

### **3 From welfare state to market state**

*“Perhaps the greatest threat to freedom and democracy in the world today comes from the formation of unholy alliances between government and business. This is not a new phenomenon. It used to be called fascism... The outward appearances of the democratic process are preserved, but the powers of the state are diverted to the benefit of private interests.”* George Soros, international financier

We are living through an ever-closer merging of the state, politics and economics into a sinister type of corporate rule, especially in Britain and the United States. This is one of the most significant qualitative outcomes of capitalist globalisation. Where once the state portrayed itself as an arbiter between classes and competing interests, it more and more speaks and acts for what it sees as the only game in town – the market economy and global corporations. A mounting authoritarianism, introduced under the cloak of the “war on terror”, has swept away many democratic rights; representative government has been reduced to a sham. These developments have created an historic crisis of legitimacy of the current state system of rule in Britain and elsewhere. The state has, ironically, thereby made out a case for its own abolition and replacement.

The fact that the world economy is dominated by a decreasing number of transnational corporations (TNCs) is self-evident. Their brands and logos swamp every high street and they have

an overwhelming impact on jobs and consumption. Less obvious are the means by which capitalism expresses itself politically. For capitalism not only has economic power – crucially it holds political power too through the state. Only this power is more disguised, is achieved indirectly and takes the form of an apparently democratic process open to all.

How we estimate the actual nature of the state is pivotal. How we act in future turns on whether we see the existing state as capitalist and an obstacle to a not-for-profit world or as a neutral body that will respond to pressure for change. Is the state an expression of popular will and support or a machine that enables capitalism to maintain its power and control over the working population? If it is the former, then reform is not only possible but preferable. If it is the latter, then revolutionary change is the only route to historical progress.

### **What the state does**

The modern state evolved to carry out a number of functions that the emerging capitalist class could not by itself achieve. Although today the state has a relative autonomy and freedom of action, it nonetheless still performs this fundamental and historic role, as we shall show. Capitalists are a diverse class with competing interests which is one crucial reason why they cannot rule directly. So there is a division of labour within capitalism as a social system. The state first creates and then develops a framework without which the capitalist system of production cannot function.

In his preface to *A Contribution to the Critique of Political Economy*, Karl Marx explained the relationship between the “political superstructure” and the “economic structure” of society. He described how political relations arise on the base of economic foundations and ultimately reflected the interests of the dominant class in society:

In the social production of their life, human beings enter into definite relations that are indispensable and independent of their will, relations of production which correspond to a definite stage of development of their material productive forces. The sum total of

these relations of production constitutes the economic structure of society, *the real foundation, on which rises a legal and political superstructure* [emphasis added] and to which correspond definite forms of social consciousness. The mode of production of material life conditions the social, political and intellectual life process in general. It is not the consciousness of human beings that determines their being, but, on the contrary, their social being that determines their consciousness.

The real foundations of the contemporary state are the relations of production between employers and their workers. Countless millions experience this most fundamental fact of social existence every day, in different working environments, in every country in the world. To live, we have to eat, clothe ourselves and find shelter. But the means for securing these basic needs are almost entirely within the power of those who own and control the forces and resources of production. So we sell our labour power in return for a wage in order to buy essential goods and services.

The state and its institutions – the “legal and political superstructure” – come into existence on the basis of and in response to these economic foundations and ultimately reflect in their operation the most powerful forces in society. The primary business of the contemporary state is to legitimise, justify, maintain and develop capitalism as a social system in whatever way it deems necessary. We are conditioned by our social existence under capitalism to think and act within a certain framework when it comes to economic and political questions. The state plays a key ideological role in conveying notions that, for example, capitalism is really all about “individual freedom” and “consumer choice”, that the state governs in the “national interest”, or that socialism “destroys initiative” while capitalism “promotes enterprise”.

Established mainstream political parties, the mass media, employers, the education system and a multitude of civic organisations all lend support to the status quo. They help to obscure the real nature of political power. Appeals to the national interest and the like, are intended to mask the essence of the state and the fact that society is divided into classes with

opposing interests. Other phrases you may have heard that perform the same role include: national unity, common interests, national interest, common good, in the interests of society, common goals, patriotic duty, freedom, consumer choice, social inclusion, enterprise society, competition, freedom of choice, public interest, British people, British public and the people.

Of course, there is a division of labour involved. Those who own and control the TNCs do not sit in parliament or directly command the armed forces, for example. Those tasks are left to professional politicians, civil servants, generals and others. Over time, specialists in ruling have come to dominate affairs and given the state a certain operational autonomy. In this way, the state, rather than serving society, stands above and aloof from the population and is insulated from popular pressures. This political alienation adds to the impression that the existing state system is independent, neutral, normal and, above all, irreplaceable. The overwhelming majority of the population have no direct control, access to or involvement in the running of the state. Occasionally we are consulted through a general or local election, or a referendum. We have the right to choose our rulers – but not the right to change the class that rules over us.

In Britain, the state is made up of governing bodies and institutions including the prime minister, the cabinet, the House of Commons, House of Lords, the civil service, government agencies, local government bodies, the monarchy and enforcing bodies such as the judiciary, police, intelligence agencies and the armed forces. The machinery of state rule exists independently of political parties and governments. Not for nothing are the heads of departments of state called “permanent secretaries”. Governments come and go, but they remain in post, as do the generals, police chiefs and judges.

Members of MI5 and MI6, the secret spy agencies who form part of the Big Brother state, are not subject to redundancies like the rest of us and have official protection when they carry out their duties on behalf of the state, whether they are strictly legal or not. This is equally true of judges and soldiers. All these factors are designed to produce an automatic loyalty to the state, embodied in the government of the day. From time to time these

relationships break down. Each branch of the state jealously guards its own territory and history and this can lead to conflict. Not all state employees show unflinching loyalty as strikes by civil servants and the occasional whistleblower show.

Only those civil servants who are essential to maintaining the status quo, plus the military, police and spy personnel, retain privileges of status, conditions of employment and pensions. This greater security and respect at work is the quid pro quo for their increasing co-option into the New Labour project and particularly into supporting repression. The mass of ordinary civil servants – those who deliver the services and benefits on which especially poor people rely – are now second class state employees. Many have been hived off into agencies and work in what are, in effect, call centres. They have as few rights as other workers and the government intends to cut 100,000 of their jobs.

One of the state's key functions is to maintain the degree of social and institutional stability necessary for production, commerce and trade. Thus the state is responsible for developing a legal framework that guarantees private property rights and contract law. Relations between social classes must not be allowed to get out of hand. After all, we must be persuaded to go to work day after day. In other words, the state regulates the terms and conditions of capital-labour relations and attempts to maintain the stability necessary for production.

