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# Finance capital unleashed: British imperialism today

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Keith Spencer makes a case-study analysis of a 'Great Power' that was at the centre of the global financial whirlwind: Britain

The British Conservative Party is openly saying that the cuts programme its government will carry out will touch everyone?s way of life for a generation, while blaming the poor condition of the public finances on Labour?s profligacy in office. The British bourgeoisie have backed this call and the retrospective criticism of the Labour years it involves. But they have very short memories. Business groups and analysts had almost universally bought into the idea that Labour had realised an economic miracle, bringing an end to ?boom and bust?. At the time, the Tories were speechless, not least because Labour had borrowed many of their clothes. But in the global financial crash of 2008 the idea of a crisis-free paradigm was exposed as an illusion. Indeed, on the eve of becoming Prime Minister in 2007, Gordon Brown proclaimed that the UK had experienced 15 years of uninterrupted growth, a decade of which was with him as chancellor. That, he said, was a better record than any of the leading world economies and was the longest period of growth in the UK since 1701. By January 2010, things had changed dramatically. The British economy had only just crawled out of its longest recession since records began ? a year and half ? and even then recorded just 0.3 per cent growth. The UK, along with the rest of the global economy, suffered its worst crisis since the 1930s including the biggest year-on year fall in GDP since 1921. Today, unemployment is still rising, inflation is a threatening possibility and there is a very large public deficit.

This article explains how this dramatic turnaround in economic fortunes came about; looking at New Labour?s economic model, the role the state played in it, the changes in the structure of the British economy it brought about, and how it changed Britain?s relationship with global markets. It does not offer a theory of what caused the crisis[1] as such, but focuses instead on how the policies of the British government shaped the evolution of the country?s capitalism in the years before it, how these related to longer-term trends, and the impact these had on the form that the crisis took.

**5.1 1979-97: Tory onslaught on the working class**

From its election in 1979, and over the course of the next 18 years in power, the Conservative Party carried out a radical shake-up of the economy, aiming to increase the productivity and profitability of British capitalism. The Tories argued that British industry was uncompetitive and unproductive; dominated by large, money-wasting nationalised industries and at the mercy of trade unions and their ?restrictive practices?, while entrepreneurs suffered from punitive levels of taxation and controls on capital flows. There was a naked bourgeois class interest at the core of Thatcherite policy and ideology. Their aim was nothing less than a change in the balance of class forces in the bosses? favour. The 1970s had seen major class struggles. The high point were the strikes of 1972 in support of jailed dockers and the miners? strike in 1974 ? occassions on which the British working class came closest to a general strike in the post-war years. Heath called a general election in March 1974 on the slogan of ?Who runs the country: the government or miners?? and was defeated. As these defeats hit home, the conclusion the ruling class increasingly drew was that workers had too much power, and some amongst them were plotting how to settle their scores with the organised working class. Tory MP Sir Keith Joseph published a pamphlet in the early 1970s whose title revealed the Tories? target: ?Solving the union problem is the key to Britain?s recovery.? Joseph became the mentor to Margaret Thatcher after the 1979 election.

The new Tory government set about cutting government spending on services, reducing taxation for the rich (down from a top rate of 83 per cent to 40 per cent over a few years), de-regulating the City of London and money markets and sharply raising interest rates in their own version of Reagan?s ?Volcker Shock?, with the aim of forcing a recession they could use to reorganise the economy. By increasing the interest rate to 17 per cent and slashing public sector spending, Thatcher succeeded in forcing the recession of the early to mid 1980s. This saw whole swathes of British manufacturing close and unemployment climb to a post-war high of over 3 million people (to disguise this structural increase in unemployment, the Tories changed the definition of unemployment 31 times and moved hundreds of thousands of the long-term unemployed onto incapacity benefit). Successive Tory governments until 1997 also introduced laws that undermined effective trade unionism and which contributed to the defeat of key sections of the working class such as the steel workers, the miners and printers. The Tories also carried out wholesale privatisation of nationalised industries and ended subsidised prices for electricity, gas and water. Thatcher was able to alter the balance of class forces in Britain fundamentally, inflicting an historic defeat on the working class that would set it back many years. This was by no means inevitable, successive great class battles challenged the Thatcher offensive. But the class remained under the hegemony of reformist bureaucrats and Labour Party leaders, who either accepted the offensive as ?inevitable? and ended up collaborating with it through ?New Unionism? or refused to lead the struggles by using the kind of militant tactics and methods that could have defeated them.

The Thatcher offensive was successful in making the working class pay for the longer-term troubles of British capitalism ? it managed to secure a significant redistribution of wealth from the working class to the rich. British capitalism had suffered low investment levels for much of the post-war period and it was the first country ?to witness a long-term decline in productivity relative to its competitors?.[2]

Thatcher claimed to have transformed productivity levels (the ?productivity miracle?), but this was always a fraudulent claim. Increases in productivity under the Tories were achieved by increasing the rate at which labour works (what Marx calls the absolute surplus value)[3]. Britain recovered without the significant introduction of new technologies into industry and by increasing long-term, structural levels of unemployment.[4] The increase in levels of unemployment resulted from the defeat of the unions, public sector cuts and selling-off of nationalised industries. But the other aspect of Thatcher?s policy, de-regulating capital markets, was just as important because it made it easier for foreign investors to take advantage of Britain?s new, flexible and super-exploited workforce, whilst it also allowed British investors greater access to global markets and more freedom to diversofy its capital investment into financial, higher-yield instruments. From the early 1990s, for example, there was growing investment in Britain from Japan and Korea, particularly in the auto and related industries.[5] These changes were intended to give capital greater freedom to exploit and search out profits from global markets.

A permanent increase in productivity would have required investment in new technology, plant, raw materials and so on in order to increase output per a worker (this is the main driver of productivity in capitalism) or what Marx describes as workers putting into motion an ever greater amount of machinery.[6] The so-called productivity miracle was in reality an increase in the rate of exploitation of the workforce, which had been disciplined by mass unemployment. An example of this was the car industry, often portrayed by the political right as the epitome of a failing British industry, but the evidence points to other problems: lack of investment and of government direction. The car industry had suffered low levels of investment and static productivity for much of the 1960s and 70s. Nationalisations had taken place to build bigger conglomerates but the result was just putting together various car producers with little thought given to integration of production lines or economies of scale. For example, in the 1970s British Leyland (BL, a nationalised company) was hit by strikes and stoppages. The Tories used it as an example of all that was bad about Britain: militant trade unions and nationalised industries. But a third to one-half of all stoppages were caused by management failures to co-ordinate production.[7] Car production stopped when part finished goods or raw materials did not arrive, so there were frequent delays that resulted in productivity hovering for decades around six cars per worker a year.[8]

In 1974 there was a collapse in the world market caused by the global oil price hike and recession, demand for cars crashed leaving plants idle and workers redundant. The car industry recovered as the business cycle picked up and more than 1.3 million cars and trucks were produced in 1980 in the industry (compared with 2 million at its 1970 height). The press praised a Tory inspired productivity miracle at BL and elsewhere, but it was more to do with the workforce being cut by half down to 43,000 and the upturn in the world market. Actual productivity was at 5.1 cars per worker in 1982, lower than the average attained in the period before the mid-1970s crisis.[9] What did prove able to boost productivity was investment in machinery, especially computer-based systems and robots. By the time New Labour came to power there were far fewer British-owned car manufacturers, but productivity had increased twentyfold. In 2000, Nissan?s Sunderland plant and Toyota?s at Burnaston topped the list of the most productive European car plants with Nissan workers making on average 101 cars a year each. Honda?s Swindon plant produced 83 a year in 1999 (it was closed for refurbishment for part of the year in 2000). Other plants such as Ford?s Ellesmere Port and Dagenham did less well, but were still above the European average of 58.3 cars per worker a year.[10]

This improvement in productivity was supported by a Department of Trade and Industry report in 2000 that said the industry was going through a ?renaissance?.[11] But this did not stop Ford ending car production at Dagenham with the loss of 3,000 jobs in 2000 or Vauxhall cars in Luton in 2002 with the loss of another 2,000 jobs.[12] The Labour government?s refusal to intervene, coupled with UK labour laws that made redundancies far cheaper in Britain than in other European countries, made it far easier for companies to close UK plants than it was to shut their continental counterparts.

Over the next 10 years, more of the UK car firms such as Land Rover, Aston Martin, LDV vans and Jaguar were sold off or closed. When Labour did intervene, in the case of MG Rover, it was a fiasco. A four-man consortium called Phoenix bought the brand and its debts for £10 and then ran up even greater debts of more than a billion pounds while walking away from the company in 2005 with very healthy personal gains. A government report eventually published in 2009 revealed that the executives involved took £42 million in pay and pensions before the company went bust.[13]

None of this deterred the bosses from continuing to blame low productivity rather than poor management. A Mackinsey report in 1998 found that, ?in the UK car industry labour productivity is 50 per cent lower than Japan?s?UK total factor productivity in telecoms is about 60 per cent that of the US.?[14] But, with investment, UK car companies could compete with European competitors. Mackinsey?s claimed the problem was over-regulation and lack of competition, but the British economy had been one of the most de-regulated in Europe since the Tories were in power in terms of labour flexibility and easy movement of capital ? that is why foreign companies were attracted to the UK in the first place, that and as a stepping stone into the EU. But beneath the headlines the report did reveal the real cause: ?Capital investment per hour worked in the UK is around 25 per cent lower than in the US.? This finding was supported by a DTI report in 2000, which found that business investment per worker was $6,000 a year between 1990 and 2002 in the UK and $8,000 in France, Japan, US and Canada for the same period. A report from the Institute for Fiscal Studies put the blame on UK management: ?Foreign-owned firms invest more in physical capital and use more intermediate goods. They also pay their workers higher wages.?15 This, then, was the reality of the Tories? ?productivity miracle?: the workforce had been slashed in the 1980s, mass manufacturing closed, and the economy de-regulated. Foreign capital began to invest in UK industry and the wider economy such as services and finance. Non-EU firms especially could use Britain as a way into Europe without the added legislation. In some sectors there was also increased investment, which helped parts of the car industry reach record-breaking levels of productivity. Overall, however, this was not generalised, growth depended on low wages and long hours to squeeze extra ?productivity? out of the workforce.

