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Join the Euro? Not Likely!

New Right Economics

PFI

John Rawls

Slavery & Fits of Morality

New Labour's Euro Humbug

Can Kenneth Clarke, who is favour of joining the euro, lead a party that is opposed? That is the question dominating the Conservative leadership election.

When he launched his campaign, Clarke restated his commitment in principle to the single currency. But few people seem to have noticed that he added the rider that "we could not join now at the present exchange rate". This rules it out for the indefinite future and aligns him with the unstated policy of the Government and the Bank of England.

Little does the Conservative Party realise that it is convulsing itself over what is set fair to become a non-issue in British politics.

Sterling Too High

There was a time, not very long ago, when the chief argument for joining the single currency was that the high rate of exchange between sterling and the euro was crippling British manufacturers exporting to the euro zone, and that to save British manufacturers it was essential to bring it down by joining, or at least indicating an intention to join, at a substantially lower rate.

Writing in the *Guardian* on 12th June, David Clark, who was an adviser to Robin Cook when he was Foreign Secretary, savaged the Government for sacrificing British manufacturing for their own political self-interest. He wrote:

"British manufacturers have been saddled with a crippling exchange rate against their main export markets on the continent, forcing them to shed 300,000 jobs since the launch of the euro at a time when manufacturing employment in the euro zone has risen. A significant proportion of Britain's industrial base has been sacrificed to Labour's second term.

"It is here that Gordon Brown's promise to put the national economic interest first can be seen as the humbug that it is. It was Labour's self interest that

prevailed in the policy he designed around the famous five tests. Although their content is economic, the purpose of the tests is political: to enable Labour to time any referendum to suit its own interests rather than Britain's." (*Guardian*, 12th June)

Sterling Too High To Join

But by the time David Clark wrote this the script had been changed. Instead of the high value of sterling relative to the euro being a reason for joining and bringing it down to more reasonable levels, it is now almost universally declared to be an insurmountable obstacle to joining.

This began with Tony Blair himself, when, on 29th May during the election campaign, he ruled out any "artificial devaluation" of the pound to pave the way for joining the single currency. This was echoed next day by the Governor of the Bank of England, Eddie George, who rejected any notion of Bank intervention in the market to weaken sterling's value against the euro, warning that a fall in the exchange rate would stoke up inflation (because UK imports from the euro zone would cost more).

A couple of weeks later Eddie George openly declared the pound's current high value to be "a real obstacle to early entry into the euro" (BBC News 24, 12th June) and said that sterling would have to fall markedly before entry can be contemplated. On the other hand, he warned that any sharp drop in the value of sterling to get into the euro zone would lead to higher inflation to which the Bank would have to respond by increasing UK interest rates—which would depress the UK economy further and possibly drive up the value of sterling again.

No Exchange Manipulation

On the same day, the Chancellor spoke through his bosom pal, Ed Balls, now Chief Economic Advisor to the Treasury. In a rare public speech Balls declared that the Government was not in the business of trying to manipulate the exchange rate and that maintaining a 2.5% inflation rate was, and would remain, the sole objective of monetary policy. To quote:

"As the Chancellor has said, the government understands the difficulties that the current high level of sterling has caused. But any short-term attempt to manipulate the exchange rate, overtly or covertly, would put both the inflation target and—as in the late 1980s—wider stability at risk. The objective of UK monetary policy is and remains clear and unambiguous—to meet a symmetric inflation target of 2.5 per cent. The Government's objective for the exchange rate remains a stable and competitive pound in the medium term. But there is no short term exchange rate target competing with the inflation target."

No Available Measures

So it appears that joining the euro is out for the foreseeable future, and not because the Chancellor's famous five economic tests have not been passed. Sterling is too high against the euro for joining to be contemplated, it is said. A sixth economic test has in effect been added to the famous five.

What is more, the Government is not going to try to lower sterling's exchange rate, with a view to joining. And a precipitous fall in its value, from whatever cause, leading to higher UK inflation would have to be countered by higher UK interest rates—which might drive up sterling again.

So, there appear to be no measures that the Government is willing to take in the short to medium term to bring about an exchange rate appropriate for joining the single currency.

Of course, the value of sterling against the euro may fall "naturally" without Government intervention. However, the logic of what Eddie George is saying is that a rapid fall in sterling's value is highly undesirable, even though the high value of sterling is crucifying UK manufacturers exporting to the euro zone and is in part responsible for the recession in UK manufacturing. And if it occurred, and led to higher inflation as expected, the Bank would have to put up interest rates and further crucify UK manufacturers, and possibly drive the sterling/euro exchange rate back up again !

Rjoining The ERM

One of the Maastricht criteria for a currency joining the euro is that it should be a stable member of the Exchange Rate Mechanism (ERM) for two years prior to entry. Then the rate of exchange on entry would be somewhere in the ERM band, which makes a lot more sense than plucking a rate out of thin air. So, if this criterion is adhered to, devaluation could not occur at the point of joining. Sterling could not join at 2.80 DM, having sat at well over 3 DM for the previous few years. This important matter has rarely been mentioned in the welter of discussion of sterling joining the single currency in recent years.

Given the bleak perception of the period of sterling's membership of the ERM—and its exit from it in October 1992—it is difficult to imagine any party proposing rejoining. But that is what is supposed to happen prior to joining the euro.

This criterion has not been forgotten about, at least not by the head of the European Central Bank (ECB), Wim Duisenberg. Speaking to a committee of the European Parliament last November, he dismissed Gordon Brown's five economic tests as "irrelevant" and said "it is only the Maastricht criteria which I regard as relevant for eventual entry of the UK into monetary union" (*Guardian*, 25th November 2000). And he specifically ruled out becoming a member of monetary union without first rejoining the ERM.

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Exchange Rate Stability

Whether that is strictly adhered to remains to be seen. But it is difficult to see how sterling could join the single currency without a period of exchange rate stability against the euro, which would define the entry rate. Substantial devaluation at the point of entry may or may not produce significant inflation in the UK, but no government is going to take the risk when keeping inflation low is the central objective of economic policy and they are about to give up forever their only weapon for controlling inflation, namely, the power to set domestic interest rates.

It is even difficult to see how a referendum could be held without a period of exchange rate stability, which would define the entry rate. Without it, the Government would have to publish at least an approximate entry rate prior to a referendum, otherwise how could the electorate make an informed judgement on what is said to be primarily an economic question? But that risks ferocious exchange rate instability in the run up to the referendum.

(This issue didn't arise in the Danish referendum last September, because the krone had been "shadowing" the DM for years, so the approximate entry rate was public knowledge).

It makes much more sense to have a referendum on the principle of joining and leave the subsidiary economic questions of when to join, and at what exchange rate, to the Government of the day. But this contradicts the position, held by virtually all of those who favour joining, that there isn't a principle at stake, that it is only a matter of ensuring that the economic conditions are right, and then holding a referendum.

Giving Up On Inflation?

Will any UK government surrender the power to set domestic interest rates? The more one thinks about it the more difficult it is to conceive of it happening in the foreseeable future.

For years, keeping inflation low has been the central objective of economic policy, and the instrument for achieving it has been adjusting domestic interest rates. Prior to May 1997, that was done jointly by the Chancellor and the Bank of England, latterly by Kenneth Clarke and Eddie George. When New Labour came to power, they established the Monetary Policy Committee of the Bank of England and charged it with setting interest rates to achieve 2.5% inflation. New Labour regard this as one of their great successes in government, and there is now a broad political consensus in favour of an independent bank setting interest rates to meet a low inflation target.

If sterling joins the single currency, that will be at an end. New Labour's pride and joy, the Monetary Policy Committee, will be redundant. From then on, the ECB will set interest rates for the euro zone as a whole and UK governments will lose the ability to control domestic inflation by interest rate adjustments. And since a prices and incomes policy is ruled out for ideological reasons, in effect the UK will lose the ability to control domestic inflation.

Given the obsession with controlling inflation that has dominated economic debate in the UK in recent years, is any government going to take a risk on that in the near future? I doubt it.

The Famous Five

When New Labour came to power in May 1997, a decision had to be taken about whether sterling would join the single currency in the first wave in January 1999 or whether the UK would exercise the opt out from monetary union provided in the Maastricht Treaty.