The state also ensures the supply of new generations of trained and educated workers for the labour market.

The tendency to crisis inherent in the profit system also gives the state unavoidable tasks in dealing with the consequences of economic collapse. In addition, the state has the key role in maintaining a stable and recognised monetary system. This is absolutely indispensable for the production, circulation and exchange of goods and services that lies at the heart of the capitalist system of production. Another essential role that the state performs is the creation of mechanisms by which political support for the status quo of capitalism is reinforced. These include, for example, the parliamentary system of government based on universal franchise.

The capitalist state is certainly not synonymous with peace or

democracy. Twice in the 20<sup>th</sup> century, inter-imperialist rivalry led to millions being sent to their deaths. At times, the system of parliamentary democracy has prevailed, within which there are conditional rights to organise, demonstrate, strike, and speak out. Sometimes the state is obliged to don its violent face, through the use of repressive para-military and state forces like the army and police. This was the case, for example, in Nazi Germany in the 1930s and Pinochet's Chile in the 1970s. In 1984, the Thatcher government deployed state forces on behalf of the publicly-owned National Coal Board and its plan to close pits. For a year, massed ranks of police were used to physically confront and attack striking miners, arresting hundreds of pickets and injuring many more. The union's assets were seized by the compliant courts as the Tory government made the struggle for jobs a defence of state political power. Behind the scenes, MI5, the internal spy agency, infiltrated the miners' union and staged provocations. Soldiers out of uniform were also used by the government.

### **The building of the modern state**

The modern state, with its trappings of democracy and representation, is relatively new. In the last quarter of the 18<sup>th</sup> century, when capitalism in its industrial form began to emerge, the state in Britain was concerned mostly with collecting import duties and raising armies to fight wars against France and other rival nations. There were no departments of state in the modern sense with their huge bureaucracies and hundreds of thousands of civil servants. There was not even a semblance of parliamentary democracy. Few people had the vote and the land-owning aristocracy dominated the ranks of the MPs. Power and influence, including election to parliament, was gained more or less openly through bribery and corruption, as lampooned by the artist William Hogarth.

The French Revolution of 1789 inspired radical supporters in England to campaign for democratic reforms. In 1791, Tom Paine published *The Rights of Man*, which called for representative government. Part two of the book sold an estimated 200,000 copies in 1793 – the year Paine was driven

into exile and his book banned. In the wake of the execution of the French king, Britain declared war on France and cracked down on opponents at home. Prime minister William Pitt suspended the ancient right of *habeas corpus*, which gave detained people the right to appear before a court; trade union activity was made illegal by the Combination Acts; new laws banned public gatherings and freedom of the press was restricted by the threat of seditious libel charges; national political organisations were made illegal. Many editors and writers went to prison.

Supporters of the French revolution became disillusioned that reform could proceed in a peaceful way in England. Organised around the London Corresponding Society, radicals won the support of artisan workers and talked of a revolutionary coup d'état. They had support in the provinces and made links with leaders of the Irish rebellion. In 1794, perhaps as many as 150,000 demonstrated in Islington. In an appeal to King George III, the gathering declared: "Why, when we incessantly toil and labour, must we pine in misery and want?... Parliamentary Corruption... like a foaming whirlpool, swallows the fruit of all our labours." Three days later, a massive crowd jeered the King as he rode in procession to open parliament. Then in 1797, a large part of the British fleet mutinied and threatened to sail their ships to France. But the state eventually proved stronger than the fledgling movement and its leaders were arrested and jailed and some were later executed.

The wars against France lasted, with one interval, for 23 years. As soon as peace was declared, the radical movement gathered momentum. A rapid industrialisation had taken place during the war, leading to a growing working class in and around the towns of the north. Their demand for a reform of parliament was seen as the way to create fundamental social change and an end to their brutal exploitation by the new capitalist class. As E.P. Thompson writes in his epic *The Making of the English Working Class*: "Few reformers before 1839 [the Chartist movement's peak] engaged in serious preparations for insurrection; but fewer still were willing to disavow altogether the ultimate right of the people to resort to rebellion in the face of tyranny." The

reformers demanded the right to vote, freedom of public meeting, freedom of the press and the right to political organisation.

Again the state struck back, this time with a vengeance that was to shock the whole country. *Habeas corpus* was suspended once more and radical leaders jailed. Demonstrations were banned. Then in August 1819, an estimated 100,000 workers assembled on St Peter's Fields, Manchester. They had drilled for weeks in preparation for the rally. They were cut down without warning by the local yeomanry and the cavalry. Eleven were killed and many hundreds wounded in the Peterloo Massacre.

It took until 1832 to achieve the first, limited reform of parliament. By then the radicals had taken fright of the growing working class movement. They made a deal with the government which enlarged the franchise – but only to include the middle-class property owners. In the end, the Tories were sufficiently frightened of a working class uprising – there had been one in France in 1831 – to pass the Bill proposed by the opposition. It was clear that workers wanted the vote for more reasons than just representation in parliament. John Doherty, a leader of Lancashire workers, and his supporters had argued that “universal suffrage means nothing more than a power given to every man to protect his own labour from being devoured by others”. After the Bill was passed, the *Poor Man's Guardian*, recorded:

The promoters of the Reform Bill projected it, not with a view to subvert, or even remodel our aristocratic institutions, but to consolidate them by a reinforcement of sub-aristocracy from the middle-classes... The only difference between the Whigs and the Tories is this – the Whigs would give the shadow to preserve the substance; the Tories would not give the shadow, because stupid as they are, the millions will not stop at shadows but proceed onwards to realities.

After this, workers built their own organisation, the Chartist movement, to fight for their right to vote. This produced petitions with millions of signatures and the largest

demonstrations ever seen. Frustrated by their rejection, one wing of the movement advocated physical force and the overthrow of parliament. One of their leaders, George Harney, declared that in the event of the dissolution of parliament before the Charter could be presented, the people should “take their affairs into their own hands... let the people of each county, city and borough, wherever democracy hath reared its head” set about electing delegates “furnished with a bodyguard of sturdy sans-culottes” organised, varying “according to the strength of the democracy in the district”. “What army”, he asked, “could resist a million of armed men? ... Within a week not a despot’s breath would pollute the air of England.”

Although they did not achieve their immediate aims, the Chartists were a significant landmark in British social history as the first truly working class political movement. Workers in the towns had to wait until 1867 for the vote while rural workers only achieved it in 1884. Women were denied a voice until after World War I. So the modern state, with universal suffrage and democratic rights, is a relatively new phenomenon. Overall, these rights were conceded only grudgingly.

