

# Labour & Trade Union Review

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Brown: Luck or  
Cunning?

PPP Lunacy

Major on Brown's  
Budget

China

Hayek and Neoliberalism

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## Will Labour's Luck Hold?

New Labour has been extraordinarily lucky. When they took over in May 1997, the UK economy had been growing steadily and continuously for five years. The growth began even before sterling was forced out of the ERM in October 1992 but was helped by the resulting lower exchange rate against European currencies. The rate of inflation was falling. Unemployment, as measured by claimant count, had fallen from a high point of 2.96 million at the end of 1992 to 1.66 million in May 1997. The public sector borrowing requirement was on a downward path.

This was the golden economic inheritance that Labour took over. Since then the world economy driven by the US economy has continued to grow steadily with low inflation. This may now be about to come to an end. But up to now there has been almost ten years of continuous growth in the US and world economies, an unprecedented event in modern history. No government in modern times has had a better economic inheritance or a better global economic environment in which to operate.

That the UK economy has continued to grow against this background is not a function of Gordon Brown's economic management but of his extraordinary good luck. It would have taken extraordinary economic mismanagement to cause the economy not to grow and unemployment not to fall.

### Another Piece of Good Luck

New Labour has had another extraordinary piece of good luck—the Conservatives who were responsible for economic management in the period prior to the election were no longer in the leadership of the party after May 1997. John Major retired as leader after his defeat and, having failed to win the contest to succeed him, Kenneth Clarke retired to the backbenches. Their successors hadn't the same personal interest in defending the Conservative record from 1992 to 1997,



which many of them believed to be an unfortunate deviation from the glorious Thatcher years, a deviation characterised by too many tax increases and too much public expenditure, which they believed was the root cause of their crushing defeat on 1 May 1997. What is more, since Clarke is out of sync with the new leadership over the EU and the Euro, it stuck in their craw to defend his economic management in the years leading up to the election.

So it was easy for Brown to establish the myth of a prudent Chancellor heroically struggling with a difficult economic inheritance, forced to press down on public expenditure to put the public finances back in order and prevent a return to "Tory boom and bust". For years, Labour spokesmen have peppered their comments on the economy with this silly slogan, which bears no relation to reality, without being effectively countered by the new Tory leadership. Silly it may have been, but the slogan has been effective as far as Labour is concerned. It has served to establish them in the public mind as competent in economic management and the Conservatives as incompetent.

Since he became shadow Chancellor last year, Michael Portillo has attempted to retrieve the situation and characterise the health of the economy as a mere continuation of the Major years. But Portillo's predecessor, Francis Maude, was all at sea, disorientated by Labour's theft of the Conservatives' clothes on public expenditure (and much else besides). Thus, we had the absurd spectacle of Maude attacking Labour for extravagant public expenditure at a time when they were spending less than the Conservatives themselves would have spent had they been re-elected in 1997.

(John Major spoke in the budget debate in the House of Commons on 12th March. Kenneth Clarke spoke the next day. Those speeches show how different political debate on the economy would have been had either or both of them been in leading positions in the Conservative Party since 1997. An edited version of Major's speech is published below.)

#### Public Spending Under Labour

In the eighteen Conservative years from 1979 to 1997, public expenditure rose by an average of 1.6% a year in real terms. That was considerably lower than the rate of growth in the economy,

which in part accounts for the miserable state of public assets by the time Labour came to power in 1997.

So, what did Gordon Brown do to make sure things got better under Labour? He cut public expenditure by 0.6% a year on average in the first two years he was in charge. Yes, from 1997-1999, public expenditure fell by 0.6% a year on average in real terms. According to Kenneth Clarke, public spending in 1999-2000 as a proportion of GDP at 37.7% was at its lowest level since the 1960s (House of Commons, 13th March) and that was after the brakes had been taken off public expenditure. It was 41.2% of GDP in Clarke's last year in office. This wasn't an obviously effective way of making sure that things got better under Labour.

There was no economic justification for cutting public expenditure (it was accompanied by substantial increases in the tax take in real terms). This bizarre behaviour by the Chancellor came about because of his pre-election commitment to Conservative spending plans for the first two years of a Labour government. Apparently Clarke had deliberately pitched these low in his final budget in the autumn of 1996. According to Larry Elliot ('Still papering over the cracks', *The Guardian*, 20th March), this came about as follows:

*"With the Tories heading for the electoral rocks in late 1996, the former Conservative chancellor tried one last roll of the dice. In his November Budget he announced miniscule increases in spending in the hope that his Labour shadow, Gordon Brown, would lose public credibility by refusing to swallow the poisoned pill. Mr Clarke was wrong. Mr Brown not only swallowed the pill, he swallowed it with relish. In order to prove his Iron Chancellor credentials, he not only kept to Mr Clarke's hideously tough plans but managed to cut public spending in inflation-adjusted terms during Labour's first two years."*

Brown did so by cancelling the next two public spending rounds in which ministers normally bid for extra cash for their departments, which Clarke described as a "mad gesture". There is little doubt that the Conservatives wouldn't have done this if they had been re-elected. Speaking in the House of Commons on 12th March, John Major said:

*"I thoroughly welcome the fact that economic management has reached a*

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*maturity under which the two major parties do not feel it necessary to reverse all the actions of their predecessor. ... I may be wrong, but I think that the Chancellor took that too far in his first two years by adopting the previous Government's expenditure plans in toto. I can tell the House, and I hope that it is not a great shock, that we certainly would not have done that. We would have increased them in the two public expenditure rounds that followed, as we had in every public expenditure round since 1979."*

Like many things done by New Labour, this "mad gesture" was embarked upon for the purpose of image making. Public services suffered, and are still suffering, as a result; but what does that matter compared with the overriding priority of establishing Gordon Brown's credentials as an Iron

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pulled out of Kosovo with its military power almost undamaged. But the conflict did give an excuse for bombing and terrorising Serbian civilians, and began the process that destroyed the last survival of European Leninism.

This job done, Albanians are not wanted, and especially not in Macedonia. Serbs, Greeks, Albanians and Bulgarians could all make claims if Macedonia fell apart. As I write, it seems to be successfully asserting itself, probably fed very exact details of their enemy by US spy satellites. Meanwhile, the Serbs have been allowed back within the borders of Kosovo. It is tacitly accepted that all of Kosovo is now Albanian, but nothing more than Kosovo. And, if need be, more of the existing NATO force could be deployed.

Gwydion M. Williams

## Notes on the News

### Globalist Bubbles

The same people who demanded that everyone 'liberalise' their economic structures are now 'voting with their money' and showing that a lot of US prosperity in the 1990s was fictitious.

The new technology has a grand future. But big fortunes were made at places like Microsoft, only because no one then saw their work as very significant. Microsoft made things for hobbyists. You can get a feel for the period from books like *The Soul Of A New Machine*, but this focused on mini-computers, a technology which briefly flourished but lost most of its market when microcomputers became serious business tools.

The same is true of the Internet. Today's giants—and a lot of forgotten failures—came from an era when the Internet was an oddity. The same idea had been a resounding flop with Britain's Prestel Viewdata, and a moderate success with France's Minitel. The only possible fortunes would be made in some technology that's not just now taken very seriously, but is destined for future greatness. And no one can predict this: the successes in microcomputers, internet etc. were lucky in that their hobby grew into an industry. As was Henry Ford before them.

The USA in the 1990s got a one-off boost from being first to invent a version of the new technologies that the rest of the world would use. That's not likely to be repeated. And the basic point which this magazine has argued is now being made more widely: the current Yankee-globalisation wants borders open to money and tourists but closed to migrant labour.

Migrant labour has always been a basic equaliser but does not suit the

electorates of the rich countries. It would suit the rich if they could get away with it, but ordinary people will not vote for right-wing parties unless prejudices against foreigners are catered to, and unless some outside force is blamed for a cultural confusion that is due to commerce.

Migrant labour is basically not allowed under the current Yankee-globalisation. They'll try to strip poorer nations of their best and most marketable people and leave the rest behind. Having won the Cold War, they no longer feel the need for Third World allies. Poor people are getting richer only where they actually control their own role in the world market, as India and China do.

### Two Strikes And Change The Rules

Labour in 1997 had a commitment to PR. But that was when they expected a small majority and a Tory recovery. With a gigantic majority and with Hague doing his 'Die Hard With A Tory' number, there was no reason to change the rules.

This time it's more moot. Blair can hardly lose in 2001, but 2005 would be another matter. The US democrats were taken as a model, and they lost to an inept right-winger after eight years of moderately successful government. And so PR is to be 'reviewed' this time round. Not promised—as it is quite possible the Tories could split or lose its centre-left wing. But it's there as an option.

### Macedonia

The difference between Albanians in Macedonia and Albanians in Kosovo is that Albanians in Kosovo were fighting an enemy of the USA. In fact the combined forces of NATO guided by the Kosovo Albanians did very little damage to the Serbian army, which



Or they could get creative. What about a Turkish peace-keeping force?

#### Flat-Faced Fellows of Kenya

The first australopithecines were taken to be our own ancestors. But later they found *Homo habilis*, and had to accept that the coexistence of these 'handy-people' with the animal-people or australopithecines. Only with walk-tall-people (*Homo erectus*) were our ancestors particularly widespread or successful. The animal-people vanishing during an ecological crisis about a million years ago, there is no evidence at all the two species were ever in conflict.

Up until now it was also believed that *Australopithecus afarensis*—the famous Lucy—was assumed to be the common ancestor. But the newly discovered fossils of *Kenyanthropus platyops*—a flat-faced human from Kenya—make it clear that things were much more complex. No one is yet sure what the lines of descent are. My own feeling is that if it had a distinctively human face, it is likely to be our ancestor. Either that or we are descended from something even rarer and not so far found—australopithecines seem to have

been rather more common than our direct ancestors, which is why they were found first.

As one of the discoverers put it, "at almost every time in the past back to 4 million years, there were two or more species of hominid existing on Earth. So where we used to see a very simple ladder of evolution from one form to the next, the current thinking is that the evolutionary history of man and manlike creatures is more like a bush with many dead ends and only one stem that leads all the way to us."

We only have the skull, but human-style jaws make sense only if the hand can use tools and substitute for strong animal teeth. Discoveries made so far rather vindicate Engels's view of the key role of humans hands, 'the part played by labour in the transition from ape to man'. False notions of inevitable competition are tied up with what one might call 'the part played by Tories in the reversion of people to ape-like behaviour'—though New Labour are almost as enthusiastic. But the hard facts of the fossil record suggest that competition was really not a factor.

There's another interesting point, something no fossil is ever likely to cast light on. We are the only 'singing hominid', and few other mammals besides the whales and dolphins can sing as distinct from yelping or howling. And whales and dolphins also share with us an unexpectedly large brain. Birds also sing, of course, without being very clever. Yet maths and music are somehow related, the same people are good at both, much more often than chance could explain. And good singing is a notable sexual attractant, though it has no obvious link with fitness to breed.