On 27th October 1997, Gordon Brown made a statement to the House of Commons on the issue. In it, he announced the Government's intention of recommending to Parliament and the electorate that sterling should join the single currency, providing certain economic tests were met. This was when his famous five economic tests saw the light of day. At the same time he published a Treasury assessment ('UK Membership of the Single Currency: An Assessment of the Five Economic Tests'), which purported to show that as of October 1997 none of the tests had been passed. Because of this, he said, the UK was not going to enter into monetary union in January 1999 with the first wave of countries and was probably not going to enter within the Parliament.

The Chancellor set out the tests as follows in the House of Commons:

"These tests are, first, whether there can be sustainable convergence between Britain and the economies of a single currency; secondly, whether there is sufficient flexibility to cope with economic change; thirdly, the effect on investment; fourthly, the impact on our financial services generally; and fifthly, whether it is good for employment."

The Treasury assessment gives a more formal definition of them:

(1) Are business cycles and economic structures compatible so that we and others could live comfortably with euro interest rates on a permanent basis?

(2) If problems emerge is there sufficient flexibility to deal with them?

(3) Would joining EMU create better conditions for firms making long-term decisions to invest in Britain?

(4) What impact would entry into EMU have on the competitive position of

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Editor: A. Bryson

the UK's financial services industry, particularly the City's wholesale markets?

(5) In summary, will joining EMU promote higher growth, stability and a lasting increase in jobs?

It is worth noting that the exchange rate at entry does not come into these economic tests, and isn't mentioned at all in the Treasury assessment, even though it is an economic factor of some importance in deciding whether to join.

By either definition they are obviously not the objective tests that the Chancellor makes them out to be. With the exception of the first, they are almost entirely a matter of opinion, and it is no surprise that economists disagree on whether the tests have been passed as of now. For example, a report by Barclays Capital published in June concluded that only one of the five tests for entry would be met in the next five years (see *Guardian*, 12th June), whereas few weeks earlier JP Morgan economists concluded that the tests had already been met !

Economic Issue?

New Labour invented these, supposedly objective, economic tests in order to present monetary union as an economic issue, on which the electorate should act on the advice of economic experts like the Chancellor when it comes to a referendum, rather than getting worked up about the profound political issue of ceding the power to set interest rates to the ECB.

The subjective nature of the tests is also useful to the Government: it means that the timing of any referendum is completely in their hands. The Chancellor can at any time offer his opinion that the tests have been passed, and publish a Treasury assessment backing up his opinion. Alternatively, he can offer his opinion that the tests have not been passed—and put off a referendum indefinitely, either because there is no chance of winning a referendum or because he has changed its mind about giving up the power to set domestic interest rates but doesn't want to say so publicly.

Of course, the official story is somewhat different. We are supposed to believe that sometime soon the Treasury will embark on a detailed, objective assessment, free from political considerations, of whether the economic tests have been passed. And if the conclusion is that they have, the Government will recommend to Parliament and to the country that sterling join the single currency. The existence of fairies is also a possibility.

Who would trigger another Treasury assessment, and what factors would cause him to trigger it, has always been a mystery, which a competent opposition would have tortured the Chancellor about throughout the last Parliament. The last Treasury assessment was, we are told, done in October 1997. Why should we have to wait at least four years for another? (Would it have been five years had the Parliament run its full term?) Perhaps, as some economists say, the tests have been passed already but we don't know because the Chancellor hasn't yet triggered an assessment !

In the immediate aftermath of the General Election, when expectations were high amongst euro enthusiasts that another assessment was about to begin, the newly appointed Foreign Secretary was asked by John Humphreys on Radio 4 when this would happen. He didn't know, nor did he know what would cause one to be triggered.

Since the General Election the Government has made great efforts to dampen expectations about joining the single currency. An assessment hasn't been promised and the high value of sterling has been promoted as an obstacle to joining by Eddie George, with the unspoken approval of the Government.

Sufficient Flexibility?

Test number two—whether there is sufficient flexibility to cope with economic change—has always been available as a face saving way out if the Government decides to put off joining monetary union for the indefinite future. 'Flexibility' is code for embracing a neo-liberal agenda.

As originally stated by Gordon Brown on 27th October 1997 (and assessed by the Treasury), this test seemed to be concerned mainly with conditions in the UK economy. But when in February 1999 Tony Blair announced a "change of gear" on the road to joining the euro, he made it clear that test two applied primarily to the rest of the EU:

"... it will take some time to make a clear judgment about whether the direction of economic reform in Europe will enable us to meet the tests that we have set out, particularly on flexibility and jobs ...

"Economic reform is crucial, not just to the success of Britain's participation in the euro, but to the euro itself. I understand the worries of those who, while not ruling out the euro in principle, are none the less concerned about the type of euro zone that we might be joining. That is a real question. We must be sure that the EU is moving forwards, not backwards." (House of Commons, 23rd February 1999)

This "change of gear", which made neo-liberal economic reform in the rest of the EU a pre-condition for the UK joining the euro, went unnoticed at the time.

Was it a coincidence that when he was in South America recently Blair returned to the theme of "economic reform" in the EU ? In a speech to the "business community" in Sao Paulo on 30th July, having congratulated Brazil for the "success" of "economic reform" there, he added:

"Economic reform is now the agenda for European economic policy also.

"The best way to reach full employment is not state intervention. It is by focusing on training, education, human capital; reforming welfare systems so they provide a hand up not a hand out; pursuing policies that make it easier for entrepreneurs to start businesses, not harder.

"Barcelona next year is make or break for economic reform in Europe - a real test of our collective European leadership."

And if the euro zone baulks at taking the Thatcherite medicine prescribed by her disciple, then it can be credibly said that test number two has not been passed.

Remember, Remember, Doha in November

Jack Lane

The next big date in the globalisation calendar is the WTO Ministerial meeting in Doha, Qatar, in mid-November. This is to continue where Seattle failed in getting a new 'Round'. If there is another failure at Doha the WTO will be in serious trouble. Doha was chosen as one of the safer places to meet. That remains to be seen. The driving force to make this Conference a success is the EU, led by the Trade Commissioner Pascal Lamy, a French Blairite who has been working hard to get an agenda in place. Agreeing an agenda and a new Round are essentially the same thing and involve how much further the globalisers can open up markets for themselves across the world.

The one coup they will have at Doha is China's accession to the WTO who, hopefully, will join from a position of strength and maintain that position. But all other hopes are not yet certain of being realised.

The globalisers want a whole range of new rules on services, investment, agriculture, competition, environment and labour conditions agreed as areas where freewheeling international capital can have a happier hunting ground.

Two problems arise however. A large number of developing countries are not at all convinced of the benefits of all this so far, and what they were promised from the last Round (the Uruguay Round) has not exactly been a resounding success for them. Peter Sutherland negotiated that Round and an interesting fact was that in the middle of those hectic negotiations he took time off to address an annual meeting of the St Vincent de Paul Society, a Catholic charity. Sutherland realised that as globalisation grew the need for such Societies would also grow. Globalisation has some unusual bedfellows.

The big idea at the moment to get the developing countries on board is to offer them radical reduction of agricultural subsidies in the developed world so they can get access for their cheaper agricultural products in return for them opening up their public and private services to western companies in these areas. This is a modern version of Repeal of the Corn Laws: make the world supply Europe (not just Britain) with cheap food and cheap labour at the expense of European farmers. This ensures a larger and cheaper workforce and also structures other economies to facilitate the economies of the capitalist West.

This illustrates the unbalanced development that will result from globalisation. The concept of a country being able and entitled to direct its development in a balanced and all-round way is to be considered not only backward and inefficient but will now be made *illegal* as well under the rules of the WTO.

The possibility of labour conditions being included in a WTO round should concern anybody in the Labour movement but it is not exactly an issue that seems to interest many in the movement. This would effectively replace the ILO which has had a good record in at least monitoring and reporting on conditions in a way sympathetic to the interests of labour. That will certainly change if the ILO's function is subsumed within the WTO.

It is easy to imagine how the issue of labour conditions can be used to get the labour movement more on board for the globalisation project. The globalisers can put themselves forward as defending better labour conditions when they want to pressurise and intimidate countries in a particular direction and when they need to protect themselves against too much competition. This can be sold as concern for labour and will probably get trade unions on their side, although they do not seem to need much encouragement to get onside. The official TU movement is quite happy to join in without any additional encouragement.

