point would be reached at a level well above the current norm of 40 per cent. Probably a 50 per cent marginal rate on incomes above £150,000 would have very little effect on residence. The important point here is that the threat of exit should be tested. The idea that a disincentive to effort sets in at 40 per cent is entirely untested. It is a fiction invented by neoliberals in their own interest. That rich individuals can exploit various regulatory failures to avoid paying necessary taxes in their state of residence is unacceptable. It is a cause of damage to the civilized state. Offshore operators and tax concessions for so-called non-domiciled individuals should be abolished. Obviously this has to be done by international agreement and regulation, and it is encouraging that in 2009 these steps were widely advocated.

In Britain there used to be a form of tax called super-tax, which was levied on what were classed as luxury goods. There is a strong case for reintroducing such a tax. As already reported, Thomas Hobbes claimed that wealth is sought in order to demonstrate superiority over others – he used the word ‘glorying’. Glorying is a form of boasting: it is intended to display success, an indication of life effectiveness or personal power. The reaction of others is naturally envy or jealousy and an intense competitiveness about who is top dog. Ambition, in contrast, conveys a wish to join a meritocracy, to equalize upwards rather than usurp the current monarch. There are, however, a range of other ways of associating with wealth, some of which might be regarded as more praiseworthy.

A particular acquisition might be a cause of pride rather than a boast. It might be exceptionally good in how it works or looks, rather than because it is expensive. It has not been bought as a means of glorying. Lower down the scale would be a neutral reaction: a particular artefact is acquired because it does, as they say, exactly what it says on the tin. It is chosen because it is thought to meet the reasonable expectations of its owner. Lower still is the attitude of someone who might be described as careful. A good is bought because it is cheap, and although it does not function well, it works well enough. In this way we can see that the wish to acquire possessions is not just about the wish to acquire something beautiful or a perfect tool. It is also a claim about how the owner wishes to be seen. It is about glorying but also about pride or satisfaction or parsimony. It is obvious that the genteel poor could well see what they owned as a source of pride or satisfaction, but overall, they would shy away from buying to demonstrate wealth and be embarrassed by an extreme caution about money. The imposition of a super-tax on those whose main object in acquiring is to boast to others is justifiable for reasons of good taste, and social harmony – since it generates envy, jealousy and greed in others – as well as a way of increasing the public purse.

Many artefacts are interchangeable in that they do the same thing and do it equally effectively. But some of these are instruments for glorying. For example the Mazda MX5 sports car – roadster – and the Ferrari are both excellent cars, except that the latter costs about 80 times more than the former. The former might be regarded as a forgivable luxury for someone who was comfortably off. The latter, however, is a demonstration of wealth, a tool for glorying, while the Mazda is pretty and performs a function effectively, and could be a source of pride because of that. Most goods have the capacity for augmentation so that they demonstrate something other than their fitness for purpose. The purchase of artworks is perhaps more difficult. But a number of art critics have argued that art may sometimes have little objective merit but be nevertheless extremely expensive because it has for some extraneous reason attracted the interest of the super-rich. It is then bought simply in order to demonstrate wealth, to glory, by signalling a victory over competitors. In this case the artworks perform the same social functions as the bark blankets of the Knootka and Kwakiutl tribes of western North America. The bark blankets were a measure of wealth but would be deliberately destroyed at parties to demonstrate the wealth of their owner. The list of goods which might be suitable candidates for a super-tax is therefore not cast in stone. But it is reasonable that it should apply to goods discussed in the following paragraphs.

There should be a luxury super-tax on: cars with engines higher than what might be considered necessary for an average performance; all cars which are sold new for more than the median price; all houses that have a significantly greater value than the median price in the country as a whole (in some countries all house purchases involve a tax, usually payable by the buyer; in Belgium that is set at 15 per cent of the house value); second homes; artworks sold for a sum greater than 50 per cent in excess of their last sale value; ditto jewelry and ditto rare wines. The obscene sums paid by Russian oligarchs for baubles such as Fabergé eggs is an indication of the gross inequity in incomes. On 29 November 2007 a record amount of £8.9 million was paid for a single such egg in a London auction. Some glorying!

The purchase of second and more homes increases the price of houses in an area so that locals can no longer afford to buy a home in their native region. It was unacceptable that government had given tax benefits to those who bought second homes. Thoreau would find no place for his simple dwelling near the modern Walden Pond. Parts of Cornwall and the Cotswolds in England are like this: the best houses have been bought up by city types and are occupied for short periods, while locals are priced out of the market. Cotswolds and West Country villages are now often denuded of local shops, pubs or post offices, which have been converted into country cottages for the rich. Traditional village life and inhabitants have gone, driven out by individuals who bring what they want with them, whose social life is entirely concerned with other outsiders. What is needed is a way of harnessing the wealth of the outsiders for the development of an area for the good of everyone, the incomers as well as the locals. The following could be a way forward.

- In every region there would be a calculation of the median price of houses. Regions would also have to be identified, based on character and average incomes. Locals would be people who had lived in an area for an agreed minimum period or who had a strong local family connection.
- In areas where houses were owned mainly by locals, outsiders who bought a property below the median price would be subject to no further charge, so that the development of property by new outside owners would not be discouraged.
- If a second home was sold, the excess of its price over that of the median property at the time of sale would be related to a charge on the purchaser. This could be a percentage of the gain or a lesser amount, depending on the area.
- These sums would make up a local development fund which could be drawn on solely by those who had lived in the area for an agreed minimum period, or who had strong family connections with the area – the locals.
- Sums could be drawn down from this fund by locals, on payment of interest, to supplement mortgages on property or to support local services such as public transport or post offices.

- In areas where houses were mainly second homes, owners of those homes should pay a higher level of council tax, which could be called a super-council tax. Such a tax would be used to support local services such as public transport, and would also be available to locals to help with mortgages on houses in the region.
- In no case should second homes be liable for a lower rate of council tax, as at present.

The details of these proposals could be debated but their purpose is not in question. It is unacceptable that regions should be largely occupied by second- and third-home owners, who drive out families who have lived in the areas for generations and bring no discernible economic benefit to surviving locals. These proposals would be likely to benefit locals in regions which were not yet dominated by second-home owners, whilst not discouraging investment in rundown property. One condition of this is that charges on second-home owners should not be simply taken into general taxation but should be reserved for local use. In areas which were already given over to second-home owners there could be a charge on their houses which would be both a disincentive to complete takeover of a region by outsiders and a means of supporting the remaining locals. The latter would get better services and help with buying costly homes.

Many of these suggestions are blindingly obvious. That they have not occurred to the government is a strong indication of how their mindset inclines them to favour the interests of the rich.

A package to contain pressures to monopoly

Striving for wealth is an inherent and necessary part of capitalism, but the accumulation of massive wealth by private individuals in the short term is always suspicious. The commentariat in Britain was too accepting of excessive reward, and too readily critical of those who complained, until the crisis hit in 2008–9. The assumption appeared to be that a dislike of excessive wealth was somehow a reflection of unworthy sentiments such as jealousy and envy and, in the view of one commentator, was hypocritical. Not surprisingly, New Labour politician Peter Mandelson expressed himself entirely content with the appearance of the super-rich. But are not jealousy and envy among the drivers of capitalism? As explained earlier jealousy and envy are characteristic reactions to excessive wealth, and not to worldly success in general. Society would be much better if more people were intensely hostile to extreme wealth. They were certainly adopting this position in 2009 as the gross wealth of failed bankers was made public.

Income differences may be so great as to be obscene, and it is perfectly reasonable to object. They point to the mismanagement of the economy, the lack of necessary oversight, or the lack of financial prudence by the authorities, or a set of false social values. There was in the early twenty-first century a group of easily identifiable malpractices which included over-leveraged options trading, the sale of pigs in pokes – such as derivatives that included sub-prime debt – the sale of public assets at knock-down prices, carelessness about the level of reward given to failing executives or the toleration of oligopoly or monopoly. A broad strategy to counter such fiddles is conceivable and necessary. These points became very obvious after the crash which hit the global economy in 2008, but would have seemed naive and contentious before.

The drive to accumulate excessive wealth needs to start by challenging a key assumption. Businessmen naturally prefer to increase their share of the market, and this naturally tended to monopoly, since at that point they could begin to make much increased profits. This drive was not unreasonable – again it was one of the dynamics of capitalism. Indeed most capitalist governments had regulations which governed the growth of monopoly. In Europe the EU developed sophisticated procedures under the Rome Treaty for preventing unreasonable market domination, and separate member states had their own supplementary arrangements. Any takeover proposal had to be approved at both levels. But it was necessary to go beyond the existing formal arrangements. Businessmen naturally sought to promote attitudes towards economic organization, which supported the tendency to monopoly. To make the point in rather general terms, they liked to pour cold water on the point made by E.F. Schumacher that *small is beautiful*.[8]

Modern capitalism tended to support the emergence of larger and larger companies, and indeed invented new ways of making this possible. If market dominance was judged to be unavoidable, the exploitative tendencies of monopolists were regulated by officials appointed by government. In Britain utilities and broadcasters, railways and phone companies, had their own dedicated regulators, who might determine acceptable pricing in their sectors and impose fines on companies that failed to provide a reasonable service. The utility companies in Britain had been reluctantly persuaded to work with small-scale producers, particularly in electricity generation. But those who tried found themselves burdened with excessive regulation and complexity. The default position was still that it was better to be bigger than smaller.