As well as working our way to humanity out of an ape-like condition, maybe we also sang ourselves along the way. As well as nice individual performances, collective song is the best known method for getting people working together and living together peacefully.

#### Weaving The Web

You can find the Bevin Society at <http://members.aol.com/BevinSoc/is.htm>

## Ernest Bevin: Another 15 Minutes of Fame

On 9th March, Radio Four's 'Any Questions' was broadcast from a hall named after Ernest Bevin. Someone from the audience asked the team what they thought Bevin would make of today's politics. Since any public mention of Bevin is a rare event, we make it our business to register discussions like these to keep tabs on what the great and the good see fit to say about him at a given time. Teresa Gorman, the fourth member of the team chose to say nothing at all about him, and it may be that none of them would had David Steel not got it going at the very end of the discussion following the question, which was mainly devoted to Keith Vaz.

**Lord Steel:** I was just wondering, chairman, whether it might be in order to answer the gentleman's question, which was about Ernest Bevin [applause]. What would Ernest Bevin think of politics today? I think he would be totally bemused at the use of soundbites, the development of spin, the replacement

of the politician before the microphone with sophisticated cartoon party political broadcasts. I can remember a wonderful interview with Mr Attlee in which an interviewer put the microphone in front of him said, 'Is there anything you would care to say to the British nation?' That is not the kind of interviewing you get nowadays, and I think there is a great difference.

**Tony Benn:** In 1931 Ernie Bevin was the man who saved the Labour Party when Ramsay MacDonald wanted to go in with the Liberals and the Tories... I think Ernie would see in New Labour a reproduction of the MacDonald idea: lets bring in the Liberals; lets bring in some Conservatives and lets have a National Government. And that is what New Labour is—it is a slow-motion recreation of what MacDonald wanted to do, and failed as regards the Labour Party. So I think he would be very clear about it. One last word in favour of soundbites. It depends what you mean:

'Votes for Women' was a soundbite. (Steel: No, it's a slogan. Benn: No, it's a soundbite...) 'Ban the bomb' is a soundbite; 'Jobs for All'. Don't attack soundbites. There's good and bad ones. 'Modernise' is, I agree, just a load of ..., well I won't mention it. The thing is, we've got to stick to the reality, and the Labour Party was nearly destroyed by MacDonald in 1931. I've a feeling that if he listened to Michael, he would put him in his cabinet, and perhaps the other way round, and that makes me even more anxious about New Labour.

**Michael Heseltine:** There is a very serious point about what Ernie Bevin would be able to do if he were looking back today. He was I think the Foreign Secretary when the NATO alliance was founded, and the NATO alliance has produced a period of peace and prosperity in Western Europe without precedent, and for that enormous act of vision and political determination he deserves our gratitude.

## PPP For The Tube: Nonsense On Stilts

David Morrison

Bob Kiley, the American appointed by Ken Livingstone as London Transport Commissioner, has repeatedly said that the Government's PPP scheme for the London Underground fails to pass the test of common sense. That is a considerable understatement. It is nonsense on stilts.

It will cost more than either continuing grant aid or financing by bond issue. And it will fragment the London Underground to such an extent that the privatised railway system will seem integrated by comparison, with all that implies for the delivery of a reliable and safe service.

The London Underground infrastructure has already been divided into three sections in preparation and under the PPP scheme three private sector consortia will take over responsibility for maintenance and upgrading of these sections. A residual London Underground employing only drivers and station staff will rent infrastructure under contract from the consortia and will try to run the trains. Each of these contracts, which are set to run for 15 years initially, fills six filing cabinets according to Bob Kiley. In addition, since the consortia will supply services to each other, each will have a contract with the other two. And, of course, there will be contracts between the members of each consortium. In the new London Underground lawyers will be more important than engineers.

This is instead of a single organisation with a unified management structure, which would require less subsidy from the Treasury. Yet, as we will see, Gordon Brown and his successors over the next 15 years will

have to pay more to operate this Heath Robinson structure than if they had continued to grant aid a unified London Underground.

#### Bizarre PFI

Like other PFI schemes, the PPP scheme for the London Underground started life as a means of getting finance for a public sector project without adding to the Public Sector Borrowing Requirement (PSBR). Bizarrely, in a PFI scheme the Government gets the private sector to borrow for it and incur a much higher rate of interest than if it did the borrowing itself.

It's like taking out a mortgage on your house at 12% when you can get one at 6% (and not owning your house after the mortgage has been paid off—assets built under PFI normally remain in private ownership).

Yes, under PFI, the Government volunteers to borrow through a private sector intermediary and pay extra interest. Of course, it is never as obvious as that. The inflated interest paid by the Government is buried in the charges for the supply of services over the lifetime of the PFI contract, for example, in the case of a PFI hospital, for the rent of a suitable building.

#### Not Enough Fare Revenue

Before a private consortium signs up to a PFI contract, it needs to be sure that there will be revenue available to pay the service charges. Normally, of course, there is very little doubt about this. The NHS will always have to find the money to pay the rent for PFI hospitals.

But London Underground will never be in a position to pay all the infrastructure

rent from its own resources, because it has no prospect of getting enough revenue from fares (see 'London Underground's Funding Gap' in L&TUR 94, May 2000). At the outset, the Government took the position that "the introduction of the PPP will remove the need for government subsidy in respect of the London Underground" (see 1999 DETR Annual Report). In other words, it was the Government's long-term policy is that under PPP the London Underground had to pay the rent out of fares revenue.

That policy has now had to be torn up—because the PPP consortia wouldn't sign up to a deal where there was no guarantee of London Underground having enough revenue to pay the rent. So, without being explicit about it, the Government has indicated that it will fund the gap between fares revenue and rent, for the lifetime of the project (that is, for 15 years). It had to, otherwise the PPP scheme would never have got off the ground.

#### Gap Guaranteed

Nobody knows how much the gap is going to be two years out, let alone 15 years out. The PPP scheme assumes a 40% increase in passenger journeys and of fares revenue over 15 years. But if there is an economic recession, passenger journeys will fall and the gap will rise. However, the Government will have no option but to smile and pay up, since the PPP consortia are not going to wait for their rent until there is an economic upturn. There will be a mechanism in the PPP contracts for raising the rent when milestones in upgrading the infrastructure are reached: this will also increase the gap and with that the taxpayer liability.

The basic case made by advocates of PFI is that through it the risk associated with borrowing money to finance public sector projects is taken out of public hands and put into private hands. That is why PFI borrowing is not added to the PSBR. This was, and is, nonsense. The risk borne by PFI consortia is nil, since they will always get their rent and will therefore always be in a position to repay their borrowing. The Government is the guarantor that their rent will be paid. Normally, that is implicit in PFI arrangements. In the PPP scheme for the London Underground, the Government's



role as guarantor is explicit: come what may, it is going to fund the gap between fares revenue and rent.

#### How Big Is The Gap?

So how much is the Government going to have to cough up? An *Evening Standard* editorial on 5th March suggested that the bidding companies were demanding £600m of public money a year. And in the *Evening Standard* of 28th March, Simon Jenkins wrote:

"What his [Bob Kiley's] team find baffling has been the Treasury's readiness to hurl public money at keeping the PPP alive. It is currently spending some £500 million a year on the Tube. Under PPP, it may have to find up to £900 million a year for seven years to underpin LU's track charges, just to get the private bidders to invest."

From published figures, £900m a year seems to be far more than necessary to bridge the gap. But perhaps Jenkins has got hold of inside information. What is not in doubt is the Government's determination to stick to its PPP scheme, no matter what the cost to the taxpayer. New Labour cannot be seen to give in to Old Labour, even if common sense is on the side of Old Labour.

In *Funding London Underground: Financial Myths and Economic Realities* (by Declan Gaffney and Allyson Pollock from University College London and Jean Shaoul from Manchester University), published in February 2000, the authors estimate the gap at £175m in the second year of the contract and predict that it will grow in subsequent years.

#### How Much Investment?

This report also sets out the amount of money to be spent by the PPP consortia on infrastructure. This is derived from official projections by Pricewaterhouse Coopers (PwC), published in December 2000 (PwC have acted as consultants to the Government and London Underground on the PPP).

A total of £12,530m is to be spent by the PPP consortia over the next 15 years, about £4,150m of it on day-to-day maintenance and other operating costs. But only about £2,440m of private finance will need to be raised by the PPP consortia (at an estimated cost of £1,970m in interest and dividends). The rest of the £12,530m, that is, £10,090m,

will be available from fares revenue and would be available without recourse to the PPP scheme. The private borrowing is in effect substituting for government grant aid totally £2,440m over 15 years, that is, on average about £160m a year.

This begs an obvious question: why not continue to grant aid London Underground and forget about the PPP? Gaffney and Shaoul posed this question in evidence to the Commons Environment Select Committee last year (see its report, *Funding of London Underground* published on 19th July 2000). Quoting from their report, they say:

"Our analysis, using estimates provided by PwC, revealed an affordability gap of £175 million in year two that was set to rise (paragraph 37). How will the affordability gap be bridged? Does the government intend to provide a subsidy of about £2.5 billion for the PPP as suggested by recent press reports? If so, why, since giving the same amount of money to LU without the PPP would ensure that it was spent on enhancing the network not the financial institutions?"

A good question. It is probably going to cost the Government more than £2,440m over 15 years to bridge the gap between rent and fares revenue if the PPP goes ahead. Perhaps, a great deal more. Certainly, whatever it takes to bridge the gap in any year.

To that has to be added the costs of getting the PPP off the ground: up until 31st March 2000, London Underground had spent £60.3m on consultancy fees and, according to Simon Jenkins (*ibid*), the Government has guaranteed £100m to the bidders to cover the cost of mounting bids and make sure they stay in the game.

The PPP scheme for the London Underground is daft in financial terms.

#### Fragmented Structure

This is the first nonsensical aspect of the scheme. The second is the fragmented structure proposed, which bears a striking resemblance to that of the privatised railway system. It is now freely acknowledged on all sides that the fragmentation of British Rail was a mistake. The Government acknowledges

it but is hell bent on doing the same to the London Underground.

In the days of British Rail, one company was responsible for looking after the infrastructure and for running the trains. Today Railtrack, plus a mass of contractors and sub-contractors, is responsible for the infrastructure and many companies run trains. Thus, a multitude of private companies with conflicting commercial interests have to work together to run trains safely. Plainly, that is more difficult and costly than under one integrated rail company.

#### Heath Robinson Complexity

The PPP for the London Underground will produce a similar mess of complexity. The infrastructure has already been split into three:

- 1) Sub-surface: Circle, District, East London, Hammersmith & City and Metropolitan lines
- 2) BGV: Bakerloo, Central, Victoria and Waterloo & City lines
- 3) JNP: Jubilee, Northern and Piccadilly lines.

Each section, and around 2,000 employees, is to be handed over to a PPP consortium next year. London Underground will remain in the public sector and employ drivers and station staff only.