From the middle of the 19<sup>th</sup> century onwards, the state took on more and more activities and responsibilities designed to facilitate the capitalist system of production, which in a short period had swept all before it. Urbanisation was dramatic in its speed and size as the new working class rapidly filled the towns. Appalling living and working conditions that accompanied these changes eventually compelled the state to intervene. Cholera and other epidemics drove the development of a public health system. Rudimentary education, limits to the working day and factory regulations followed, under pressure both from progressive employers as well as workers. Income tax was reintroduced in 1853 to help finance these projects. These were still early days for the provision of services by the state, however. Public expenditure in 1853 was only £50 million a year and only double that amount by the end of the century.

Throughout the 19<sup>th</sup> century, the state increasingly assumed functions essential to the development of the system of private ownership, which capitalist firms on their own could not fulfil –

then or now. The state also responded to calls for a legal framework which reduced risks for investors. This led to the idea of share ownership and the concepts of the joint stock company and limited liability. The Companies Act 1862 transferred risk from a company's investors to its suppliers, creditors and customers. From now on, shareholders only had to worry about the value of their holdings in terms of stock market prices as their personal wealth was protected.

The creation of the British empire, which expanded rapidly between 1860 and 1880, was led by the state. India became a formal colony when the state took control of the crisis-ridden and corrupt East India Company. The state promoted the interests of its own national, capitalist class, providing them with markets in the shape of colonies. These were protected by the mightiest navy in the world and vast armies. A huge bureaucracy emerged to co-ordinate the military and civil aspects of empire.

Historically, these political and social changes were a great advance compared with feudal society, which had been based on despotic rule by an absolute monarch, landowners and the church. These major reforms also, importantly, helped to create and reinforce a definite view about the nature of the state which is still with us. The message was that capitalism offered democratic opportunities and that the state was the arena where reforms and changes could be made. Revolution was unnecessary because, it was later argued, parliamentary democracy could not only keep capitalism in check but was also a way to achieve socialism, or at least socialist-type policies. The state was presented not as an instrument for enforcing the rule of a particular class – which its history had showed it to be – but as an independent body that stood above classes. As Lenin said in 1919: “Without parliamentarism, without an electoral system this development of the working class [to identify its own interests] would have been impossible. That is why all these things have acquired such great importance in the eyes of broad masses of people. That is why a radical change seems so difficult.”

When the trade unions and socialists formed the Labour Representation Committee (LRC) in 1900, as far as they were

concerned the only way forward politically was working within and through the existing state. A circular issued by the LRC in 1903 called for support for trade union principles by “political methods”. It added: “This new power of capital is already represented in parliament... It is fully alive to the fact that the great battles between capital and labour are to be fought out *on the floor and in the division lobbies of the House of Commons.*” [emphasis added]. Ramsay MacDonald, the first leader of what soon became known as the Labour Party, made clear from the start the strictly parliamentary character of the organisation’s political aims. “Socialism marks the growth of society, not the uprising of a class,” said MacDonald.

The state was depicted as a neutral body which could be bent to the wishes of the elected representatives of working people. MacDonald declared that “the modern state in the most civilised communities is democratic, and in spite of remaining anomalies and imperfections, if the mass of the ordinary people are agreed upon any policy neither electors, privileged peers nor reigning houses could stand in their way”. Winning a Labour majority in parliament would, it was claimed, give workers through their representatives the only realistic opportunity of influencing capitalism in their favour. In a pamphlet published in 1905, MacDonald declared that there was no “profound gulf” between Liberalism and socialism, and that his party was the “hereditary heir of Liberalism”, that is liberal forms of capitalism. This was a clear expression of the view that there were no irreconcilable differences in society and that compromise was not only necessary but desirable. The only real differences the left-wing of the party had were over the programme and policies. Few objected to working within the existing state. The “road to socialism”, as set out, was parliamentary and evolutionary, and certainly not revolutionary.

Even as the Labour Party was growing, the real nature of state power was revealing itself in the Irish Home Rule crisis of 1914. The Liberal government’s plans for limited Irish independence were thwarted by a revolt of the army in the province of Ulster, which was encouraged by the Tories. This proved that real power lay outside parliament.

A month before the revolt, the First World War had broken out. Seven years previously, in 1907, the Second International of socialist organisations, which included both Labour and the Independent Labour Party, had declared that, should imperialist war break out, members would fight to stop it. But, in the cold light of day, Labour MPs now endorsed a war waged for the division and redivision of the colonial spoils. The trade union leadership suspended all industrial action for the duration of the conflict. Their adherence to the state and its war machine helped send millions of workers to their needless deaths in the trenches of France and Belgium. The conflict sowed the seeds for a renewal of hostilities between capitalist states in 1939, which cost the lives of perhaps 40 million people.

### **From welfare state to market state**

The crucial role of the Red Army in defeating Nazi Germany and the radicalised mood of the returning soldiers in Europe and the US, frightened international capital. After World War II, capitalism was desperate to find ways to avoid a return to the strife of the 1930s, with its civil unrest, mass unemployment, fascist/militaristic states in Germany, Italy, Spain and Japan and bloody imperialist war. In place of pre-war trade protectionism and deflation, the new world order was built on stable currencies tied to the dollar, strong levels of public spending, tight controls on capital flows and growth stimulated through international trade. These arrangements were made at a conference at Bretton Woods in the US in 1944. Different forms of what we know as the welfare state were created. In Britain, the state undertook to provide free health care and education, social security and affordable social housing.

The role of the state was central to the new strategy. It determined interest rates, controlled money supply, used taxation to increase or lower demand and attempted to maintain exchange rates with other currencies while maintaining high levels of public services. In Britain, many industries became state-owned, including steel, shipbuilding, mining, telecommunications, gas, water and electricity and transport. Most were nationalised in the immediate post-war period when British

capitalism was bankrupt and could not sustain them.

For almost 30 years, the British state and others in the developed capitalist world sustained the role of mediator and moderator between competing class and economic interests. The state ensured that consensus and compromise prevailed and supported policies of full employment and welfare improvements under both Tory and Labour governments. Reforms were conceded while the essential basis of capitalism was preserved.

But by the early 1970s, the Bretton Woods arrangements were in a state of disintegration (see Chapter Two). In 1971, the United States broke the link between the dollar and gold because it could no longer honour the promise on the dollar bill to exchange paper for gold. As the international currency system collapsed, inflation became rampant and public spending was slashed. When oil-producing countries tripled their prices in 1973 to compensate for the falling value of the dollar in which the commodity was priced and traded, the post-war agreements finally collapsed. A three-day week in Britain was accompanied by strikes and industrial action by power station workers and miners. In the autumn of 1974, the Heath government fell after calling an election on the question: who rules Britain? The Tory government was not in control and had no answers to the crisis. The decade produced social conflict on a scale not seen since the 1920s, with both the Tory government led by Heath and the Labour government under Callaghan defeated by trade union actions. This marked the end of the period of post-war class compromise and culminated in a succession of deeply reactionary Thatcher governments in Britain and Reagan/Bush administrations in the United States.