**5.2 Labour embraces the market: 1987 to 97**

After losing two elections in the 1980s, Labour launched a policy review. It concluded in 1989 with the publication of Meet The Challenge, Make the Change. The party now favoured markets and sought partnerships with business, some of the Tory trade union reforms were accepted within a new framework of workers? rights while old style planning and nationalisation were abandoned:16 Labour ?had embraced the market?.17 Neil Kinnock, the Leader of the party, wrote in the introduction to the document about ?maximising the self-reliance which flourished on opportunity and security?. At the Labour NEC, Tony Benn called it ?by far the most right-wing policy during my time in the party? ? only six years earlier Labour had stood on the most left-wing manifesto in its history.18 But Labour still lost the 1992 election. Kinnock gave way to John Smith who died in 1994, leading to the rise of Tony Blair and Gordon Brown. Together, they began moulding the party?s economic policy into what we recognise today as ?New Labour?. They were helped in this by two global phenomena: the collapse of Stalinism and the consequent rise of ?globalisation?. More open global markets, opportunities for international investment, coupled with the discrediting of state control of the economy and the idea of ?socialism? more generally, allowed the fostering of a neoliberal consensus across the West.

To crown New Labour?s ascendancy over the party, Blair carried out an ideological offensive on the central myth of Labour: Clause Four. The clause, printed on every membership card, announced that the goal of the party was:

?To secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry or service.?

Blair campaigned in 1995 to replace it. A previous right-wing leader, Hugh Gaitskell, had tried to replace the clause after Labour?s third election defeat in a row in 1959, but he was defeated and the clause was then printed on membership cards. Blair, however, was successful and the new words are:

?The Labour Party is a democratic socialist party. It believes that by the strength of our common endeavour we achieve more than we achieve alone, so as to create for each of us the means to realise our true potential and for all of us a community in which power, wealth and opportunity are in the hands of the many, not the few, where the rights we enjoy reflect the duties we owe, and where we live together, freely, in a spirit of solidarity, tolerance and respect.?

The victory over Clause Four was not important practically. The clause never committed the party to a socialist transformation and democratic planning ? even on its most radical interpretation it proposed a mixed economy of state and market. Moreover, it had been little more than an empty phrase for decades, having little if any impact on Labour?s policy. The significance of its abolition, however, was symbolic, emblematic as it was of the party?s move rightwards. It sealed the victory of ?New? Labour over the party (and affiliated labour movement) as a whole. Brown now started developing New Labour?s economic policies. He accepted the monetarists? doctrine of the importance of controlling the money supply and keeping inflation low. But he believed that governmental political decisions about the money supply had often worsened the economic situation, such as the decisions over joining the European Exchange Rate Mechanism (the ERM ? European currencies were fixed in a band of values, which was a precursor to the single currency) and Britain?s forced exit in October 1992 when the money markets moved against the pound.[19] He also claimed to have found fault with the ?lack of transparency? about policy and decision-making. [20] Brown and his ally Ed Balls favoured floating exchange rates and handing the fight against inflation over to the Bank of England on the basis that ?politics? had to be taken out of money-management ? or, in other words, that democratically elected representatives should have no control over it, and instead an unelected committee of bourgeois economists should hold sway completely.

After New Labour won the election in 1997, Brown moved quickly to enact this policy ? even though it never appeared in their election manifesto.[21] On the Monday following Labour?s victory, he announced the setting up of the Monetary Policy Committee (MPC), which the Bank of England would lead, to determine interest rate policy with the aim of controlling inflation. [22] The setting up of the MPC was welcomed by the City of London and praised by international institutions; even former chancellors such as Nigel Lawson and Norman Lamont supported the move. Brown had handed to the MPC the operation of interest rate policy but he still set the target rate for inflation. Brown also brought in two fiscal objectives ? the ?Golden rule? and the ?Sustainable Investment rule? ? in order to provide transparency of government and a stable basis on which business could operate. The Golden rule was that, over the economic cycle (whose start and end were to be determined by the Treasury), the government would operate a surplus on its current spending. The second rule was that government net debt would be kept below 40 per cent of GDP. To enforce these rules, government departments operated with a framework of three-year spending plans and 10-yearly comprehensive spending reviews, which gave the Treasury enormous powers to intervene into departmental spending and policy, a source of much friction under successive New Labour cabinets.

**5.3 ?Supply side socialism?**

Where New Labour differed from the monetarists was its emphasis on the role of the state in boosting business productivity. Brown said: ?The new international economy requires, in New Labour?s opinion, to adapt macro-economic policies akin to those of the new right together with very different policies towards the supply-side.?[23] These polices, however, also differed from previous Labour administrations ? there was to be no department of industrial planning or tripartite approach of unions, government and business. Instead, there would be an emphasis on what Brown called in 1994 ?post neo-classical endogenous growth theories.? The phrase was derided in the media at the time yet it refers to a key determinant of productivity such as training, education, creating a more skilled workforce and shaping the welfare state for the needs of the economy, essentially non-economic methods of boosting growth in the economy or rebuilding the supply of labour. So in came the minimum wage, tax credits for children and working families, and the new deals for long-term unemployed and young people. Some of the Conservatives? attacks on welfare were reversed but redirected into means testing and work credits, so that New Labour could argue that it was ?worth people working?.

Blair told a meeting of European socialists after he became Prime Minister that globalisation meant that: ?There is an urgent task to renew the social democratic model to meet this change?.[24] Blair explained to a business audience in November 1998, that the new model was about our ?our know-how, creativity and talent? and making the UK ?distinctive?.[25] The new model was about a changing world of high technology, communications, design, and the rise of small businesses. In order to pursue this creative future, the state was needed. Peter Mandelson outlined the state?s role: ?The government has a key role in acting as a catalyst, investor and regulator and to strengthen the supply side of the economy.?[26] Brown developed it further: ?Achieving high and stable levels of growth and employment will require new approaches from national governments, modernising social security systems, improving work incentives through the tax system, removing barriers to growth and encouraging the job-creating potential of small business.?[27] Or, summing it up more simply: ?Work for those who can, security for those who cannot.? Labour had recognised that low investment underlay poor productivity. In Brown?s first budget speech he had criticised British industry: ?The UK has invested a lower share of GDP than most industrialised countries and GDP per a worker has been lower too.? He went onto provide some international comparisons:[28]

Figure 1: Investment per worker where UK equals 100

| UK | 100 |
|---|---|
| Germany | 145 |
| US and France | 150 |
| Japan | 160 |

So the UK?s major competitors were investing on average nearly 50 per cent more in their workforces than the UK. But, despite the minimum wage and the sop to the unions over the Fairness at Work legislation, which made it easier for trade unions to ballot for recognition in workplaces, the UK still had the most flexible, unregulated labour market in the advanced economies. And New Labour was proud of it. Blair told business leaders in 1997 that ?New Labour policies, including the minimum wage, would amount to less labour market regulation than the USA.?[29] There was another reason for training the workforce: the unemployed were not acting as a restraint on wages. The lack of education and skills of many of the unemployed, especially with the decline of mass production and apprenticeships, meant that they were excluded from the labour market anyway. Those not in work could not compete for the jobs of those in work, therefore there were still skill shortages and bottlenecks. Karl Marx called the pool of unemployed the Reserve Army of Labour, whose function was to undermine the pay and conditions of those in work. In times of recession they would be thrown out onto the dole to act as a warning to the employed while during a boom they would be employed on low rates undercutting the long-term workforce. In the British economy, however, this was not happening because the unemployed could not enter the workforce. The blame for the lack of skills was put on the unemployed. New Labour theorist Anthony Giddens referred to ?generous benefits that run indefinitely?[30] thereby undermining the ability of the unemployed to act as a discipline on the employed. Instead, he argued for tying benefits to work or education so that the individual could enter the labour market with skills. In effect, however, the result often translated into subsidising businesses to take workers on very low, super-exploitative wages that would be topped up by the state through tax credits, or, in the case of social security claimants, effectively given over for free as the state continued to pay benefits, whilst those on schemes like ?New Deal? worked a full week for private sector employers. The result sustained and consolidated the ?McJobs? labour force that had been brought into being by the Tories in the 1980s.