The local generation of electricity, especially by using generation capacity in river flows, wind power, renewable woodchip burners and solar energy production, should be encouraged more than at present. A civilized government would actively encourage the development of these forms of generation through subsidy and easing planning restrictions. The point of doing this was not only to protect the environment but also to resist the tendency to monopoly. Such a policy would necessarily be gradualist, slowly building up national capacity for small-scale energy generation. The privatized power companies in Britain, which were now regularly treated as milch cows by foreign investors from Spain, Australia and France, should be responsible for ensuring stable overall supply and the maintenance of the grid, rather than near monopoly generators under government regulation. This was the ideal which government policies should be directed towards. But of course the large-scale generators did not like this approach, and lobbied against it.

The British government backed off its promise to increase state support for microgenerators of electricity (*The Independent*, Wednesday, 2 April 2008). In the 2006 budget the British Chancellor, then Gordon Brown, announced a 50 per cent increase in the money available for homeowners to install renewable energy systems. The maximum grant was to be £15,000 per installation. By 2008 the grant had been reduced by 83 per cent to £2,500, well below the economic minimum of support, and was to be phased out completely. As a result Britain had managed only about 10,000 home renewable energy systems by 2008, and there were unlikely to be many more. In Germany, in contrast, 300,000 such systems had been installed with many more to come. In the meantime Britain had clearly decided to favour big business energy. There was to be a new set of nuclear and even coal-fired power stations.

Sometimes some combination of small scale and large scale, local and national provision, was necessary. There could be much greater use of facilities for local water collection. French motorways, built by private companies, were used sensibly as collectors of water which was stored in roadside reservoirs and available for the irrigation of adjacent farmland. In Mediterranean areas, houses commonly contained large water storage facilities for domestic use in their cellars, rather like the ancient Roman facilities in Istanbul and Rome. Modern householders in Britain could have such reservoirs. They could also install domestic rainfall collectors to irrigate lawns as well as serve sewerage systems. Unfortunately these arrangements were not what the major water companies wanted. They wanted large-scale water treatment plants, as with the new, and very expensive, desalination plants in the Thames Estuary, or a massive new reservoir near Abingdon, Oxfordshire, and were greatly opposed to a national water grid to bring water from the wetter north to the drier south. The public was told that this was impossible for technical reasons. This was deliberate misinformation. The real reason was that a national water grid would destroy the local monopolies of the water companies and reduce the massive profits made by the owners of those companies (see Chapter 5).

The most resource efficient supply of food, which was often, but not always, local, should be encouraged. The preferred framework of food supply would necessarily involve some kind of market management, but, unlike the EU's Common Agricultural Policy, it would focus on an adequate provision for consumers, rather than the wasteful subsidy of production, which often produced surpluses which required expensive storage and when sold outside Europe damaged the world market. In 2007 there was evidence to suggest that the supply of food was decreasing in relation to demand. The FAO reported that the reserves of cereal were severely depleted, and the agency's food price index had risen by 40 per cent in the past year, compared with 9 per cent the year before (*International Herald Tribune*, 18 December 2007). The main reason for this was a shift to greater consumption of meat and the conversion of large areas of arable land to the production of luxury cash crops and biofuels. The folly of the latter way of easing the carbon footprint was becoming apparent. This made it even more important to follow good environmental practice in food production and supply.

The bottom line was much more complicated than was often thought. For instance it needed to include the cost of getting food to the table, to include costs of production, the cost of diversion away from local consumption elsewhere as well as the real cost of transport – comparing the cost of short distance trucking with long distance freighting by boat, or both. For the developing world it was crucial to encourage farmers to focus first on feeding local people. It was a mistake to encourage Kenyan farmers to grow cash crops for the world market when locals in Kenya and in other nearby African countries did not have enough to eat.

The dominant trend in developed countries was towards a greater concentration of food outlets in the form of a small number of massive supermarket retailers. In Britain there were three large supermarket chains and two smaller ones. Every effort was made to prevent price fixing among these suppliers, but over and over again, new examples of unfair collusion against the interests of the public were revealed. The selling of food in Britain, and most other developed countries, in the early twenty-first century was in the hands of an oligopoly, and in normal times this was a way of generating ever-increasing profits for owners and shareholders. Government efforts to prevent abuse by these companies of their dominant market position succeeded in the short term. But some new way of generating super-profits always emerged, demanding never-ending efforts to squeeze the genie back into the bottle.

The oligopolists in food retail exploited the local producers of food by forcing down prices and exploiting their monopoly purchaser position as much as they did producers in the developing world. The public's reaction against this certainly had a beneficial result in the appearance of the Fair Trade movement. But the overall merits of this concentration of supply outlets were difficult to calculate. The dangers were obvious.

A trend towards global oligopoly in food production was already detectable. The consequences of placing the food supply of the world's population in the hands of a small number of multinational agri-companies would be truly horrendous. They would immediately rush to buy up available land in Africa, Asia and Latin America. It would certainly line the pockets of the owners and shareholders.

A package to restrain the excessive aggrandizement of private capital

This package invites consideration of the new devices of capitalism. The previous chapters claimed that many of the new inventions of capitalism, ingenious though they are, were making it difficult for regulators to manage the system. They made it more likely that there would be crisis. They made it possible for numbers of super-rich to emerge, who were careless of the standards of the civilized state. In the interest of orderly capitalism it was necessary to slow down the introduction of new devices of wealth creation, so that they could be understood, their risks measured and the appropriate methods of regulation introduced.

Betting on horses and in casinos was tightly controlled in most civilized states. So should betting on movements in the money markets and equities and the value of commodities. New forms of betting, using complex options and derivatives, should not be regarded as a beneficial contribution to vigorous capitalism. It should be seen as what it is: not an expression of what Smith called the hidden hand, which benefited everyone, but rather an artefact of narrow greed. One possible measure would be to beef up methods that already existed. There was already a regulated market for some forms of futures trading. That should be extended to cover all forms of futures trading, and such betting should be allowed only through licensed markets. The US authorities closed down betting through the Internet. They should do the same for all betting in capital markets outside licensed markets, by all investment funds, and any transgressions should be treated severely.

There have been a number of proposals to give the IMF a stronger role in the monitoring of the international financial system in order to anticipate future crises. Prime Minister Gordon Brown has argued for this. The proposal was very much alive at the time of writing in early 2009 and was to be discussed at the summit meeting in Washington between Brown and Obama, and at the forthcoming meeting of the group of 20 richest states. But there were difficulties with the proposal, which were not widely discussed.

It was hard to see how the IMF's role as overseer of the world's financial system could be strengthened without improving the regulatory regimes of the major developed states, which the debt crisis suggested were entirely deficient. How could IMF officials possibly see what national officials either declined or failed to see? The IMF improvement, as recommended several times by Gordon Brown and others, must be linked with improved national regulatory operations and institutions, and indeed a comprehensive strengthening of international regulatory arrangements on such matters as tax havens and offshore funds.

There were occasions when moral objections must be seen as even more important than objections on the grounds of economic risk. This was the case with the selling of debt. It was unacceptable that debt agreed by a borrower with a bank of choice, probably selected for a mix of criteria, including the lender's reputation for probity, should be sold on to an unknown agent. The borrower must have the right to decide whether he or she was prepared to put themselves in hoc to a new lender who might be objectionable for various reasons, such as investing in unethical stocks, supporting the exploitation of child labour or being involved in criminal activities. The only option was to outlaw the sale of debt without consent.

This might involve secondary legislation to clarify the law on who owned the debt. This applied to mortgage debt as well as consumer debt. The legal framework on lending was short of ideal in a number of ways. It was astonishing in 2008–9 that this point had to be made: that it should be positively forbidden that money be deliberately lent to those who could not repay it or who were agreeing to a loan under pressure. The credit crisis resulting from the sub-prime scandal would not have arisen had there been such rules. But then this also went along with another older axiom which had been too often ignored: that banks should always maintain a sound ratio of fungible assets to operations, under the supervision of the central bank. The traditional deposit/lending ratio should be regulated and not left to jolly chaps who went to one's old school.

A package to strengthen regulation and reinforce appropriate responsibilities

In this section a number of proposals are made, which impose charges on companies for what is judged here to be unacceptable behaviour in that it imposes unreasonable costs on individuals. A criticism of these proposals is that they would be likely to lead to the flight of capital, such as that which afflicted the French in the early days of President Mitterrand's period in office in the early 1980s. The propensity to exit was often exaggerated particularly by those who were being made more subject to control. The actual tightening of regulation was the only way of testing when capital would flee. There might well be benefits in staying, which were not fully visible to the regulator. New forms of regulation needed to be supported by international or regional action. They were more likely to be effective if applied, say, throughout the EU or throughout the member states of the OECD, than if they were applied only in one country.

The injunctions under this heading would be as follows: It hardly needs saying in 2009 that steps should be taken to strengthen the regulation of banks and all investment institutions. Thanks to Mrs Thatcher, President Ronald Reagan and the free market doctrines of the neoliberals, this had become pitifully weak, as admitted by the regulators themselves, in Britain and the United States – but only after the crisis was up and running. The ways of doing this have already been indicated in general terms in Chapter 5. As the British FSA admitted, their officials should now begin to look more closely at the numbers. They should also be authorized, and trained up, to take a view about the kinds of activities which posed systemic risks. It was ridiculous that Alan Greenspan could argue in effect that the US Federal Reserve thought that new derivatives were fishy but that nothing could be done because they were not illegal. He even ventured the argument that looking at them and doing nothing would be interpreted as granting a seal of approval. It is astonishing that a senior regulator should have adopted such a supine view of practices which were suspected of being dangerous. The new principles are obvious: there has to be clarity and disclosure about what is going on. There should be sufficient regulatory power to close down any mechanism that carried a systemic risk.