The inability of the state at national level or international bodies like the International Monetary Fund (IMF) to crisis-manage the breakdown was evident and it stimulated a full-scale social revolt. Where the state once seemed all-powerful, it could no longer control interest or exchange rates, leading to higher imports and rapid inflation. As a result, stable public finances were undermined and the state proved it was no longer capable of maintaining social policies and public spending programmes needed to maintain consensus.

The collapse of the Bretton Woods system, together with the failure to answer the crisis by workers' unions and parties, helped trigger a process that has since come to be known as globalisation – the emergence of a global financial market and the rapid acceleration of internationalised production. Yet globalisation has not made the state as a machinery of rule irrelevant; capitalist globalisation is, in fact, encouraged and delivered through the state. What has taken place is a *transformation in the roles* played by the modern capitalist state. While the corporations have gained in power, influence and access, those who have looked to the state's institutions for representation have effectively been disenfranchised.

Politically, the corporations now act through governments such as New Labour and international bodies like the World Trade Organisation. Governments throughout the world have adapted and restructured the state apparatus, education and social policy to better fit the requirements of modern capitalism and particularly the knowledge-driven area of the economy. As a result, there has been a serious decline in the legitimacy and political authority of the state and its institutions, most notably in the US and Britain where globalisation is most advanced. Capitalist-led globalisation has, in effect, fatally weakened the very institution that was developed to take the political and social heat out of the system of private ownership for profit.

Governments now openly and enthusiastically advocate the free-market economy. As Simon Lee puts it in *The Political Economy of the Third Way*:

The economic policies of the third way implemented by the Blair government have assumed that there are no insurmountable conflicts between New Labour's domestic modernisation agenda and the exigencies of globalisation. Indeed, New Labour has been almost messianic in the advocacy of the opportunities provided by liberalised markets and globalisation...

The international financier George Soros is, ironically, an opponent of free market capitalism because he believes it is destroying the social fabric of democracy. In *George Soros on*

*Capitalism* he says that the salient feature of globalisation is that it allows financial capital to move around freely: by contrast, the movement of people remains heavily regulated.

Since capital is an essential ingredient of production, individual countries must compete to attract it; this inhibits their ability to tax and regulate it. Under the influence of globalisation the character of our economic and social arrangements has undergone a radical transformation. The ability of capital to go elsewhere undermines the ability of the state to exercise control over the economy. The globalisation of financial markets has rendered the welfare state that came into existence after World War II obsolete because the people who require a safety net cannot leave the country; but the capital the welfare state used to tax can.

According to the World Development Movement (WDM), ultimate control of significant parts of the UK services economy, including essential public services such as health and education, have been signed over to unelected trade lawyers at the World Trade Organisation (WTO) without any public or parliamentary debate. They came to this conclusion after studying the British government's commitments under the General Agreement on Trade in Services (GATS) – a far-reaching, but little understood free trade agreement.

The WDM reveals that the following sectors are partially or wholly already in the GATS net: health services, private education, rail maintenance, environmental (sewage and sanitation), retail, financial and banking services. Sectors currently being targeted in GATS negotiations for further opening to the free market include: postal services, broadcasting and communications, care homes, health care and education. Peter Hardstaff, Head of Policy at the WDM says:

The extent of private provision and ability of the government to regulate the market in these areas is currently the subject of fierce public and parliamentary debate in the UK. GATS negotiations could bypass these debates by binding the UK to a set of effectively irreversible liberalisation rules at the WTO.

Hardstaff adds: “The government has made little attempt to inform the public or parliamentarians about the GATS agreement and has failed to produce research on the UK’s existing commitments and the potential impact of future commitments. Since the UK signed up to GATS in 1994 it has not produced a single document fully explaining either what the UK is committed to or the implications of its commitments... Far from starting negotiations with a clean slate the UK has already made substantial commitments under GATS. The government is preparing to hand over much more without any real debate, bypassing MPs and without properly explaining the agreement or its effects to the public.”

The WTO’s powerful enforcement capacities effectively shift many decisions regarding public health and safety, and environmental and social concerns from democratically-elected domestic bodies to WTO tribunals. By creating a supranational court system that has the power to levy big fines on countries to force them to comply with its rulings, the WTO has essentially replaced national governments with an unaccountable, corporate-backed government. For many years, the European Union banned beef raised with artificial growth hormones. The WTO then ruled that this public health law is a barrier to trade and should be abolished. Since it was created, the WTO has ruled that every environmental policy it has reviewed is an illegal trade barrier that must be eliminated or changed. With one exception, the WTO also has ruled against every health or food safety law it has reviewed.

In his book *Globalisation and the Nation-State*, Philip Cerny points out that the provision of health and welfare benefits, education, employment policy and pensions “are under challenge everywhere in the face of international pressures for wage restraint and flexible working practices”. He concludes that

the distinction between “state” and “market” has not simply blurred; the goalposts have changed too. More than that, *both* state and economic institutions have been shown to consist of mixtures of hierarchical and market-like characteristics. In an era when markets, production structures and firms increasingly operate in the

context of a cross-border division of labour, can the state any longer remain a structure apart?

While the campaign group, the International Forum on Globalisation, notes in its proposals for an alternative to the present system:

As social activists, we need to recognise that the world today is no longer effectively ruled by nation states, let alone democratically-elected governments. Instead, there has been a massive shift in power – out of the hands of nation states and governments and into the hands of transnational corporations during the final quarter of the 20<sup>th</sup> century... the prime role of governments is to reorganise their national economic, social, cultural, and political system for efficient transnational competition and profitable investment. In effect, we are living in a new age of globalisation that is characterised by forms of corporate rule.

**New role of the state**

- ▶ advancing interests of home-based TNCs
- ▶ creating conditions favourable for inward FDI
- ▶ technological intelligence gathering
- ▶ creates independent technology capacities
- ▶ promotes innovative capacities, technical competence and technical transfer
- ▶ creates institutions and structures that support an entrepreneurial climate
- ▶ promoting supranational national and regional innovation systems
- ▶ abandoning declining sectors
- ▶ promoting “sunrise” sectors.

*The Future of the Capitalist State*, Bob Jessop

**Changing the face of the state**

What is under construction now is a market state in place of the welfare state. The aim of the transformed state is to create the

most favourable conditions for privatisation, deregulation, new trading blocks, the free movement of capital and flexibility of labour. Under the Thatcher and Major governments, great areas of state enterprise were denationalised and privatised. These included gas, water, electricity, telecommunications, steel, nuclear power, bus services, British Airways, coal and the national rail network.