The emphasis on overhauling the welfare state to make low paid, highly exploitative work more attractive by subsidising it with state benefits and to provide skills training attracted support from right and left. Even Will Hutton, whose ideas on stakeholding and critique of British industrial relations and the wider society had been spurned by New Labour?s leadership, praised Brown for recognising the role of the state in training and advocating investment in public services to boost productivity.?[31] However, Hutton tempered his praise by pointing out that the practice of New Labour was far from the potential. ?As it stands, the

Third Way has become a de facto means of the state reducing its obligations and shifting the burden of risk onto the least able to bear it while only offering limited help in comparison.?32 The bosses gave New Labour?s reforms fulsome praise. As far back as 1994, Blair had met the then head of the CBI, Adair Turner, who commented: ?We are extremely impressed at the way Mr Blair is talking our language, the language of business.?33 In April 1997, as part of the election campaign, Brown delivered Equipping Britain for the Future in the City of London, which was ?generally welcomed?.34 Brown also went courting business leaders with a succession of soundbites: ?21st century Globalisation is made for Britain?;35 ?we want Britain to be a great place to do business? and ?Labour was now the entrepreneur?s champion?;36 New Labour was for a ?modern industrial base, high levels of investment and a culture of entrepreneurship.?37 In his pre-budget speech of November 1998, he told MPs ?our policy is pro-business, pro-share ownership, pro-tax simplification and pro-competition.? All these pro-business policies had an effect in recruiting business leaders such as Lord Sainsbury, Alan Sugar, Tesco?s Terry Leahy and the head of British Steel, Brian Moffat. The result, as one commentator put it, was that: ?Labour had passed a watershed in its relationship with business.?38

**5.4 New Labour?s policies in practice**

Brown?s first budget was a clear expression of New Labour?s approach. He introduced a windfall tax on public utilities that was to be used to fund his New Deals for long-term unemployed and young people. He abolished tax relief on pensions in an attempt to stimulate investment (believing businesses would re-invest profits rather than pay shareholders) and reduced it on mortgages, raising substantial sums of money without touching income tax. This allowed him to cut corporation tax from 33 per cent to 31 per cent and for small businesses from 23 per cent to 21 per cent, and left him with enough to promise a 10p tax rate and tax credits. He stated he would keep to former chancellor?s Ken Clarke?s tight limits for public spending but found extra amounts for the NHS (£1.2 billion), schools (£1 billion) and school building and repairs (£1.3 billion).39. The budget was praised by Labour MPs and the IMF: ?The new government has made an excellent start.?40

New Labour?s economic prowess was soon to be tested with the economic crash in South East Asia in 1997. The crisis originated in Thailand in July when the government floated the currency, the baht, in response to its ongoing debt problems. The baht fell sharply, precipitating a collapse in the real estate market and the wider economy. The crisis quickly spread to other economies in the region, particularly South Korea and Indonesia, forcing the International Monetary Fund to bail out the currencies with $40bn to help affected countries meet debt obligations. Eventually, the international system was able to contain the crisis, but another one erupted in 2000 with the bursting of the dot.com bubble in the USA. UK monetary policy was now in the hands of the Bank of England-led MPC. From 1997 to 2001, inflation moved in a narrow band around the target of 2.5 per cent, averaging out at 2.4 per cent during the period. The IMF praised its proactive role in fighting inflation contrasting it positively with the ?more infrequent moves of the Bundesbank or the ECB or the Federal Reserve Bank in the United States.?41 It was also congratulatory about the transparency of the MPC?s decision making.42 MPs were also satisfied, the Treasury select committee stated in 1999 that the MPC had ?helped stave off a recession? with its policies and insulated the British economy against global instability.43 The result was that the government operated an annual budget surplus for the first four years (the largest being $12bn in 1999) and was able to reduce public spending from 41.2 per cent of GDP in 1997 to 37.8 per cent of GDP in 2000 so obeying one of Brown?s rules.44 Helped by low inflation, the government also reduced the national debt by more in its first four-year term than all governments had in the previous 50 years.45

Consequently, New Labour got what it had set out to achieve: stability for growth. The surpluses, low inflation and stable economy allowed Brown to steer the country past the obstacles in the global system. The lack of synchronicity between the UK and other major economies meant that the British business cycle ran between those of the US and Europe. Therefore, unlike the crash of 2008, which was a global synchronised phenomenon, the recession of the early 2000s occurred in Europe in 2000-1 and in the US in 2002-3. Meanwhile, growth in the UK only slowed in these years it, did not dip into a recession in ?official terms? i.e. two quarters of negative growth.46 This peculiarity also delayed membership of the single currency and eventually postponed it indefinitely. The single European currency, the Euro, was launched in 1999. Depending on the biographer, Brown was ?inextricably linked to preparations for the Euro?47, Blair was not a Euro enthusiast48 and both decided to let the issue lie49 or Brown turned against joining when he became chancellor.50 Brown came up with his five tests, which the economy had to pass, before joining; one of which was the aligning of the business cycles. Eventually when they did align the case for joining the Euro had diminished and it fell from the political agenda.

Another factor in staving off recession was the re-emergence of the Private Finance Initiative. This was originally a Tory policy in which the state contracted private sector firms to rebuild infrastructure projects such as hospitals, tube lines, government buildings, and to operate services such as cleaning and catering. In return, the state leased the service from the private contractor for a period up to 30 years. The supposed ?benefits? were that it attracted private sector cash and know-how to build and operate public services while keeping borrowing off the government books, as it is in the form of rental or service charges,. Between 1992-7, PFI went into the doldrums. Brown, however, seized upon it as a tool for modernising and reforming the UK?s infrastructure. Geoffrey Robinson, Brown?s friend and in cabinet as Paymaster General (who holds accounts at the Bank of England for the government) was put in charge of revitalising PFI by recruiting business people. By 1999, there were more PFI schemes than there were under the Tories ? even though PFI was a sham that simply provided a means to channel public funds into private pockets. The government admitted that PFI was costlier than borrowing, the contracts were of a size and complexity that often mitigated against any competition, the unions opposed the policy recognising it as not only a callous waste of money, but a step towards privatisation, involving attacks on pay and conditions.51 It was particularly used in school and hospital rebuilding programmes.52 As early as January 1998, the National Audit Office was criticising the PFI firms? charges, which, including servicing and building, were expected to account for £44bn of public spending.53

This spending of public money on private profiteering meant that the PFI programme did provide a state-led boost to infrastructure investment during Brown?s first term of ?prudence?, which, along with a budget surplus that could be invested and low inflation and interest rates, allowed the British economy to continue to register growth while those around sank into recession. A buoyant economy coupled with rising wages, measures such as tax credits and the minimum wage, also led to living standards rising in the first four years by 14 per cent and another 4 per cent by 2004.54 By 2001 ? the end of New Labour?s first term in office ? the Treasury was able to claim that its rules, monetary policy and stewardship of the economy were working well, praise echoed by the IMF and World Bank.55

**5.5 Investment in public services**

Labour?s second term of office, from 2001 to 2005, saw expansions in spending on public services. The NHS and education both received real (i.e. adjusted for inflation) increases in spending of more than 7 per cent.56 Other areas, including welfare, also received spending increases ?significantly higher? than previous Labour administrations.57 In addition to spending on education and welfare as part of the ?supply side revolution?, New Labour also spent £31 billion on trade, industry, research and development; offering generous terms or policies to its favoured parts of the economy such as the City, property, nuclear, the military industrial complex and pharmaceutical companies. PFI deals, de-regulation, easy credit and subsidies or generous loans were handed out such as the nearly billion pounds given to BAe, a key part of the UK?s military industrial complex, to build the Airbus. But later, BAe sold off its 20 per cent share in Airbus in 2006 and kept the money. Government and unions were left trying to negotiate safeguards for the staff earmarked for working on Airbus and suppliers ? about 135,000 jobs in all.[58]

To pay for all this spending the government started to increase borrowing from 2001 (reaching about £30 billion a year from 2004 to 2006). The breaking of the ?golden rule? on ensuring a surplus over an economic cycle was avoided by changing the dates of the cycle, which the Treasury did several times in 2005-6.[59] Some commentators argue that only a quarter of the borrowing can be explained by spending, the rest is the reduction in corporation tax revenues.[60]&[61] Figures do show that the City of London pays very little tax, given the amount of money that passes through it ?according the British Bankers? Association, UK banks paid just £8 billion in tax in 2007. Meanwhile, the TUC estimated in 2008 that the super rich avoid paying £13 billion a year while the top corporations evaded their tax obligations to the tune of £12 billion.[62] The problem reveals the limits of New Labour?s style of reformism. Much of its spending is for the benefit of business, either training the workforce, subsidising low wages through tax credits, or contracting private sector firms on generous PFI terms or even giving preferential loans to favoured companies. Without an increase in taxes on wealth and business profits (less money is raised from Corporation Tax than from Income Tax, National Insurance and VAT), the cost of reforms will be borne either by taxing the majority of workers or borrowing, which will lead to a greater burden on workers in the future.