Gaffney, Pollock and Shaoul describe the resulting Heath Robinson complexity as follows:

"Each PPP company will be responsible for providing full infrastructure services for a set of lines, stations and depots. ... Among the infrastructure assets to be included in the arrangement are: rolling stock (with the exception of some Northern Line stock which is already subject to a separate PPP arrangement), track, signalling, tunnels, bridges, lifts and escalators. There is considerable overlap of infrastructure between three sets of lines, for example, where stations or track are used by more than one line, as well as a number of network wide services such as track renewal which will be allocated to individual PPP companies. This means that as well as providing services to LU, the PPP companies will be providing services to each other.

"The Public Private Partnership sounds like a simple enough idea. But it will involve an immensely complex set

of relationships: LU will sign three separate contracts with the PPP companies, which in turn will have to agree contracts with each other for the provision of network wide services and the sharing of infrastructure. Moreover, each of the short-listed bidders is a consortium consisting of four or more members, and apart from agreements linking the consortium members, there will be further contracts linking each company to the providers of finance." (Page 14)

The vertical disintegration of British Rail is to be repeated, with the added complexity of having three bodies responsible for the infrastructure instead of one, which means that London Underground will have to interface with and monitor the performance of three PPP consortia, and each of the three consortia has to interface with each other. Understandably, the Government has never tried to justify this absurd complexity.

(The obvious question is why not one PPP consortium and therefore one interface, and one contract, in total. As the London Underground has already found out since splitting its infrastructure, managing interfaces cost money so why not have one rather than six. Splitting up the infrastructure makes no sense whatsoever, particularly since it cannot be done cleanly.)

#### Bonds For The Underground

Ken Livingstone fought and won the mayoral election on a platform of maintaining a unified London Underground in the public sector and raising finance for upgrading infrastructure by selling bonds, in a similar manner to the New York Metropolitan Transportation Authority, which was once managed by Bob Kiley.

But people are not going to buy bonds unless they are confident that there is a reliable revenue stream to repay them. Fares revenue is unlikely to be sufficient for this purpose. So, just as the Government has had to guarantee the infrastructure rent under the PPP scheme, it would have to guarantee to supplement fares revenue to back a bond issue. The Government supplement would probably be about half as much—Gaffney, Pollock and Shaoul estimate that borrowing £2,440m by bond issue would cost

around £972m in interest compared with £1,970m under the PPP—but without a Government guarantee it would be impossible to get a bond issue off the ground.

The Government has refused to take either continuing grant aid or bond issue seriously, let alone undertake to back a bond issue. But since it is prepared to act as guarantor for the PPP rent, the London Underground won't have a problem funding the PPP scheme. In those circumstances, Livingstone and Kiley have, understandably, backed off arguing about bond issue. It doesn't matter to them that the Government is prepared to pay through the nose for its PPP scheme. What matters is whether the scheme, with its Heath Robinson complexity, can deliver a safe and reliable service.

#### Unified Management Structure

For the past few months, Kiley has been in discussion with the Government, seeking changes to the PPP scheme to give him as head of the London Underground effective management control of the whole system. None of this has been spelt out, but it appears he wants to be able to decide what needs to be done by way of track repair and upgrade, and to have the authority to order the PPP consortia to do it at a time of his choosing, in order to minimise service disruption, and have some method of applying sanctions if it isn't done. Without such a unified chain of command, he says he could neither run an effective service nor maximise safety.

At one point, the Government seemed to have accepted this principle of a unified management structure. But talks have now broken down, allegedly because Gordon Brown reasserted his dogmatic preference for the unadulterated PPP scheme. It probably wasn't quite like that. It's probable that the PPP consortia wouldn't wear what was being proposed. They couldn't willingly assent to being ordered around by Bob Kiley as if they were an integral part of London Underground. That would have cost implications for them and they could end up losing money. So the choice was probably between the unadulterated PPP scheme and no PPP scheme at all and the Government chose the unadulterated PPP scheme (since New Labour has to be seen to be winning over Old Labour).

#### Judicial Review

Whether the PPP scheme goes ahead is now likely to be settled in the courts. On 27th March, Ken Livingstone announced his intention to seek a judicial review of the Government's decision to implement the PPP scheme, on the grounds that it makes it impossible for him to meet his statutory obligations on transport laid down in the Act that established the Greater London Authority. Naturally, the emphasis is going to be on safety.

In a press statement announcing this step, Livingstone said:

"Bob Kiley has spent months negotiating with the government in good faith. He has put forward clear proposals to ensure that the PPP does not replicate on the Underground the conditions which led to tragedies like Hatfield on the national rail network. Mr Kiley made clear that this required unified management of the system including maintenance. At the end of last week the government rejected Mr Kiley's proposals to modify the PPP to provide for unified management and withdrew proposals previously put forward.

"Bob Kiley—unlike any of the politicians and officials involved in this debate—is one of the world's greatest experts in managing underground railways with a track record of success. Mr Kiley has reported to me that the government's PPP plans in their present form fragment the management of the underground, increase the risk to passengers and make it impossible for me to meet my statutory obligation to provide a safe, integrated, efficient and economic transport system for London. I take that advice seriously."

Assuming the courts agree to hear the case, there will be interesting days in court—Bob Kiley a very sharp operator who doesn't take prisoners.

#### World Wide Web

Further information about various magazines, pamphlets and books can be obtained on the Internet. Look up ATHOL INFORMATION at [www.users.dircon.co.uk/~athol-st/](http://www.users.dircon.co.uk/~athol-st/)



## The Enemy At The Gates

John Clayden reflects on the new film from Paramount, now on general release.

*Enemy At The Gates* is an unusual and interesting film about the Battle of Stalingrad because...when was the last time you saw a box-office war film set in Russia during the war with Russian heroes? Let alone snipers... Snipers get just about as good a press as hyenas and are about as welcome in polite society. Yet during the war a Russian woman sniper was a celebrity in Britain, opening village fetes.

The colossal brutality of this siege on the banks of the Volga and Don, is graphically—computer graphically as it happens—depicted.

Despite a fashionable amnesia in the West these days, it is the case that, as the film makes clear in the opening credits, the Battle of Stalingrad was the crucial turning point of the Second World War, as was commonly perceived at the time.

Rereading *The Beginning of the Road* by Marshal Vasili Chuikov who led the troops in the city, I discovered an account of the snipers' movement including a long report by Vasili Zaitsev, the hero of the film, about the outwitting of the head of the German Sniper School, Major Konigs.

I would not mind betting that this was the seminal idea for the film. In both accounts the German was discovered hiding in an identical situation; the sun's reflection plays a crucial part and a shot political officer features at the denouement.

The film deviates from the original in ignoring the fact that there was a snipers' movement; rather than a single hero.

The last World War is commonly believed to have been a triumph of good over evil, with crucial consequences for the future of mankind. Stalingrad poses a dilemma for Liberals and the Right in the West who hold this view now, for how could this turning point have been the achieved by a society that is equally as evil as the enemy? At the time Western

contemporary propaganda claimed the Russians shared our values but, as the memory of that time recedes, whether deliberately or from sheer ignorance the convenient amnesia manifests itself.

During the Cold War a dismissive view of the Russian contribution was challenged by the Left, but this is increasingly not now the case, because...well, what sort of a voice has the Left these days? "In a conflict between Hitler and Stalin I find it impossible to care who wins", says Alexander Chancellor, in his review in *The Guardian*. Anthony Beevor, author of a book on Stalingrad, considers that the love affair of the sniper "obstructs any understanding of the basically psychotic character required in an outstanding sniper".

In what way does their sickness differ from that of experts with the flame thrower or machine gun and those with an appetite for hand to hand fighting?—Discuss.

Hitler was sick, Stalin was sick, the snipers were sick and so...well who cares anyway? It could be possible to make an alternative case that these snipers had the Zen like qualities of the Samurai.

Chuikov writes:

"I met many of the well known snipers, like Vasili Zaitsev, Anatoli Chekhov and Viktor Medvedev; I talked to them, and helped them as far as I could and frequently consulted them. These well known soldiers were not distinguished in any particular way from the others. Quite the reverse. When I first met my Zaitsev and Medvedev, I was particularly struck by their modesty, the leisurely way they moved, their particularly placid temperament, the attentive way they looked at things; they could look at the same object for a long time without blinking. They had strong hands: when they shook hands with you they had a grip like a vice."

The Zaitsev of the film is also modest and a reluctant hero, but without the

concentration; he falls asleep on the job! I would like to think the Director only included the rather dumb bits—like the fatal disillusionment of the Jewish Political Officer—because Soviet Society had failed to liquidate jealousy, along with the boogies, and the bit where the idea of the heroic example is hatched as an alternative to the policy of relying on draconian discipline—just to placate the financial backers. I am sure soldiers were shot for trying to run away in a panic as the film depicts obsessively.

Many years ago, an old friend of mine, Biddy Youngday, told me what it was like to live with two kids, no heating, no power or running water, in a basement in Berlin and to be liberated by Red Army soldiers, as the street fighting, which was ending the war, was raging in the streets above. How did they behave in their moment of triumph? The first thing they did in the heat of battle was to hand round their food, which Berliners failed to keep down as it was the first meat they had eaten for a year. As soon as hostilities ceased, a crèche was set up. She talked about them with the same affection as Primo Levi in 'The Truce' which is about his experiences after his liberation from Auschwitz: "...under their slovenly and anarchical appearance, it was easy to see in them, in each of those rough and open faces, the good soldiers of the Red Army, the valiant men of the old and new Russia, gentle in peace and fierce in war, strong from an inner discipline born from concord, from reciprocal love and from love of their country; a stronger discipline because it came from the spirit, than the mechanical and servile discipline of the Germans. It was easy to understand, living among them, why this former discipline, and not the latter, had finally triumphed."

If the makers had had the courage to explore more of this, rather than the obligatory and rather facile anti-communism, it could have been a great film.

Kevin Brady

## Parliamentary Diary

### You Can't Phone a Friend

The Government refuses to introduce a mandatory 20 mph speed limit in heavily populated areas, relying instead on local authorities to use their powers to do so if they feel it to be necessary. The effect of this voluntary approach is catastrophic. Of the 3,138 fatal road accidents in Great Britain in 1999, 1,077 occurred in areas with a 30 mph speed limit. Only 176 deaths occurred on motorways, yet most politicians and media believe that speed reductions on motorways are needed while expressing no opinion or downright opposition to reductions in heavily populated areas.

A private member's Road Transport Bill introduced by James Gray (Con. N. Wiltshire) on 9th February called for speed limits, particularly in rural areas, to be set according to road conditions. But as the Minister for Transport, Keith Hill, pointed out, the mechanisms for enforcing the limits would be cumbersome to operate and may not have the desired effect. Speed limits would vary considerably from area to area and village to village, causing confusion with many drivers; better to have a consistent, low limit than the chaos of varied limits.