It should never be forgotten that, along with globalisation and all the talk about 'openness', there is an array of rules to protect the globalisers when necessary—for example, anti-dumping rules, patents and copyright protection. All these are protectionist measures at the heart of the WTO. And of course there are hundreds of restrictions on movements of people. Categories such as aliens, asylum seekers and the like should be abolished in this brave new world, but that is hardly likely and the globalsers will do so only as it suits them and nobody else.

The second major problem is the USA. Contrary to popular belief, the US is not a natural globaliser like the UK and like what the EU is becoming. It is big enough not to feel dependent on the world market. Also, its Coca Colas, MacDonalds, Microsoft, etc. spread across the world without any need to insist on changes in national laws and policies. This shows that lobalisation is a lot more than just the spread of capitalism. More importantly, the US does not have the European imperialist instincts. It was cajoled into world politics by Britain to get itself out of the wars it had begun but were unable to finish. When it stayed on in Europe after WW II it had a rather different attitude to settling matters from that of Britain after W.W.I. Could one imagine a British Marshall Plan for Europe after W.W.I—or at any time?

The US is almost angelic in its international behaviour compared to what Britain and other European powers have been over centuries. Also, the US has wrecked at least two attempts at furthering globalisation. When the first attempt was made at a WTO in 1947, a body called the International Trade Organisation (ITO) was set up but it was abandoned because the US Congress would not have it. It was the US that wrecked Seattle, so they are very unreliable in the globalist game. The EU has a spate of disputes with it at the moment which confirms this.

Under Bush the US has brought regular doses of reality to world affairs and not pandered to many demands of the self styled 'international community'. Even where the US is totally wrong as in its policy towards Israel, for example, it clears the air compared with the usual humbug from Europe (and from such as Clinton) and will ensure that the Palestinians will know who their friends and enemies really are. That will ultimately be to their benefit. In the case of N. Ireland, Bush made it very clear he will only help if invited—in other words, if Blair can't manage and has to make that clear. Clinton's self-invitation obscured this very significant fact.

Doha will not work without the US, but how much they will become engaged remains to be seen. They may well wreck it. Watch this space.

Liberal Egalitarianism?

The false promise of John Rawls

Christopher Winch

Probably the most influential contemporary liberal thinker on the left is the American philosopher John Rawls. More than anyone else it is Rawls who has given credence to the idea that some form of socialism, or at least social democracy, is compatible with liberal principles. This idea comes from a reading of his book *A Theory of Justice* published 30 years ago. In it Rawls sets out a scheme of distributive justice that he thinks any rational person would agree to.

This scheme is generally thought to imply a thoroughgoing redistribution of resources to the least well off. Although Rawls appears to have done little or nothing to discourage this impression among his many admirers, it is in fact complete nonsense. Part of the problem with Rawls' writing is that he employs such cautious and obscure phrases to outline his views that it is very difficult to get at what he is actually saying. Careful reading, however, shows that he is very much in the mainstream liberal tradition of defending the position of the better off and that his interest in the redistribution of wealth in favour of the least well off is minimal, or even non-existent. It is easy to see how someone like Rawls can appeal to shrewd politicians of the centre and right who wish to appear radical without doing anything to disturb the privileged. It is surprising that he has not been officially made a patron saint of the Third Way.

If this seems to be an outrageous claim, then one has to look at what Rawls actually wrote in order to see whether or not it is correct. The starting point for Rawls' system of justice was the view, which he held to be self-evident, that all distributions should be equal unless an unequal distribution was to the advantage of everyone. It seemed to Rawls that a subsidiary principle followed from this, namely that all distributions should maximise the benefit to the least well off. This is what Rawls called the 'Difference Principle'.

Let us try and look closely at these claims. Rawls has put together two distinct claims in his fundamental principle. The first is that, other things being equal, egalitarianism is a good thing. The second is that it is always wrong to make anyone worse off (known in the jargon as the 'Pareto Principle'). The Pareto Principle, not surprisingly, is very popular with right wing liberal theorists. However, Rawls' dalliance with it, camouflaged in an apparently egalitarian statement, leads to absurdities. If equal distributions can only be altered if at least someone becomes better off as a result, then this implies that no-one can be made worse off. Suppose changing an unequal distribution meant that someone who was very badly off could benefit as a result of redistribution from the best off. This seems to be excluded by Rawls' 'egalitarian' first principle. How then could one apply the Difference Principle?

The only obvious answer that springs to mind is that this could only happen in conditions of economic growth. Everyone would then get better off and the worst off would be likely to become better off than they would in any other circumstances (although how this could happen without some redistribution is not explained). However, this is the economics and politics of Wonderland, since no-one can build a robust theory of justice on the unlikely basis of continuous economic growth. Even here it is hard to see how violation of the Pareto Principle is to be avoided. Even if everyone were to benefit from increased wealth, and the least well off were to do proportionately better than the better off, then in an important sense the better off would become relatively worse off, since they would loose the relative advantage that they previously enjoyed over the worse off. This is not a good deal from their point of view, if one assumes, as is reasonable, that they wish to preserve their sense of self-esteem, their status, their privileges and their power, as well as their money income. Likewise, the least well off would find their relative position declining if their money wages rose faster than they would in any other circumstances but they became relatively less well off. The only scenario that would satisfy the Pareto and the Difference Principles jointly would be where money incomes grew but relative distributions remained unaltered. It is hard to imagine a more inflexible and conservative state of affairs.

Amazingly, most academic commentators seem to have ignored this conservative aspect of Rawls' thinking.

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Mean And Average

Why New Right Economic Policies Have Been Sub-Standard

Gwydion M. Williams

The 1990s system of 'Limited-Sovereignty Globalisation' is over-estimated even by its bitter critics. It is seen as a harsh road to greater wealth. For most of the population it has been a harsh road to less wealth, a system that rewards speculators and damages the real economy. But a greedy 'overclass' of detached, rich people has done nicely.

Gross National Product is a very imperfect measure of real wealth. But even in terms of GNP, the period 1980-2000 has been bad for everyone who followed New Right policies. It was worst of all for Russia, where they had no other ideas and capitulated completely, suffering a continuous and disastrous decline during the Yeltsin years. The collapse of the 1991 coup caused rejoicing at the time, but very little on its tenth anniversary.

Economic success in the period 1980-2000 correlates very nicely with ignoring New Right notions and sticking to the older Keynesian formulas—controlled markets, controlled currencies, cautious opening to global trade where some definite benefit can be seen. China, easily the most successful developing economy, is a unique mix: a social-democratic system with a Leninist party running it. To call this 'capitalism' and cite it as a success for New Right policies is ridiculous.

"Trade has doubled as a percentage of our economy since the early 1970s, and there is no doubt that globalization has played a significant role in the worsening distribution of income here... it has generally been assumed that globalization has helped spur economic growth throughout most of the world. Even critics of globalization, and of the IMF and World Bank, have generally accepted this assumption. They have argued that these institutions have focused too much on promoting growth and not enough on other goals such as alleviating poverty and protecting the environment.

"From 1960-1980, output per person grew by an average, among countries, of 83%. For 1980-2000, the average growth of output per person was 33%.

"There is no region of the world that the Bank or Fund can point to as having succeeded through adopting the policies that they promote—or in many cases, impose—upon borrowing countries. They are understandably reluctant to claim credit for China, which maintains a non-convertible currency, state control over its banking system, and other major violations of IMF/Bank prescriptions. And in both India and China, their opening to trade took place about a decade after the increase in growth began." (The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization. By Mark Weisbrot, Robert Naiman, and Joyce Kim, September, 2000, available at www.cepr.net).

I'm one of those who've always insisted that the New Right is mostly degraded Keynesianism. I've also emphasised that although the economy as a whole has been damaged, the richest 10% have done better than Keynesianism allowed.

The Left in the 1960s and 1970s did an expert job of undermining the Keynesian semi-capitalist system, under the impression that breaking it would guarantee that an ideal socialist system would suddenly spring into existence. Keynesianism was not, of course, described as semi-capitalist; if it had been, the whole Thatcherite / Reaganite development would have been much easier to follow.