There are several measures that could be used, but they all point towards the bank bailout and inevitable costs of recession being the cause of increases in spending and borrowing ? not the exuberance of years of Labour spending as the Tories have claimed. First, there is government spending as a percentage of GDP. By 2007, government spending broke the 40 per cent of GDP rule. However, to put this in context, government spending as a percentage of GDP also broke through 40 per cent in the early 1990s as the country went into recession spending more on unemployment benefits and receiving less in taxation.[63] Second, there is current government borrowing (the amount it needs to borrow in addition to tax revenues to cover its spending in any year), with the EU recommending the target of no more than 3 per cent of GDP as good financial governance. Net government borrowing (the amount needed to borrow to cover spending after tax revenues) averaged less than 3 per cent of GDP until 2008-9 when it doubled to 6 per cent and is forecast to peak at 11 per cent in 2010-11. It was running at over 6 per cent in the 1990s and more than 7 per cent in 1992-5. In 2007-8 central government borrowing was £38.7 billion, it then jumped to £91 billion in 2008-9 and is forecast to be £159 billion in 2010-11, according to the latest figures from the Treasury after the election.

Third, there is the public sector net debt (PSND a modification of the national debt) as a percentage of GDP (the amount owed in total after current and historic spending and receipts). This exceeded the 1990s when it reached 44 per cent in 2008-9 and is forecast to rise to about 75 per cent by 2014-5. Although at the time of publication the UK?s new Office of Budget Responsibility puts the current account deficit and government borrowing slightly lower. By these three key measures it is clear that claims that Labour spent beyond its means in the last years of the crisis are exaggerated; the big hole in the public finances was principally caused by reduced revenues due to the biggest recession in the post-war period. In addition, the net liabilities from the bank bailout are huge (considered to be anywhere between £1-£1.5 trillion); some of which, including Lloyds, Northern Rock and HBOS (Royal Bank of Scotland) are added to the national debt,[64] although they are discounted against assets and are assumed to disappear once the banks are privatised with the possibility that the taxpayer will make a profit ? hence all forecasts show a decline in debt from 2014. Nonetheless, at the time of the decision to add bailout liabilities to PSND, there were worries that state finances were being imperilled (including The Telegraph and Money Week, which are now arguing that public services should be cut to improve government finances).[65] Yet the thrust of the new government?s policies is to attack public sector services and jobs and, along with similar austerity programmes in Europe, this could trigger a double dip recession and with it bring further pressures on the international finance system.

**5.6 Was New Labour successful in restoring the dynamism of British capitalism?**

This section looks at whether New Labour was successful in achieving long-term reforms to British capitalism. In considering the successes or otherwise of the policies, we need to look at the main division in the economy between productive and unproductive sectors. The productive sectors are those that produce commodities that incorporate value; where a worker labours with raw materials, part-finished goods and machinery to produce a good to be sold on the market. In so doing, the worker not only produces value to replicate his own labour, but also produces enough commodities that when sold can replace the value of the materials and machinery used in production and provide the capitalist with surplus value (i.e. more than the worker is paid). It is this surplus value that is the source of the capitalist?s profits; the accumulation process is where billions of people around the world produce value and the tiny minority of capitalists grab their share, surplus value, to enrich themselves and reinvest in order to accumulate more. Unproductive sectors refer to the often necessary services that are provided, but which do not produce commodities or services for sale on the market and so do not accrue surplus value. For example, public services are often free of charge and are paid for out of general taxation. The army and state bureaucracy are unproductive. Parts of private industry may also be unproductive such as retail or distribution services that only allocate or move commodities.

There is also an important Marxist debate about the finance industry: whether banks, investment funds, and so on, actually create surplus value or siphon off already existing profits from productive capital. Where they invest in capital then they are productive; the investment will be used by workers to generate more surplus. That is the role the finance industry likes to present as its main role: the funding of investments globally in order for the capitalist economy to grow and increase productivity, thereby generating more wealth ? and so the sector argues that any controls on it undermine its ability to invest in production and so undermine the whole economy. However, large parts of the wealth of the finance sector is circulated within the sector itself in various opaque forms such as the financial instruments that were popularly blamed for the current crisis like Collateral Debt Obligations ? what Marx called the ?mad forms of money?. The money tied up circulating in this area can greatly expand in price, but when exchanged against a real commodity often decline sharply, revealing a huge loss ? which is what happened to a lot of capital in 2008. In this way, the huge amounts of money circulating in these forms are unproductive: they are not being invested to produce commodities and so surplus and their own prices are often at odds with their nominal values. The term unproductive labour is a technical one, and is not pejorative, it only refers to workers who sell their labour power, but do not produce surplus value such as NHS workers or state teachers ? they are still important elements of the working class. The reason we are interested in productive labour and productivity is that we want to ascertain the strength of British capitalism, a system based on the exploitation of labour by capital for profit.

**5.7 Did productivity and profits improve?**

New Labour?s welfare policies and the long period of economic growth boosted production through increasing the numbers in work. In early 2008, the rate of employment reached 75 per cent of the working population ? about 29.4 million in work, with more than 7 million of these part-time. Now, with the onset of recession, the employment rate is down to 72.5 per cent. The 13 years of Labour saw an increase in the financial sector while other parts of the economy had only modest growth or outright stagnation. This was a continuation of already existing trends in the economy from the 1970s onwards.

Figure 2: Changes in the UK economy. Share of gross value added by sector (per cent)

| | 1970 | 2007 |
|---|---|---|
| | | |

| | | |
|---|---|---|
| Manufacturing | 32 | 12 |
| Public Services | 14 | 18 |
| Private Services | 41 | 59 |
| Other | 13 | 11 |

***Source: Oxford Economics Autumn 2009***

A more detailed look at the period 1998 ? 2008 shows the doubling of the finance sector. Other areas showing significant growth were also in the service sector such as education, distribution (which includes retail) and transport.

Figure 3: Gross value added 1998 (black) and 2008 (grey) at basic prices (£ billions)

***Source ONS: UK National Accounts the Blue Book***

The only area outside of the service sector to grow significantly is construction, fuelled by the property boom in corporate buildings and private accommodation. The productive sectors of agriculture, mining and manufacturing have stagnated or declined. Manufacturing declined from 22.5 per cent in 1997 to 12 per cent of the economy?s gross value added ? a greater decline under New Labour than under Thatcher. This decline prompted Mandelson to comment recently:

?The economy was growing so well, and one of the drivers of that was financial services, that perhaps we took growth for granted too much.?[66]

Overall, UK?s manufacturing is worth about £150 billion a year and it is still the sixth biggest manufacturing country in the world behind the USA, China, Japan, Germany and Italy. Most of the UK?s traditional competitors have experienced declines in percentage terms oncluding US and France (seventh in the world list); and only Japan and Germany with a manufacturing base still over 20 per cent of the total economy.[67]

High-tech IT companies and those manufacturing companies with increasing ties to international markets grew throughout the period while traditional manufacturing declined. High-tech companies now account for about 40 per cent of UK?s manufacturing (gross value added), which reflects the growing importance of R&D to UK manufacturing in the 2000s compared with the 1990s.[68] UK manufacturing has also become highly integrated into world production, the percentage of output which is linked to export and import is just under 90 per cent; this compares with Germany, just under 100 per cent, the US about 50 per cent, France 80 per cent and Japan 40 per cent. Britain and Germany are leading the way in integration with global production ? the difference being that, in Germany, manufacturing still accounts for about 30 per cent of the economy.[69] Mandelson even talked about a hi-tech future:

?I?m unashamedly talking about the reindustrialisation of the British economy, but not by going back to the old smokestack manufacturing past ? we know we can?t turn the clock back.?[70]

There were also improvements in productivity. According to the EU, the UK?s productivity levels are now in line with the original EU15 countries although still behind Germany and France.71 This is supported by the Office of National Statistics, which finds that the UK has closed the gap on its G7 competitors since 1991 but still lags behind Germany, France and USA.72 An ONS research document in 2004 also found that the UK economy had been improving its productivity. For the first time, the percentage of UK workers with no or few skills was below 50 per cent (better than the US but still behind France and Germany). It also found that multinationals are far better at improving productivity than non-multinationals as they bring in outside skills and knowledge, investments and economies of scale as well as being better placed to keep wages down because of their size and social weight and the ease with which capital can move in and out of the UK economy. The report found that the UK?s average industrial wage is about £20,000 compared with France (£24,500 and Germany (£26,000). It is still the case that ?UK manufacturing is dependent on low wages and long hours.?73

Thus, increasing dominance of the UK economy by multinationals may have improved productivity but the UK?s inability to finally close the gap on the other G7 countries was still down to the lack of investment in training and education.74. The main areas of investment were manufacturing, finance, real estate, communications and distribution.75 But, overall, the UK had the lowest gross fixed capital formation (a measure of investment) as a percentage of GDP (14.5 per cent) of any of the 27 EU countries in 2008 with the exception of Malta. And, since 1997, it has been significantly lower than its major competitors such as Germany and France and the average across the EU. The same pattern occurs when we look at state aid to all business, with the UK again being lower (about 0.3 per cent) than the EU average and its major competitors; Germany being more than double that figure with France in between with an average of (0.5 per cent).76 The government did have some success in boosting skills and international competition also played an important role in increasing productivity. The government could claim with some justification that its policies did attract foreign capital but the downside is that these same firms can also move out of the UK with hardly any hindrance. So, while the UK economy under New Labour closed the productivity gap, it did not overhaul its major competitors and still relies on low pay and long hours rather than investment in capital or training.