New Labour picked up where the Tories left off by developing what are known as public private partnerships. First it was announced that the divide between public and private was dogma and no longer applied in the modern world. Then the state was reorganised to make private enterprise responsible for delivering public projects like schools and hospitals. By contrast with the welfare state period, the emphasis is on a partnership between the state and the corporate sector. In reality, this is a one-way relationship. The state hands out large sums to the private sector by way of contracts to the public sector.

The Blairites have given a gloss to this with a term borrowed from the lexicon of Thatcherism – the enabling state. The Tories used this concept to turn local authorities into milch-cows for the private sector. Councils enabled the private sector to make piles of money out of services formerly run by the local authority. The principle was established that councils “bought in” services from the private sector. In October 2002, Tony Blair in his speech to the party conference said: “Just as mass production has departed from industry, so the monolithic provision of services has to depart from the public sector. People want an individual service for them. They want government under them not over them. They want government to empower them, not control them... Out goes the Big State. In comes the Enabling State.”

The big business beneficiaries of the enabling state cannot possibly lose. Returns on their investments are guaranteed by central government. When things go pear shaped, the state steps in and hands over buckets full of cash. The privatised railways are a prime example of this goodwill. Network Rail, which owns the track, has had an average of £5 billion a year in government guarantees and loans. The rail companies were getting about £1.5 billion a year from New Labour. That soared to £4 billion

**Competing for patients**

Private sector diagnostic and treatment centres are part of the introduction of a competitive commercial market into the NHS. The NHS will be obliged to compete for patients against a range of other providers.

UNISON believes that, far from leading to improvements, the marketisation of the NHS will have an adverse effect on NHS patients and will undermine core principles at the heart of the NHS. In particular, the new market will generate the following harmful effects:

- ▶ greater inequalities in patient care, as private providers cherry pick the most profitable patients and hospitals become winners or losers in the market
- ▶ reductions in the quality of NHS care, as private sector providers seek to drive down costs
- ▶ the erosion of the capacity of the NHS to continue providing certain services as work moves away to other providers
- ▶ higher costs, due to producer induced demand and private sector pressure for higher prices.

The NHS hospitals from which work is transferred will lose their routine cases, leaving them to deal with only more difficult and specialist cases. This will negatively affect these hospitals in a number of ways:

- ▶ there will be a reduction in overall volumes of work, leading to reduced funding and potentially causing staff redundancies
- ▶ the transfer of routine work will have a knock-on impact on hospitals' ability to undertake non-routine work and other activities such as research and training
- ▶ junior doctors in NHS hospitals from which work is transferred will no longer be able to develop their skills by undertaking routine cases
- ▶ the non-availability of routine cases will make it more difficult to maximise the use of operating time and resources.

UNISON [www.unison.org.uk](http://www.unison.org.uk)

in 2003-04. The sky's the limit when it comes to trying to prove that public ownership of the rail system is wrong and that partnership with the private sector is the only way.

By the end of 2003, there were more than 560 private finance initiative (PFI) deals worth more than £35 billion; over 500 were

signed under the New Labour government. UNISON, the health union, reported that the private sector had penetrated around 35% of the total NHS market in “soft” contracts, covering such areas as catering, cleaning, security, reception and grounds maintenance, valued at £1.1 billion. Meanwhile, the cost of treating NHS patients in private hospitals was 40% more than it would have been in the health service, figures released by parliament’s health select committee revealed. The NHS paid the private sector £100 million in 2002-03 for 60,000 operations that would have cost £70 million had they been performed in NHS hospitals. Private-sector financing is effectively a form of borrowing, not funding, that shifts the burden onto future generations. The public sector repays private companies which provide the infrastructure and services over 20 to 30 years. These payments include, of course, profit margins and dividends to shareholders. As repayments are spread over a long period, like mortgages, they cost much more than paying cash upfront.

**Understating the cost**

The Edinburgh Royal Infirmary sold the 70 acres of land released by concentrating facilities on a new greenfield site in Edinburgh for about £12m to a subsidiary of one of the PFI partners. The total capital cost of the hospital that has a 20-25% lower capacity is about £180m. A market price for the land would have paid one-third of the cost. But this in turn means that the real cost of the deal is about £240m. Most other deals involve similar arrangements that understate the total cost of PFI.

UNISON

Where there is no market, New Labour will create one as it is doing in higher education with variable top-up fees. This is done to make everything in society serve economic interests. Education is thus commercialised and turned into another commodity. As graduates start to earn, they have to pay back large parts of the cost of their education. This is effectively another blow struck at the post-war welfare state, replacing its emphasis on collective payment through taxation with “co-

payment”. Professor Allyson Pollock, head of health policy at University College, London, told *The Guardian* (11 February 2004):

It is now government policy that it doesn't matter who provides the service as long as it is publicly funded. The result is that there is no area of the public sector, whether it be rail, postal services, healthcare, education or pensions, that has not been – or is being – broken up, commodified and privatised. Take long-term care as a prime example. In England and Wales this is no longer a right or a collective responsibility. Over the past 20 years the NHS has almost totally withdrawn from the provision of long-term care. It has closed beds and services, with the result that thousands of older people are paying for their healthcare needs where once they had been promised free care “from the cradle to the grave”. The primary responsibility for the care of frail or sick older people and those with disabilities is largely left to the 5.7 million carers, of whom 800,000 provide unpaid care for 50 hours or more a week... it has turned the delivery of care over to private enterprise at an annual cost of more than £11.1 billion.

As the state has moved out of provision, it has increasingly attempted to co-opt the British penchant for charity to make alternative delivery of services for poor, older or disabled people, those who have turned to drugs or alcohol, been in jail or who are destitute asylum seekers. In 1991 there were around 98,000 general charities with a combined expenditure of £11.2 billion. By 2001-2, the number had soared to 153,000 with a total income of nearly £21 billion and a paid workforce of more almost 570,000. Bear in mind that these are backed up by more than three million volunteers. Most of the increase in financial resources came from government sources, which now accounts for 37% of their revenue.

### **Reinforcing poverty**

When New Labour came to power in 1997, people were aware that previous decades had created growing inequalities. Blair's election success, after all, was a resounding rejection of 18 years

**Housing – a case study**

In the post-war period, the state was the main supplier of housing for those who could not afford to buy. Local authorities built millions of council homes and housing associations also produced low-rent accommodation. The new “market” state has wrecked all this. Under the Tories, tenants were encouraged to buy their council homes. Some 2,030,000 of the best homes were sold between 1980 and 2003, more than 220,000 under New Labour. Meanwhile, councils were banned from building new homes with responsibility passing to housing associations.