"The last quarter century of globalization has clearly failed to raise the wages and salaries of the majority of the US labor force. We can see this by looking at the real median wage, which is about the same today as it was 27 years ago. This one statistic tells a very big story, a fact that the more ardent advocates of globalization either don't understand, or pretend that they don't. Median: that means the 50th percentile, i.e., half of the entire labor force is at or below that wage. This includes office workers, supervisors, everyone working for a wage or salary-not just textile workers or people in industries that are hard hit by import competition or runaway shops. Real: that means adjusted for inflation, and quality changes. It is not acceptable to argue, as is often done, that the typical household now has a microwave and a VCR. That has already been taken into account in calculating the real wage." (Ibid., page 7)

Medians have the merit of showing in numeric terms that extra money for a few well-off people does not benefit the rest of the society, and is most likely to be at their expense. To illustrate, I've drawn up a table of wages for an imaginary factory. In all cases, the 'mean' or arithmetic average wage is well above what most of its employees get. But the degree of difference varies a lot, and the various patterns favour different groups:

Mean and Average

	Number	Initial spread of incomes: Salary	Initial spread of incomes: Total	Thatcherite development: Salary	Thatcherite development: Total	% gain
Managing Director	1	100000	100000	160000	160000	60.00
Manager	9	60000	540000	85000	765000	41.67
Supervisor	20	35000	700000	45000	900000	28.57
Technician	15	25000	375000	31000	465000	24.00
Shopfloor worker	40	18000	720000	22000	880000	22.22
Trainee	10	15000	150000	14500	145000	-3.33
Cleaners	5	10000	50000	9000	45000	-10.00
			2260000		2895000	
Average salary			22600		28950	28.10
Median salary			18000		22000	22.22

	Number	Keynesian development: Salary	Keynesian development: Total	% gain	Reaganite development: Salary	Reaganite development: Total	% gain
Managing Director	1	150000	150000	50.00	200000	200000	100.00
Manager	9	90000	810000	50.00	110000	990000	83.33
Supervisor	20	52500	1050000	50.00	45000	900000	28.57
Technician	15	37500	562500	50.00	27000	405000	8.00
Shopfloor worker	40	27000	1080000	50.00	18500	740000	2.78
Trainee	10	22500	225000	50.00	13000	130000	-13.33
Cleaners	5	15000	75000	50.00	8000	40000	-20.00
			3390000			3000000	
Average salary			33900	50.00		30000	32.74
Median salary			27000	50.00		18500	2.78

	Number	Sub-Keynesian development: Salary	Sub-Keynesian development: Total	% gain	Extreme New-Right development: Salary	Extreme New-Right development: Total	% gain
Managing Director	1	125000	125000	25.00	250000	250000	150.00
Manager	9	75000	675000	25.00	130000	1170000	116.67
Supervisor	20	43750	875000	25.00	38000	760000	8.57
Technician	15	31250	468750	25.00	25000	375000	0.00
Shopfloor worker	40	22500	900000	25.00	15500	620000	-13.89
Trainee	10	18750	187500	25.00	11500	115000	-23.33
Cleaners	5	12500	62500	25.00	6500	32500	-35.00
			2825000			2947500	
Average salary			28250	25.00		29475	30.42
Median salary			22500	25.00		15500	-13.89

People can be puzzled by an 'average wage' which seems much more than most people get. But if incomes are divided by number of employees, that's bound to happen and a few 'fat cats' can create a statistical illusion. (If there were a few people thirty, forty or a hundred feet tall, the average height for males might be seven foot six even though half were five foot nine or less.

In my model, I leave out unemployment, and also I credit Reaganism with a small rise in cash income for ordinary workers, which has probably not happened.

"In the United States, the median real wage is about the same today as it was 27 years ago. This means that the majority of the labor force has failed to share in the gains from economic growth over the last 27 years. That is drastically different from the previous 27 years, during which the typical wage increased by about 80% in real terms." (Ibid).

The report does not ask why this is possible in a democracy. I'd say it was because US democracy has proved a rather bad tool for the self-interest of the majority. Starting with the desire to produce another Switzerland, a Republic dominated by secure farmers and small craftsmen, it ended up with something very different. The whole culture favours a gambler's mentality: people overestimate they own slim chances of joining the Overclass. Their whole self-identity is bound up with what they'd like to be, not what they are.

Britain is not the same, the mainstream are more self-confident and are better at defending their own interests. Yet as my examples showed, there is a marked difference in interest between the 'top ten percent' and the rest. They do much better under a Thatcherite or Reagan-style development, even though everyone else does worse and the economy as a whole does worse.

The 'top ten per cent' includes more than just managers, 'middle managers' may well be outside it and are perhaps worse off with the extra stress and a culture of unpaid overtime just to keep a not particularly good job. But it does include some journalists, media people and academics, as well as the top end of the legal profession.

Very much the sources of New Labour, you should note. The big cause of the Labour Left's failure back in the 1970s was its determined exclusion of the actual working class in favour of middle-class people who would say whatever was necessary to advance their careers. And, in the same spirit, the move to workers control was opposed by most of the left, with Arthur Scargill leading the opposition and rejecting an offer to put the Miners Union in charge of the coal mining industry

"Russia has been perhaps the biggest failure of all, suffering a decline in GDP (over 50%) rarely seen in the absence of war or major natural disaster. The number of poor people (living on less than $4 dollars a day) soared from two million to 60 million by the mid-nineties. Some of the errors made here were specific to transitional economies-most importantly the rapid privatization in the absence of necessary legal and institutional structures, and the enormous destruction of physical and social capital that resulted. But other mistakes were part of the IMF's modus operandi: contractionary macroeconomic policies and reckless liberalization of not only trade, but the capital account (which combined with the other incentives to de-capitalize existing industries led to enormous flight of capital out of the country). Perhaps most importantly, as Stiglitz has noted, there was "a misunderstanding of the very foundations of a market economy" (Ibid., page 14.)

Russia's 'Capitalist Democrats' made much the same error as Germany's Social-Democrats made in 1918, they thought that their wartime foe had ceased to be their foe when they discarded the things that enemy propaganda had been directed against. But Britain was scared of Germany as a successful industrial competitor, regardless of Prussianism or autocracy. The USA saw Russia as menacing regardless, and celebrated the decline of Russia and Japan as credible rivals.

Britain's former policy towards Europe is called 'Balance of Power', but would be better named 'Permanent Destabilisation'. Since Britain could not hope to dominate Europe, Britain made sure that the rest of Europe was always fighting itself. And the USA is sometimes playing the same games, though they currently see Europe as an ally and class China as toopowerful to get tough with just for the moment.

A UN table cited by the report also shows a relatively strong performance of China under Mao. Despite the Cultural Revolution, China in the period 1960-1980 did better than South Asia or South-East Asia in the period 1980-1998. China also did better than Latin America in the period 1960-1980. Latin America has 'reformed' since 1980, and done much worse. China and India meanwhile have also opened up to the outside world, but very much on their own terms and not as New Right orthodoxy would propose.

In China and India, a lot of the benefit has gone to the top ten percent. But the working mainstream has also done well, as far as I can tell. The 'middling 50%' have done OK, only in the USA are ordinary people so ashamed of their own mundane lives that they will consistently and determinedly vote in favour of the rich, if they vote at all. And there seems rather more left-wing resistance to the policies of President Jiang that there are dissidents eager to go further.

"The Communist Party has closed one of the mainland's key theoretical journals as part of an attack on those who oppose the decision of President Jiang Zemin to end a ban on membership by private business people... Staff at Zhenli de Zhuiqiu (Seeking Truth) said yesterday authorities had ordered the closure of the monthly magazine after 11 years, ahead of publication of the August issue, and that its 10 employees would retire or be moved to other jobs. Editor Yu Quanyu was likely to retire. No reason was given for the closure, they said.

"The monthly has been devoted to the theory of Marxism, Leninism and Mao Zedong Thought and its application to China.

"Sources said Mr Jiang ordered the closure, angered over opposition within the party to his speech on its 80th anniversary on July 1, in which he lifted an 80-year ban on private business people joining the party.

"Many party members, especially

veterans of the war against the Kuomintang, have written to Mr Jiang, saying his decision was a mistake and that he announced it without proper consultation within the party." (South China Morning Post website, Tuesday, August 14, 2001)

In Chinese terms, President Jiang is a centrist, and also obliged to retire soon. Currently the left is much stronger and better placed than pro-Western forces. Which may explain why China won the 2008 Olympics. Behind the scenes America probably encouraged it.