**5.8 Profitability?**

The UK continental shelf companies show remarkable profitability in the latter part of the 2000s. Manufacturing profits appear to have declined under New Labour ? so despite the shaking out of poor performers suggested by the sharp decline, profitability still has not improved. Profits in the service sector have improved since the 1980s and are now significantly above those of manufacturing. An ONS study from 2002 shows the UK service sector (non-financial) in fifth place and manufacturing 13th ? just behind the USA ? in league tables for profitability. But, in terms of overall profitability, it came in fourth place behind Norway, Finland and Belgium (the rise in position may be due to finance, oil and gas). The UK appears to be equal or beating its major competitors in oil, gas, and especially in finance where London is pre-eminent.78

Figure 4: Annual rates of return (gross) for UK private non-financial companies (PNFCs) Profitability of UK companies, 3rd quarter, 200977

| Sector | 1989 | 1997 | 2007 | 2008 |
|---|---|---|---|---|
| All UK PNFCs | 11.3 | 12.3 | 13.2 | 13.1 |
| Manufacturing | 10.1 | 13.3 | 9.8 | 8.9 |
| Services | 14.1 | 15.7 | 14.9 | 14.8 |
| | | | | |

| | | | | |
|---|---|---|---|---|
| UKCS | 11.9 | 15 | 26.2 | 35.6 |
| Non UKCS | 11.3 | 12.1 | 12.4 | 11.9 |

***Source ONS. CS is continental shelf, i.e. oil and gas companies in the North Sea. The figures do not include financial corporations.***

**6. The UK as an imperialist state**

A Marxist analysis of the more recent evolution of the British economy cannot simply look at its ?internal? development, but also its role in the global system, both recently and in its historical, longer-term position. Britain is a peculiar state, because it was once the powerhouse of the global economy, and politically dominant with its huge empire giving it a hegemonic status over other powers (albeit, nothing like the unrivalled domination America enjoyed over the capitalist world following the Second World War). The economic and political domination of the world order by a handful of great powers within a globally integrated capitalist system was the subject of the classical imperialism theory developed by Lenin and the Marxists of his generation in their bid to understand how the capitalism of their day was changing. The immediate background was the catastrophic barbarism of the First World War which divided the international working class movement between revolutionary internationalists who opposed it, and reformist sections of the movement who aligned with ?their own? bourgeoisie. But the analysis they developed was based on more than the wars that had typified European colonial competition since the 15th century. The reason these had a more barbaric character in the First World War was due to the development of capitalism technologically and as a social system, this had heightened competition economically and politically and increased the terrible social costs of war. Lenin?s theory of imperialism drew on earlier insights of Hobson, Hilferding, and Bukharin, and in many respects synthesised the insights of these writers into a composite analysis of the development of capitalist contradictions of his day.

Lenin described how great industrial monopolies had grown out of capitalist production and become fused with banking capital to create finance capital, leading to the formation of cartels that dominated production, and with a global reach of investment and credit, allowing them to extract tributes from whole nations through debt and investment, and exploit the work of millions of working people. War and revolution were political expressions of these growing social contradictions.

Lenin also developed the analysis of Marx and Engels of the changing composition of the working class; with growing concentrations of wealth in the imperialist countries, some sections of workers, in particular those with high skill levels or in strategic industries, were able to force the ruling class room to make important concessions on wages and working conditions and this fostered the development of a ?labour aristocracy? that could provide a degree of social stability for the reformist parties.

In his ***Imperialism: the Highest Stage of Capitalism***,79 Lenin characterised imperialism as having five basic features:

(1) The concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life;
(2) The merging of bank capital with industrial capital, and the creation, on the basis of this ?finance capital?, of a financial oligarchy;
(3) The export of capital as distinguished from the export of commodities acquires exceptional importance;
(4) The formation of international monopolist capitalist associations which share the world among themselves, and
(5) The territorial division of the whole world among the biggest capitalist powers is completed. Imperialism is capitalism at that stage of development at which the dominance of monopolies and finance capital is

established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed.

Lenin argued that these were only the general economic characteristics of imperialism and that the world system had within it large differences in growth rates and utilisation of modern technology, continually emphasising this political and economic unevenness in his analysis. This could allow for a great deal of variation in models of economic development, but it would take place within a wider world system in which these features assumed exceptional importance. The idea of ?monopoly capitalism? was the most essential feature, because it expressed both the political-economic domination of the world by a set of advanced states and the undermining of free competition as capitalism developed through centralisation and concentration into a more and more oligopoly-like state of existence.

Keeping hold of the broad contours of this framework is essential when we come to analysing the contradiction-laden evolution of the global system today ? not least because the growing inter-connection of the world economy has gone alongside the increased domination of ?finance capital? ? i.e. huge, highly-interconnected industrial and banking concerns that dominate global capital flows. Britain has benefited considerably from its place within the political-economy established in the globalisation years and has been able to offset to a large degree some of the problems of its domestic economy, by the global reach and power of its multinationals.

Britain was able to benefit from its Empire, its historic trading links around the world and being the first industrial power. But, in the post-war period, Britain had to find a new role for itself, no longer able to economically afford or politically control its huge Empire, it had to accept decolonisation and the loss of influence that came with it whilst its ageing domestic manufacturing sector was undermined by more nimble competition from its rivals. Britain has gone through a long period of relative decline and has had to re-orientate to Europe, which now accounts for 50 per cent of its exports. But how does it fare today ? does it still have a global reach and power?

**6.1 The rise and rise of British monopolies**

British corporations today seriously punch above their weigh internationally. Today, there are now 14 UK-owned and 3 UK jointly-owned trans-national non-financial corporations TNCs in world?s top 100.[80] The past decade has seen a remarkable 40 per cent decline in US and Japanese TNCs in the world?s top 100, with the UK, France and Germany firms being the main replacements. These TNCs are to be found in sectors such as: oil and gas (BP, Royal Dutch Shell), food and beverages (BAT, SAB Miller), mining (Rio Tinto, Xstrata), and pharmaceuticals (GlaxoSmith Kline).

Of the top five non-financial multinationals in the world, two are UK-based (Vodafone, BP) and one is a joint UK/Netherlands (Royal Dutch Shell).

The recent BP oil disaster in the Gulf of Mexico has helped reveal the nature of TNCs today ? as BP represents modern finance capital par excellence. BP announced on 4 June that it was going to pay $10 billion in shareholders? dividends over the coming year, this was criticised fiercely by Obama who argued that some of the money should be spent on cleaning up the oil spillage and paying compensation (which is estimated to be in excess of £20 billion). There have also been widespread criticisms of the company?s safety record around the globe, its attempts to use legal means to gag whistleblowers, and the measly wages it has paid fishermen and other boat owners who have offered to help with the disaster. Surely, instead of paying out huge dividends, it could be spending some of that money to right the wrong in the Gulf of Mexico? ?No!? said the finance industry: BP?s dividends are one of the main sources of revenues for investors. The Guardian wrote:

?BP?s dividend is of crucial importance to the City and to the pensions of millions who depend on payouts from profitable companies to boost their retirement funds. Together with rival Shell, BP accounted for 25 per cent of the total dividends of £50bn paid in the UK market last year.?81

So, two of the world?s top TNCs (one UK based the other partly UK owned) pay into the City of London £12.5 billion a year in dividends from shares. This money is crucial to the workings of finance capital and its ability to generate greater profits.

Pension funds supposedly invest for the exclusive benefit of the workers and companies that pay into them; indeed, the UK?s TUC sometimes make the point that workers own much of the means of production through pensions funds,82 despite many workers being put on schemes or no scheme over the past decade and having little legal redress to counter the decision. In reality, pension funds provide important sources of wealth for finance capital to invest and generate even more profits.

The Daily Telegraph listed BP?s top 10 shareholders:83
1) BlackRock: the world?s biggest asset management company owns 5.9pc of the shares.
2) Legal & General: the UK insurer and asset manager owns 4pc of the shares.
3) Barclays Global Investors: asset manager, owned by BlackRock, with 3.8pc of the shares.
4) Norges Bank Investment Management: asset manager manages the money generated from Norway?s oil revenues, 1.8pc of the shares.
5) Kuwait Investment Authority: fund manager for Kuwait government. Owns 1.75pc of the shares.
6) M&G Investment Management: the UK asset manager, owned by the Prudential, owns 1.67pc of the shares.
7) Standard Life: the Scottish insurance company owns 1.5pc of the shares.
8) Capital Research & Management Co: the Los Angeles-based fund owns 1.3pc of the shares.
9) Insight Investment Management: the fund manager owned by Lloyds Banking Group owns 1.13pc of the shares.
10) China?s State Administration of Foreign Exchange: manages China?s $2.4 trillion of foreign-exchange reserves, owns 1.1pc.?

This is an example of finance capital ? how productive and banking capital become fused into great combines. BP is involved in extractive industries such as oil and gas but its profits are crucial to the wealth in the City of London and its shares are bought up by huge investment funds. Another example is the Prudential, which recently spent £450 million on a campaign to buy up assets in Asia only for the shareholders ? i.e. investment funds ? to throw out the deal because they said Prudential?s managers should have obtained a lower price for the assets. The result was subsequent decline in the share price knocking off £2.5 billion in total that will affect the next dividend payout. In addition to many of the biggest monopolies in the world, the UK also has six of the top 50 financial institutions with more than 3,300 affiliates around the world, more than 800,000 employees and nearly $10 trillion of assets. This builds on the traditional strength of British capital and of the legacy of Empire ? that UK capital had global reach and was backed up by armed force. The six companies were among the biggest in the world with HSBC the largest of the 50.84 These companies not only look after people?s savings, but have extensive interest in global investments.

