

After the Crisis - Sharing Power More Equally

In November 2018, the United Nations Special Rapporteur on extreme poverty, an Australian academic, Professor Philip Alston, presented his report on the United Kingdom. The contents were devastating. Alston wrote:-

"The UK is the world's fifth largest economy, it contains many areas of immense wealth, its capital is a leading centre of global finance, and its entrepreneurs are innovative and agile. It thus seems patently unjust and contrary to British values that so many people are living in poverty. This is obvious to anyone who opens their eyes to see the immense growth in foodbanks and the queues waiting outside them, the people sleeping rough in the streets, the growth of homelessness, the sense of deep despair. 14 million people, a fifth of the population, live in poverty."

Alston pointed out that "The country's most respected charitable groups, its leading think tanks, its parliamentary committees, independent authorities like the National Audit Office, and many others, have all drawn attention to the dramatic decline in the fortunes of the least well off in this country. But through it all, one actor has stubbornly resisted seeing the situation for what it is. The Government has remained determinedly in a state of denial."

This senior and internationally respected academic wrote that "the policies put in place since 2010 are usually discussed under the rubric of austerity. But this framing leads the inquiry in the wrong direction. In the area of poverty-related policy, the evidence points to the conclusion that the driving force has not been economic but rather a commitment to achieving radical social re-engineering. Successive governments have brought revolutionary change in both the system for delivering minimum levels of fairness and social justice to the British people, and especially in the values underpinning it. Key elements of the post-war Beveridge social contract are being overturned."

Surprisingly – or perhaps not – this hard-hitting report, backed up by sheaves of evidence, was largely ignored by the British media, and was completely side-lined by the Government. But why does this matter?

It matters because, as Liberals, we believe that power should be shared equally. Sarah Green, the LibDem victor in the recent Chesham and Amersham by-election, said when she was elected,

"Every voice should ring with equal strength, equal power and equal value. That is what the Liberal Democrats stand for."

That is a fine principle, which I imagine we would all endorse. But we know that power cannot be equally shared when resources are unequally distributed. The homeless person sleeping in a doorway has considerably less power than the CEO of a FTSE company. If we want power to be shared more equally, we must also see

to it that money is shared more equally. Francis Bacon was not the first person to see money as sordid, but I like his comparison of it with manure – ‘not good except it be spread.’

So, our aim as Liberals after the pandemic should not be just to re-start the economy, but to re-shape it. And in doing so we need to remember that the economy is not important in itself – it is a means, not an end. It is a means to shared prosperity, a better-funded health service, and greater social justice. To re-shape it as I suggest, needs us to look first at what is wrong with the existing model and then how we can change it.

The UK’s economic performance over the last fifty years has been mediocre. It has not been disastrous, but we don’t have to look far to see that it could have been much better. As Alston observed, there are many factors in our favour, so why has our economy not been more prosperous? For starters, let me suggest six factors

- Adherence to a faulty model of economics
- An unequal pattern of rewards
- Rent-seeking (nothing to do with houses!)
- The growth of the Dark Economy
- Over-reliance on financial services
- Lack of internationalism; Brexit.

First the faulty model of economics. So-called ‘neo-liberal’ (should be called ‘neo-conservative’) economic theory has failed. We should stop relying on conventional economists, and be more sceptical about their theories. Their model crashed in 2008 and they have not yet replaced it. Their solution (austerity) harmed the poor but left the rich unscathed. Their model proved inadequate again in 2020 and had to be quickly replaced. Liberals should oppose any return to these failed theories after the pandemic.

Second, the unequal nature of reward in British society. Since 1970, the proportion of national wealth going to labour has decreased, while the rewards to capital have increased substantially. Executive pay has skyrocketed out of control, and rules prevent shareholders (who thought they owned a company) from setting the pay of its CEO. You don’t need to be a Marxist to see that these are problems which needs fixing. Even the IMF now accepts that inequality is bad for the economy, and thwarts growth in it. If poor people don’t have money to spend, the economy doesn’t do well, and wages go down further.

Third, rent-seeking, which is defined as the effort to increase one’s share of existing wealth without creating new wealth. Rent-seeking is a habit of the super-rich, and

of some large companies. Instead of making something useful that people want to buy, rent-seekers often attempt the capture of regulatory agencies. This is sometimes achieved by political donations, which are a ridiculously cheap way for the ultra-rich to skew the rules in their favour. I need not spend time on the corrupt nature of the present government in this regard.

Liberals should reflect on the growth of the Dark Economy. Drug smuggling and distribution, people trafficking and money-laundering are hugely profitable and untaxed occupations, which leave unspeakable human misery in their trail. They can exist only where authority turns a blind eye or prosecutes only the little people. London is said to be the money-laundering capital of the world. Large banks are known to be involved but apparently no individuals are responsible. Political parties routinely promise to crack down on money laundering but repeatedly fail to do so when elected. And we should remember that people trafficking, money laundering, drugs and other aspects of organized crime are brought together in prostitution and the trafficking of women.