There should be no further procrastination about establishing a system of criminal responsibility applicable to all institutions, public and private, so that blame could be placed in law on those responsible for negligent actions causing fatalities. This should include hospitals in the cases of hospital-induced infections like MRSA. New Labour had supported such a change but then declined to act when they came into office.

The principle that capital should be free to move to where it could be used most efficiently is a good one. But it should not apply when the gains from moving were to do with a cheaper tax system, or the existence of financial incentives provided by the host governments. Other forms of incentive, such as an exploited labour force, could be categorized as unreasonable. In this case a charge should be levied by the state losing the capital to provide substantial compensation for those who were losing their job, having to retrain and possibly relocate. Such a charge should be enforceable under international law by the state losing the investment and backed by a right to confiscate assets of the leaving company. The rules of the proposed MAI, discussed in Chapter 4, provide ideas on this – one merely needs to think of the opposite of what was proposed then. The present redundancy system in the United Kingdom provided only a modest living allowance and little support for retraining, particularly for those of middle income.

Business should also be subject to a principle of reasonable profit from monetary operations and capital gains. There was a precedent for this in the levying of tax on what were called wind-fall gains. City workers should be subject to the payment of super-tax on their annual bonuses, which frequently greatly exceeded their annual salaries, and were also frequently paid to the executives of financial institutions for average, or even poor, performance. This became a hot topic in Britain in 2009. In this context a parallel regulation at the international level should be agreed to prevent the shielding of excessive profits from tax in so-called tax havens. States should take the power to find other ways of imposing on companies that pursue tax evasion strategies, such as seizing the assets of local branch companies.

There is danger in the activities of the so-called sovereign funds, as was pointed out in Chapter 4. This is not to say that there should be no investment by the government of one state in the economy of another. But there has to be some notion of the strategic importance of the sectors of the economy which are being taken over by the sovereign funds. If a national government does not take a view on this it is not acting responsibly in that it is running risks with the security of its people. Thomas Hobbes assured us that this was the principal duty of the sovereign of a state. In the first decade of the twenty-first century we find that at least one national government, that of New Labour in Britain, seemed to be ignorant of this requirement. It was unreasonable that the government of Dubai should have been allowed to buy into British seaports, that US companies should have control of parts of Britain's defence industry – as with the company QuineteQ and the running of the Aldermaston facility for nuclear research – and that British utility companies and airports should be owned by investment companies in Australia or Spain.

Behind the problems of regulation was the problem of understanding, even among the so-called specialists. The teaching of economics in schools and universities should include more study of the emerging mechanisms for wealth creation and the risks they involve, and their social impact. John Lanchester pointed out that more was known about capitalist markets by school children in the Soviet Union in the 1980s than in the present Western world. There was an astonishing ignorance of what went on in the City of London.[9] The Über-capitalists therefore got away too easily with such devices as black boxes of derivatives which were impenetrable to outsiders, and puzzling to most insiders. Stress should be placed in the classroom on the organization and operations of capital and on economics in the real world rather than on the fantasy world of mathematical economics, which too often was used to facilitate excessive profit making. This subject was as much part of the problem as of the solution, and many of its more successful students went into the financial institutions which caused the problem. There should also be a much greater concern with the teaching of political economy so that the extent to which economics was political became more transparent.

It should be made perfectly clear that the recommendations of Milton Friedman as much as those of Freidrich Hayek, and Mrs Thatcher's advisors, were based on a set of political prejudices as much as axioms. Part of the reason for the present crisis was the success of economists in selling the idea that their science was objective and nonpolitical. The fallacy that economics was an objective science was revealed in the failure of Long-Term Capital Management, discussed in Chapter 5. The same argument applied to those who taught the art of management. The goal of this change in the syllabus of economics was to increase the transparency of the evolving system and to make the failures of regulation, and the lacunae in regulatory cover, more obvious to more people. A theme of this book is that economic crisis is as much about incompetence and a failure to understand new economic instruments as it is about accident or the unforeseeable.

A package on pension reform

This package is necessary to deal with the extraordinary incompetence of successive British governments with regard to their administration of pensions. There have been excellent reports on what should be done, but the habitual response of governments has been to ignore them. The major reason for such incompetence was the tendency for those who controlled the reins of pension reform to bridle at the prospect of applying the principle of equity or justice to pension provision rather than the principle of financial caution.

This was an area where Parliament should impose a civilizing principle against its principal opponents, the well-paid upper class mandarins of the Treasury. That principle should be the unavoidable priority of pension provision as agreed in the contracts of employment in the public and private sectors. There should be no evasion on the grounds of an insufficient tax take. In a civilized society the response must be: if there is not enough to pay, money must be found by cutting back another project, such as, in today's terms, expenditure on the war in Iraq. Since these issues have been discussed at some length in Chapter 3, only the principal proposals are repeated here. It should however be stressed again that in a civilized state all pensions should be at a level which is sufficient to sustain at least genteel poverty and that it is entirely unacceptable that the level in fact provided should be barely sufficient for physical survival.

Hence in Britain:

- Companies should never be allowed to take contribution 'holidays' in their payments for occupational pensions.
- The National Insurance Contributions should be fixed at a level sufficient to pay for the state pension and the NHS. The amounts in the resulting notional fund should not be diverted to fund other activities, even in the welfare system. Other taxes should be adjusted accordingly.
- The legal right of workers to their occupational pensions as agreed in the contract of employment should be clarified and strengthened. Neither the company nor the state should be allowed to change the terms of a pension, or sell on a pension fund, without the explicit consent of the pensioner.
- Pensions should be related to average earnings and not inflation. This is more important than it might appear, since relating pensions to the inflation index guarantees that pensioners find it more and more difficult to maintain a reasonable standard of living as they get older. They are condemned to live in semi-detached communities of the impoverished.
- Pensions should be sufficient to pay for a lifestyle which could be described as being at least one of genteel poverty. The system should not be one of a subsistence pension with additional credits for the hard up. This is against the principle of the right to a reasonable pension, is demeaning for those who claim and is inefficient – probably deliberately so – in that retirees often do not understand how to make a claim.

Conclusions

This chapter has pitched at a vision of the good life, which is a modern version of that described by David Henry Thoreau. It is adjusted to reflect modern assumptions about what is possible and to take note of a developed system of capitalism. The take on capitalism is shaped by intimations of cataclysm brought on by the capitalists themselves.

They became addicted to poisonous inventions in the form, primarily, of derivative financial instruments which could not be controlled. The world was freed up for excessive profit taking and for Über-capitalist predators whose actions were damaging to the civilized state. We all thought that in the late twentieth century most people in the developed world had achieved satisfactory levels of income and welfare, so that they could enjoy more and for longer than ever before. This was not to be.

In Britain the wealth of most people, but not the super-rich, has begun to decline in relative terms – despite a continuing increase in national wealth. This process began under Mrs Thatcher, and in the United States under Reagan. Pensions in Britain are lower than in any other country in the EU though there are more multi-billionaires. In a number of areas of health care, performance is not among the best performers in Europe – for instance with regard to life expectancy after treatment for cancer. The list of less-than-top performance could be much extended.

This does not of course affect the super-rich. Their lot, in their relatively isolated communities in London, gets better and better. This is one of the main reasons why the lot of the rest gets worse. They do not contribute what they should. Their values infect even a government that claimed to have the interests of the poor close to their heart. This is far removed from the kind of world envisaged by David Henry Thoreau.

CHAPTER NINE

Reflections in the storm

This book was mainly written before the collapse of the global financial system, and before the worsening recession in 2009. The description of the various dangers was not that wide of the mark, and the points about the need for a new model of economic man remained entirely apposite. The point was very clear, though not to our regulators, that it was simply not possible for personal and corporate debt to continue to increase indefinitely and that the continued licence to a few to practice greed and glorying – to use Thomas Hobbes's term – would have to come to an end.

The crisis also made it clear that the globalization of economic arrangements had to be matched by a stronger system of regulation. This was needed at both the national and the global level – one could not work without the other. Gordon Brown's proposal for a reformed IMF to help regulate the global system and to spot developing crises was useful if the national authorities strengthened their own systems.[1] The international organization was inevitably dependent on them for information and support. It was not only the taxpayers of developed countries who had an interest in making this work. The poor of developing countries also paid as the crisis drained money out of their economies.

The downside of the current crisis was all too evident, but did it have a silver lining? It was at least possible that the crisis was a stage in a long-term cycle, mirroring that of the interwar period, with a period of gilded capitalism, to use Krugman's term, up to the late 1920s giving way to a more consensual, even middle-class, capitalist system under Roosevelt, which lasted until the coming of Reagan.[2] The emergence of consensual America was delayed by mistakes of policy, especially the resort to high levels of protectionism from around 1937. In the twenty-first-century crisis, it was important to avoid such mistakes by not yielding to the temptations of crude protectionism. If this was achieved, at the risk of being Panglossian, the crisis might have been no bad thing

A new world order?