**6.2 The importance of capital flows**
Lenin emphasised the export of capital as being a key feature of imperialism ? and in this British monopolies lead the way. UK TNCs had more than a trillion pounds in direct overseas investment assets in 2008, mainly in Europe (55 per cent), and the Americas (33 per cent) with £239 billion in the USA alone. On these assets they earned £73.1 billion in profit.85 The UK led the way in Europe in mergers and

acquisitions in the 2000s, rivalled only by the Netherlands.[86] What is called ?other investments?, mainly overseas short-term loans and currency holdings grew by more than 140 per cent in the 2000s to £3.75 trillion in 2007 and portfolio investments (equities and debt holdings) doubled to just under £1.7 trillion. Again, the holdings were overwhelmingly in Europe and the Americas and to a lesser extent in Asia. These investments were driven by the search for higher returns, which included ?a greater willingness to take on a share of riskier assets offering a higher return and this will have contributed to the diversification in UK portfolio investment.?[87]

What these patterns of investment show is that UK TNCs still export greatly to other imperialist countries. Imperialism is not just the export of capital to colonies or semi-colonies but also the strengthening of inter-imperialist money flows representing a greater degree of concentration and centralisation of capital, which not only leads to even bigger and more powerful TNCs but also huge profits in the forms of fees to banks, accountants and lawyers i.e. key components of finance capital.

The flow of money, however, is not just one-way. The UK is second only to China for inward flows of investment. While 2008 saw a sharp decline because of the onset of the global recession, there were still £672.9 billion of foreign direct investment assets in the UK of which £330 billion was from Europe and £190 billion from the US ? again an example of inter-imperialist capital flows and the intertwining of TNCs. Since 2005, foreign capital has acquired more UK based firms than British-based firms.[88] All this shows that UK is the country of choice for foreign capital and that capital in the UK is becoming increasingly integrated into global ownership structures. Overall the UK?s outward foreign direct investment and inward FDI into the country was higher than any other country as a percentage of GDP.[89]

**6.0The City of London and the export of capital[90]**

At the end of 2009, London led the way in having the largest share of the world?s markets in cross-border bank lending, foreign exchange, over the counter-derivatives, insurance premiums, and international bonds. It is second to New York in terms of share trading and before the crisis it was equal to, or better than, Wall Street. Much of the capital that is traded and managed in the city is foreign-owned, which contributes to the internationalisation of the UK economy and increasing cross border ties among TNCs. Here are some of the key sectors of London?s financial economy.

1) Banks: We have already seen how UK banks dominate the world. The UK banking industry had assets and liabilities of £7.6 trillion at the end of 2009 of which foreign banks held 51 per cent. Within this foreign owned share, EU banks have increased their holdings to 54 per cent. There were 325 banks based in the UK including 249 foreign owned banks ? 159 were incorporated in the UK with 88 foreign owned. UK banks have net exports of £30 billion.
2) Fund management: Globally the fund management industry has assets of more than a trillion dollars and, as we saw earlier with BP and its shareholders, this industry is key to finance capital and the generation of greater profits. The three conventional fund types are pensions, mutuals and insurance along with various forms of private wealth funds. London is the second biggest market in the world after the US and accounts for 9 per cent of the total of the three conventional types with about $5.7 trillion of assets.
3) Equities or shares: London is second to New York for equity markets and lost about 40 per cent of its value during the crisis of 2008. However, by the end of 2009, the value of equities on the main London market was £1.7 trillion with another £56 billion on the alternative investment market. Overall trading of equities in the London markets was worth £11 trillion (i.e. nearly seven times their actual value) by the end of 2009 ? up 4 per cent on the 2008 total.
4) Financial support services. In addition to the various money markets there are important support services such as lawyers, accountants and management consultants, which all generate more profit (by extracting it from value producing sectors through charges). The three top lawyer firms in the world are

headquartered in London: Linklaters, Freshfields Brockhaus Deringer, and Clifford Chance. Overall income on fees from commercial transactions was £14.2 billion among city law firms in 2008-9 period ? mainly through mergers and acquisitions and capital markets. There are four big accountancy firms such as PriceWaterhouseCoopers, Deloitte, KPMG and Ernst and Young, together they earned about £2.8 billion on audit and assurance in 2008-9 while management consultants earned nearly £3 billion in services in the same period.

London has the lion?s share of the world trade in bonds and important markets in insurance, gold, commodities, derivatives and many other types of financial markets. Britain is now second to Dubai in terms of Islamic finance.

All this means that the UK?s financial sector had a trade surplus of £38 billion in 2009 (down from £45 in 2008) and net exports of £50 billion. The UK is a highly internationalised example of finance capital ? far more so than its rivals. New Labour?s policies helped London in particular to accrue greater global reach and power, by keeping regulation light and maintaining a low-tax environment ? favouring both domestic and foreign capitals investing here in Britain. By holding interest rates low throughout the period, they also encouraged the massive over-leveraging of private financial institutions that led to the crisis (although, this was influenced by the global factors holding down inflationary pressures). The result was finance capital unleashed: with the financial sector doubling its size in the domestic economy, and monopoly concerns dominating key global markets.

**6.4 Imperialism and the working class**

The huge growth in finance capital and the decline of traditional manufacturing have also changed the structure of the working class.

Figure 5: Changes in employees by sector (millions)

| Sector | 2000 | 2008 |
|---|---|---|
| Production | 4.5m | 3.3m |
| Construction | 1.9m | 2.2m |
| Distribution, Hotels, Restaurants, Retail | 8.5m | 8.9m |
| Finance, Business | 5.5m | 6.7m |
| Education, Health, Public Services | 8.7m | 10m |

The decline of manufacturing employment has been offset by the rise of the service sector, especially in financial services. All this serves to underline Lenin?s argument about the rise of a strata of rentiers, the people Marx called the money traders, and the continuing changes to the working class ? indeed, this has involved the breaking up of old labour aristocracies, the formation of new middle strata, and the development of a low wage, highly flexible and poorly unionised service sector workforce. It is estimated that there are one million people employed in financial services with about 300,000 in ?City-type? jobs?.92 Most of the non-City jobs are low paid staff such as cleaners, caterers, administrative staff or those who work in local banks and on well below the average wage. Many of the cleaners and catering staff in the city are also migrants. Some have organised and fought courageous actions to be unionised and to win a liveable wage. The unions need to organise these low paid workers who often show courage, militancy and a flair for organisation ? all of which are needed within the UK?s unions, dominated by white males.

But there is also the layer of very well paid middle class sections of the workforce ? the highest paid of whom slip into the bourgeoisie proper, and who earn substantial wages for unproductive work. The Tories oversaw the de-regulation that boosted the earnings of the rentiers, then New Labour went even further in encouraging self-enrichment; New Labourites such as Blair, Mandelson and John Hutton all emphasised that they were relaxed about people becoming ?filthy rich?. The disparity between the average wage and the top few per cent grew enormously as the financial workforce took ever greater amounts of money in earnings, fees and bonuses. The Thatcherite revolution in Britain also succeeded in transforming attitudes to class and wealth more generally and consolidating the pro-market ideology that New Labour has not fundamentally challenged. And, although the great majority have no interests in maintaining the system, there was a social and material basis for this, fostered by encouraging the formation of the larger middle strata, and boosting economic inequalities within the working class.

Much of this, like in America, was built with easy credit conditions. As workers on low wages were encouraged to take out large mortgages or spend on credit cards, this disguised slackening wage rates and poorer pay and conditions for the money and developed further Thatcher?s myth of the ?home-owning democracy?. Most workers in society have over the past decade relied on credit and become deeply indebted through mortgages or personal borrowing. By December 2009, each household owed on average of £58,316 (including mortgage), which is about 133 per cent of earnings. Excluding mortgages, the debt is £9,120 per household with average borrowing per adult with credit cards or motor and retail finance deals £4,724. 93 That is an awfully large stimulus to finance capital that depends on workers needing credit to buy houses and goods while, of course, needing the economic environment to repay the loans otherwise the risk, as in the case of sub-prime mortgages is that the loans are defaulted on. This is how by using ideology and easy credit, finance capital is able to buy off sections of the working class, entwine others in debt (which also has the bonus of siphoning money from the working class to the banks etc) and organise in its support an army of ideologues to divide and demoralise the working class

**6.5 The sources of profit in the finance industry**

In ***The Credit Crunch: A Marxist Analysis***, Richard Brenner wrote about how the world crisis had been brought about by declining profit rates, and used Marx?s theory of the tendency of the rate of profit to fall as a mean to explain the crisis of 2008. The abundance of capital in the world leads to the capitalists searching for ever more profitable avenues of investment, leading to greater risks. This then leads to a huge increase in credit and other forms of money and a massive inflation in prices of assets such as property, shares, and various derivatives, funds and other financial tools. But these forms of money and assets are fictitious because the owner owns only a piece of paper that promises something in the future: a house, a share of profits and so on.94 These are traded, but often the trades (as we saw earlier with the London stock market) exceed the actual value many times over, pushing up the price. Eventually, the bubble bursts, bringing the financial system down with it as these fictitious forms of capital that were trading for great sums of money become re-aligned with real values.

This collapse of credit and asset prices causes a crisis in production because the system is starved of money for investment and the banks hoard money. This has implications for the composition of finance capital, understood as the complex fusion, inter-relation, and mutual dependency of banking and monopoly capital. Some of the capital in the City of London is fictitious ? a claim on future ownership of surplus.

