

Labour and the Economy

A review of Roger Berry MP and Peter Hain MP, *Labour And The Economy: The Case for Demand Management*, published by the Tribune Group of Labour MPs, 1993.

DESPITE MASS unemployment, government attacks on the welfare state, the near-collapse of the NHS, increasing homelessness and escalating crime – all evidence of the inadequacy of a capitalist market economy – there is little evidence of any public support or enthusiasm for socialist alternative policies. True, the opinion polls show the Tories lagging well behind Labour, but this is attributable more to discontent with Major's government than any positive faith in the ability of the Labour party to provide a feasible alternative. This is hardly surprising, since the Labour Party has not only abandoned any pretence of advocating socialist policies but is even seemingly incapable of forcefully arguing for an alternative method of administering capitalism to that practised by the Tories.

The Tribune Group of Labour MPs have attempted to fill this policy vacuum in a pamphlet *Labour and the Economy*, written by Dr Roger Berry MP and Peter Hain MP.

Whatever one's views of the policy advocated by the authors, any attempt to focus on policies rather than publicity and public-relations gimmicks or personalities is to be welcomed and seriously debated.

The authors ask why, despite the Tories' "truly appalling economic record", there still seems to be inadequate positive support for Labour's economic policies? "How can Labour bridge the credibility gap? More importantly, what policies should Labour now be advocating?" (p.2).

The policy proposed by Berry and Hain is a strictly Keynesian one of demand management which – though this is not explicitly stated – obviously assumes the continuation of a basically capitalist market economy, but with government intervention to stimulate the economy. They make the tackling of mass unemployment through the stimulation of the economy the central concern of this policy:

"In brief, it is difficult to envisage any viable alternative other than to launch the assault on mass unemployment with a substantial increase in public expenditure. With unemployment at

present levels, now is not the time to be feeble in the advocacy of discretionary counter-cyclical policies" (p.15).

In contrast to the pussy-footing equivocation of Labour shadow cabinet spokesmen such as Gordon Brown, who constantly dodge questions about the costs of their policies and how the money is to be raised – hiding behind the argument "we can only do what the economy can afford", or "we can only go as fast in our reforms as resources will allow" – meaning "don't hold us to our election pledges as we may renege on them" – Hain and Berry are not afraid of committing themselves to some hard figures:

"Accepting the government's budget assumptions of 1.25 per cent growth this year, the fact remains that there is a yawning gap between forecast demand and that required to prevent unemployment from rising further. Indeed, on the more optimistic assumptions, the achievement of anything approaching full employment over a five year period requires growth of at least three per cent per annum. In such circumstances, any realistic strategy to reduce unemployment – let alone move towards full employment – would this year require a net injection into the economy of at least 10 to 15 billion" (pp.18-19).

Nor are they as coy as the official Labour leadership about spelling out how this 10 to 15 billion should be raised. They propose increased taxation of the rich – including closing tax loopholes and clawing back the 8 billion a year of tax cuts given to those on incomes of over 50,000 since 1979 by the Tory government. Nor are they afraid of openly advocating an increase in public sector borrowing. They argue:

"With a PSBR forecast to be 50 billion or eight per cent of GDP this year, is this not out of the question? Well, no it isn't. Nor should it provoke familiar outbreaks of apoplexy. Uncomprehending anger would be better reserved for the effects of mass unemployment."

Berry and Hain point out that net public sector debt as a percentage of GDP in the UK is low by historic and international standards:

"It is estimated to be 33 per cent at end-March 1993 and, on current policies, 39 per cent at end-March 1994. Public sector debt was much higher in the 1960s and 1970s – when our economic performance was far better. Indeed our national debt has only been at or below 40 per cent of GDP in 10 out of the last 200 years and in comparison with other industrial countries the UK's debt position is by no means excessive" (p.18).

On the question of inflation, the combating of which the Tory propagandists use as a justification for all their attacks on the working class and the poor – a con-trick which the official Labour leadership has signally failed to expose – the pamphlet's authors comment:

"The most common argument against a substantial increase in public spending is that this would fuel inflation. First, it must be reiterated that the enormous amount of attention devoted to inflation is not justified by either economic theory or empirical evidence. Whilst it is easy to identify some of the costs of price increases, there are also considerable costs in terms of unemployment. Low inflation does not automatically feed through into higher levels of investment and economic growth. Indeed, in some circumstances it is easy to see how the opposite is likely. No doubt this is why there is no negative correlation between rates of growth and inflation. Low inflation does not guarantee higher growth, any more than high inflation necessarily causes lower growth, as a recent exhaustive study confirms" (p.16).

The authors go on to argue that in addition to higher taxation on the rich and increased public sector borrowing, the necessary public investment could also be financed by government-created credit or not fully funding the PSBR. This proposal alone is enough to trigger heart attacks among orthodox monetarists – some of whom, I suspect, still lurk in the higher echelons of the Labour Party! Berry and Hain go on to argue:

"The standard objection to such a policy is to assert that this would give a boost to inflation. However, as argued above, at present this is unlikely (even if a little more inflation is a price well worth paying for increased employment, output and incomes). As argued above, an investment-led recovery, as opposed to a consumer-led one, has less significant long-term effects on the price level. In brief, now is the least appropriate time to accept the view that privately-created credit is to be welcomed, whilst government-created credit is not" (p.18).

However welcome the pamphlet's demand that the next Labour government should undertake a policy of massive public investment and refuse to be tied down by orthodox financial considerations, the authors' proposals fall far short of presenting a feasible socialist alternative to the present policies (or lack of them) of the Labour

Party. The words "socialist" and "socialism" never once appear between the covers. If challenged on this, the authors may well reply that this was not their intention and refer to the foreword by George Howarth, the chair of the Tribune Group, in which he states that the pamphlet is not intended to be the last word on economic policy.