The crisis in the economy was only one of the crises around in 2009. Another was the continuing wars in Iraq and Afghanistan. Gordon Brown's speech in Boston in 2008 appealed for a more positive US attitude towards multilateral approaches to world problems and the new president seemed prepared to oblige. Was it possible that a better world could emerge out of the disastrous wars in the Middle East and the global economic crisis? The opportunities to improve the international system – the essential background to economic reform – should be looked at first.[3]

The administration of George W. Bush insisted on its right to act unilaterally in pre-emptive strikes against its enemies. It failed to reduce the number of nuclear weapons agreed in the Non-Proliferation Treaty, refused to accept restrictions on its right to develop and deploy land mines and other anti-personnel weapons and developed a new star-wars system. It strongly opposed the International Criminal Court, set up in 1998; rejected the Kyoto arrangements on climate change; and refused to comply with the decades-old norm on state aid to the developing world, fixed at 0.7 per cent of GDP. Its economic policies in the World Bank, the IMF and the WTO always started from the principle of 'America First'.

This was all the more regrettable in that much of the multinational system after the Second World War was established under US leadership in the period of consensus between the two US parties. The Iraq disasters may at least have had the benefit of convincing the Bush administration that there had to be a greater involvement with the evolving multilateral system.

Perhaps surprisingly, a number of positive proposals for strengthening multilateralism were agreed later in the Bush administration. For instance there were several concessions on the UN.

UN organization

The 20-year stand-off about US payment to the UN budget was resolved when the United States accepted a return to full funding, though with lower agreed contributions to both the regular assessed budget and the peacekeeping budget. The new Vice-President Joe Biden played a key role in resolving the conflict in the Senate, which augured well for an easier relationship with the UN.

The quality of UN management had also been an issue since the early days. Member governments sought to influence selection, and the Charter required equitable geographical representation. Under US pressure new management principles gave a much stronger role to the Secretary-General to appoint people, after professional search processes, with the right qualifications – to stress quality above representation. It was also proposed that field officers should be part of the same career structure as workers at headquarters – there should be an integrated service. This would mean that the UN could be more directly in touch with what went on in the field.

Peacekeeping

The idea that there should be intervention in cases of gross abuses of human rights remains a persuasive one. The *Responsibility to Protect* doctrine was a real step forward in dealing with humanitarian crises such as genocide, ethnic cleansing, war crimes and crimes against humanity. It was approved by both the General Assembly and the Security Council in 2005. For the first time it spelled out explicitly that governments had an obligation to uphold the human rights of their people and that, if they did not, the international community should intervene.

Peace building and democratization

The so-called *Peace-Building Commission* was set up in 2006 to protect the peace and rebuild after conflict. It was supported by a dedicated fund made up of voluntary contributions from states. The tasks involved included restoring public services, training police and administrators and beginning the process of building a working civil society. The use of the term *civil society* was striking: it was now often found in UN, and EU, documents, but had rarely been found before the late 1980s.

The ICC took this further by creating an international jurisdiction under which criminals, including heads of state accused of war crimes, could be tried. UN intervention mandates now usually required that evidence on war crimes should be collected. The Bush administration was opposed to the ICC, but failed to prevent it. The immediate result of issuing an arrest warrant for Sudanese President Bashir for war crimes in Darfur early in 2009 was a worsening of the humanitarian crisis. Nevertheless its appearance must be regarded as extraordinary, in that it established the principle that even heads of government were accountable to the wider community.

Like the *Responsibility to Protect*, the Peace-Building Commission reflected a changing view of sovereignty: that governments had an obligation to uphold the human rights of their people and could be held to account for failure.

Sustainable development

Since the 1980s there had been a marked strengthening of machinery to deal with humanitarian crises in the UN, whether caused by wicked or incompetent government or by natural disaster. An important innovation was the creation in 2006 of the approach known as One UN, to bring all the various UN parties involved in development under a unified management in the target states. There was a major campaign, in which Gordon Brown played a leading role, to cancel the debt obligations of the poorest countries and to increase the level of official aid to the long-standing UN target of 0.07 per cent of GDP.

Tom Farer pointed out that if the United States persisted in its unilateralist strategy, it risked being cast ‘as a rogue state, a role not well calculated to enhance the broad measure of international cooperation required to contain the terrorist threat’.[4] In its first days it appeared that the Obama administration would now actively support multilateral approaches. Almost the first act of the new president was acceptance of the Kyoto agenda and participation in the supporting diplomacy at the Copenhagen conference.

Now is the moment to ask what is next. A brief multilateral agenda would be as follows: On international security a big step would be for the United States to sign up to the ICC. It could show its preparedness to downgrade its unilateralism by closing down the star-wars systems planned for Eastern Europe – and the United Kingdom. It could agree to place forces it allocated to UN peacekeeping under UN command. It could work more energetically to reform the Security Council and help the UN develop its own capacity for gathering intelligence about likely violent conflicts. It could accept further decommissioning of its nuclear weapons.

The United States and the EU need to push ahead more energetically with the Millennium Development Goals and develop the World Bank’s capacity for aiding development, supporting democratization and developing civil society. The United States and the EU should make medicines such as antiviral drugs much cheaper and accessible for developing countries, especially in Africa. Steps should be taken to shape trade rules, through the WTO, to help the exports of developing countries. The Doha round of negotiations should be restarted. The unrestrained operation of free market economics has to be restrained to help infant industries, and care should be taken not to drain money out of developing states in the slowdown of the global economy. As Gordon Brown proposed, the IMF should be changed to oversee the global financial system and coordinate anti-cyclical policy.

If anything came of these proposals, perhaps one might be justified in talking about a new world political order, though the last time this seemed possible – in the early 1990s – there was rapid disappointment. But perhaps the context now, including the election of a more multilateralist US President, and the strong evidence of the need for a new economic order, could swing the balance. This book has argued in favour of strengthening and expanding the middle class, and protecting its economic and social inheritance, rather than at promoting what was construed, often wrongly, as working class mores, or growing a limited class of super-rich. That was the task of our time: in Britain promoting the working class had been the job of the previous generation; the current generation was led astray by the Pied Piper of super-wealth, the next needed to enrich the middle.

A new socio-economic order?

What were the green shoots, if any, in the economic system, particularly those of Anglo-America?[5] In the United States the success of movement conservatism depended on the disorganization, and exclusion from the democratic process, of the people who stood to gain from a more equal society and a more liberal welfare system. They were too easily divided by local or regional loyalties, race issues or religious disagreements. It was astonishing that those who were below the poverty line could be persuaded to vote, as they were across America, in favour of a Republican Party that proposed to reduce the system of welfare from which they benefited. In Britain it was astonishing that there were so many working-class Tories.

In this book some ideas were developed about a middle-class capitalist system, as distinct from one divided into three – cohorts of the poverty stricken, the struggling middle and the extremely rich. The preferred outcome was a global system more like that traditionally found in Scandinavia, or in the United States in the period from 1945 to 1980 – definitely not that of movement conservatism in the United States or of the communist world. It was a world where the norm was to have adequate means, and the most successful were comfortably off. The trickle-down effect could not achieve this. It had to be deliberately engineered. The creation of a class of super-rich was a deliberate policy choice. There must now be policies to deliberately create a stronger middle.

The government ignored the public's opposition to increasingly intrusive surveillance, and one wonders why. Was it really a case of necessary measures to make the world safer in the age of terrorism? Or was it that the British government had moved from its traditional contempt for the public to fear of it? In contrast, the French governments of the Republics were always scared of their publics – with good reason in view of their tendency to take to the streets. Was it mere coincidence that increased surveillance in the United Kingdom went along with increasing differences in wealth, increasing restrictions on the right to protest in public places – like Parliament Square – and increasing powers of the police under the 2008 Counter-terrorism Act?[6] This act slipped in several extensions of police powers, including the power to confiscate any pictures taken of them in action and rights to intercept phone conversations and email messages.

Why was this? The middle class thought of itself as the guardian of liberal democracy. It saw itself as the group which defined the core values of the system, persuaded others to accept them, monitored how they evolved and gave them the imprint of their approval. It was the ideological authority. The middle class also held the licence to protest. It originated and provided support for almost all the major protest movements in Britain since the Second World War. But the new surveillance implied that it could not be trusted, and more profoundly that the hydra-headed agents of surveillance were better judges of what was acceptable. The offence was compounded by its intrusion into their private space, half-hidden yet continually encroaching. It was both a challenge to what they stood for and a disguised attempt to control them. In the United States there was still an unwillingness to accept such surveillance. Perhaps this was an indication that the middle in the United States was less under threat than in the United Kingdom.

But there were more specific complaints. The enormous sums spent by the UK government to rescue the banking system were offences to the idea of fairness in many ways.

- The money, variously estimated at up to around £250 billion, came out of general taxation to which many of the CEOs now being bailed out had contributed little or nothing.
- The risks taken by the greedy in the banking system had failed, but their perpetrators paid no penalty. Indeed managers and CEOs took care to protect their own pockets. In both the United States and the United Kingdom the executives of failed banks clung on desperately to their bonuses and colossal pensions, even though these now often came from the public purse.

- The very people who caused the crisis were now asked to put it right. This is not to say that there was another way. Among the people appointed by Prime Minister Gordon Brown to key positions in the FSA were those who had been senior executives in banks that had failed.

The malefactors of the banking world did not go gently, and as the crisis unfolded they began to claw back their losses from those least capable of defending themselves. Having been cornered they bit anyone they could.