A move to multi-party democracy in 1989 would have dropped China into the same mess as Russia now suffers. A move to multi-party democracy right now could lead to a hard-left Maoist party winning a democratic majority.

China is joining the WTO, but warily and with a lot of safeguards. The trashing of the former Warsaw Pact countries and the financial crisis that hit the West's allies in East Asia serve as dire warnings. I'd say The Emperor Has No Growth is less critical than it should be of what happened:

"For example, in just the last three years the IMF and its allied creditors have made serious policy errors that have undoubtedly reduced cumulative economic growth for hundreds of millions of people. In the Asian financial crisis, the Fund's drastically tight monetary policies (interest rates as high as 80% in Indonesia) and fiscal austerity deepened the recession and threw tens of millions of people into poverty. Although the regional economy has now recovered, the lost growth and increased poverty is still significant 7. And Indonesia, the largest of the five crisis countries (including South Korea, Thailand, Malaysia, and the Philippines) with more than 50% of their total population, has yet to recover, after a 13.4% decline in GDP in 1998.

"In Russia in 1998, the IMF insisted on maintaining an overvalued fixed exchange rate, which required raising interest rates as high as 150%. These policies not only led to excessive foreign debt burdens, but also maintained a speculative bubble in the financial sphere, and drained the real economy of investment capital. The overvalued rouble kept imports artificially cheap, hobbling domestic production, and exports overly expensive-until the currency collapsed in August of 1998. The IMF supported a similar policy in Brazil. The government raised interest rates to more than 50% and borrowed billions from the Fund in November of 1998 to stabilize its overvalued currency-only to have it collapse just a few months later." (Ibid., page 11)

Are you sure that was an accident? Wealth and potential growth was destroyed, as with insure-and-burn scams, but some people obviously did very well out of it. Speculators like George Soros, who despite his criticism of New Right ideology remains committed the imposition everywhere of Western commercial values. Also 'Judeo-Christian values', which in practice means the common elements of the Protestant and Catholic branches of Christianity, except that help from rich and clever Jews is welcomed these days.

An 'open society', he calls it, but no society has ever managed to live that way unless it has been through a period of highly authoritarian rule which establishes what people can and can not be 'open' about. Commercial values had to be hammered into British and European society across several centuries. The Irish Famines of the 1840s destroyed one of the last distinct populations in Western Europe who were content just to live without reference to commercial values, which is why the British middle class was quite willing to sit back and let it happen. They themselves were products of the bitter British civil wars of the 18th century, and the actual process of industrialisation took place under a Constitutional Monarchy where 'democracy' was a term of abuse and where only a small minority of the adult male population could vote.

The elements that coalesced into global culture were formed in several different cultures before coming together in Western Europe. Civilisation as such was invented in the Middle East, the alphabet also came to Greece from the Phoenicians, who also pioneered the idea of self-governing city states. From China came the key developments of gunpowder, printing plus paper and the magnetic compass. Positional numbering came from Hindu culture, algebra and much else from the Islamic world. And the key synthesis occurred in Latin-Catholic culture and only later spread to their Germanic-Protestant neighbours. (England is just one branch of the Germanic peoples, though hostility to Germany in the 20th century obscured English origins as invaders from what is now Denmark and north-west Germany.)

The positive aspects of modern civilisation are possible because of the unintended teamwork of several different civilisations with utterly different and often opposed values. To declare it a race that the Germanic-Protestant peoples won is to miss the point. A race can be run with any set of opponents, or no opponents at all. But no one culture was adequate to making the breakthrough into a technological world.

Making it a 'race for wealth' and forbidding cultural protectionism will impoverish the human race by destroying a great deal of potential and diversity. Even cultures that have not so far contributed anything critical may do so in the future: no one in 1500 would have seen Western Europe as promising compared to other centres of civilisation.

Keynesianism was a better economic system than the current 'Limited-Sovereignty Globalisation', and also maybe worse culturally. It seemed to be heading for a Wellsian World State that would have imposed a benevolent uniformity on populations that would have been well fed, well educated but made rather homogeneous.

I call the present system 'Limited-Sovereignty Globalisation' because it will not let the nations of the world live as they please, yet also has no intention of accepting responsibility for the poor and needy. 'Free markets' are supposed to be the cure—never mind that market forces have made for less equality. Also, it's a surreal sort of freedom, one that comes with a mass of 'anti-dumping' rules and enforcement of copyrights, not a free-for-all but just freedom for the rich and lucky.

We've seen the New Right future, and it has not worked.

The Corporate Takeover of the Public Sector

David Morrison

Since New Labour came to power in 1997, the corporate takeover of the public sector has accelerated dramatically.

In his foreword to the Treasury document, 'Public Private Partnerships: The Government's Approach', published last year, Andrew Smith, the Chief Secretary to the Treasury, boasted:

"Since May 1997,we have signed contracts for some 150 projects, leveraging in capital investment of over £12 billion. These include:

** 35 major hospital projects, representing the largest investment in new hospital facilities since the NHS was established;*

** projects covering 520 schools and 4 prisons;*

** 28 defence contracts;*

** projects to modernise the Government estate.*

...

"Looking forward, over the next 3 years we expect to sign contracts for projects with an estimated capital value of further £20 billion, under an expanded range of PPP models, focusing on our priorities—health, education and transport.

"All this compares with less than £4 billion of private finance contracts signed during the whole of the last Parliament "

Mr Smith has even more to boast about today: the 'Financial Statement and Budget Report', published last March, puts the figure of £14 billion on the private capital "leveraged in" by PFI contracts signed since New Labour came to power.

(This document estimates the amount of capital expenditure via PFI contracts at £3.9 billion in 2000-2001, compared with £22.3 billion capital expenditure by traditional means. In other words, capital spending via PFI was about 15% of the total in the last financial year.)

The steps taken by New Labour to breathe life into PFI as a means of financing public investment are described in the Appendix below.

PFI Projects

In the Treasury document quoted above, Mr Smith is only talking about PFI projects in which private finance is "leveraged in", to use a quintessentially New Labour phrase, designed to obscure the fact that the taxpayer has to pay through the nose for it for the next 20 or 30 years.

There is also a vast range of public services at all levels of government—from refuse collection to moving prisoners around, including almost all IT services—which was once delivered by public sector employees but is now "contracted out" to the private sector.

This form of private sector involvement has also accelerated under New Labour. They appear to have made it a rule that all new services are delivered by the private sector (which could be done without controversy, since no public sector workers would lose their jobs or have to move to the private sector as a result). Examples of this are:

* the New Deal for the young unemployed (in part, by private employment agencies)

* NHS Direct

* the asylum seeker voucher scheme

* housing for asylum seeker dispersal (in part, by private landlords)

* external assessment of performance related pay for teachers (by Cambridge Education Associates)

BQS INITIATIVE

For existing central government services, New Labour has introduced a continuous review process, known as the Better Quality Services initiative. According to 'PPPs: The Government's Approach':

"The focus of Better Quality Services (BQS) is on improving what is delivered, rather than taking dogmatic line about whether this is best achieved through private, public or partnership solutions. BQS is comprehensive programme across central Government. It covers all activities in departments, agencies and executive NDPBs. All services and activities, including policy and headquarters functions, are reviewed over a five year period.

"Individual reviews generally cover a specific service or part of a department (eg HQ personnel function) rather than the whole organisation. The aim of each review is to re-consider what service is needed, in consultation with users, and then identify the best supplier to deliver both cost and quality gains year on year. Each BQS review considers the following five options:

** abolition;*

** introduction of private sector ownership;*

** strategic contracting out;*

** market testing; or*

** internal re-structuring."* (p 49)

The BQS review process seems like a goldmine for management consultancy firms, since the public sector couldn't possibly be trusted to audit public service delivery.

Whether it has had a major impact on service delivery as yet, I don't know. But it is certainly true that the contracting out of central government service provision is proceeding apace. In the Ministry of Defence, for example, the management non-military transport (about 10,000 vehicles used to transport service personnel between MoD facilities) has been contracted out for 10 years to Lex and shortly the management of all MoD property in the UK is to be contracted out. Facilities management—painting, cleaning, gardening and catering—is already contracted out to Serco.