It is a fact, however, that their proposals as they stand amount to no more than a recipe on how to administer capitalism better than the Tories do. We should not necessarily object to that if, as a result, the quality of life of the majority were improved. Nor has this reviewer much patience with the argument that nothing less than the immediate expropriation of the banks and large industry and their placing under workers' control will immediately and magically resolve all problems – and that anything less is a betrayal of the working class. Any socialist administration, on coming to power, will take over a capitalist economy. The process of transforming this into a socialist society will be a *process*. The Bolsheviks, on taking power in Russia in October 1917, did not intend to nationalise industry straight away, and were only forced into "War Communism" by the exigencies of the situation. They had to retreat in 1921 to the New Economic Policy, including a return to the market and a revival of private ownership and trade not only in agriculture but in consumer goods. Bukharin, then one of the leading Bolshevik theoreticians, envisaged a lengthy period of "mixed economy", growing into a socialist one over a period of time through the gradual growth of the "state" sector and the gradual collectivisation of agriculture – a process which, incidentally, depended on assistance from more advanced countries once the socialist revolution had triumphed there. This process was cut short by the Stalinist turn to forced collectivisation in 1929. Britain is not the backward Russia of 1917. But even in advanced industrialised countries such as Britain, Germany and France, the transition to socialism, under a socialist administration, will be a gradual one.

As this reviewer has pointed out in earlier issues of *New Interventions*, the nationalisation of factories threatened with bankruptcy, as in the case of British Leyland, will not automatically and of itself increase the demand for Leyland trucks or other commodities, and thus save jobs. A programme of public investment, as proposed by the Tribune MPs, will also be necessary. And it will be necessary for socialists squarely to face the problem of how the finance is to be generated – by taxation, or by government-created credit as the authors advocate? And the problem of whether this creates inflation – and its effects – will have to be addressed.

Having said this, it needs also to be pointed out that the authors of the *Tribune* pamphlet leave many questions unanswered. The first that

springs to mind is how is the proposed public investment to be controlled – through what institutions, by whom? Berry and Hain deal with this in one short paragraph:

“In addition, there is a need to embark upon a radical programme of institutional reform, not least a radical overhaul of the financial sector. The City needs restructuring so that financial institutions are forced off their chronic addiction to short-termism. A central imperative to future economic success is a change in the banking system, for example, by establishing new public sector banks with the specific remit of mobilising private debt: Banks for National Investment, Small Business and Housing and Construction” (p.11).

Well and good. But what are those in control of the existing banks and financial institutions going to do? Quietly pack up and go home, or hang on like grim death and try to sabotage this attack on their power? Who is going to control the new banks? How and by whom are the priorities for public investment to be determined? And who is going to control the new controllers? How is a socialist Labour administration going to stand up to all the pressures of the British establishment and international capital, the IMF, the World Bank? A socialist administration could only carry through such a programme if it rested on the support and goodwill of the mass of the population. It would need to rely on the cooperation and participation of the representatives of the bank and financial house employees and their unions, in the control and supervision of the new and restructured banks and financial institutions. In a broader context, too, there will need to be democratic input from the mass of the people on the formulation of the priorities for public investment. This requires a thoroughgoing democratisation of the state apparatus, making whatever government is in power responsive and accountable. Together with the restructuring of the financial institutions advocated by the authors, must go a restructuring of the state.

A weakness in the pamphlet is the small importance given by the authors to the international dimension of the economic crisis. They write: “The suggestion that unemployment in the UK can be explained away as all due to the world recession, and having nothing whatsoever to do with domestic economic mismanagement, need not detain us for long. Suffice it to say that unemployment in the UK has risen more sharply since 1999 than in any other European Community economy – by more than twice the EC average in fact – and high unemployment in other EC countries can usually be explained by the pursuit of deflationary policies similar to those

implemented by the British government. As argued below, it is extremely important to acknowledge that there is still an autonomous ‘national’ dimension to economic policy, notwithstanding global and European Community constraints” (p.7).

There is much truth in this, and one would certainly not argue that a Labour or socialist administration coming to power in Britain should not proceed as far as it could within its national boundaries without waiting for the whole of Europe and the world to embark on the socialist road. But also there must be no illusion that, with the growing integration of a world market, there can be purely national solutions. This makes all the more urgent the development and revitalisation of the socialist and labour movement on an international scale. Rather than retreating into negative opposition to a European common market and customs union, socialists need to campaign for their policies on a European-wide, and indeed world-wide basis. Into the arid debate between pro-Maastricht and anti-Maastricht factions in both the Tory and the Labour Parties, socialists need to introduce positive proposals for combating unemployment and poverty on a European basis. This implies, if not a new socialist international, at least cooperation and links between socialists and trade unionists in the different countries. In this connection, the authors are completely silent on the question of trade unionism and trade union rights and struggles. There is no mention of the urgent need to mobilise the trade unions on an international, or at least a Europe-wide campaign, in a coordinated fight for a reduction in working hours to combat unemployment.

The implementation of even the most minimal programme is impossible without a revitalisation of the presently quasi-moribund labour and trade union movement. The present apathy needs to be broken. The first step to this is to resolve the crisis of socialist theory; to correct the errors of the past. In short to redefine what we mean by socialism – feasible socialism – in understandable terms, eschewing over-simplification and sloganeering. It means working out in our own minds a strategy for getting from the “here and now” of capitalist society to the “there” of socialism – and then winning support for these ideas. None of us are the repositories of received wisdom. We can only learn by dialogue and discussion. It is in that spirit that we have to read and study such contributions as those of Roger Berry and Peter Hain. With informed criticism – acknowledging what is positive and intelligently criticising what we consider is inadequate or, plainly wrong.