- Customers who had taken out Payment Protection Insurance with the post office to pay for mortgages in the event of loss of income were given, as required by law, 30 days' notice of a reduction in the monthly maximum payment from £2,500 to £1,500, with additional charges, and an increase in the period before payment would begin from 30 to 60 days. Other companies did the same.[7]
- The banks deliberately undervalued property, and made it difficult for individuals to challenge their decision, for instance by getting another independent valuation, so that they could increase the interest rate payable. They also sometimes demanded a large cash payment to renew the mortgage to cover what they judged to be negative equity.
- Banks rushed to repossess houses in the face of appeals from the government not to do so. Indeed it seemed that the banks were determined to avail themselves of any excuse to repossess, regardless of whether the owner had a sound plan for making up lost payments. There was a margin of misbehaviour: they had sold mortgages to people who could not pay, but were now forcing repossession on those who – with a little rearrangement – could.
- As interest rates were reduced, the banks did not pass on the benefits of the reduced cost of their borrowing to mortgage holders. They introduced a system of collars which imposed a limit on rate reductions, and imposed new charges when customers looked for lower rates elsewhere. In effect they captured the debt and forced borrowers to pay a higher interest rate. At the same time the banks reduced returns to savers as rapidly as they could.
- Companies made employees redundant, sometimes doubling the expected rate, not because this was necessary to get through, but because the crisis gave them cover to reshape their business.

- The banks played for time in the case of their past excessive charges to customers, for instance on unauthorized overdrafts, by repeatedly appealing against the judgement of the courts that they should be repaid.

All in all, the actions of financial institutions to the crisis did nothing to restore their reputation. Indeed their behaviour confirmed the impression that they did not care much about whether or not they were well regarded. From being pillars of the community a few decades ago they had become the jackals of the high street.

This chapter will not comment on the details of the various rescue plans in the United States and the United Kingdom, as the various solutions being proposed might be pretty much evenly judged as being likely either to succeed or to fail. No one knows. But it was worrying that there was little or no public discussion of what the reformed economy, and its financial system, should look like. Indeed it often appeared that the enormous sums spent on the rescue were intended to recreate the system as it had been before the crash, but without the sub-prime market. Banks would lend as they had before, and house prices would be just as high.

In the previous chapter a wide range of elements of a reformed system was proposed, so they will not be repeated here. Some objectives stand out. There had to be a high degree of specialization of function among banks. Some would be mortgage lenders. Some would be investment bankers. Some would be high-street bankers charged with managing the accounts of individuals and small businesses. There had to be clear limits on borrowing by banks and individuals. The reserves held by banks should be adequate to secure their debts. There should be a tightening of the rules on credit card debt for individuals, and giving credit cards to those who could not repay, such as children, should be an offence. In sum, the quantity of credit, and the ways of creating it, should be carefully managed. This would inevitably check the increase in house prices and moderate consumer spending so that it was sustainable in the long term. The green shoots might be found in this terrain but not in the country we had just left. This had to be faced. It was dangerous to try to return.

It was amusing that the CEOs of General Motors, Chrysler and Ford travelled in their own private jets to Washington to plead with Congress for bail outs of their companies. It was amusing to watch the specialists airing their special insights on how to rescue the economy on television, especially as many of them had played a part in causing it in the first place. Just as funny was the appearance of the head of Barclays Bank as a television pundit to explain how to put the economy right. To rescue his bank he had taken expensive loans from Qatari financiers, rather than accept the cheaper support of the British government. It was suspected that this was to avoid having to disclose the extent of toxic assets held by his bank and to protect executive's bonuses. Later it became clear that even more support was needed for Barclays.

The first signs?

All this still looks rather black. The search for the green shoots continues. Notice that they are sought in what follows first in the political cultural context – this is where any specific changes in the practices of the economy have to be rooted.

The debate about how to rescue the system brought up the old arguments about socialism and nationalization, the role of the government against that of the private sector. But the agenda on this had moved quite sharply over the past three or four decades. In 2007–8 it was striking that the British New Labour government was petrified at the thought of nationalizing banks, as was seen in the early days of the Northern Rock crisis (see Chapter 5). Even the mention of the word raised the heckles of those in the party who thought they had left all that behind. In the United States, movement conservatism – Krugman's term – rated nationalization as the worst anathema. But by 2009 even in the United States the possibilities were discussed of using the techniques of nationalization under a different name, at least for a short time, until recovery.[8] This was indeed a massive change in the scenery of political discourse on both sides of the Atlantic. It was probably better that banks should be run by the private sector, but some kind of nationalization as part of a strategy for restoring them when they failed could now be contemplated. It was odd that the plain instrumentality of economics had been so overwhelmed by ideological prejudices.

In the previous chapters care was taken to avoid expressing an ideological preference for state as against private ownership. A new economic charter would, however, stress the rights of the employed to a fair deal. This should include what the International Labour Organization labelled core labour standards, the right to a fair wage, no arbitrary dismissal, no discrimination on grounds of sex or race, fair notice of redundancy and the right to join a union. These were the standards recommended for the developing world, but they were often lacking even in the member states of the EU. The present writer would add that no worker should be paid less than what was needed to require the payment of income tax. Industries that required its workers to survive on the minimum wage, which could not be lived on in the United Kingdom, and even stole the tips of workers to raise wages to that level – which was the case with some restaurant chains in the United Kingdom in 2009 – simply did not deserve to exist.

What was needed was a new political movement which cut across the agenda of the existing parties in Britain and the United States and was more akin to the social democratic movements of continental Europe. It was surprising that there had not been more vigorous protest about damaged capitalism. But the straws in the winds of the crisis suggested that the emergence of social democracy in Britain on continental European lines was now more likely than it had been since the early- to mid-1970s. Because of the coincidence of the crisis and long-term economic and political trends, we had a glimpse of the end in Britain of the Anglo-American economic model. The right wing of US politics had mounted a vituperative counter-attack on Obama-ism, though the extremity of its claims – such as that Obama was intent on creating a fascist state in America – seemed more a mark of desperation than confidence. The far right in Britain, in contrast, seemed relatively isolated, and the new Conservative Party seemed to have moved towards the centre.

In the last period of convergence from the election of Harold Wilson's Labour government in 1964 until the mid-1970s, there was always the chance of difficulty with the Labour left. The pre-Thatcher Conservatives found it easier to work in the political centre ground. It was the left wing of the Labour Party and the powerful and radical unions which challenged the consensus. Thatcher moved the Conservative Party sharply to the right, picking up many of the notions espoused by the Reaganites and the movement conservatives in America. But by the latter years of the first decade of the twenty-first century, both parties had moved back towards the centre ground, though the right wing, anti-European, low welfare and low tax Conservatives were still to be reckoned with, and the neoliberal elements in New Labour had to be cleansed.

In this context it was possible that the crisis could trigger solutions, in institutions and policies, which cut across the older political spectrum. It could facilitate the appearance of a social democratic settlement. In the

United States there was for the first time in 30 years the possibility of the weakening of the coalition of neoliberal economists, rabid right wing ideologues – the neoconservatives and their opportunist acolytes in the media – fundamentalist Christian sects and the super-rich.

It served no purpose to ask companies or bankers to act more in the general interest or to be good. In a capitalist system the overriding interest of managers had to be to make as much money as they could, as much as the rules could be understood as allowing, and to continue to do this for as long as possible. Successful capitalists had to be risk takers and steer as close to the edge of the law as possible, or they would not be successful capitalists. They would not be acting rationally. But they needed to avoid acts which could jeopardize their enterprise in the long term. This was the closest that capitalists should get to the idea of acting morally, because acting in the long-term interest of the system was their deepest self-interest. It was necessary for their own survival.

The judgement of the present writer is that if fault is to be attached to anyone in the present crisis, it should not be attached to the bankers but to the regulators. By regulators is meant anyone who could be judged as being in the regulatory system which in Britain would mean the Bank of England, the Treasury and the Financial Services Authority, but also the responsible ministers and those in Parliament involved in relevant Select Committee and other committees. The explanation of the failure is not just the lack of understanding and attention, though it included those, but also the social setting. They were all in it together. Those who should have been regulating were sipping out of the same champagne glass as the people who should have been regulated. There were indeed supposedly left wing government ministers who could not believe that their chums in the city, whose hospitality they had enjoyed, could possibly be risking the economy. Some were even literally in bed together.

Under New Labour the British economy became the most lightly and incompetently regulated economy in the industrialized world. The New Labour government acquired a blind trust in market forces, and was easy prey for the sharp operators.[9] One reason for this was the ambiguities of its ideology – it claimed to be the heir of traditional Labour, but also took on some of the ideas of Mrs Thatcher's Conservatives. The ideology of the Third Way[10] became, in practice, not a way to practical compromise between business and the civilized state, but a breach in the wall of socialism through which the hordes of the Über-capitalists invaded. In practice it meant simply that the Labour government kowtowed to business and carried on with the agenda of Mrs Thatcher, with an admixture rather late in the day of increased social spending.

Conclusions

The economic crisis of the early twenty-first century was remarkable in that it was the apotheosis of such a wide range of trends. Its roots can be found in neoliberalism but also in its political equivalents, right wing Republicanism in the United States and free market conservatism in the United Kingdom, movement conservatism and neoconservatism. There can be very few historical climacterics which have raised such profound doubts about such a wide range of political and economic assumptions. A liberal can but be gratified by the demonstration that it was the collective shibboleths of the right over the past 35 years that brought us to this.