Very Little Privatisation

Very little in the way of public assets have been privatised in the traditional sense by New Labour, not least because there's very little left to privatise. The only major example was the sale of 50% of the National Air Traffic System (NATS). They have also sold a majority stake in Partnerships UK, their quango for promoting PFI (see Appendix).

Under New Labour, the corporate invasion of the public sector has manifested itself in many other ways also. There have been Education Action Zones (EAZs) and School Business Links (SBLs) and a host of other acronyms involving the private sector. There have been hundreds of taskforces and reviews, almost all of which were headed by and populated with people from the private sector.

And the onward march of management consultants into the public domain has continued: no significant decision can be taken these days without the taxpayer shelling out for the services of Price Waterhouse Cooper or Deloitte Touche or Anderson Consulting. Price Waterhouse Cooper was even employed to select the membership of the body to select Life Peers, who are to legislate for us.

All this has gone on with barely a word of protest inside or outside Parliament. The New Labour MP, David Taylor, finally spoke up on 17th July about the deceit engaged in by the advocates of PFI. But he didn't suddenly learn of this deceit on 17 July 2001. He knew about before he entered Parliament in 1997 but for four years he trudged through the lobbies in support of a government engaging in this deceit to justify a massive extension of PFI—and he kept his mouth shut about it.

There have been hints from New Labour that they regard their second victory on 7th June as the green light for a further advance in the corporate takeover of the public sector, into areas which were previously sacrosanct, in particular, the employment of clinical staff in NHS hospitals. The New Labour manifesto speaks at one point of "specially built surgical units", which will be "managed by the NHS or the private sector". What that will mean in practice is anybody's guess.

Who Pays?

At the moment, there is no evidence that New Labour intends to extend the range of services for which charges will be levied at the point of delivery. In fact, there is going to be a significant move in the opposite direction: New Labour is committed to free nursing care for the elderly in residential homes and in Scotland personal care is to be free as well.

Nor is there any evidence that New Labour going to directly encourage people to opt out of using public services and to use private provision instead. At the last election there was very little difference between the parties on this, though New Labour sought to give the impression that in power the Conservatives would drive everybody who could possibly afford it into private health care, leaving the NHS as a second class service for the poor and those too sick or disabled to buy health insurance.

In fact, at the election, the difference between the two parties was tiny, the Conservatives suggesting a modest encouragement to employers to offer health insurance to their employees by no longer taxing it. It is measure you could see New Labour itself introducing.

(It is worth noting that in his election campaign Iain Duncan Smith has talked about encouraging people to opt out of the NHS and take out private medical insurance, so if he becomes leader of the Conservative Party, the difference between the two parties will probably widen).

There is evidence that in recent years that individuals are choosing to spend more of their own money on health care and on education. This is hardly surprising given the general perception, justified or otherwise, that the taxpayer funded systems are in a mess.

For example, in the year to 31st December 2000, the number of people covered by private medical insurance rose by 5.5% to 6,877,000, which is the highest annual rate of growth since 1990. As well, although I haven't got definite figures for this, I have the impression that more and more people who haven't got health insurance are paying for treatment rather than waiting for NHS treatment.

As for education, the demand for private education is rising. This can only be afforded by the rich. The not so rich have to make do with supplementing their children's state education with private tutoring. If anecdotal evidence is to be believed, private tutoring is growing apace.

Public Private Partnerships?

New Labour likes to use the phrase "public private partnerships" to describe all forms of private sector involvement in the public service delivery. That is another quintessentially New Labour phrase, designed to obscure the true nature of the relationships involved. These are many and varied in character but almost none of them are partnerships.

The National Air Traffic System and Partnerships UK are exceptions: they are both literally public private partnerships, that is, corporate bodies owned and operated jointly by the public and private sectors.

In the vast majority of the rest, the public sector is a customer of the private sector. Private companies are *selling* services under contract to the public sector and doing their damndest to get as much taxpayers' money as possible in exchange. And to minimise their costs, it can be take for granted that they are delivering as little as their lawyers say they can get away with under the contract they have signed. The people who run these companies would be failing in their legal duty to their shareholders if they didn't act in this way, so as to maximise profit and shareholder value. That's capitalism.

To describe a customer/supplier relationship like this as a partnership is absurd. When somebody enters into a contract with NTL to supply TV and telephone services, does he become a partner of NTL? Of course not. He is a customer, not a partner. Likewise when the public sector enters into a contract to buy services from the private sector, it is a customer, not a partner.

New Labour's use of the phrase "public private partnerships" is to obscure the fact that private companies sell services to the public sector in order to make a profit. And the more taxpayers' money that they can get in exchange, and the less services they actually deliver, the higher the profit (and shareholder value) and the happier are their directors with their profit related pay and share options.

No doubt, their company mission statements all express a profound commitment to deliver quality public services, as New Labour would have you believe. But their actual commitment is to do as little as possible for as much taxpayers' money as possible, so as to maximise their profit. It is a trifle misleading to describe that as a public private partnership.

Always A Customer

Every so often, Government ministers say that they are not proposing anything out of the ordinary, that the public sector has always bought things from the private sector (thereby conceding that a customer/supplier relationship exists rather than a partnership). Of course, that is true: everything from schools and hospitals to toilet rolls and light bulbs has always been bought in.

The revolution that occurred in the '80s was that the Thatcher government forced public bodies to buy in services—cleaning, catering, building maintenance, IT services, etc.—which had previously been provided by public employees, who then had to transfer to the private sector. At least initially, these services were bought in under relatively short term contracts, perhaps a year or two, so if a supplier failed to deliver, he could in principle be replaced fairly quickly by another supplier, or theoretically service delivery could be brought back in-house.

The Major period brought a new kind of arrangement—the Private Finance Initiative (PFI)—for the supply of public services by the private sector. From the outset PFI has been presented as a means of getting extra finance from the private sector for investment in schools and hospitals etc that wouldn't otherwise be made. The central idea of the PFI is that private consortia borrow money on the market and build schools, hospitals, etc and rent them to the public sector under a contract lasting 20-30 years. And, because it isn't "public" borrowing and doesn't contribute to the PSBR, it appears to be a free lunch for the taxpayer.

In fact, it's a very dear lunch indeed for the taxpayer, much dearer than it would have been if the money for building the schools and hospitals had been borrowed by the state itself. It is a fundamental fact that the state can borrow money at a lower interest rate than any other institution or individual. It can do so for the simple reason that the risk of the money not being paid back is effectively nil. The state has a guaranteed income stream— taxes—with which to pay back loans. Short of nuclear war or socialist revolution, the state is not going to default.

The Treasury document 'PPPs: The Government's Approach' actually admits that the private sector's cost of borrowing is higher than that of the public sector, but attempts to justify PFI in the following terms:

"First, it is important to put this into perspective: the difference between the private sector's cost of borrowing and that of the public sector is down to some 1-3%; and this additional margin applies only to relatively small proportion of the total cost of each PFI contract - capital expenditure forms on average just 22% of the total cost of PFI projects.

"Second, and as a result, the value extracted from the use of the funds raised is normally more important than the price paid for these funds. The private sector can compensate for the higher price of its borrowing in number of ways:

** it can be more innovative in design, construction, maintenance and operation over the life of the contract;*

** create greater efficiencies and synergies between design and operation;*

** invest in the quality of the asset to improve long term maintenance and operating costs; and*

** underlying all this, the discipline of the market place ensures the private sector can manage risk better - it has better incentives and is better equipped to deliver on time and within budget."*

One doesn't have to be genius to see that this isn't a justification of PFI at all. Quite the reverse. The private sector may or may not be more efficient at extracting value from funds, but that is beside the point. It is indisputable that the public sector can always borrow more cheaply. The Government admits it. So a PFI scheme will *always* cost more than one in which the public sector borrows the funds and the private sector is employed to extract value from the funds—by, for instance, building a hospital and renting it back to the NHS for the next 20-30 years.

Lest you think this is a mad left-wing notion, listen to the following:

"But there's another approach. PFI deals are often describes as "DBFO" - design, build, finance, operate. The aim should be to get rid of, or at least discount heavily, the "F" element. The economics of PFI rely on the argument that the greater cost of money that the private sector has to meet is more than outweighed by its greater efficiencies and risk-taking. So why not cut the corner, have the project publicly financed at the cheaper rate and retain the value of the private sector's greater skills in building and operating?" (New Statesman, 18th October 1999)

This was written by Sir Peter Kemp who should know what he is talking about, since he was spent some time at the heart of government in the 80s and 90s in the Treasury and the Cabinet Office.