From 1988 they had to raise costly private finance to part fund new homes. As a result, rents soared to the point where only those on housing benefit could be accommodated. When New Labour came to power, they deepened what the Tories had started. Councils are still banned from building while grants to housing associations for new homes were cut. Just over 11,000 homes were built for rent by housing associations in England in 2003, a third of the level achieved by the Tories in 1993-04 and the lowest annual total of social homes constructed since the 1920s.

Shelter estimates that at least 89,000 new affordable homes for rent are needed each year to meet housing need. New Labour prefers instead to encourage people in need to buy, even if it is beyond their means. Rather than build new homes for nurses and teachers, for example, they handed out £600 million to help them raise a deposit on a mortgage. A shortage of new homes has helped fuel a boom in house prices. These tripled between 1997 and 2003, putting a first home out of the reach of all but the wealthiest.

The average price for a house in Britain in 2003 was £140,000, almost six times the average salary of nurses and firefighters. In London, the average price of a property stood at 8.8 times a nurse’s average annual pay. Now New Labour is proposing to give public subsidy to private housebuilders in a further erosion of the welfare state. This was something the Tories thought about and dropped! Meanwhile, there were over 93,000 households in temporary accommodation in 2003. More than 130,000 households were accepted by councils to be in priority need, up 30,000 since 1997. In London and the South-East alone, there were in 2004 some 70,000 privately-owned homes that been empty for more than six months.

of Tory policies which had turned back many of the post-war gains of the working class, trade union movement and society as a whole. But New Labour's aim was to make Britain an attractive place to invest in. This meant keeping wages low, forcing people into work whatever the pay, and reducing access to benefits. People were told that the free-market economy would bring benefits for all. The brutal reality is that the poor remain poor and in many cases worse off, while the divide has become a yawning gap.

People at the bottom continue to rely almost entirely on state benefits in contrast to those on higher incomes. Disparity of incomes remains the order of the day. The welfare state has given way to mean-tested benefits. According to the British Social Attitudes Survey 2002, inequality fell in the 1970s, grew significantly between 1979 and 1992, fell during the recession of the early 1990s and then began to steadily climb from the mid-1990s. Official government statistics show that the gulf between the rich and the poor widened enormously. In 1986, 18% of Britain's wealth was owned by the top 1% of the population. By 2003, the richest 1% owned 23%. Excluding the value of property, they currently own 33% of the country's wealth.

Early in 2004 it was reported that the richest tenth of the population spends six times more in a week than the poorest. Those in the lowest income group spent £135 a week, £7,020 a year, while the wealthiest 10% spent £883 or almost £46,000 per year. The richest groups spent the same amount of money in a week as the worst-paid 10% of workers earned in a month. (*The Independent* 20 February 2004) The survey showed that the poorest devoted more than a third of their expenditure on the bare necessities: food, clothing, heating, light and rent, while the richest income bracket only need to use a quarter of their income for the basics.

One of the clearest indicators of poverty is the level of child poverty. In Britain the proportion of poor children increased from 14% to 31% from 1979 to 2001, only a little down from a peak of 33% in 1998-99. Six million children lived in poverty in the UK in the spring of 2003. This showed a fall of 200,000 over the previous year, mainly as a result of a tax credits and one-

off payments. But, as *MediaLens*, which analyses TV and press, commented, “At best, government policy is akin to giving a sick child an inhaler to help her with her asthma, rather than tackling the root causes of the illness. At worst, it perpetuates a grievous and tragic system of social inequality.” A coalition of charities, the End Child Poverty campaign, also accused the government of manipulating statistics to make it appear that child poverty had been reduced.

**Children in poverty**

- ▶ 54% of children in lone parent families are poor, compared with 22% of children in couple families
- ▶ 43% of children in families with a disabled adult are poor, compared with 27% of children in families with no disabled adults
- ▶ 27% of white children are poor, as are 36% of Indian children, 41% of Black Caribbean children, 47% of Black non-Caribbean children and 69% of Pakistani/Bangladeshi children.

TUC

The Office of National Statistics (ONS) reveals that well over half of pensioners are almost entirely reliant on the state pension, with couples sharing £300 or less per week. A report by the Trade Union Congress in March 2004 pointed out that “on average women’s retirement income from all sources is only 53% of men’s. Only 30% of women receive a private pension in their own right”. The report added: “Women pensioners are particularly affected – single women pensioners are half as likely again to be poor as single male pensioners, and women pensioners in couples have the least financial independence of any group in society, with disposable individual incomes of just a third of those of a male in a pensioner couple”. In addition, a separate investigation noted big differences among women in terms of ethnic origin and social background. Only 3% of Pakistani women had an occupational pension.

At the same time, the public is encouraged to make its own arrangements for retirement because the state either cannot or

will not guarantee pensions. According to the government's own illustrations, workers on average earnings today can anticipate poverty in retirement. Their solution: postpone retirement! Or put another way, work until you drop. Meanwhile, hundreds of thousands of workers have suffered as company occupational pension schemes collapsed. Security in older age has become a significant victim of the market state.

### **Promoting the market**

New Labour unashamedly promotes the alleged virtues of global capitalism. Patricia Hewitt, the Trade Secretary, told the CBI employers' organisation on 17 November 2003: "We are hearing siren voices in the US and Britain to pass laws against it [stop companies moving activities overseas] and who say: 'Don't put public contracts with companies that might decide to put some of their operations in India.' It is easy to see the benefit of jobs saved but more difficult to see the long-term cost to consumers and to business competitiveness."

At the same conference, Prime Minister Blair said: "We need to take the *partnership with business to new and deeper levels*. There are fundamental issues of public policy where we desperately need business to be engaged, telling us not just what the problems are, but the solutions as well." [emphasis added] He said he could not specifically support manufacturing. "What I can't do is shield you from the world economy." A TUC report published in July 2004 showed that government support for UK manufacturing was the lowest in Europe and that the UK had lost 750,000 manufacturing jobs since 1997, a quarter of these in high-tech industries.

Chancellor Gordon Brown is perhaps the most enthusiastic about the creation of an "enterprise" economy. In December 2003 he said in a speech: "And, mirroring America, that new consensus for enterprise should embrace not only commerce, finance and science, but all schools, all social groups and all local authorities. There should be no no-go areas and it should include even the poorest inner-city areas, where enterprise is the best solution to deprivation." He added: "I want teachers able to communicate the virtues of entrepreneurship and wealth

creation. And just as business tycoons have become the pop idols of the business world, I want our local business leaders to become role models for today's young."