Some of it will have been the profits from investments into fixed or variable capital and the subsequent returns on the sale of commodities. More profits will have been derived from the proceeds of interest on loans and other similar devices.

Marx writes about how value produced by the working class is divided into four: wages, profits, interests and rents. Banks are paid interest out of the wealth owned by capitalists and there is a constant struggle between finance capital and other capitalists over the share of the surplus value. Profits are also derived from charges to workers for banking, credit, insurance and so on. These act as claims upon the working class?s share of value paid in the form of wages. So overall, there are several sources of profits for finance capital; some comes from investment in the accumulation process and therefore is productive, other sources of wealth come from competing with other capitalists or workers for their share. There is also a sizeable part that is held in the form of shares etc, which is fictitious because it is a legal claim on future profits generated by the company. For example, the investment firms in BP we looked at earlier have bought millions of shares in return for a promise of a portion of the surplus; either a dividend per share which once paid is real money or a return when the share is sold, any profit being dependent on the selling price.

Figure 6: Trade in goods and services

***Source: The UK Balance of Payments, Pink Book, 2009***

So the expansion of finance capital in the UK reflects both the growth of profitability but also the strength and ability to secure greater amounts of surplus from other sectors of the economy. In this way, the UK?s finance sector is parasitic on the peoples of the world, other countries, especially developing nations, and even other parts of the capitalist class in the imperialist heartlands. Also, the money sloshing around the stock market and the City and the promises of easy profits mean that there is a constant lure away from investment in productive capital and towards putting it into some financial fund or complex monetary form for a better rate of return. The money may well be invested at some point in the future, but with a hefty charge put on it by some City firm. However, there is also no guarantee it goes back into the local economy. It may be exported around the world ? weakening the UK economy?s productive core. In this respect, the semi-supranational character of British finance capital also exists in a symbiotic relationship to the country?s own industrial decline, as it seeks to exploit global avenues for its capital rather than investing ?at home?.

The greater internationalisation of the British economy, the move of capital out of the country and the decline of the productive sectors mean that the economy imports more goods than it exports. Historically, this has been offset by ?invisible earnings?: the profits of financial services. But, despite the huge growth in finance capital over the past decade, more and more of the wealth of the service sector is either foreign owned or going overseas in investments. As a result, this sector no longer necessarily helps the balance of payments, because if the return on these investments is less than the outgoings then the balance of payments will worsen. The result is a constant drain of money going out of the country to pay for imports or to make-up for the profits being repatriated to the country where the investment originated.

Even with the UK being a financial centre and revenues from the trade in services growing, we can see that the balance of payments deficit is worsening. The government has to use more of its holdings in foreign earnings or gold to pay for the deficit, which puts downward pressure on sterling and forces the price of imported goods upwards. Debts deepen for companies and families as they pay for services ?which in effect was what was revealed when the global crisis hit in 2007, a huge amount of banking, company and personal debt was exposed. What happens when it gets too great? Marx writing about a crisis in the French economy in the 1850s highlighted the danger of paper money.

?The printing press is inexhaustible and works like a stroke of magic. At the same time, while the crop failures in grain and silk enormously diminish the directly exchangeable wealth of the nation, the foreign railway and mining enterprises freeze the same exchangeable wealth in a form which creates no direct equivalent and therefore devours it, for the moment, without replacement! Thus, the directly exchangeable wealth of the nation (i.e. the wealth which can be circulated and is acceptable abroad) is absolutely diminished! On the other side, an unlimited increase in bank drafts. Direct consequence: increase in the price of products, raw materials and labour. On the other side, decrease in price of bank drafts. The bank would not have increased the wealth of the nation through a stroke of magic, but would merely have undertaken a very ordinary operation to devalue its own paper. With this devaluation, a sudden paralysis of production!?95

If the UK had a large and competitive manufacturing sector this depreciation would help cheapen exports, but manufacturing capital is now only a small part of the UK economy. The government could let inflation rise ? after all it would benefit debtors over creditors ? but it would also severely harm the financial firms that trade in money. The continuing trade deficit will only add to the burden of debt of the UK government. It is a structural problem of UK capitalism originating in the decline of productive capital, and one shared by the USA where manufacturing is also being eroded in favour of financial services.96

**6.6 Labour and the economy**

Under New Labour, the economy did achieve improvements in production and profitability especially in high-tech manufacturing and the service sector, and government policies did produce an increase in the size and skills of the workforce.

Yet these advances were not enough to close the investment gap on the UK?s major competitors. Instead, Labour, like governments before it, relied on de-regulation and international competition to enforce greater exploitation of the workforce.

The big beneficiaries of government policies were the TNCs and financial services with London cementing its position as the main centre for international capital.

The result has been the internationalisation of the UK economy to a far greater degree than any of its imperialist rivals. Politically, it means that finance capital dominates and the money markets can often determine government policy over the interests of other sections of capital. During the election period, neo-liberal ideologues were calling on politicians to watch the bond markets and follow their policy prescriptions. The chaotic and erratic movements in price of financial instruments have now become the broad determinant of economic policy.

The Conservative-Liberal Democratic government?s deep cuts will:

a) Lead to tax cuts for the rich and businesses.
b) Reduce government borrowing which will free up more money on the money markets and reduce the cost of borrowing ? although the banks have been given plenty of money already and have only hoarded it.
c) Open up new areas for capital accumulation either through outright privatisations or partnership schemes such as PFI where the private sector makes money at the public expense. The conversion of already existing organisations into private will favour the mergers and acquisitions policies of the TNCs
d) Increase unemployment, which will put downward pressure on wages of those left. The bosses also want to reduce pensions; meaning that people will have to pay higher premiums for less rewards. We saw

earlier the funds of these pensions are used to boost the earnings of finance capital.
e) The cuts, if successful, will be part of a general ?roll back? of the state and de-regulation programme where neo-liberalism will become even more entrenched as the dominant ideology of political and social life.

Many of these measures will be supported by other sections of capital. All of them will result in a net transfer of wealth from the mass of the population to the very rich and finance capital. However, some capitalists will baulk at the reduction in domestic demand that will occur with the huge cuts to public services, or the rising cost of unemployment benefits, or worry over the lack of government support for businesses. All those companies that serve the public sector will also lose business with the consequence that many more people than those targeted in the public sector will be made redundant. Firms will also worry over finance capital taking an ever-greater share of the surplus, squeezing out other productive capitals. Some economists are warning of a double-dip recession. Little of this has entered public debate because of the domination of finance capital ? the main parties squabbled between themselves over the size and speed of the cuts, not the principle. Internationally, the debate appears to have been won by the neo-liberals: the recent G20 conference initially announced to the world that the worst was over and that the recovery was happening quicker and stronger than at first thought; only later in the conference did the G20 demand an end to any state intervention and a swift move to slashing government debt.

**6.7 Long-term contradictions**
The UK?s position as a leading imperialist power, and one that relies to a greater degree on capital from all over the globe, gives it many advantages. The deregulated nature of its markets means that it is better able to attract capital, it can shift money around the world easier than its competitors, and it dominates global financial services. All of which makes it well placed to withstand regional shocks in the world?s economy such as the Asian crisis of 1997. However, its strengths are also its weakness. All these capital flows and webs of trading can act as a conduit into the UK, especially when there is a global crisis. The UK economy stands exposed with its over-reliance on financial services and few other sectors of the economy that can drag it out of recession. Governments are then left with two choices: letting banks go to the wall ? one or two small ones may be a lesson to encourage the others, but it is unthinkable about the large ones; or bail out these parasitic forms of capital, which involves transferring great amounts of money from the people to the City. Other parts of the economy also suffer through the domination of finance capital and the balance of payments becomes skewed towards invisible earnings and growing deficits. The result is not what both Labour and Tories alike described in the 2000s as a new paradigm of upwards growth with no slumps but plenty of booms and cheap credit, but instead a system of near fateful crashes, bailouts and, as promised by Prime Minister David Cameron, generations of misery to prop up the City of London.

If foreign-based capital is increasingly buying up UK-based capital then what happens to the nation state and its ability to represent national interests on a world scale? For example, if half of the banking capital in London is foreign owned and a quarter owned by EU countries, then this undermines the ability of the nation state to put forward its own interests. It is a classic example of the contradiction in the imperialist system between the nation-state and the evolution of the capitalist economy. The Conservative right?s bugbear of European dominance puts strains upon the party when EU countries own a quarter of the UK?s banking assets. Under New Labour, the ?European question? was subsumed as finance capital doubled in size and Blair ensured that the UK followed the USA?s lead in world affairs and acted as its junior military partner. In the future, a declining US imperialism and an EU caught up with the problems of the Euro will put greater strains upon austerity UK.