Monopoly Position

Apart from dearer finance than the state can obtain, there is another fundamental objection to PFI deals, namely, the fact that the contracts are always for 20 years or more. This is necessary so that the private finance can be borrowed at a reasonable rate, but is utterly inappropriate for the provision of services, which cannot be predicted accurately for a year in advance, let alone for 20 or 30 years in advance. For instance, it's odds on that by the time any hospital is built changes will be required in it.

Of course, there will probably be provision in a PFI contract for the public sector customer to request changes to the building or the services to be provided. Fine, except that, when it comes to setting the price the public sector has to pay, the existing provider is in a monopoly position and can demand the earth. And if the changes are essential for public service provision, what can the public sector do but pay up? The public sector has no other means of getting the job done.

There is a special case of this in the London Underground PPP contracts, where it is specifically provided that the infrastructure charge must be renegotiated every seven and a half years, that is, three more times during the 30-year lifetime of the project. In a report he wrote to Ken Livingstone last December, Bob Kiley made the following cogent remarks on this issue:

"Proponents of the PPP scheme as now structured claim that the Infracos will carry out their functions properly because of the profit motive: the better their performance, the higher their fees. This sounds good in theory, but is simply wrong. What motivates private entities to perform well is competition, not the profit motive. In a true competitive environment, the desire to make a profit (the "profit motive") means that companies are forced to offer the best products or services at the lowest price. If they do not, their sales and profits will quickly erode. But after the award of the PPP contracts there will be no effective competition: each Infraco will be granted a 30-year monopoly over its portion of the underground system. Without competition, the "profit motive" has just the opposite effect: since losing the sale will no longer be a risk, the desire to maximize profit will mean offering the least expensive product or service at the highest price. There is nothing in the PPP structure that will avoid this inevitable result of the monopoly position that is being granted.

"(We wish to make clear that in describing our concerns, we do not mean to impugn the integrity of the Infracos or their shareholders. All of them are honourable business people. But every economic school of thought recognises that a monopolist, if unregulated and left to its own devices, will take all lawful measures to maximise its profits and will be constrained only by the desire to avoid the loss of its monopoly position.)

"The PPP contracts provide, at least theoretically, for renegotiation every seven and a half years. However, when the contract is back on the table seven years after initial contract award only the original Infraco will have the staff and management resources to maintain performance at whatever level is then being provided. Since neither Transport for London [TfL] nor any other private entity will realistically be able to step in and replace the Infraco, the Infraco will likely be able to force TfL to accede to its demands. To be sure, the PPP scheme provides an arbiter to ensure the renegotiation is fair. But even the arbiter cannot force the Infraco to stay on the job, so that form of protection for the public, attractive in theory, is unlikely to work very effectively in practice."

Appendix: New Labour Breathes New Life into PFI

Geoffrey Robinson is best known for lending Peter Mandelson £373,000 to buy a house in 1996. He is barely known at all for his real contribution to New Labour in government, which was to breathe life into PFI as a means of financing public investment.

Geoffrey Robinson was made a Treasury minister (Paymaster General) in May 1997 and, despite several scrapes about his financial affairs, served in that capacity until December 1998, when he fell on his sword along with Peter Mandelson.

Shortly after his appointment May, he initiated a review of the PFI process with a view to getting more PFI projects off the ground more quickly than the previous government. To do this he appointed Malcolm Bates, then Chairman of the Pearl Group.

Treasury Taskforce

The Bates review reported within weeks and one of its recommendations was the establishment of a Treasury Taskforce to co-ordinate all PFI activities across government. This was done in September 1997. The Taskforce was populated with individuals with connections to private companies who stood to benefit from PFI. Needless to say no conflict of interest was recognised by the Government.

The Treasury Taskforce was the engine behind the takeoff of PFI under New Labour, and the wasting of taxpayers' money on a grand scale. To quote from **PPPs: The Government's Approach**:

"... following the creation of the Treasury Taskforce and the implementation of the other recommendations made by Sir Malcolm Bates in May 1997, the flow of PFI deals stepped up a gear" (p31).

The Taskforce was supposed to have a limited life of two years, by which time it was expected that the level of expertise within departments would be sufficient to get PFI deals off the ground without central co-ordination. However, a second review by Malcolm Bates begun in November 1998, found otherwise. In the words of **PPPs: The Government's Approach**:

"... central to the analysis in his second report is the perception that partnerships with the private sector require a range of private sector skills which it has proved difficult to nurture within the Civil Service, such as commercial negotiating skills, project management and project structuring. In addition, he was concerned that insufficient resources were being devoted by public bodies in the development phase of privately financed projects, with consequent delays to investment projects and failure to secure best value for money." (p31)

Partnerships UK

Accepting this advice, the Government created Partnerships UK as the successor body to the Treasury Taskforce (originally with the trendy acronym P: UK, which seems to have been dropped for obvious reasons). As recommended by Bates, P: UK is *"a public private partnership ... to support public sector PFI procurement and PPPs with combination of project and financial skills"* (ibid, p31). In this case, the description "public private partnership" is accurate, since like NATS it is owned jointly by the state and the private sector. As mentioned above, a majority stake in it was sold off earlier this year for the princely sum of £45m.

The sell off was oversubscribed by 30%, which led Andrew Smith to crow that "the market has given a vote of confidence in P: UK and the whole PFI industry". Eleven firms bought into P: UK and surprise, surprise, they are almost all firms that already profit from PFI, for example, Group 4, Serco, Jarvis, Barclays, Abbey National and PPM Ventures, a Prudential subsidiary. (Derek Higgs, the chairman of P: UK, is a Prudential executive.)

So from now on, the source of financial and project management advice for a public body when it is undertaking PFI

Concluded back page

Does Britain's War Morality Apply to its Slave Enterprise?

Brendan Clifford

It used to be the practice that when a war ended a line was drawn under it, and all that had gone on in it was consigned to oblivion for all practical purposes. That was in the days when it was frankly recognised that the only law governing war was the winning of it. It was understood in those days that no victorious state was going to prosecute itself or its instruments for doing the things which gained victory, and that the concept of law would be debased if the vanquished were prosecuted for things they did in their efforts to avert defeat.

That realistic, and human, attitude was abandoned by Britain in its war of 1914-18, which was its first middle class war, and really its only one. It was the first of Britain's many wars in which it was found necessary to raise an army on the same scale as the Continental states which had borders to protect. The old officer corps of younger sons of the aristocracy and gentry inspired by a sense of adventure, and therefore not needing a transcendental purpose, was not nearly big enough for the task. Great multitudes of officers for Kitchener's massive New Armies, were drawn from the middle class which had only recently emerged from its Puritan cocoon, and there were even middle classes in the ranks.

This unprecedented state of affairs required a new ideology. Although it was a war for trade and Empire it had to be presented as an entirely different kind of war. H.G. Wells' article,'The War That Will End War', fitted the bill. This was a war for peace, in which the evil source of war, Germany, was to be destroyed, and the Milennial peace would begin.

The elite of the old officer corps, on whose expertise and hard-headedness the effective use of the New Armies depended, had no time for this nonsense, and some of them, in order to preserve their sense of reality, published books explaining that the purpose of the war was to ensure that Britain maintained, or gained, world dominance, which was necessary to its mode of being. But for the millions of cannonfodder, the hyperactive propaganda presented it as a war of good against evil. And the great issue in the 1918 Election was the prosecution of Germans, from the Kaiser down, as war criminals.

Churchill, one of the old school, was disgusted at the way victory was being spoiled by mob morality. But when his election agent assured him that he would certainly lose his seat if he was not heard to say "Hang the Kaiser!" he brought himself to say it.

But the Dutch gave refuge to the Kaiser and refused to extradite him, and other pressing matters got in the way of trying lesser Germans.

Some trials were held after the Second World War, but they had to be called off in order to get Germany on the side of the Western Allies against the Eastern Ally who had defeated them. Two generations later the Soviet Union collapsed and the new British morality of war, which had to lie dormant throughout the Cold War, sprang into action again. Retrospective legislation was enacted to allow the prosecution of individuals for things they were alleged to have done sixty years ago in circumstances so different from the present as to be all but unimaginable.