An increasing proportion of state revenue comes from income tax paid by ordinary wage earners and value added tax, which is a tax on consumption. In 2003-04, total Inland Revenue income was projected at nearly £236 billion. Of this, £122 billion was income tax and only £31 billion corporation tax. Consumers paid another £66 billion in VAT.

Corporations are a law unto themselves when it comes to paying tax. They operate across borders and are able to disguise their profits by transactions within the firm. Of course, they also pay the smallest amounts of tax by registering in tiny countries that have few regulations. The average level of corporation tax in the world's 30 richest countries has been seen to plunge – from 37.5 per cent to 30.8 per cent between 1996 and 2003, according to a survey by accountants KPMG.

Nick Mathiason, writing in *The Observer* (29 June 2003) noted:

Rupert Murdoch's main British holding firm, NewsCorp Investments, paid no net corporation tax in the UK throughout the 1990s and it is highly likely, although unconfirmed, that it still does not. Sir Richard Branson's Virgin Group is based in the Caribbean, yet Virgin Rail has had £500m in public subsidy over the past year. A leading accountancy expert, Professor Prem Sikka, estimates that £25bn is lost to the Treasury each year through multinationals basing themselves in low-tax environments. "The precise figure is impossible to work out. Some say it could be as much as £80bn. We don't know because the Treasury refuses to undertake detailed research to get accurate estimates. It is dodging the issue."

Possibly the most serious tax avoidance technique is known as transfer pricing, a murky area where purchases and sales take place within the same company. Items are sold from high-tax environments to low ones, so the tax burden is dramatically reduced. A recent study estimated that the US Treasury lost \$175 billion of tax revenues in this way between 1998 and 2001.

**The untouchables**

Money only goes where it is wanted, and only stays where it is well treated, and once you tie the world together with telecommunications and information, the ball game is over. For the first time in history the politicians of the world can't stop it.

Walter Written, the former chairman of Citibank

Labour MP Austin Mitchell told Mathiason: "Around 60% of world trade takes place within multinationals, giving them enormous scope for fixing the prices of intra-company transfers. Armies of accountants are available to legitimise any phantasmagorical figure they can think of. Indeed, the big accountancy firms devise the schemes, audit them, then say the accounts are true and fair."

But with the New Labour government packed out with business advisers, there is no question of challenging the corporations. Instead, tax payers and consumers have to foot an increasing proportion of the tax bill. That is one reason why ministers are keen to keep consumers spending, even if it means ratcheting up enormous debts. Every sale brings in tax revenue in the shape of VAT.

**We are all consumers now**

The move towards a market state has brought with it an ideology that is unashamedly consumerist. In a speech to public sector workers in London in October 2001, Blair set out his four principles for public services: high standards; local diversity; flexible employment; choice of providers. "All four principles have one goal," he said, "to put the consumer first." In a pamphlet published in September 2002, he stressed that public services needed to change "to deliver in a modern, consumer-focused fashion". In public services, he wrote, "customer satisfaction has to become a culture, a way of life, not an 'added extra'." The Office of Public Services Reform (OPSR) was later created to concentrate explicitly on us as customers.

The language of New Labour mimics the principles of the consumer movement that were established more than 30 years

ago. These stressed that consumers had to have equal access to goods and services. For New Labour, however, the emphasis is on *choice* and consumer *values*. The new ideology reduces society itself to competing “associations of consumers”, with their different spending powers. So we are no longer passengers but *customers*. People who depend on care or welfare services are more often than not *clients*. There will soon be no patients in the National Health Service – just users. State officials become little more than purchasers in competing corporations, “buying in” services or creating public-private partnerships based on “best value”. In all this, consumers replace producers as the “key interest group”.

A study by Catherine Needham for the Catalyst Forum analyses how, first the Tories and then New Labour, introduced the notion of citizens as consumers in a bid to imitate the market and the private sector. In *Citizen-consumers: New Labour’s marketplace democracy*, she writes that

recent governments in the UK have been consumerising citizenship. Rather than exporting the political dimension of citizenship into consumer behaviour, they have sought to import consumer values into the government-citizen relationship. The effect has been to turn democracy into a marketplace, downgrading those elements of citizenship that presume a more collectivist and political linkage between individual and state.

Needham explains how New Labour has intensified trends developed under the Tories. “It has been evident in a style of communications which utilises marketing techniques borrowed from advertising to promote its messages, and an approach to consultation which emphasises market research and quantitative measures of customer satisfaction over more discursive and participatory methods. Presently it is most apparent in the area of public service reform, where, particularly since the 2001 election, New Labour has explicitly focussed on consumer choice and the responsiveness of services to their ‘customers’.”

She believes that this has “profound implications” for the relationship between government and citizen. It restricts citizens

**On message with New Labour**

Under New Labour, advertising and promotional techniques dominate government communications. The language of branding, key messages and targeting is commonplace. Soon after the 1997 election, Alastair Campbell, the prime minister's communications chief, sent a memo to the heads of information in all government departments requiring that the government's "four key messages" be "built into all areas of our activity". The ostensibly politically neutral Government Information Service (GIS) was reorganised to "improve co-ordination with and from the centre, so as to get across consistently the Government's key policy themes and messages". It was renamed the Government Information and Communication Service (GICS) to reinforce the change in attitude. In a few years, all the departmental heads of information had quit under pressure from New Labour. Commercial market research techniques like opinion polls, feedback forms and satisfaction surveys, are rife. Government spending on market research increased by 43% between 1998 and 2001, according to figures from the British Market Research Association.

to a "passive consumption of politics" and results in a situation where the "relationship between government and citizen is individualised and transactional". This, of course, is precisely what New Labour wants and is only a modern form of Thatcher's infamous statement that there is no such thing as society. Needham herself is not surprised that more and more people decline to vote and do not trust the government. "Citizens are given no reason to support and participate in public life beyond the desire to attain a package of benefits and services. They are being treated not as citizens, but as consumers."

Needham warns that New Labour's emphasis on consumer values presents government and the state "as a realm utterly detached from the individual, rather than a realm that the individual is a part of and an active participant in". What she then summarises is a useful description of what the "market state" aspires to, saying:

There is no room for ideology in a consumerised vision of

citizenship. There is no sense of a shared project on which consent for government depends. The consumerisation of citizenship damages not only the interests of service users and the community, but the very presumption of a political basis to democratic governance.

### **Singing from the same hymn sheet**

The market state has to integrate all systems and processes within its structure so that they all sing from the same hymn sheet. This includes the civil service, government departments, regulators, quangos, local authorities, the police and secret intelligence services. They must all be imbued with advanced business techniques and see themselves as part of a new whole – the world of global capital. New Labour has devoted two governments to this project, not always with success, as a series of political crises over Iraq and other issues have demonstrated. Yet the logic is inescapable. The state and its agencies will subordinate themselves to the unifying force of global capitalism. There is no alternative, a phrase attributed to Thatcher, is the rallying cry of New Labour. Even areas formally outside of its control, like the voluntary sector, are subjected to the same imperatives.