Gray's bill also tackled the thorny issue of mobile phone use while driving. It called for the use of hand-held phones to be illegal. This is opposed by the Association of Chief Police Officers who say they have sufficient powers to deal with the use of mobile phones in cars, charging drivers with driving without due care and attention. The problem with this, of course, is that the prosecution has to make a convincing case in court that the defendant drove without due care and attention. Whereas research from the Royal Society for the Prevention of Accidents has shown that using a mobile phone when driving greatly increases the chance of an accident;

paragraph 127 of the Highway Code itself says, "Never use a hand held mobile phone or microphone when driving".

After a prolonged debate, the Minister, Keith Hill, opposed the clause on the grounds that the current law is adequate to deal with this activity. However, he did admit that using a mobile phone when driving was potentially dangerous saying, "the Transport Research Laboratory's research review concluded that the distraction caused by the mental effort of phone conversations is present even with hands-free phones. Although the evidence is circumstantial, it all points to an association between phone use and increased accident risk". One suspects there is a lot of mileage left in this debate.

### With Friends Like These...

An interesting Adjournment Debate on the Hinduja brothers took place on the same day (February 9th). Opening the debate Norman Baker, (Lib-Dem, Lewes), revealed information which, to the best of my knowledge, has not appeared in the press, and is therefore worth printing here. Baker referred to the meetings between the Hinduja and Tories such as Thatcher and Hague, but his revelations concerning Labour politicians are more immediately relevant and show how close they have become identified with the rich and famous. And the response by Home Office Minister, Paul Boateng, shows how governments use on-going official inquiries as an excuse for not answering awkward questions. Norman Baker:

"We have heard a lot about the right hon. Member for Hartlepool (Mr Mandelson) and the hon. Member for Leicester, East (Mr. Vaz) but much less about the Hinduja brothers. They built up their wealth making deals with the Shah of Iran's regime and entered the billionaires'

league with oil deals in the 1980s. *Eastern Eye* reported in April 1999 that the two London-based brothers were Britain's richest Asians, with a financial worth of around £1.3 billion, and that the family was estimated to have a worth of about £5 billion, built up through interests including the finance and film industries, oil and telecommunications.

"The Hinduja brothers are also noted for their alleged involvement in the arms scandal currently working its way through the Indian justice system. In March 1986, India bought 400 Howitzer field guns from the Swedish arms manufacturer Bofors, at a cost of £800 million, and it is reported that £30 million was paid in bribes to facilitate the deal. The scandal brought down Rajiv Gandhi. India's Central Bureau of Investigation has been investigating it since 1987 and accuses three of the four brothers of receiving commission from Bofors for helping to secure the deal by bribing—allegedly—senior politicians and civil servants. Estimates of the scale of the bribery vary between £3 million and £9 million.

"It is reported that the money was paid into secret Swiss bank accounts owned by the McIntyre Corporation, which was a Hinduja front company based in Panama. Receiving commission for arms deals is illegal in Indian law, and if convicted the Hinduja brothers could face up to seven years in prison. They deny wrongdoing and argue that payments from Bofors, which they admit receiving, do not relate to the arms deal. A summons for the brothers was issued in December, and they appeared in court in January. It has taken more than a decade to get them to court, as the battle to get hold of Swiss bank records has taken so long. At present, they are unable to leave India.

"On 22nd January 1990, investigators at the Indian Central Bureau of Investigation named Gopichand Hinduja as a suspect in the Bofors investigation. On 21st February, less than a month later, both Srichand and Gopichand applied for British naturalisation. They were both turned down. There is an interesting link, which is suggestive, if no more.

"In 1997, the Hinduja brothers expressed an interest in contributing to the dome, which was then in the care of the right hon. Member for Henley (Mr



Heseltine). In the same month, he launched something called the list of Britain's richest Asians at the Cafe Royal in Regent Street. On 5th March 1997, Gopichand reapplied for a British passport.

"In June 1998, the offer to donate to the dome was repeated by the Hinduja Foundation, and on 2nd July 1998 there was a telephone conversation between the right hon. Member for Hartlepool and the junior Home Office minister, the hon. member for North Warwickshire (Mr O'Brien), about Scichand's application. That is the date given by the 10 Downing Street website.

"On 14th October 1998, the Hinduja formally promised £1 million to sponsor the faith zone, and less than a week later, on 20th October 1998, Srichand made a second application for a British passport. On 29th October 1998, the brothers had a meeting in the House of Lords with Lord Levy about the dome sponsorship. Those dates are not conclusive, but they are at least suggestive.

"The links between the Hinduja and the political elite are extraordinary. *The Sunday Telegraph* on 4th February quoted Srichand as saying: "Did I know Lord Falconer? I know everybody. I'm a businessman. So many other businessmen meet these people. Why ask me? I don't understand why people are asking only about Mandelson, Vaz and Blair... You could name anyone because we have so many contacts."

"What exactly are those contacts? We know that the Hinduja met the Prime Minister, when he was Leader of the Opposition and subsequently. It is alleged in *The Guardian* of 2nd February that Gopichand spoke to the Prime Minister in connection with the Hinduja bid for Express Newspapers. The article said: "GP said they really wanted to buy the Express and had had a long call from Tony Blair" To be fair, the report also said: "Downing Street last night denied Mr Blair had discussed the Express with the family."

"We know that the Hinduja have met Lord Irvine of Lairg on 22nd September 1999 at the Hinduja's London headquarters. We know from a parliamentary answer that the Secretary

of State for Trade and Industry has met them eight times since April 1999. I commend the Secretary of state for his openness. We know that the then DTI Minister, the hon. Member for Leicester, West (Ms Hewitt), met them four times between February 1999 and July 2000. A further DTI Minister met them once in March 2000. Lord Levy has met them. The Secretary of State for Culture, Media and Sport has met them. We know that the Secretary of State for International Development has met them, as have her officials. Of course, we know that the Minister for Europe has met them on many occasions.

"Given the openness and honesty of Ministers in announcing those links, on which I again commend ministers, I wonder why the Ministry of Defence, the Foreign Office, the Prime Minister's office and the Lord Chancellor's Department have refused to announce in response to parliamentary questions whether other Ministers have met with the Hinduja brothers. I urge those Departments to answer questions that have been legitimately asked in Parliament"

After referring to the inquiry by the former Treasury Solicitor, Sir Anthony Hammond QC, (which reported earlier this month and 'cleared' Mandelson and Vaz of the charges against them), Paul Boateng said:

"The hon. Gentleman also raised questions about the Hinduja brothers' support of the millennium dome, and in particular whether the sponsorship of the faith zone by the brothers led in some way to their improper access to ministers. Negotiations on the sponsorship of the faith zone, as with all other sponsorship of the dome, was the responsibility of the New Millennium Experience Company. My right hon. friend the Member for Hartlepool, as shareholder of the dome and the Minister with responsibility for the project, was, quite appropriately, kept fully up to date with sponsorship issues. He would also, again quite properly, have met sponsors to be kept aware of any concerns that they had. However, the detailed negotiations were carried out between the chief executive of NMEC and would-be sponsors, and not by Ministers.

'The hon. Gentleman spoke also

about the ministerial code and raised questions about the role of my right hon. friend the Prime Minister in enforcing the code, its ability in its current form to hold Ministers properly to account for their actions, and the need as he sees it to review and update its personal guidance to his Ministers. Although it is not enforceable by Parliament or any external agency, in introducing the code my right hon. Friend has made it absolutely clear that he expects Ministers to work within the letter and spirit of the code. However, as paragraph 1 of the code makes clear, it is for individual Ministers to determine their actions and to account for those actions to Parliament.

"In formulating the code, my right hon. Friend took account of the Nolan recommendation "that it will be for the Prime Minister to determine whether or not Ministers have acted with propriety in any particular circumstance".

"A similar recommendation was made by the Neill Committee in its report entitled "Reinforcing Standards", which was published in July 2000. However, my right hon. Friend believes, as did his predecessor, that it must be for individual Ministers to ensure always that they act in such a way as to uphold the highest standards and exercise their judgements accordingly. It is always important to ensure that the responsibility of individual Ministers to account for their own actions is not blurred.

"While we are discussing the subject, I feel that it is worth pointing out that the Government accepted recommendation 11 of the report, that the code should be amended to clarify the need for individual Ministers to take full responsibility for their decisions, and accepted recommendation 12 that no new office for the investigation of allegations of ministerial misconduct should be established.

"I hope that my remarks have been of some help to the hon. Gentleman—he is good enough to signify his assent to that proposition, too—and to the House. I have of necessity been constrained in what I have been able to say by the ongoing investigation into matters related to the Hinduja brothers. I end by saying that we look forward to receiving the final report of Sir Anthony Hammond's inquiry, which I hope and expect will

illuminate further many of the issues that the hon. Gentleman raised during the debate".

Boateng tells us that his right hon. friend (the Prime Minister) took account of the Nolan recommendation "that it will be for the Prime Minister to determine whether or not Ministers have acted with propriety in any particular circumstance". Which suggests that Blair saw no wrong in the behaviour of Mandelson and Vaz, for he failed to act in both cases. Had he determined that they had not behaved with propriety he would surely have sacked them. This whole sorry saga casts more doubt on the judgement of Blair than it does on the behaviour of Mandelson and Vaz.

#### Animal Farming

William Hague's call for the date of the general election to be delayed until the foot and mouth crisis has been resolved is understandable. His party is 16 points behind in the polls and so a delay, which will give him time to focus on the Government's handling of the crisis, is clearly in his interests. What

one suspects he will not do, however, is tell the public how crises such as foot and mouth and BSE are related to the food production methods in Britain and Europe. Nor will he suggest that the massive subsidy paid to British farmers should be directed away from intensive farming and towards a more sustainable system.

Apparently the public are horrified by the sight of cattle and sheep being burnt by their former owners, and the farmers themselves have shed a tear or two for their animals. But the animals are raised for slaughter, the difference being that it normally takes place out of public sight, to earn farmers a living and to produce food for human carnivores. The crisis may therefore cause the public to question whether this is really necessary, or at the very least oppose the present treatment and feeding processes of farm animals.

Foot and mouth is believed to have started on a Northumbrian pig farm, where the animals were fed contaminated swill. But it can quickly spread and the transport of animals for slaughter is one means of doing this. A few years ago there was a public outcry about the

conditions under which calves were transported to the continent. Will we now see a similar protest about the transport of cows and sheep for slaughter in abattoirs hundreds of miles from they were born and raised?

The other interesting aspect of foot and mouth is how much media time is focused on it. It is said that thousands of livelihoods are at stake, directly and indirectly. But as many, if not more, livelihoods were at stake during the 1984-85 miners' strike and throughout the 1980s when Britain's manufacturing industry was in decline; and let us not forget the thousands of Corus jobs on the line. There was, and is, no wailing and gnashing of teeth over the miners and steelworkers, however, "if they can't compete, let them go to the wall", was the cry directed at the miners. But now the Tories and the Government are cringingly compliant with the farmers' wishes and in agreement that compensation should be paid in generous proportion. One can expect such obeisance from Tories, the farmer's friend, but it is sickening that Labour should be promoting this view so unquestioningly.