But why stop at sixty years? And if one thing can legitimately be made a crime retrospectively, why not another?

The British response to the proposal at the Anti-Racism Conference in South Africa, that slavery should be deemed a crime against humanity, is that there was no law against slavery when Britain was the greatest slaver trader and slave owner in the world and that it cannot be made a crime after the event. But it is Britain itself that has set the precedent for doing just that.

And then there is the further, unlimited, precedent that was set at the Nuremberg Trials.

International law is at best a doubtful thing. And Nazis were charged with crimes which did not figure even in the most doubtful international law. When they pointed this out, they were told in effect that there was a body of international law which was natural law and did not need writing down.

The kind of slavery conducted by Britain, for a century and a half after the Glorious Revolution inaugurated the era of liberty, surely comes under that law.

Besides which, Britain did not really conquer its Empire with the Bible in one hand and a gun in the other. What it had in the hand not holding the gun was John Locke's *Second Treatise On Civil Government*. And the *Second Treatise* remained one of the fundamental documents of the actual British constitution until the 1960s, and the rise of Marxism to dominance in academia and publishing.

Locke's chapter on Slavery begins: "the natural liberty of man is to be free from any superior power on earth, and not to be under the will or legislative authority of man... The liberty of man in society is to be under no other legislative power but that established by consent in the commonwealth". Locke appears to treat two kinds of slavery as permissible. He denies that anybody has the right to sell himself into slavery, let alone make or buy a slave, but says that somebody whose life is forfeit for some other legitimate reason, may agree to be a slave in exchange for being allowed to live. The other kind of allowable slavery is what exists in a "state of war...between a lawful conqueror and a captive".

And he comments: "I confess, we find among the Jews, as well as other nations, that men did sell themselves; but it is plain this was only to drudgery, not slavery".

Newsnight had a lurid report of the Anti-Racism Conference on September 3rd. It explained that "Slavery is as old as the world", and that Britain stopped the slave trade in 1807. The suggestion was that slavery was a traditional form and that Britain's particular relationship with it was to abolish it.

The truth is that Britain began to engage seriously in the slave business only after its 1688 Revolution in the name of freedom; that there were restrictions on slave trading under the old Monarchy; that the first freedom established by the Revolution was freedom of private enterprise in the slave trade and the removal of all supervision; that early in the 18th century Britain fought a war for the right to supply slaves to the Spanish possessions in America, which Spain was not allowed to do under a Papal ruling; that that British slavery, in the form of a great industrial slave-labour camps in the Carribbean, was something altogether new in the world.

And who was an investor in the revolutionary British slave trade but John Locke himself?

There is a remarkable publication, to be found in some reference libraries, called the Dictionary of National Biography. It was produced in that period towards the end of Victoria's reign when Britain came close to telling the truth about itself. And if you trace in it the activities of Locke and his colleagues in he great work of establishing liberty, you find that they all had their money in the slave trade.

So it isn't surprising that Hitler was an admirer of the British way of doing things and tried to emulate it.

Perhaps some of the current lot of German politicians will find a use for their rigorous anti-Hitler stance—which has no real object within contemporary Germany—by helping the Africans to bring some basic truths home to the state from which Hitler drew his inspiration.

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However, Rawls himself seems to be aware of it without quite knowing what to do about it. In a later book, *Political Liberalism* (1993), he denies that the Difference Principle requires economic growth. However he neither renounces the Pareto Principle nor sanctions fiscal redistribution, claiming instead that 'existing inequalities have to be adjusted'. That is all—and as he says, these remarks are 'hardly clear' (1993, p7 footnote 5). So we are left with a position that, on the admission of its own author, is 'hardly clear'. What does seem to be clear is that he wishes to have his cake and eat it, i.e. not to want to be seen as a sort of Reaganite 'trickle down' theorist, but at the same time not wanting to frighten the right wing horses by renouncing the Pareto Principle.

As far as socialists are concerned, there is another feature of Rawls' liberalism that deserves close attention. He is concerned to ensure that individual rights, rather than collective conceptions of the good, are fundamental to the constitution of a liberal society. These rights are inviolable and it is not possible, through political action, even democratic political action, to overrule them. It is a consequence of this that a political party could not campaign for office on the basis of a substantial conception of the good, say for example, a high marginal rate of income tax, to equalise incomes. Clearly this would violate the rights of the better off not to be made worse off. But it is then hard to see what is left for politics.

What is important for Rawls is that 'reasonable' conceptions of the good are to be allowed to compete. Being reasonable here means being prepared to engage in fair social co-operation with others, including those who do not share your own conception of the good. Rights violations, however, are unreasonable, since they undermine the basis on which social co-operation can be secured. Redistribution, therefore, seems to be unconstitutional since it violates someone's right not to be made worse off. In fact, as one commentator, Michael Sandel, pointed out, it is difficult to see how any substantive political action could be constitutional in Rawls' system, since anything that disadvantages someone in any significant way violates their rights and undermines the basis on which they co-operate with others. As Sandel points out, it is not even clear that Rawls could sanction an anti-slavery movement in a slave state if he is to hang on to the Pareto Principle. Another way of putting this is to say that reasonable conceptions of the good are only reasonable if they do not threaten any others, or anyone's rights. Rawls' talk of an 'overlapping consensus' forming the basis of co-operation sounds pretty hollow in this context.

What are we to make of all this? Rawls is liked by social democrats and criticised by libertarians who seem to think, as erroneously as social democrats, that he is keen on redistribution. My own view is that there is a genuine muddle here, which arises from the fact that Rawls both wants to be an egalitarian (or at least to appear to be an egalitarian) while clinging to one of the dogmas of modern liberalism—the absolute inviolability of individual rights. If the history of the influence of Rawlsian liberalism shows anything, it shows that socialists should bring an extremely long spoon with them when they sit down to sup with liberal ideologists.

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procurement is to be a company, in which a majority stake is held by firms that stand to profit from PFI projects - if the price is right. It can be assumed that the financial advice sold by P: UK to its public sector clients will ensure that the price is right for the private sector firms which control it.

It's akin to chickens buying advice from a fox about their personal security.

Lest there be any doubt that this is New Labour's vision for P: UK, here is what they say about it in **PPPs: The Government's Approach:**

"13 Partnerships UK will itself be a PPP - a private sector company managed on commercial lines but with public interest mission. Its aim is to accelerate the flow of value for money deals. Working for the public sector, it will help to make the public sector a more effective client, and ensure the best possible deal in privately-financed investment programmes. In effect, it will enhance the public sector's "intelligent client" capability.

"14 For a particular project, Partnerships UK will align itself with the public sector procuring authority and inject more detailed examination of practical considerations into the decision-making process and drive forward the conclusion of deals. In this way, and by making available its experienced staff and resources to assist with the development of projects, it will help departments and other public interest organisations secure better value in PFI procurement.

15 Partnerships UK will have no monopoly or guaranteed market but will seek to win business on its own merits. It should offer benefits to the public sector and private sector like:

** for the public sector, because it will help ensure projects are better structured from the outset, so boosting the flow of investment into the UK's infrastructure and helping the Government achieve better value for money in PFI deals; and*

** the private sector will also benefit from better-structured projects, which will help bring about reduction in the cost, delay and uncertainty experienced by bidders for PFI projects."* (pp 31-32)

It is a testament to New Labour's infatuation with the private sector that it has consciously legislated for an arrangement in which public sector customers are forced to buy advice about price from a company controlled by private sector suppliers, and that this is presented as a means of the public sector getting value for money. Such is their infatuation with the private sector that they don't seem to recognise that there is a conflict of interest between a public sector customer who wants the lowest possible price and a private sector supplier who wants the highest.

[Malcolm Bates, who played such an important role in getting PFI off the ground for New Labour, was rewarded with a knighthood and went on play another important role for New Labour as Chairman of London Transport, the body responsible for the London Underground and for signing PPP contracts (when the Government tells it to do so) - before handing over responsibility for operating the contracts to the GLA for the next 30 years. As such, Sir Malcolm is one of the very few people in the world who is prepared to back the PPP scheme, albeit for a handsome salary.]