I shan't spend time talking about over-reliance on financial services, or the unfolding tragedy of Brexit – you know all about these.

From this analysis, I hope we can deduce what should be the characteristics of a more liberal economic model. I think it is clear that we need a new economic model in which labour is properly rewarded, gross discrepancies in pay become unsustainable, tax impacts to a similar degree on everyone, and a thriving economy is a means to enable social justice, an effective health service, and a full range of well-funded government and local government services.

We need to establish a link between top pay and average pay in an organization. And while we're at it, we could stop government doing favours to the rich. Tax havens – Jersey, IoM, BVI, &c – could easily be closed down if the political will were there, but it is not. Fraud - the estimate for the amount fraudulently claimed from the furlough scheme is over £4 billion - more than enough to cover the cuts the government is proposing to overseas aid. Who needs the money more - people without clean water in the 3rd world, or dishonest business owners in the UK?

We need a root-and-branch reform of the tax system. It is far too complicated, and is ready-made with loopholes for the super-rich to exploit. It should reward value creation, but it has failed to deter value extraction. And while we're at it, we should change the rhetoric around subsidies. As Joseph Stiglitz has pointed out, governments routinely hand vast subsidies to the nuclear industry and the financial sector, while giving stern lectures about standing on their own two feet to smaller businesses.

There is a strong argument that business support should only be provided where companies are tax-payers, not making disproportionate dividend payments, have acceptable company governance structures in place and are actively involved in reducing Climate Crisis impacts. Public aims of this kind would be strengthened by the longstanding Liberal policy of requiring workforce partnership, not least through employee share ownership. The government (that is, you and me) has paid huge amounts to businesses to keep them afloat during the crisis - and rightly so. What return shall we see on our investment? How can we avoid the old trap of public risk and private profit?

Reform of company law and structures to better protect against anti-competitive takeovers which damage good companies and are not in the public interest is something long pressed by Liberal Democrats. Large corporate organisations are a legal construct, enabled to derive huge wealth and power by their limited liability status. It is time to review the terms of the social contract with such commercial entities to ensure that it serves the general interest.

Fortunately, we shall not be alone in designing a better economic model. Forward-thinking economists such as Amartya Sen, Mariana Mazzucato, Joseph Stiglitz, Naomi Klein, and others are re-discovering the wisdom of earlier Liberal thinkers such as JM Keynes, JK Galbraith, and Henry George. There is a growing understanding that economic policy should be driven by public interests, not private ones; and a recognition that the private sector, the public sector, and the 3rd sector all have a part to play, and are all of equal importance.

With the help of progressive economic thinkers, we need to move the debate away from the subjects favoured by the neo-conservatives. Instead of saying "we can't have X because the country cannot afford it", we should ask, "how can the country's finances be arranged so that we can afford X?" Instead of using quantitative easing (the original "magic money tree") to inflate the value of assets such as houses, stocks and shares, we should use it to invest in the public realm and to provide productive employment. This is not only better in itself, but also reduces the likelihood of causing inflation.

Such an approach would enable us to build social justice into the way the country works, thereby reversing the damage done by Thatcher, Hayek, and their successors. It would make the social security system exactly that, rather than an inadequate safety net. It would enable us to fund the NHS to a degree comparable with the higher resources available to the health services of comparable European states. We could re-calibrate work, wealth and reward in such a way as to build a greater sense of common purpose and thus a better-functioning economy. And by spreading money more equally, we would spread power more equally. What's not to like in such a manifesto?

Sadly, there is little sign that Ed Davey or his advisers have any understanding of or interest in these issues. It may be that, as the writer AL Kennedy observed last week, he is 'still under the Curse of Clegg'. If we are to move forward, we shall need to convene a panel of Liberal-minded experts to draw up a plan and show what can be achieved, then sell it to our leaders as far more Liberal, and far more effective, than re-heated Coalition economics.

You will all know that I keep calling for the party to produce an up-to-date statement of 'Our Aim and Purpose'. The last one, now largely forgotten, was published almost two decades ago. Since then we've had the banking crisis, Brexit, and a worldwide pandemic – not to mention the rise of government as a tool for self-remuneration. During the Holyrood elections, the media asked what LibDems stood for, and what was our purpose within the political system. No clear answer was forthcoming. Plainly it is now a matter of urgency to re-establish our fundamental principles and beliefs, and to apply them to today's circumstances. I believe that any such statement should include material on harnessing the economy to serve social good in the ways I have described.

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