We must disentangle fact from fiction. Prior to the Budget, there were 26 increases in personal taxation and 19 increases in taxes on business in this Parliament. That number has risen slightly although, given the Chancellor's remarkable gift for sleight of hand, one must study the small print carefully to find out precisely how many tax increases there are. However, their sum total is enormous. The abolition of tax credits on dividends alone will cost shareholders about £6 billion in the current tax year. The reorganisation of advance corporation tax at the beginning of this Parliament has affected the quality of pension funds for millions of elderly people and cost those funds more than £5 billion during the course of this Parliament; it will do continuing damage until it is changed.

Even after offsetting tax reductions—of which there have been some, mostly minor, examples—the Inland Revenue's overall tax yield has risen by an astonishing one third during this Parliament. No wonder that the savings ratio has fallen so badly. That is not a wicked Tory calculation; an independent survey shows the average

## John Major on Brown's Budget

*There used to be a time when you could find significant political speeches reprinted virtually in full in the broadsheet newspapers. Not any more. The re-vamped 'something for everybody' broadsheets that have emerged in the last two or three decades are afraid of printing political speeches in full, lest their readers should not find them sufficiently entertaining. In a risk-taking spirit we reprint here a speech made by John Major (who is not standing at the next election) made on 12th March in response to Gordon Brown's recent budget.*

... I am pleased that the Chancellor has cut taxes and given back to taxpayers a small proportion of the money that he has extracted from them in the past four years. His generosity is not surprising: notwithstanding the problems of foot

and mouth, a general election is pending and the public accounts show ample scope for tax reductions and, perhaps, modest expenditure increases. Yet, only a few weeks ago, when the Opposition said that, they were condemned as "irresponsible" by spokesmen from the Treasury and elsewhere. We now see how shallow those attacks were, for if the Opposition were irresponsible, why has the most prudent of Chancellors done what they recommended? In truth, my right hon. and hon. Friends were right to identify the scope for tax reduction. Not only were they right but, if the economy stays on course, there may be scope for even more tax cuts in future.

A principal reason for that remarkable leeway is the sheer size of tax increases over the past four years.



family to be worse off than it was in 1996. The old tax-until-the-pips-squeak bruiser Lord Healey must be salivating enviously at the extent of the tax rises forced through by the Chancellor.

More people have been dragged into tax. An extra 2 million now pay tax; 28 million pay it, compared with 26 million three years ago. ... There are 2 million more taxpayers and 700,000 more higher-rate taxpayers than there were four years ago. In addition, mortgage interest relief at source has been scrapped, although I do not object to that particularly. However, not only has MIRAS been scrapped, but stamp duty on home purchase has been increased and national insurance contributions for middle-income earners have risen sharply. So much—on the eve of the next general election—for the promises that the Labour party made to middle England and middle-income groups throughout the United Kingdom on the eve of the last one. Those groups may also care to note that the yield from inheritance tax has soared 50 per cent during this Parliament. The Chancellor still has no concept—I genuinely believe that he does not understand its value—of letting more of the fruits of a lifetime of work filter down to the people whom the earner most cares about: his own family and the next generation.

It is no wonder, with such tax increases, that the ratio of tax to gross domestic product has risen 2.5 per cent to 37.7 per cent. The Chancellor, despite all his promises, has not so much wooed middle England as assaulted it.

... It is ironic that the Government and the Chancellor have increased taxes so much. During the last Parliament, I remember vividly the present Chancellor and his colleagues, ever ready to find a catchy slogan, repeating the slander of 22 Tory tax rises, with no acknowledgment whatsoever of any offsetting tax reductions. To call their attacks disingenuous would be kind. They were patently untrue, and a forerunner of the manipulation of facts that has characterised so much—not all, but so much—of what the Government have said and done in the past four years.

The Government cannot deny that, because the figures for tax increases are now clear. The statistics cast light where

the slogans cast deception. Before this Budget, the real increase in taxes over this Parliament was about 4.5 per cent a year. Obviously, that figure is now a tiny bit lower, but not all that much. That compares with 1.8 per cent between 1979 and 1997. I am indebted to the Institute for Fiscal Studies for pointing out that there were tax rises of 2 per cent a year between 1979 and 1990, and of 1.3 per cent between 1990 and 1997.

So much for the 22 Tory tax rises, or, indeed, the unsustainable proposition—unsustainable except by malice—that the previous Government wrecked the Tory tradition of low taxation. Some of my right hon. and hon. Friends who rather timidly accepted that fiction in the early part of this Parliament can now feel comforted that it was not true and refute it. They need not concede, but may safely move on and reassert our traditional tax credentials. Taxes were not unduly increased, despite the pressures of a recession that began in the 1980s and cast its shadow into the 1990s—although not, from the point of view of the health of the economy, much beyond 1992.

The Chancellor is ever ready to gloss over the excellent parts of his inheritance. He cherry-picks the bits on which he can make party political capital, and I do not blame him for that: most politicians do. However, he misses other bits. He is, after all, a very political Chancellor who wishes to be Prime Minister, and he is doing a bit of image building.

We need more facts and less of the fiction that we so often hear. The economy has been growing steadily since 1992, before—some hon. Members may not wish to hear this next point—sterling left the exchange rate mechanism. Unemployment has also been falling since that economic recovery began, and the very welcome job growth across the country—both in the number and the variety of jobs—has been consistent throughout the previous Parliament and this one.

Inflation, too, began to decline in the early 1990s and has remained low. It looks set to fluctuate only within historically narrow parameters.

The economy is in good shape and he [the Chancellor] can take a great deal

of satisfaction from that. I shall not be mealy-mouthed: he can take a good bit of credit for it as well. Were he to be similarly candid, he too would offer credit to his predecessors, because he has built on what they did and on a trend that was established five years before he went to the Exchequer.

For example, some hon. Members, but perhaps not all, believe that an economic miracle began on 2 May 1997. Let us take a date at random—1 May 1997. Growth was set to be 3.5 per cent for the next year. Inflation was 2.6 per cent and stable. Unemployment was falling rapidly and, although still high, was down to just over 1.5 million. The fiscal deficit was falling sharply—a point that the Chancellor invariably overlooks because it embarrasses his campaign to discredit his predecessors. The trend of a falling fiscal deficit was clear, and it was falling sharply. He can take credit for not wrecking the trend, but he cannot take credit for beginning it, for it preceded him by four years.

I thoroughly welcome the fact that economic management has reached a maturity under which the two major parties do not feel it necessary to reverse all the actions of their predecessor. That is beneficial to the British economy, and it will remain so for as long as that is the case. I may be wrong, but I think that the Chancellor took that too far in his first two years by adopting the previous Government's expenditure plans in toto. I can tell the House, and I hope that it is not a great shock, that we certainly would not have done that. We would have increased them in the two public expenditure rounds that followed, as we had in every public expenditure round since 1979.

Stakhanovite is one word, masochistic perhaps another, that might show more plainly the Chancellor's proposition. He has been an economic masochist over public spending. We hear a huge amount about public spending, and the Secretary of State for Education and Employment was at it as well this afternoon, but despite the hype about the unprecedented sums for health and education, the fact is that the Chancellor has raised taxes by far more than he has increased expenditure. The public have not noticed because one skill that he has perfected is that of

counting, but that includes the capacity to double count, overcount and miscount. He has done so repeatedly.

Again, I am indebted to the Institute for Fiscal Studies: total Government spending in this Parliament has risen at 1.2 per cent a year in real terms. That is not only less than tax increases, but less than economic growth. It compares with public spending of 2.6 per cent in the previous Parliament, which is a point that Liberal spokesmen have often made, although they are not often nice about the Conservative party. I am glad to see a nod of agreement from the hon. Member for Sheffield, Hallam (Mr. Allan), rather than a shake of the head, because that is undoubtedly the case.

I concede that much of that expenditure was not discretionary: it resulted from the unavoidable impact of the recession. However, it puts in a better context that hoary old myth about Tory cuts, which the Prime Minister is trying to recycle with his current spate of posters about potential future Tory cuts. Either he is ill-informed or scaremongering—probably the latter.

The Government's publicity on cuts is familiar: it is an echo from the past. It was an odd experience in the last Parliament to be taunted by the Labour Party over so-called cuts, while hostile monetarists attacked us for spending far too much money. ... The health of the economy in 1997, and subsequently, suggests that we may have got that balance about right.

During this Parliament, the Chancellor has benefited from the supply side reforms of the 1980s and the disinflation brought about by the policies of the 1990s. When he chants his mantra of boom and bust—I lost count of the number of times that he and the Prime Minister uttered such drivel last week—he should remember that the last unsustainable boom was well over a decade ago. That has not stopped the Prime Minister depicting my right hon. Friend the Leader of the Opposition and my right hon. Friend the shadow Chancellor as Mr. Boom and Mr. Bust. The Financial Secretary to the Treasury sniggers, but that is the politics of sneer and jeer. Neither of my right hon. Friends were policy makers at the time of the last boom, and one of them had barely been

in the House of Commons.

There is a boom and bust today: a boom in tax raising and a bust in the competitiveness of manufacturing industry. Perhaps the Chancellor and the Prime Minister should concentrate on that boom and bust.

...

The Chancellor of the Exchequer is a redistributive Chancellor. He tries to hide that fact, but it is evident, and from his perspective he should not hide it. He aims to redistribute to the less well-off, but in general he redistributes to the Inland Revenue. Even his well-intentioned schemes are not wholly successful. I do not disagree with all of them. Bits of what the Chancellor has done have been good social justice, and if I had been in government with the economy that he now has, I would certainly have taken some of the measures that he has taken, and I am not remotely shy about saying so. However, some of those schemes have not been successful.

The Chancellor abolished the married couples allowance last year, and this year—after a helpful 12-month gap for the Treasury and the Inland Revenue—he has introduced a child tax credit to replace it. However, many people will not receive that credit, because it is means tested and millions will lose either some or all of it on the means-tested taper.

The organisation of that tax credit is a shambles. As it is based on the highest earning member of the household, it throws up huge and unacceptable anomalies. If one parent works and earns £42,000 a year, no payment of the child tax credit is made, whereas if both parents are at work, with no one at home with the child, and earn £35,000 each, the full credit is payable. As a means of social justice, attacking poverty and helping low-income families with children, this scheme is nonsense on stilts. If the Chancellor were serious, he would have examined those problems and sought to correct them before introducing the tax credit in its present form.

The minimum income guarantee is the Chancellor's safety net against poverty, but it is so complex that more than one third of eligible pensioners do

not claim it. The form is so complex and absurd that a large percentage of graduates might not claim it.

The 10p band extension is right in principle. I do not disapprove of minimising tax on lower income groups. However, the proposal is so niggardly and mean as to be almost pointless. The maximum gain from the Chancellor's measures in the Budget is 75p a week—that figure should strike a chord with Labour Members. Given pensioners' response to that amount previously, surely he should have done it differently.