It would be wrong to blame the economic ideology of neoliberalism alone for the crisis. The fault lay as much with the political ideology in which the doctrine of unrestrained free market capitalism was embedded, as well as with the claim that American power should not be subject to such banal arrangements as international law or the UN Charter. Hence Richard Perle, Norman Podhoretz and William Kristol, among the gurus of neoconservatism, were as much to blame as Milton Friedman or the various – now strangely quiet – right wing economists in the United Kingdom. Mrs Thatcher, and her primary economic political gurus, such as Sir Keith Joseph – often referred to as the mad monk – were as much to blame as those officially charged with the task of regulation in Britain and America.

In the universities, doctrinaire political philosophers of the right were as much to blame as the professors of monetary economics. Many of the latter were sitting quietly while the storm developed. Their magical formulae for getting rich had been lapped up by ambitious students, but when they spoke about how to put the crisis right, if they spoke at all, their opinions seemed strangely banal and short of professional expertise. Certainly it was not just the regulation of the banking system that deserved to be never the same again. It was also that the academic discipline of economics would never be the same again, since over and over again professional economists had been wrong, and not just wrong, but grossly wrong.

One might be forgiven for concluding that the last people one should trust to put the banking system right were bankers, and the people one least needed to be in charge were economists. By all means listen to their advice, but then consider it in the light of moral considerations and the chances of success in the light of historical experience. J. K., Galbraith was damned with faint praise by many economists because his economics was not grounded in mathematics, and he insisted on relating a wide range of human interests, needs and characteristics to his economics arguments. Economists talked about him as if he was a kind of light essayist, whose work was much inferior to more modern work, such as their own. It may, however, be that he was right when he said that the only skills a good economist needed were a profound sense of history and the ability to count. Anything more was redundant and, it seemed, dangerous. A good economist was not primarily an economist but a philosopher.

An optimist has to conclude that there were indeed green shoots. But they were only just visible in the debris of a fading ideology.

This page intentionally left blank

Notes

Introduction

1 Gray, J. (10 February 2008), 'We Trusted This Country. Look How It Treats Us', *The Observer*, p. 33.

2 The term used by Paul Krugman in Krugman, P. (2009), *The Conscience of a Liberal*, New York/London: W.W. Norton.

3 This was the economic approach normally attributed to the Chicago School under its guru Milton Friedman. It was taken up by the Thatcher government, and pushed by her Minister Sir Keith Joseph.

4 See Kapstein, E. (1999), *Sharing the Wealth: Workers and The World Economy*, New York: W.W. Norton.

5 Gray, J. (10 February 2008), 'We Trusted This Country. Look How It Treats Us', *The Observer*, p. 33.

6 Anderson, P. (20 September 2007), 'European Hypocrisies', *London Review of Books*, 29(18): 21.

7 Porter, H. (9 March 2008), *The Observer*.

8 Caulkin, S. (10 February 2008) 'The Rule is Simple: Be Careful What You Measure', (Reporting Research in *The Economic Journal*, Spring 2007), *The Observer*, p. 8. Business Section.

Chapter One

1 According to figures from accountancy firm KPMG reported in *The Independent*, 1 October 2007.

2 Reported in *Financial Times*, 9 April 2008.

3 In 1975 the United Kingdom Treasury under then Chancellor Denis Healey adopted the US definition of a billion, which is 1,000,000,000. This is the usage adopted in the rest of this book.

4 John Lanchester, writing in *The London Review of Books*, 3 January 2008, p. 9.

5 The Labour Government of Harold Wilson set up the Prices and Incomes Commission, under Aubrey Jones, in 1965. It was ineffective.

6 Richard Wilkinson and Kate Pickett, The Spirit Level: *Why more Equal Societies almost always do better*, Allen Lane, London, 2009.

7 Paul Krugman, *The Conscience of a Liberal*, W.W. Norton and Company, New York, 2009 and 2007.

8 See Paul Krugman, *The Conscience of a Liberal*, W. W. Norton and Company, New York, p. 116.

9 Guy Palmer, Tom MacInnes and Peter Kenway, *Monitoring Poverty and Social Exclusion* 2007, Joseph Rowntree Foundation, 3 December 2007.

10 Ethan Kapstein, *Sharing the Wealth: Workers and the World Economy*, W. W. Norton and Company, New York, 1999.

11 Will Hutton, *The State We're In*, Jonathon Cape, London, 1995; Anthony Sampson, *The Changing Anatomy of Britain*, Hodder & Stoughton, London, 1982.

12 J.A.G. Griffith, *The Politics of the Judiciary*, 4th Edition, Fontana Press, London, 1991.

13 See Chapter 5.

14 Andreas Whittam Smith, The Independent, 16 July 2007.

15 http://www.suttontrust.com/index.asp

16 Ibid.

17 Steve Watts at Homerton College Cambridge, quoted in Carole Cadwalladr, 'It's the clever way to power', *The Observer*, 16 March 2008, p. 5.

18 *The Times*, 23 October 2008.

19 See Jonathan Chait, *The True Story of How Washington Got Hoodwinked and Hijacked by Crackpot Economics*, Houghton Mifflin, Boston and New York, 2007, reviewed in *The New York Times Book Review*, p. 13, 23 September 2007 by Roger Lowenstein.

20 The IFS claims to be politically neutral, but it has produced a number of reports which favour low tax for the rich. One commentator said that he had expected the IFS to be free of bias, but had been

'profoundly disappointed'. Richard Murphy, 'The Institute of Fiscal Studies Fisked,' at http://www.guardian.co.uk/commentisfree/2008/aug/19/taxandspend

21 Reported in *The Independent*, 21 April 2009.

22 See Paul Taylor, *The End of European Integration: Anti-Europeanism Examined*, Routledge, London, 2008, especially Chapter 4.

23 Peter T. Bauer, *Economic Analysis and Development in Underdeveloped Countries*, Routledge and Kegan Paul, London, 1965.

24 Samuel P. Huntington, *Political Order in Changing Societies*, Yale University Press, New Haven and London, 1968.

25 http://www.eurofound.europa.eu/emire/GERMANY/CODETERMINATION-DE.htm

26 Robert D. Putman, *Bowling Alone: The Collapse and Revival of American Community*, Simon & Schuster, New York, 2000.

27 Susan Strange, *Casino Capitalism*, Basil Blackwell, Oxford, 1986.

Chapter Two

1 Ralf Dahrendorf, *Class and Class Conflict in Industrial Society*, Routledge and Kegan Paul, London, 1959.

2 See R.J. Harrison, *Pluralism and Corporatism: the Political evolution of Modern Democracies*, Allen and Unwin, London, 1980.

3 Paul Krugman, *The Conscience of a Liberal*, W. W. Norton, New York, 2009.

4 Paul Taylor, *The End of European Integration: Anti-Europeanism Examined*, Routledge, London, 2008.

5 Heather Stewart, 'Rock auditor criticized for role in crisis', *The Observer*, 30 September 2007.

6 Susan Strange, *Casino Capitalism*, Basil Blackwell, Oxford, 1986.

7 Hugh Pemberton, Pat Thame and Noel Whiteside (Eds), *Britain's Pensions Crisis: History and Policy*, Oxford University Press, Oxford, 2006, p. 13.

8 Ibid., p. 14.

9 See Nicholas Barr, 'Special report: Turner gets it right on pensions', *Prospect Magazine*, January 2006, pp. 48–50.

10 Pemberton et al., loc. cit., p. 15.

11 Study by Aon Consulting, reported in *The Telegraph*, 13 November 2007.

12 In a BBC broadcast discussion in the spring of 2008.

13 *The Times*, 15 December 2007.

14 Stephen King, 'As capitalism stares into the abyss, was Marx right all along?', *The Independent*, Monday, 2 March 2009.

Chapter Three

1 Mrs Thatcher attempted to apply Milton Friedman's theory of monetarism, which argued that the economy could be controlled by controlling the amount of money in circulation. Unfortunately the attempt failed because there were so many kinds of money.

2 See Paul Taylor, *International Organization in the Modern World*, Pinter, London, 1993, Chapter 6.

3 Steve Richards, 'Get value for money from Government', *The Independent*, Friday, 13 March 2009.

4 Figures from Nigel Morris, 'The rise of the quangocracy', in *The Independent*, 19 March 2009, p. 19. A leading article in the same newspaper on that day also dealt with this question.

5 Hence the decision to renew the Trident nuclear missile system.

6 Will Hutton argued this case in his article 'Britain's no longer a world power so let's be a better, fairer nation', *The Observer*, 26 April 2009, p. 28.

7 Joseph Stiglitz and Linda Barnes, reporting on their book *The Three Trillion Dollar War*, Allen Lane and Unwin, London, 2008, in *The Times*, 23 February 2008.

8 Reported at http://www.telegraph.co.uk/financetopics/budget/5196968/budget...09

9 According to Telegraph.co.uk t http://www.telegraph.co.uk/news/3198470

10 Consumer Reports, 'Vewpoint: the Consumer Union's Perspective', in *Consumer Reports*, published by the US Consumer Union, February 2007, 72(2), 61.

11 Paul Krugman reported that the American Medical Association spent the equivalent of $200 million in today's terms in 1946 to head off the modest reforms in the US health system proposed by President Truman. Paul Krugman, *The Conscience of a Liberal*, W.W. Norton, New York, 2009, pp. 67–68.

12 Figures in OECD, International Direct Investments Statistics, OECD, Paris, 2000.

13 Tables 3.1. and 3.2 are taken from the author's book, *The End of European Integration: Anti-Europeanism examined*, Routledge and UACES, Abingdon and New York, 2008, pp. 72–73.