Some may argue that the internationalisation of London will overcome contradictions between the nation?s state and finance capital ? a similar theory to Kautsky?s idea of ?ultra-imperialism? as economic development ameliorates national conflict. But history has time and again shown that, on the contrary, state competition intersects with the economic, to heighten the contradictions and conflicts of the system. Any capitalist government in Britain has to keep hold of the access to markets that are essential to the global reach and operations of British finance capital. Multinationals therefore have a tremendous influence on policy; time and again we saw this under Labour, refusing to regulate mergers or acquisitions, to legislate in support of jobs or even to introduce minimal workers? legislation such as the EU?s social chapter. New Labour could not even defend the UK chocolate industry over the Kraft/Cadbury?s deal. Even its quantitative easing programme went mainly into the bank balances of foreign owned capital, we stated last year that:

?The Bank of England?s own statistics show that some of the money exchanged for bad assets simply went abroad, there was an outflow of £1,000 billion from the UK or 15 per cent of total foreign deposits. The Daily Telegraph claimed that 80 per cent of the UK bank bail out] was tied up in loans to foreign nationals and companies, bond issues and other investments. In March, the Independent claimed that, through the quantitative easing plan, ?the Bank of England may, possibly inadvertently, be buying up gilts from foreign investors who, according to the latest data, held over £190 billion, or 36 per cent, of UK government debt??The Times quoted Sir Steve Robson, former second permanent secretary at the Treasury, saying that: ?The bulk of the money has gone to overseas sellers of gilts. It needs to switch purchases to UK corporate bonds and so directly address credit conditions in the market?.?97

This then is the legacy of New Labour?s economic policies: the further growth and domination of finance capital and its internationalisation.

None of this happened without a political struggle. If we take a long view of the past 30 years, we can see that there were key periods when dominant sections of the ruling class shifted policy or direction in the face of weaker elements of the capitalist class and against working class opposition. The economy of the 1970s was dominated by large-scale nationalised manufacturing industries with a workforce that, while poorly paid, had access to subsidised gas and electricity, cheap council housing, wages and prices controls, free NHS prescriptions and dentists, benefits for unemployed and pensioners that, again, while low, were at least linked to wages in addition to controls on capital and mass trade unionism. The growth of the European union and the advent of new technology in the form of computerisation posed new challenges to the UK ruling class. Thatcher and the Conservatives responded with slump economics that weakened manufacturing industry in the face of world competition, an offensive on trade unionism taking on the steel workers, miners and printers and the privatisation of state industries, which resulted in the end of any subsidies.

Thatcher also teamed up with President Reagan to launch a New Cold War and a military offensive in Latin America against progressive regimes. The result was increased exploitation of the workforce, de-regulation of the City and the beginnings of Globalisation. The Major years saw the Conservatives beset with rows over looking to either the USA or Europe. Blair and New Labour were able to overcome these disputes, continuing UK?s support for Globalisation, developing a slavish relationship with US imperialism and seeing the domination of the City of London over the rest of the economy. This was despite facing huge protests over the war in Iraq and anti-globalisation protests that could have stopped the government.

Now we have the full weight of both the City and Con-Dem coalition demanding more cuts in public services and benefits and shift onto the working class an even greater burden of payment for services while transferring more wealth to the City. None of this will occur without a fight, the working class has the power to derail the government. Across Europe, in Spain, Greece and Turkey, we have seen the beginnings of workers? struggles against austerity. A successful fight in the UK could not only change the political course nationally but also, because of London?s international links, play an important part in defeating the global capitalist class and their cuts programme.

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**Endnotes**

1 See Brenner, R. and Pröbsting, M. (2008)
2 Harvey, K. and Morris, P. (1994), p. 16
3 We have explained the Marxist theory of crisis and the causes and unravelling of the current global recession in Brenner, R. and Pröbsting, M. (2008)
4 Harvey, K. and Morris, P. (1994), p.19
5 Harvey, K. and Morris, P. (1994), p.51
6 Brenner, R. and Pröbsting, M. (2008)
7 Williams, K.,Williams, J.; and Thomas, D. (1983), p254 The estimate of half is from a management report at British Leyland Motor Cars, while the third was given by the authors from a right-wing think-tank.
8 Williams, K.,Williams, J.; and Thomas, D. (1983), pp. 256 ? 257
9 Williams, K.,Williams, J.; and Thomas, D. (1983), p. 257
10 World Markets Automotive Productivity Index for Europe ? Results for 2000 available at http://www.prnewswire.co.uk/cgi/news/release?id=69602 [7]
11 Coffey, D. and Thornley, C. (2009), p49
12 Independent 21 May 2001, online at http://www.independent.co.uk/news/business/news/luton-closure-drives-vau... [8]
13 War of words over Rover collapse?. BBC News. September 11, 2009. http://news.bbc.co.uk/1/hi/uk_politics/8251846.stm [9].
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16 Gamble, A. and Kelly, G. (2001), p.170
17 Driver, S. and Martell, L. (1998), p.40
18 Routledge, P. (1998), p.151
19 This forced leaving of the ERM had unexpected benefits. Sterling depreciated by about 20 per cent when it left the ERM. This provided a boost to exports while making imports expensive but because it was done just after coming out of recession and at a time of a world slowdown it did not lead to a jump in inflation. Instead the UK economy was able to grow at a steady rate from 1992 with a floating currency free of political interference (keeping a high rate for the pound had been almost a symbol of political machismo for most of the century, the result was periodic depreciations causing chaos and the fall of governments).
20 The best source is Balls, E. and O Donnell, G. (2002)
21 Like the Iraq war, other ministers were kept in the dark about the move to the MPC. Brown and Blair, despite discussing it for several months in the lead up to the election, ignored the rest of cabinet with the exception of Robin Cook and John Prescott Routledge, P. (1998), p.290 and Rawnsley, A. (2000), p3
22 The Bank of England?s boss Eddie George, was enthusiastic about leading the MPC but furious over losing the Bank?s regulatory authority. For a few days, he threatened resignation and Brown pushed for him to go but both were soon placated. See Bowyer, T. (2004) and Routledge, P. (1998), p.302-3
23 Brown, G. quoted in Bevir, M. (2005)
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27 Brown, G. ?Personal View?, 11 November 1997, The Financial Times
28 Quote and figures in, Coates, D. (2005), p.69
29 Thompson, N. (2006), p.272
30 Thompson, N. (2006), p.277
31 Hutton, W. cited in Chadwick, A. and Heffernan, R. (2003), p117
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33 Rentoul, J. (2001), p.250
34 Routledge, P. (1998), p.279
35 Beech, M. and Lee, S. (2008) p.29
36 Routledge, P. (1998), p.250
37 Lee, S. (2007) p.2
38 Bowyer, T. (2004), p.285
39 It resulted in ministers pleading for more cash straight away. Brown told the then health secretary Frank Dobson that: ?Health is a huge hole. There is no more money? and Dobson relayed this to a Royal College of Nursing conference ? such was the good will for the new government he was cheered anyway. See Bowyer, T. (2004), p.215
40 Financial Times, 22 July, 1997
41 OECD cited in Balls and O?Donnell (2002), p.335
42 IMF 1999 cited in Balls and O?Donnell (2002), p.337 ibid
43 cited in Balls and O?Donnell (2002), pp.345-6
44 Bevir, M. (2005), p114
45 Coates, D. (2005) p.63
46 There are several ways of measuring GDP and they often produce conflicting figures. The 1 per cent figure is using a market price deflator while the 2 per cent figure is measuring with chained volumes. All statistics from the United Kingdom Blue Book July 2009
47 Routledge, P. (1998), p.326
48 Rentoul J. (2001), p.473
49 Rentoul (2001), p.476
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51 See chapter four in Hale, S., Legget, W. and Martell, L. (2004)
52 Hale, S., Legget, W. and Martell, L. (2004) p.73 The Building Schools for the Future programme alone was to cost £45bn while 100 hospitals were expected to be built using PFI.
53 From the Guardian 17 January 2008, online at http://www.guardian.co.uk/politics/2008/jan/17/uk.Whitehall [12].
54 See Coates, D. (2005), p169
55 See chapter 19 Balls and O?Donnell (2002)
56 See chapter 4 Coates, D. (2005)
57 Beech, M. and Lee, S. (2008), p35
58 See BBC report http://news.bbc.co.uk/1/hi/business/4885426.stm [13]
59 Beech, M. and Lee, S. (2008), pp.26-7
60 Beech, M. and Lee, S. (2008), p.27
61 In 2001, government received in Corporation Tax £33.5 billion, which fell to just under £28.5 billion in 2003 and rose to just over £31 billion in 2004 before rising to about £46.5 billion in 2008 before falling again because of the global crisis. Income Tax was just under £112 billion in 2001 and reached £157.5 in 2008; or National Insurance which went from nearly £63 billion (2001) to £98.5 (2008); and VAT which rose from just over £60 billion to £80.7 in the same period. All tax figures from Office of National Statistics Public

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62 TUC 30/01/2008 now at http://www.tuc.org.uk/economy/tuc-14245-f0.cfm [14]
63 All figures in next three paragraphs on government debt from the Treasury?s 27 May 2010 Public Sector Finances Databank available at Treasury?s website.
64 See page 5 Public Sector Finances, January 2009, Office of National Statistics
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67 Figures are based on dollar values and are from the UN?s statistical service http://unstats.un.org [19]
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69 Department of Business Enterprise and Regulatory Reform, Sept 2008, Five Dynamics of Change in Global Manufacturing Supporting Analysis for ?Manufacturing Strategy: New Challenges, New Opportunities, p.10
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73 Coffey, D. and Thornley, C. (2009) p.121 The wage levels are also from this source.
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88 See Foreign Direct Investment 2008, December 2009, ONS, op cit

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90 Information in this section from International Financial Services London; May 2010; International Financial Markets in the UK, from www.ifsl.org.uk [3]

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**Links:**
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