Many of the main effects of all economic management, by every Chancellor of the Exchequer, become apparent some years after the announcement of the original tax and spending decisions. This Chancellor was lucky. He was lucky in his predecessors—lucky, notably, that my right hon. and learned Friend the Member for Rushcliffe (Mr. Clarke) and my right hon. and noble Friend Lord Lamont made the painful and unpopular decisions that contributed so much to the subsequent benevolent situation of which the present Chancellor has made such use in this Parliament. And—unless my memory is failing—I seem to recall that they made those decisions in the teeth of unrelenting opposition, not least from the present Chancellor and the Prime Minister.

I will not be in the House to see the Chancellor's legacy at first hand, but much of it is now predetermined. He inherited an economy of falling unemployment and low inflation, and he has maintained it. That was well done; but under his stewardship also, taxes have risen too much. The tax system has become far more complex. Manufacturing industry has declined further. Regulations have soared. Increases in business taxes are undermining competitiveness, and so in due course will the social charter, whose economic folly is not yet fully apparent but will become so.

It is, in truth, a mixed record—some good, some bad—for this luckiest and most fortunate of modern Chancellors of the Exchequer.

I cannot be certain, but this may well be the last occasion on which I shall



parliament

speak in the House. Let me say that it has been a privilege beyond measure to be here, in this mother of Parliaments. I hope that the next generation of hon. Members, whichever of our great parties they may represent, will feel as I did when I first came to the House; I hope that they will feel that way in future, and

I hope that we shall be able to end the miserable political climate of spin and counterspin that has grown up in recent years.

We need to separate fact from fiction, substance from soundbite, information from innuendo. The public—the electorate—the people who

sent us here—deserve more than to be spoon-fed a cocktail of headline-grabbing feel-good stories. They deserve the truth, unvarnished sometimes but the truth, and every Member of this House, whether Minister or Back Bencher, has the obligation—the duty—to provide it.

## China After Tiananmen

Gwydion M. Williams

The crack-down of 4th June 1989 was a fight for political survival by the Chinese Communist Party. Reformist party general secretary Zhao Ziyang had missed the point. Gorbachev and other 'mild authoritarians' who thought their power could be maintained without being reinforced were deluding themselves. Their power collapsed in the Warsaw Pact countries later that year and in the Soviet Union in 1991. The book, *The Tiananmen Papers*, misses the point. Democrats are supposed to 'bear witness' for democracy, in the manner of a religious sect, and without considering the problem of establishing a functional democracy.

Deng's people knew that the choice in June 1989 was between accepting multi-party rule (and perhaps their own disgrace and imprisonment), or else saving their own power. The question is, would it have been a good thing if Deng's group had lost?

A functional socialist democracy does not occur spontaneously; neither does a functional bourgeois republic on the Western model without both an historic tradition and a nearby example. This was what Eastern Europe had but China lacks. You do not generate a peaceful, middle-class democracy spontaneously, any more than you can acquire a railway system spontaneously.

Liberalism supposes itself to be a theory of human nature. It treats as an 'act of God' the successful enforcement of just one of the many social natures that have been crafted out of the infinite range of human possibility. The same weakness applies even more strongly to modern 'conservatives', who are liberals

with the benevolent and large-spirited side of liberalism rooted out

Britain's system of parliamentary rule was born in political struggle in the 1620s, and could not coexist with the monarch. But after parliament deposed and executed Charles I, it found it couldn't rule alone either and had to yield to Cromwell as 'Lord Protector'. The restored monarchy of 1660 was no more stable, with James II having to flee for his life in 1688 and a long period of uncertainty with every prospect of yet another civil war.

Only George III in 1760 was popular and safe—and even he faced a challenge from John Wilkes, pioneer of the middle-class democracy that later became the norm. In the rougher conditions of 18th century Britain, it led to the Gordon Riots of 1780, which resembled the opening stages of the French Revolution, though it was brutally anti-Catholic as well as democratic and semi-revolutionary. The destruction of Newgate Jail set a precedent for the later French destruction of the Bastille.

It's interesting to wonder how history might have gone had Bonnie Prince Charlie managed to father an heir or two. French revolutionary influence was weak in Britain because it was seen as foreign. A synthesis of Jacobite and Jacobin might have been different, just as the House of Orleans played a big role in starting the French Revolution.

Britain was highly repressive all through the wars with Republican France and Napoleonic France. Protestors had to resort to odd subterfuges like supporting the rights of the Prince of

Wales's unwanted wife, an opinion that not even a much-abused English legal system could find treasonable. (Not unlike the tricks used nowadays in China and other countries where the civilisation is being changed rapidly and little can be taken for granted.)

It was the threat of revolution again in 1832 that persuaded a reluctant monarch and House of Lords to extend the vote to the middle class. Only after 1867 did substantial numbers of working men have a vote, and not all adult males living in Britain until 1918.

Before you can have functional middle-class democracy, the whole society has to be structured and made uniform; secure enough to fight a bloodless civil war every four or five years; secure against the prospect of the existing government losing power to people they dislike or despise. Britain needed more than a hundred years of turmoil, with one king executed, another forced to flee and a Lord Protector posthumously redefined as a traitor, before it could even get functional democracy for the gentry and the rich.

The USA was the inheritor of the British compromise. But to maintain this happy state, it had a bloody civil war to settle the incompatible visions of North and South in the 1860s. And part of the deal is that all local self-sufficient life shall be undermined and the whole society restructured into standardised units of an entity known as The Individual.

China has not yet been so structured. Among other un-bourgeois features, the Chinese do not spontaneously form

queues. They queue when there is some strong authority about that requires them to queue, otherwise they push. It may be that unless and until they become a people who spontaneously queue, they are unlikely to make a good show of a multi-party democracy.

China did try to modernise through liberalism in 1911, after it overthrew its emperors. But this relied on political instincts that were just not there in China, and led to chaos and Warlordism. The Western Powers were far from sympathetic (rather as they had been unsympathetic towards the Chinese-Christian and anti-Manchu Taiping Rebellion in the 1850s and 1860s. Western adventurers helped the Manchu dynasty with the military defeat of the rebellion). The pro-Western and anti-Communist Kuomintang received very lukewarm support in the 1930s when the Japanese were invading China in defiance of International Law.

After the 1911 collapse, Sun Yat Sen did work out a program of transition, realising that a functional democracy was something you needed to build, and also confine within limits. In China it failed, with the Kuomintang disgraced by their failure to defend China from the Japanese. But later, in Taiwan, they did carry it through successfully.

When Mao in 1949 declared that China had 'stood up', not many in China disputed it. The Kuomintang regime that Mao overthrew had looked to Western good intentions for help and found they had relied on a 'broken reed'. China in 1949 was at about the same level as India, whereas now it is much richer and stronger. This widening gap increased under Deng but was built on the foundations of Mao's rule.

If India has not done as well as China, it has still done well in its own terms. For a real disaster area look at Indonesia, which, in the 1960s, opted to be pro-Western rather than Communist or Neutralist. And Indonesia, with its huge population and great diversity, is a much better comparison than successful but much smaller and more homogeneous nations like Thailand and South Korea.

The USA does not understand foreign countries, and tends to

mismanage them even when their intentions are good. Not only are they determined to make everyone just like them, but also determined that it shall be done as they pretend it happened in their history rather than as the original trick actually was done. To resist such 'good advice' is very necessary.

With regard to China, it is a moot point whether US intentions are especially good. Japan, in the days before it wrecked its economy with 'liberalisation', was being presented as the USA's next enemy, and China is also being considered for that role. China, at its present rate of growth, is by some measures already the world's second economy, or third if you count the European Union as a single entity. Unless some major upset occurs, China should become a larger economy than the USA some time in the 21st century: some US politicians would like to see China suffer a misfortune in the way Russia and Japan did.

All of the Leninist regimes that liberalised in the 1980s then collapsed, and this was followed by a massive decline in material wealth in the Warsaw Pact countries and in Russia. For Poland, the Czech Republic, etc., the price has been well worth paying and they are independent nations again. They will join a European Community in which each individual Pole, Czech etc. will have as much power and status as any German, French or English person. Even their economy has bounced back somewhat, as they have gradually pulled into the wider European system.

Russians were already expressing their national identity through the late-Soviet state, and have reaffirmed its value under Putin with gestures like restoring the Stalin-era national anthem. This is much more strongly true of China, because pre-Communist Russia had never been humiliated and scorned as pre-Communist China had been.

The defeated reformer Zhao Ziyang was open to suspicion of 'inferiority complexes'. One issue was his support for a television documentary called *River Elegy* and its theory of China including both a backward inward-looking 'yellow civilisation' and a prosperous coastal 'blue civilisation'. This sounds most irrational, blaming the poor for not being

in the right geographical position. As the Communist veteran Wang Zhen put it:

"Zhao Ziyang's never paid a whit of attention to people like us. Comrade Xiaoping supports him and cultivates him, and all he does is rebel. That TV film *River Elegy* that was so popular last year was aimed at glorifying him. Comrade Xiaoping never appeared in it—only Zhao Ziyang. I was against it from the start. What's this 'blue' civilization, this 'sea' civilization, that they praise? It's bandit civilization—bandit logic—that's what! When a TV show like this gets shown—even shown twice!—what do you think it's all about if not building a Zhao Ziyang cult? This student turmoil we're seeing should've been stopped long ago. Would students have dared do this when Chairman Mao was around? When I reported to Comrade Xiaoping that I thought we should be more decisive, he said let's just watch a bit longer. But what are we watching? Aren't we just watching Zhao sit there? Quite a picture! The big number 1 boss, and doing nothing about it! On the contrary, he opposes us, opposes martial law. What he really wants is to drive us old people from power. We didn't mistreat him; he's the one who's picked the fight. When he falls it'll be his own fault." (*The Tiananmen Papers*, page 258.)

A note in the same book explains: "River Elegy was a six-part video production broadcast on Chinese national television in summer 1988. It addressed such issues as Chinese xenophobia and national pride, isolationism and wall building, authoritarian rule, and the contrast between a backward hinterland (a 'yellow civilization') and a thriving, outward-looking coastal economy (a 'blue civilization'). Authors Su Xiaokang and Wang Luxiang criticized 'feudal' traditions of the past in order to convey criticisms of the contemporary political system that would be taboo if stated more directly."

No one seems to know that Adam Smith in *The Wealth Of Nations* described China as richer than any part of Europe, a point I've documented in my book *Wealth Without Nations*. There is much less excuse for not recognising how Europe's world-wide venture relied on at least three products of China's



'backward' 'yellow' civilisation, the magnetic compass, printing and gunpowder weapons. And the voyage of Columbus was motivated by Marco Polo's reports of the wealth of China in the days of Kublai Khan.

The Chinese under the early Ming dynasty did try ocean explorations. These voyages rediscovered old lands with existing trade networks, and some cold uninteresting islands. Whereas both in West Africa and the New World, the Portuguese and Spanish found rich lands without sophisticated trading or a money economy, and with less efficient armies.

China had no huge demand for any foreign product, nor was there any need for the state to promote trade that would proceed anyway. Whereas Europe as a whole had a big demand for East Asian spices, trade was blocked by Muslim middle-men. And Europe's trade was for centuries dependant on state sponsorship or monopoly companies (a Europe developed in accordance with New Right shibboleths would not have developed).