14 Description of the welfare systems of EU states in these terms is taken from Bernard Casey and Michael Gold, *Social Partnership and Economic Performance: the Case of Europe*, Edward Elgar, Cheltenham, 2002, p. 16 and *passim*.

15 Figures here are taken from an article by Dan O'Brien and Aurore Wanlin, 'Reasons to be cheerful about Europe', *Financial Times*, 24 November 2006.

16 Hamish McRae, quoting a paper from the German IFO Institute, *The Independent*, Wednesday 12 April 2006.

17 For an amusing discussion of this issue see Francis Wheen, *How Mumbo-Jumbo conquered the World: a Short History of Modern Delusions*, Harper Perennial, London, 2004.

Chapter Four

1 Reported in *The Independent*, Thursday, 6 September 2007.

2 *The Independent*, 25 March 2009.

3 Henry Porter, *The Observer*, March 2008, Comment, p. 33.

4 Deborah Orr, 'The catalogue of incidents that tell the Met is out of control', *The Independent*, April 2009, p. 31.

5 Sean O'Grady, 'A new Age for British industry', *The Independent*, 4 September 2007, p. 38.

6 Hamish McRae, 'Sovereign Wealth Funds: the power barons who will change our markets', *The Independent*, 17 January 2008, p. 46.

7 Sean O'Grady, loc.cit.

8 E.H. Carr, *Twenty Years' Crisis, 1919–1939: an introduction to the study of International Relations*, Macmillan, London, 2nd Edition, 1946.

9 Joseph E. Stiglitz, *Globalizatiion and its Discontents*, Allen Lane, London, 2002.

10 The following section draws on the work of Michelle Sforza-Roderick, Scott Nova and Mark Weisbrot, *A concise guide to the Multilateral Agreement on Investment: Supporters and Opponents' Views*, Preamble Center, 1997.

11 See discussion of income differences in the United States in Paul Krugman, *The Conscience of a Liberal*, W.W. Norton and Company, New York, 2009 and 2007, Chapter 1.

12 See the discussion of this issue in Paul Hirst and Graham Thompson, *Globalization in Question*, Polity Press, Cambridge UK, 1996.

Chapter Five

1 Lara Pawson, The Next Fix, *London Review of Books*, 7 February 2008, pp. 36—37.

2 Lara Pawson, loc. cit., quoting Nicholas Shaxson, *Poisoned Wells: the Dirty Politics of African Oil*, Palgrave Macmillan, 2007.

3 Ibid., p. 36.

4 Fischer Black and Martin Scholes, "The Pricing of Options and Corporate Liabilities" *Journal of Political Economy*, Vol. 81, No. 3, 1973, pp. 637–654.

5 See the excellent article about these issues by John Lanchester: 'Cityphilia', *London Review of Books*, 3 January 2008, pp. 9–12.

6 Robert C. Merton, "Theory of Rational Options Pricing" *Bell Journal of Economics and Management Science*, Vol. 4, No. 1, 1973, pp. 141–183.

7 Will Hutton, reviewing the book *The Last Tycoons*, by William D. Cohan, in *The Observer*, 28 October 2007.

8 Reported in the British Press – *The Times*, *The Financial Times* – on 20 March 2008.

9 *Financial Times*, 9 April 2008.

10 This is another example of the way in which in the world of finance specialist jargon often conceals banal incompetence. The term business model suggests deep insight into a profound financial process whereas in fact it is just 'borrow and spend'.

11 *The Times*, 27 November 2007.

12 Ibid.

13 I am indebted for much of the information in this section to the excellent book about the Long Term Capital Management fiasco by Roger Lowenstein, *When Genius Failed: The Rise and Fall of Long Term Capital Management*, Random House trade paperbacks, New York, 2000.

14 *Financial Times*, 5 February 2008.

15 *The Times*, 18 October 2008, p. 62.

16 *The Observer*, 16 March 2008, p. 39.

17 Roger Lowenstein, *When Genius Failed: the Rise and Fall of Long Term Capital Management*, Random House, 2000, p. 143.

18 A warning issued by George Soros, reported as a front page story in *The Times*, 28 March 2009.

19 The judgement of the economist and pensions expert Ros Altman, reported in *The Observer*, 29 March 2009.

Chapter Six

1 P. G. Wodehouse, *Something Fresh*, in his *Life at Bandings*, Penguin Books, 1981, p. 218, first published by Herbert Jenkins 1915.

2 Will Hutton reviewing William D. Cohan, *The Last Tycoons*, in *The Observer*, 28 October 2007.

3 Tom Wolfe, *Radical Chic & Mau-Mauing the Flak Catchers*, Bantam Books, London, 1971.

4 See the article by the Vice-Chancellor of Buckingham University, Terence Kealy, 'Why Oxford University had to resist Sir Victor Blank', *The Independent*, 19 March 2009.

5 http://news.bbc.co.uk/I/hi?business?4153366.stn

6 Article by Richard Garner on a report by Ofqual, a public body set up to monitor school examinations, *The Independent*, 27 March 2009.

7 Reports on the new OFSTED report on the teaching of history, as reported on the BBC's Today Programme, 11 March 2009.

8 Dinah Birch, *Our Victorian Education*, Blackwell, Oxford, 2008 reviewed in London Review of Books, 15 February 2008, p. 34.

9 Ibid.

10 This point was made in connection with the failure of the social services to pick up at-risk children after some particularly horrendous cases of child abuse in 2008–9.

11 See Francis Wheen's excellent discussion of the new business speak and those who talk it in his *How Mumbo-Jumo Conquered the World*, Harper Perrenial, London, 2004.

12 This was a regular event, and happened again in 2008–9.

13 From *Huffington Post*, 11 March 2009, titled 'Blame the Business Schools', as http://www.huffingtonpost.com/charles-warner/blame-the-business-schools

14 *The New York Times*, 22 March 2009.

15 David Kynaston, *The City of London*, Volume 4, 1945–2000, Chatto and Windus, London, 2001.

16 Simon Caulkin wrote 'the Mid-Staffs scandal is exceptional only in the degree and gravity of its consequences' in an article headed 'This isn't an abstract problem. Targets can kill', *The Observer*, Business Section, 22 March 2009, p. 6.

17 Jeremy Laurance, 'Appalling care may have led to hundreds of deaths', *The Independent*, 18 March 2009, p. 2.

18 John Gray, 'We trusted this country. Look how it treats us', *The Observer*, 10 February 2008.

19 *Gordon Gekko* was a fictional character from the 1987 film *Wall Street* by director Oliver Stone.

Chapter Seven

1 John Gray, *Straw Dogs: Thoughts on Humans and Other Animals*, Granta Publications, London, 2002.

2 *Living with Hardship 24/7*, a study from the University of York for the Franck Buttle Trust, reported in *The Independent*, 15 November 2007.

3 Those of a certain age in Britain will remember BBC broadcasts like *Workers Playtime* and *Have a Go*!

4 Robert D. Putman, *Bowling Alone: The Collapse and Revival of American Community*, Simon and Schuster, New York, 2000.

5 Tom Farer, *Confronting Global Terrorism and American Neo-Conservatism: The Framework of a Liberal Grand Strategy*, Oxford University Press, Oxford, 2008.

6 For an excellent account of this matter, see ibid.

7 Letter from the presidency of the EU, at the Permanent Mission of Ireland to the United Nations, to the Secretary-General, 16 October 1996, para 21.

8 Ibid., para 8.

9 See James Matheson, *Multiple Conditionality and the EU*, London School of Economics and Political Science, unpublished Ph.D. Thesis, 1997.

10 Edward N. Luttwak, 'Letting wars burn' (cover title) or 'Give war a chance' (text title), *Foreign Affairs*, July/August 1999, vol. 78, no.4, pp. 36–44.

11 Jonathon Swift, *A Modest Proposal*, 1729.

12 Paul Krugman, *The Conscience of a Liberal*, W.W. Norton and Company, New York, 2009.

13 Diana B. Henriques and Andrew W. Lehren, 'The megachurches blend salvation with profits', *The New York Times*, Sunday, 9 December 2007.

14 Centre for Policy Studies, *Lexicon of Contemporary Newspeak*, London, 2007.

15 Frances Wheen, *How Mumbo-Jumbo Conquered the World: A Short History of Modern Delusion*, Harper Collins, Fourth Estate, London, 2004.

16 John Hutton, Defence Secretary, Statement to the House of Commons, reported in *The Independent*, 27 February 2009.

17 According to the new Title VI of the Treaty on European Union. Andrew Duff concluded: 'For all the difficulties what emerges is a picture, in five years time, of an extensive and sophisticated web of police coordination throughout the European Union'. Andrew Duff, ed., *The Treaty of Amsterdam: Text and Commentary*, Federal Trust for Education and Science, London, 1997, p. 42.

Chapter Eight

1 The term sharing the wealth is taken from the title of the book by Ethan Kapstein, *Sharing the Wealth: Workers and the World Economy*, Norton and Company, New York, 1999.

2 See the figures in Krugman, loc. cit., Chapter 3.

3 See Richard Wilkinson and Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane, London, 2009.

4 Reissued in David Henry Thoreau, *Walden and Civil Disobedience*, Borders Classics, Ann Arbor, Michigan, 2006.

5 John Gray, *Straw Dogs*, loc. cit.

6 See *Hobbes: Leviathan*, introduced by K. R. Minogue, Dent, London and Melbourne, 1973, p. xiii.

7 Simon Kuznets, *Economic Growth of Nations: Total Output and Production Structure*, Belknap Press of Harvard University Press, Cambridge, MA, 1971.