Europe—specifically Spain—got control of the gold and silver of the New World. This allowed a flow of trade highly favourable to Europe: New World precious metals for Asian commodities. The second big enterprise was slave-based commodity production in the New World, labour from West Africa taken to the New World to grow crops from Europe on land that had been ruthlessly seized from its original inhabitants. This subsidised and supported the third enterprise, European settlement, which would have been much slower without it.

None of this hugely affected the advanced civilisations of Asia. Even as late as the 18th century, Europe had few goods that China wanted or needed. It was not that China was changeless. Things that fitted the existing order were accepted, including New World crops that allowed fresh territories to be cultivated and China's population to rise to unprecedented heights. And though there was nothing like Western science or later industrialism, 18th century visitors saw China as sophisticated and impressive, not the dull backward 'yellow' civilisation that the Victorians claimed it to be after they started

disrupting it with gunships and opium.

Many people in the 18th century European Enlightenment wanted Europe to become just like 18th century China. Had they succeeded, they'd have had no notion what they'd missed out on. Is it any more sensible for Chinese in the early 21st century to want to become just like early 21st century Europe or America? History is a never-ending cycle!

The protestors at Tiananmen raised many issues, of course. Protests at corruption were valid. Deng's modernisation had allowed a lot of it. Bribes were the oil that lubricated change, much as it had during Britain's Industrialisation. Mao had run a simple uncorrupted system, and though there were privileges they were limited. Under strict Communism this did work. But Deng's reforms saw a considerable return to Chinese norms.

When Deng decided to reward successful entrepreneurs, this had its own logic. Why is it legitimate when the rich reward politicians, but not when politicians force the rich to reward them. Why is it fine if the existing stratum of rich and privileged control the process, but otherwise not, even with elected officials.

Commercial societies have always been corrupt—massively so in the case of Britain's Georgian Industrial Revolution. And while the corrupt Georgian gentry did accept basic welfare and responsibility, the 'moral' Victorians replaced it with something much colder and nastier, a mean-spirited system that let ordinary Britons live in abject poverty and was content that market forces should cause food to be exported from famine zones—not just in the Irish Potato Famine but also in numerous famines in India.

The problem in the Third World is not corruption; the most successful economies are just as venal as the disaster areas. The distinction is whether a corrupt ruling stratum recycles its wealth back into the society, as Britons did in the 18th century, and as most Asians do now—or whether they siphon the money off into foreign bank accounts, leaving their countries with nothing but debts, as happens in Africa, especially under pro-Western regimes like Mobutu's in the

Congo.

Jiang has partly corrected the corruption that flourished under Deng. And on economic matters, he does much as the USA *does*, rather than what they *say* it is good for foreigners to do. He opens the economy where it suits China, and keeps restrictions where it suits China, just as the USA does for its own relations with the rest of the world. (Even Britons are not allowed to own industries that the USA regards as 'strategic'.)

I've considered so far why it was rational for the Chinese Communist Party to act as it did, unless it planned to lose power. But I don't regret Gorbachev's accidental demolition of the Soviet Union, and at the time of Tiananmen I was very much hoping the Deng leadership would fall. Given what later happened in Russia and Eastern Europe, this was a mistake. But that does not mean that Chinese politics could or should remain static for ever.

Leninism took power with an early-20th century view of hierarchy and authority, and hung on to it in the Soviet empire to the bitter end. In its day, it was positive in affirming strict 'meritocracy' and women's rights, and in opposing the racism that was then the norm—President Woodrow Wilson wrote openly and unashamedly of his admiration for the Klu Klux Klan. But once the West had adapted to the original democratic/meritocratic demands, Leninism was left with nothing to offer but a frozen remnant of early-20th century views of hierarchy and authority.

Mao's positive achievement in the Cultural Revolution was to disrupt this and give the system flexibility. It is now apparent that the Soviet system was saved in 1968 at the expense of its long-term future. In addition, the system stagnated and then seized up, whereas China has continued with fast economic growth. Private enterprise allows for many different corporate cultures, which have different strengths and weaknesses. Leninism went for monoculture, which succeeded very well for a time, then descended into simultaneous crisis for all descendants of the Soviet system. Mao did succeed in getting out of the looming trap long before anyone else saw it.

Deng had decided to allow private enterprise and commerce, but only so long as it fitted the overall pattern of strengthening China. He also made it clear after Tiananmen that he was willing to endorse the Chinese People's Republic forty years of success and power. If the outside world wanted to resume the Cold War, he was ready.

The party under Deng was right to be worried that a 'tiny handful' among the demonstrators might overthrow them. As I see it, the underlying idea was that almost any 'tiny handful' could organise a mass filled with a general idea of progress and modernisation. The party were the current 'tiny handful', in charge of a generally well-disposed mass, but open to losing it.

Leninism meant very different things in Europe and in the rest of the world. In Europe it was an alternative

path of development. In Asia it was the only available path to development short of a complete absorption of West European or American values.

Asian Leninism was as much nationalist as socialist, with an assertion of sovereign rights when these had been subverted. And it is not surprising to find Mao now added to China's informal pantheon. Chinese, like Pagan Greek, can deify mortals and make them symbolic of something. It would be like Lenin or even Stalin becoming a saint of the Orthodox Church, which of course will not happen.

But what will happen? What should happen? Multi-party politics is the world norm, and the Chinese would be wise to accept it just as they accept English as the *de facto* world language. China has been doing well economically, but this could change. To do nothing is to risk

disaster in some future unforeseeable crisis, with the possibility of a messy civil war with China's minority regions trying to secede with American backing.

One option is to borrow from a successful existing system of Chinese democracy, that built by the Kuomintang on Taiwan, where the Kuomintang has been able after long transition to pass over power to an opposition party without disaster. Agree that both traditions were legitimate. Since Beijing wants reunification, why not do it by stages, and also democratise by stages, allowing the Kuomintang to operate all over China as a responsible opposition party with experience of government. That way, the existing system could hope for a 'soft landing' rather than the sort of disintegration that the Soviet Union suffered.

After all, it is wise to build your bridges before you need to cross them!

## Hayek and Neoliberalism

Christopher Winch

Gwydion Williams, writing in this journal, has already commented on the self-satisfied nature of Adam Smith's liberal political economy. Smith's praise of self-interest as the driving force of economic progress became largely accepted in classical economic doctrine, although disputed by writers such as List. Smith also believed that, since self-interest was the lubricant of society, there was little need for the activity of the state, the market would accomplish the satisfaction of individual need to the extent that any other social arrangement would leave some individuals worse off than they would otherwise be. In fact, the officials of the state, acting out their own self-interest, would set the state against the interests of most individuals.

This doctrine, known as

neoliberalism, started to become influential largely due to the writings of F.A. Hayek. Hayek's particular contribution was to emphasise the importance of individual liberty. He seems to have believed both that liberty was worthwhile in itself and that it would increase prosperity. This made his doctrine both practically attractive and seemingly idealistic. The abstract goal of liberty was harnessed to the practical goal of wealth-creation. To interfere with liberty was to interfere with the mechanisms for wealth creation and *vice versa*.

There is nothing wrong with attachment to liberty. However, if you believe in it to the exclusion of practically any other value then you run the danger of advocating an absurdly imbalanced

world, where allowing people to do what they want is practically the only worthwhile value. Few people would find a society based on this principle attractive. It is necessary therefore, to bolster this unattractive outlook with the claim that the promotion of such selfishness is a necessary condition for economic success.

In practice, Hayek's arguments rest on the wildly implausible claim that the restriction of individual liberty leads to tyranny. This is the argument of his best-known book, *The Road to Serfdom*, in which he argues that socialism of the wartime British variety will inevitably lead to a Nazi-like tyranny. In a later book, *The Constitution of Liberty*, this claim is developed in terms of the evils of coercion. Coercion involves the



arbitrary imposition of the will of someone on a particular individual. What Hayek apparently has in mind is the State persecuting an individual for no good reason. No-one would wish to disagree that this is undesirable. However, the use that Hayek makes of this principle is startling. Apparently redistributive taxation is a form of coercion in this sense according to Hayek. But this is nonsense; redistributive taxation is based on the idea of identifying groups of people by their income and taxing them accordingly in order to provide amenities for those on lower incomes. In no sense is this 'coercion' in Hayek's meaning of the term. It isn't even arbitrary action against groups of individuals when it is used, as it usually is, for a stated social purpose.

It goes without saying that Hayek did not think that the state should have a particularly active role in promoting social change. He did, however, think that there were certain functions that it had to carry out, principally to do with the regulation of society to ensure that essential needs were catered for. His account allows taxation to finance a limited number of services that are best provided by the state, but redistributive taxation is not only motivated by envy but is likely to discourage wealth creators from contributing to economic growth.

One of the main worries that thinkers like Hayek have about modern societies is the danger that democratic majorities might decide to act against rich minorities. This is the main reason why he is in favour of strong constitutional arrangements that will make it difficult for this to happen. Liberty rather than democracy is the principal value to be cherished and it may well be the case that the less well off will not be as careful about the liberty of the rich as they should be.

Hayek's account of liberty is very influential, but ultimately fraudulent. He argues that liberty consists in the permission to carry out one's projects (subject to a narrow interpretation of Mill's harm principle). All that the state has to do is to ensure that such permissions are allowed and that they are enforced against those who would seek to restrict them. There is no sense whatsoever in Hayek's writings that the institution of private property should be

subject to the slightest questioning. Indeed, any removal of private property from an individual is highly problematic if it leads to that individual becoming worse off. So in a Hayekian society the greatest possible liberty is quite compatible with huge inequalities in wealth (and hence in power, status and influence) between different individuals.

Hayek accepts (unlike some later writers) that the state should provide a basic welfare safety net for the unemployed and elderly. As far as liberty goes, though, the redistribution of wealth is completely irrelevant and, indeed, harmful because it is coercion.

However, this concern with liberty is hypocritical. In order for someone to have liberty to do something two conditions must be fulfilled. First, they need permission to do what they want to do. Second, they need the means to be able to do it. To concentrate on the first condition while strenuously opposing any attempts to make the second a possibility for the majority of people is to betray a lack of concern for the liberty of anyone other than the rich. One of the proclaimed goals of liberals is to promote individual autonomy, or the sense that an individual can choose the kind of life they wish to lead. It is obvious that autonomy requires liberty, or the ability to choose one's course of action and put it into effect. But autonomy cannot be achieved without the resources of education, health, good housing, transport and so on. To deny that these are matters that the state should concern itself about in promoting autonomy is to deny that the state has anything other than a token interest in promoting autonomy.

A liberal who was genuinely interested in the promotion of autonomy would be worried about material inequalities, particularly if they were inherited and would seek to promote the autonomy of all individuals in the society, not just the rich and fortunate. In doing so he would have to challenge two shibboleths of neoliberalism. The first is the idea that any arrangement that makes someone worse off is to be avoided. The second is that individual rights are absolute and cannot be interfered with. However, rights arise from our vital interests and since our interests sometimes conflict, it follows that there

have to be compromises about the extent to which individual rights are recognised. This does not mean disregarding individual rights, it just means putting them in the balance against the rights of other individuals.

Once one accepts this, it is easy to see that the principle that no arrangement should make anyone worse off should be rejected. There may be perfectly good reasons for doing this in order to secure greater rights for the majority. The rich minority might not always like this, but they cannot claim a monopoly of concern about liberty and individual freedom and oppose measures that promote it. Hayek's philosophy is a complacent justification for leaving the rich to their own devices. The economic arguments for prosperity through such arrangements are completely spurious. We now know about the pursuit of Hayekian economic policies in the UK and the US since the 1980s, not only delivers lower per capita productivity than those of the 'decadent' European economies, but they also produce greater economic inequality and poorer public amenities than those societies. In this respect, they severely restrict the liberties of the less well off. We now have no less an authority than the former director-general of the CBI, Adair Turner to confirm this (*The Observer*, 25th March, (business section); *The Guardian*, 26th March (business section)). Turner argues that not only are tax cuts irrelevant to economic success in current conditions, but that good public education makes a vital contribution to the high *per capita* productivity that allows us to compete with economies such as that of the US, whose advantages largely arise from economies of scale and from long hours of work.

Hayekian economics and political theory are not only intellectually threadbare but impertinent. It is high time that leading figures in the Labour Party and associated think-tanks started to lose their cringing deference towards a form of liberalism that has become completely discredited.

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### Leader continued from p.2

Chancellor?

#### 'Independence' For The Bank

Immediately after coming to power, Brown made another gesture for the same purpose. That was to give 'independence' to the Bank of England in the determination of interest rates. The message was that this Iron Chancellor wouldn't adjust interest rates for party political advantage. This was almost universally approved of at the time, and praise was heaped on Brown's head as a great Chancellor in the making.

There was of course no mention of this dramatic step in New Labour's manifesto for the election held a few days earlier. The electorate were not alone in not being consulted. Neither was the Prime Minister or the cabinet or the permanent secretary to the Treasury, Sir Terence Burns (now Lord Burns of fox hunting and the lottery) or the Bank of England. The scheme was put together by Brown, his economic adviser, Ed Balls, and his press secretary, Charlie Whelan, who presented it as a fait accompli to Blair.

The significance of handing over the responsibility for setting interest rates to the Bank was, and is, greatly exaggerated. The Monetary Policy Committee (MPC) of the Bank which now takes the decision is appointed by the Chancellor and operates under guidelines laid down by the Chancellor (to keep inflation at 2.5% per annum), so its independence is severely circumscribed. It is generally accepted that in the first few years of its operation the MPC set interest rates higher than necessary, which by pushing up the exchange rate had a detrimental effect on manufacturing industry.

Of course had Brown retained direct control himself, he might have felt obliged to raise rates even higher in order to polish his reputation further.

#### Spending Reviews

It was generally expected that, after two years of restraint, public spending would be increased dramatically in April 1999. In the spring of 1998, it was announced that there was to be a comprehensive spending review covering the period April 1999 to April 2002. In the words of the Chancellor, presenting it to the House of Commons on 14th July 1998, this review was

innovative in that it moved "from the short-termism of the annual cycle to the drawing up of public expenditure plans not on a one-year basis but on a three-year basis". A Three Year Plan had been drawn up.

In this review apparently very large extra sums of public spending were promised, notably £21 billion extra for health and £19 billion extra for education for the next three years. Later, and long after the headlines had faded, it became public knowledge that these figures had been arrived at by double and triple counting and the increases proposed for health and education were less in real terms than in the Major years.

It was no surprise, therefore, that the spending limits of the Three Year Plan had to be cast aside in the first year of its operation. The disease of short-termism set in again. The agent of the infection was Lord Winston, fertility expert and Labour peer, recently ennobled by Tony Blair himself, who gave a devastatingly critical interview about Labour's handling of the NHS to the *New Statesman* on 17th January 2000. This described, amongst other things, his 87-year-old mother's experience of lying on a hospital trolley for 13 hours waiting for a bed and being allowed to fall out of bed when she got one. This couldn't be answered by playing with words. Large amounts of real extra resources had to be found.

Within days Tony Blair promised that Labour would raise UK health spending to European levels and in his budget on 21st March the Chancellor promised a 6.1% increase in NHS spending every year until 2004 in real terms, almost twice the average rate of increase since the foundation of the NHS. A second Three Year Plan in July 2000 promised enormous public spending increases in real terms for the period April 2001 to April 2004. At 3.7% per year in real terms this is way above predicted GDP growth at around 2.5%.

Clearly, if there is general slowdown in the world economy, triggered by a slowdown in the US, these spending plans will become unsustainable. Labour's enthusiasm for an early general election is in part driven by the fear that, if it is delayed, this will become obvious before polling day.

#### In Control of Events?

Gordon Brown likes to present a picture of a Chancellor in control of

events, with a strategy laid down in 1997, which he is following through today. In fact, like most Chancellors, he is driven by events. Apart from the Winston effect referred to above which destroyed his first Three Year Plan for public expenditure, the most conspicuous examples of these occurred last autumn.

Then, in response to last autumn's fuel protests, he cut excise duty on fuel by 3p a litre. This was presented as an environmental measure to encourage a switch-over to ultra-low sulphur petrol and diesel. Since all diesel sold was already ultra-low sulphur, it isn't obvious why a switch-over needed to be encouraged by dropping its price by 3p a litre, so we can assume that the reduction in duty had something to do with Britain coming to a halt last autumn.

Also, in response to pensioners' anger at the 75p price-indexed rise in the basic pension last April and in response a vote at the Labour Party conference demanding that the basic pension be linked to earnings once again, he promised very large rises in the basic pension for the next two years (£5 this April and another £3 next April for a single pensioner). These are across the board increases, going to rich and poor pensioners alike. This is contrary to the usual principle advanced by the Government that help should go to the poorest pensioners, which is the principle they advance for refusing to re-connect the basic pension to earnings rather than prices. The plain fact is that uprating the pension in line with prices this April would have produced another increase of 75p or so—and another outburst of pensioner anger. That had to be avoided in advance of a general election, so previously held principles had to be ditched—at least until after the election.

#### Unemployment

When New Labour came to power in May 1997, unemployment as measured by the claimant count stood at 1.66 million, having fallen from 2.96 million in late 1992. They are now boasting that, for the first time since December 1975, unemployment has fallen to under a million. Just in time for the election. New Labour has been lucky again.

Of course, New Labour would say that it wasn't luck, it was their New Deal for the long term unemployed, the £5.2 billion scheme paid for by a tax on privatised utilities, which they promised



in opposition and implemented in government.

It is obviously very difficult to work out the effect, if any, of a work promotion scheme. Since 1997 the unemployment graph has continued on a downward path and there was no obvious acceleration of the fall after the introduction of the New Deal. And a Government-sponsored study by the National Institute of Social & Economic Research published at the end of 1999 suggested that, of 145,000 18 to 24-year olds who had found work through the New Deal, only 30,000 would still have been employed without it.

So, when Labour ministers claim credit for bringing unemployment down through the New Deal, a modicum of scepticism is in order. Indeed you could make a case for saying that New Labour has failed in the unemployment stakes, having created a mere 180,000 jobs a year on average since May 1997 compared with 290,000 a year on average by the Conservatives from late 1992 to May 1997! If the boot was on the other foot, you can be sure that New Labour spin-doctors would be saying that.

In opposition, Labour was very critical of the Conservatives for massaging down the unemployment figure by repeatedly changing its definition to exclude trainees, the long term sick, early retirees, amongst others. New Labour said in opposition that it would rely on the International Labour Organisation (ILO) definition of unemployment, which includes all those available and looking for work, not just those claiming Job Seekers' Allowance. Indeed, in February 1998 Labour in government changed the presentation of the monthly unemployment figures to downgrade the claimant count and emphasise the ILO figure.

However, there is a serious problem

with the ILO figure—it is much bigger, about 1.535 million currently. Furthermore, whereas the claimant count has fallen by about 660,000 (around 40%) since May 1997, the ILO figure has fallen by about 550,000, which is a mere 27%. Understandably, New Labour has developed a new enthusiasm for the claimant count.

By the definition in use in 1975, unemployment today is a great deal higher than a million. Then people unfit for work and claiming incapacity benefit were included. Now they are not, and in the meantime their number has jumped (for whatever reason) from about 500,000 in 1980 to 2 million now. So saying that unemployment has fallen below a million for the first time since December 1975 is misleading, to put it at its kindest.

It is true that the number of people in employment has continued to rise. It is now at a record 28.03 million. But it has got to be remembered that the proportion of these in full time employment is much lower than it was 25 years ago.

#### Repaying Debt

The Government is now making a virtue of repaying large amounts of debt, £34 billion this year. One would almost think they had planned for it. In fact, it's almost all accidental.

Two thirds of it, £22 billion, comes from the unexpectedly high receipts from auctioning 20-year third generation (3G) licences to mobile phone companies. This is a vast tax on the provision of 3G services in the UK, which has not been imposed on other countries in Europe (for instance, Finland) and will probably mean that there will never be a 3G service in the UK unless the state finds a way of giving some of it back—the betting is on the licence term being extended beyond

20 years.

The rest of the £34 billion arises almost entirely from wrong forecasting of income and expenditure. Tax receipts were much higher than expected and Government departments didn't manage to spend all the money they were allocated, so much so that a predicted surplus of £6.5 billion in 2000-01 is set to be about £16.4 billion in reality.

The Conservatives are proposing to spend less than New Labour if elected and to cut taxes in a modest way. In an attempt to frighten the electorate, New Labour has been painting horrific pictures of the damage to public services which they say will result. This is all sound and fury signifying nothing. At £8 billion a year, the under spend proposed by the Conservatives is less than the forecasting error for 2000-01.

Another reason why the national debt is declining is because the use of the Private Finance Initiative to replace public assets with private assets has increased rapidly under New Labour. Cheap money borrowed in the normal way by issuing government stock is being replaced by dearer money borrowed by private consortia. The latter may not count as national debt but the public bodies—and at the end of the day the state—are equally committed to paying the interest: not explicitly, it is true, but as part of charges for services to be provided for the next 20 or 30 years (for example, the provision of a hospital or of rail infrastructure for the Tube).

Paying more than necessary for borrowing is the world of Alice in Wonderland. But it is the world our prudent Chancellor forces all public bodies to enter. The director of a company who behaved in this manner could be locked up for acting against the interests of shareholders.

#### Announcement

**Open meetings of the Bevin Society/Labour & Trade Union Review are held on the first Wednesday of every month. The next meeting is on May 2nd**

*Theme:* To be announced

**7.30 p.m. Printer's Room, Red Rose Club, Seven Sisters Road, London N.7**

*Nearest Tube: Finsbury Park*  
*Buses: 4, 29, 153, 259, 279*