8 E. F. Schumacher, *Small Is Beautiful: A Study of Economics as if People Mattered*, Blond and Briggs, London, 1973.

9 John Lanchester, 'Cityphilia', *London Review of Books*, 3 January 2008, p. 9.

Chapter Nine

1 Brown made this proposal on a number of occasions including in his speech at the Kennedy Library in Boston in April 2008.

2 Paul Krugman, *The Conscience of a Liberal*, W. W. Norton, New York, 2009, Chapter 2.

3 This section draws on the author's contribution to the magazine *Parliamentary Brief*, vol. 12, no. 4, April 2009.

4 Tom Farer, *Confronting Global Terrorism and American Neo-Conservatism: The Framework of a Liberal Grand Strategy*, Oxford University Press, Oxford, 2008, p. 72.

5 The phrase 'green shoots' became a kind of buzzword in 2008–9. It was reported by various prescient observers rather like the cuckoos in spring. Let us hope that they do not fail to appear like the cuckoos in Britain in recent years.

6 Dominic Lawson, 'Lash out, close ranks - it's the police way', *The Sunday Times*, 12 April 2009, p. 16.

7 *The Independent*, 14 April 2009.

8 Paul Krugman, 'Banking on the brink', *New York Times*, 23 February 23 2009. Krugman points out that the term pre-privatization was preferred, but that nationalization was 'as American as apple pie'.

9 Will Hutton, 'Any more mistakes and we follow the US into crisis', *The Observer*, vol. 25, no. 11, 2007, p. 31.

10 A. Giddens, *The Third Way*, Wiley, New York and London, 1998.

Bibliography

Anderson, P., 'European Hypocrisies', *London Review of Books*, Vol. 29, No. 18, 20 September 2007, p. 21.

Barr, N., "Special Report: Turner Gets It Right on Pensions", *Prospect Magazine*, January, 2006, pp. 48–50.

Bauer, P.T., *Economic Analysis and Development in Underdeveloped Countries*, Routledge and Kegan Paul, London, 1965.

Birch, D., *Our Victorian Education*, Blackwell, Oxford, 2008.

Bonoli, G., George, V., and Taylor-Gooby, P., *European Welfare Futures: Towards a Theory of Retrenchment*, Polity Press, Cambridge UK, 2000.

Bruck, C., *The Predators' Ball: The Inside Story of Drexel Burnham and the Rise of the Junk Bond Raiders*, Penguin Books, New York, 1988 and 1989.

Carr, E.H., *Twenty Years' Crisis, 1919–1939: An Introduction to the Study of International Relations*, Macmillan, London, 2nd Edition, 1946.

Casey, B., and Gold, M., *Social Partnership and Economic Performance: The Case of Europe*, Edward Elgar, Cheltenham, 2002.

Caulkin, S., "The Rule is Simple: Be Careful What You Measure, Reporting Research in *The Economic Journal*, Spring 2007", *The Observer*, 10 February 2008, Business Section, p. 8.

Centre for Policy Studies, *Lexicon of Contemporary Newspeak*, London, 2007.

Chait, J., *The True Story of How Washington Got Hoodwinked and Hijacked by Crackpot Economics*, Houghton Mifflin, 2007.

Cohan, W.D., *The Last Tycoons: The Secret History of Lazard Freres & Co.*, Random House Trade Paperbacks, New York, 2008.

Consumer Union, "Viewpoint: The Consumer Union's Perspective", in *Consumer Report*s, February 2007, 72(2), 61.

Dahrendorf, R., *Class and Class Conflict in Industrial Society*, Routledge and Kegan Paul, London, 1959.

Duff, A. (Ed.), *The Treaty of Amsterdam: Text and commentary*, Federal Trust for Education and Science, London, 1997.

Farer, T., *Confronting Global Terrorism and American Neo-Conservatism: The Framework of a Liberal Grand Strategy*, Oxford University Press, New York, 2008.

Franck Buttle Trust, *Living with Hardship 24/7*, University of York Press, York, UK, 2008.

Giddens, A., *The Third Way*, Wiley, New York and London, 1998.

Gray, J., *Straw Dogs: Thoughts on Humans and Other Animals*, Granta Publications, London, 2002.

Gray, J., "We Trusted this Country. Look How it Treats Us", *The Observer*, 10 February 2008, p. 33.

Griffith, J.A.G., *The Politics of the Judiciary*, 4th Edition, Fontana Press, London, 1991.

Harrison, R.J., *Pluralism and Corporatism: The Political Evolution of Modern Democracies*, Allen and Unwin, London, 1980.

Henriques, D.B., and Lehren, A.W., "The Megachurches Blend Salvation with Profits," *The New York Times*, Sunday, 9 December 2007.

Hirst, P., and Thompson, G., *Globalization in Question*, Polity Press, Cambridge UK, 1996.

Hobbes: Leviathan, Introduced by K.R. Minogue, Dent, London and Melbourne, 1973.

Huntington, S.P., *Political Order in Changing Societies*, Yale University Press, New Haven and London, 1968.

Hutton, W., *The State We're in*, Jonathon Cape, London, 1995.

Kapstein, E., *Sharing the Wealth,: Workers and the World Economy*, WW Norton, New York, 1999.

King, S., "As Capitalism Stares into the Abyss, was Marx Right all Along?", *The Independent*, Monday, 2 March 2009.

Krugman, P., "Banking on the Brink", *New York Times*, 23 February 2009.

Krugman, P., *The Conscience of a Liberal*, W.W. Norton, New York and London, 2009.

Kuznets, S., *Economic Growth of Nations: Total Output and Production Structure*, Belknap Press of Harvard University Press, 1971.

Kynaston, D., *The City of London*, Vol. 4, 1945–2000, Chatto and Windus, London, 2001.

Lanchester, J., "Cityphilia", *London Review of Books*, 3 January, 2008, pp. 9–12.

Lawson, D., "Lash Out, Close Ranks- it's the Police Way", *The Sunday Times*, 12 April, 2009, p. 16.

Lowenstein, R., *When Genius Failed: The Rise and Fall of Long Term Capital Management*, Random House trade paperbacks, New York, 2000.

Luttwak, E.N., "Letting Wars Burn" (cover title) or "Give war a Chance"(text title), *Foreign Affairs*, July/August 1999, Vol. 78, No. 4, pp. 36–44.

Matheson, J., *Multiple Conditionality and the EU*, London School of Economics and Political Science, Ph.D. Thesis, 1997, unpublished.

McRae, H., "Sovereign Wealth Funds: The Power Barons Who will Change Our Markets", *The Independent*, 17 January 2008, p. 46.

O'Brien, D., and Wanlin, A., "Reasons to be Cheerful About Europe" *Financial Times*, 24 November 2006.

OECD, *International Direct Investments Statistics*, OECD, Paris, 2000.

O'Rourke, P.J., *On the Wealth of Nations, Books that Changed the World*, Atlantic Books, 2007.

Palmer, G., MacInnes, T., and Kenway, P., *Monitoring Poverty and Social Exclusion*, Joseph Rowntree Foundation, 3 December 2007.

Parliamentary Brief, Vol. 12, No. 4, April 2009.

Pawson, L., "The Next Fix", *London Review of Books*, 7 February 2008, pp. 36–37.

Pemberton, H., Thame, P., and Whiteside, N., (Eds.), *Britain's Pensions Crisis: History and Policy*, Oxford University Press, Oxford, 2006.

Putman, R.D., *Bowling Alone: The Collapse and Revival of American Community*, Simon and Schuster, New York, 2000.

Sampson, A., *The Changing Anatomy of Britain*, Hodder and Stoughton, London, 1982.

Schumacher, E.F., *Small is Beautiful: A Study of Economics as if People Mattered*, Blond and Briggs, London, 1973.

Sforza-Roderick, M., Nova, S., and Weisbrot, M., *A Concise Guide to the Multilateral Agreement on Investment: Supporters and Opponents' Views*, Preamble Center, 1997, at http://www.flora.org/flora/archive/mai-info/maioverv.htm.

Shaxson, N., *Poisoned Wells: The Dirty Politics of African Oil*, Palgrave Macmillan, Basingstoke, 2007.

Stewart, H., "Rock Auditor Criticised for Role in Crisis", *The Observer*, 30 September 2007.

Stiglitz, J.E., *Globalizatiion and its Discontents*, Allen Lane, London, 2002.

Stiglitz, J., and Barnes, L., *The Three Trillion Dollar War*, Allen Lane and Unwin, London, 2008.

Strange, S., *Casino Capitalism*, Basil Blackwell, Oxford, 1986.

Swift, J., *A Modest Proposal*, 1729.

Taylor, P., *International Organization in the Modern World*, Pinter, London, 1993.

Taylor, P., *The End of European Integration: Anti-Europeanism Examined*, Routledge, London, 2008.

Thoreau, D.H., *Walden and Civil Disobedience*, Borders Classics, Ann Arbor, 2006.

Wheen, F., *How Mumbo-Jumbo Conquered the World: A Short History of Modern Delusions*, Harper Perennial, London, 2004.

Wilkinson, R., and Pickett, K., *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane, London, 2009.

Wodehouse, P.G., *Something Fresh*, in his *Life at Bandings*, Penguin Books, 1981, p. 218, first published by Herbert Jenkins, London, 1915.

Wolfe, T., *Radical Chic & Mau-Mauing the Flak Catchers*, Bantam Books, London, 1971.

Index