For example, much of the work of the Department for Trade and Industry (DTI) is now turned over to promoting the virtues of the “knowledge economy”. The modern globalised economy is largely knowledge-driven, in terms of the information in computer programs and databases used to develop products. A

#### **Education an ‘extractive’ industry**

Higher education is no longer simply an adornment to our national life – of immense value and prestige, but only to a small privileged minority. It is now a sector as important to our society and economy as the big ‘extractive’ industries of the past – and just as important to our nation’s future in providing the raw material, in terms of skills and innovation, that individuals and whole industries will require to succeed.

Tony Blair, 14 January 2004

significant new role for the state is to create the conditions for the development of “knowledge workers” in the economy. Much of this is done through government funding of science and technology projects with the aim of promoting enterprise (see Chapter 6).

In a strategy document published in 2003, the DTI declared: “We will promote more effective transfer of knowledge by stimulating the push of ideas from universities and research institutions, the pull through of ideas by business and the sharing of ideas between businesses. We will increase our funding of science through the Research Councils by 10% each year – from £2 billion in 2002 to £3 billion in 2006 – to maintain the world-class performance of UK science. We will foster stronger links between scientific research and business innovation, doing more to encourage our academic community to help UK business.”

The DTI said its “new business-focused technology strategy” would help business by providing some of the funding and “sharing some of the risk in taking new technologies to the market”. In the area of raising workplace skills, the DTI will help firms to recruit and bring on people with the skills they need. “This in turn will help develop high performance workplaces. DTI will encourage business to make better use of innovative working practices, modern management techniques and good leadership, working in partnership with employees and their representatives.” New Labour has created regional development agencies to speed up the work on the knowledge-driven economy and supported the extension of intellectual property rights to protect their private ownership.

In a paper called *The state and the contradictions of the knowledge-driven economy*, Professor Bob Jessop of Lancaster University, commented that in pursuing these kinds of policies

states thereby get locked into the pursuit of technological rents on behalf of capital and this leads to the subordination of the totality of socio-economic fields to the accumulation process so that economic functions come to occupy the *dominant* place within the state. Other functions thereby tend to gain direct economic significance for economic growth and competitiveness and this

tends in turn to politicise those formerly (or still formally) extra-economic domains that are now direct objects of state intervention.

Over the last 25 years, as the state moved away from direct economic activities – shifting from government intervention to governance, it created a series of regulators in various industries. Their role is to ensure that industries remain competitive in the world market. These range from the Office of Fair Trading, to the Financial Services Authority as well as regulatory bodies for energy and communications. While much of their propaganda is directed at how they work for consumers, in reality business interests come first. For example, the Competition Commission established in 1998 miraculously failed to find anything wrong with the way supermarkets operate. This is despite the fact that they regularly mark up prices way above what they pay to farmers.

There have been corresponding changes in the role of the central state apparatus, as well as parliament and Downing Street, particularly since New Labour came to office. Parliament's role has diminished still further towards vanishing point, while a presidential-style apparatus has developed around the prime minister. New Labour has politicised the civil service and introduced business-style techniques into the state machine itself. They have achieved this through a combination of special advisers who stand above the civil service; the widespread use of consultants; specially-appointed task forces; tight control of information flow and the creation of a number of special policy units based in the Cabinet Office and reporting directly to the prime minister. Between 1997 and 2000 there were more than 200 task forces, most of whose members were drawn from business.

In February 2004, Blair made a major speech on changing the civil service, where he stressed once more his belief in an “enabling government” to “help people to help themselves”. He told his audience that despite its wealth, Britain faced insecurity because of the speed of change which made industries obsolete and tore communities apart. “Above all, the premium is on a country's ability to adapt. Adapt quickly and you prosper. Fail to

do so and you decline.”

So his message to the civil service was that it had to be transformed into one that was “capable of serving governments of any colour in the era of globalisation”. Blair said: “We need a civil service which aims to amplify the implementation of successful change rather than, as sometimes in the past, act as a shock absorber in order to maintain the status quo... Government has to become an instrument of empowerment, quick to adapt to new times, working in partnership with others, to deliver clear outcomes so that the public sees a return on its investment through taxation. It has to go through exactly the same process of change as virtually every other functioning institution in Britain.”

The civil service had to become “more entrepreneurial, to be more adventurous like their private sector counterparts”. Prefiguring the massive job cuts announced later in the year, Blair explained how in the business sector the centre had become smaller and more strategic in order to “exploit the opportunities of the rapidly changing world”. He added: “There are clear implications here for government. Many government departments have a function similar to those of a headquarters of a major business operation.”

The politicisation of the civil service found its expression in an astonishing intervention in March 2004 by the Cabinet secretary Sir Anthony Turnbull, who is also head of the civil service. He took it upon himself to send former minister Clare Short a warning letter after she had revealed what everyone knows – that British spies bug the United Nations. Turnbull said he was “extremely disappointed” with Short’s behaviour. One constitutional expert said he was surprised at Turnbull’s action because he was merely the adviser on the ministerial code of behaviour. He told *The Guardian*: “The point of the code is that it is for the prime minister to decide whether it has been broken. Does this letter now mean that the Cabinet secretary has now become its enforcer?”

Meanwhile, the Joint Intelligence Committee – made up of civil servants under the chairman at the time, John Scarlett – duly delivered an embellished account of Iraq’s alleged weapons of

mass destruction (WMD). The infamous September 2002 dossier was enough to swing parliament to vote for the pre-emptive and illegal invasion. The Butler inquiry that reported in July 2004 found that the intelligence on which the government based its case for war was “deeply flawed”. The notorious 45-minute claim about Iraq’s alleged ability to launch WMD should never have gone into the dossier, said Butler. In language that only a former senior civil servant could deploy, Butler said that “more weight was placed on the intelligence than it could actually bear”. No-one resigned of course and Scarlett was promoted to become head of MI6 – which was responsible for the intelligence in the first place.

When defence ministry scientist Dr David Kelly questioned the claims in the dossier in briefings with journalists, he was witch-hunted and driven to his death. Blair told the Hutton inquiry that Kelly had put the government in a quandary. Meetings were held involving the highest ministers and officials in the land without a

**Politicising the civil service**

But what many do not realise is that official reports are routinely politicised as far as is defensible. The extreme nature of the politicisation of the WMD dossier was a one-off, carried out because exposure was never contemplated – David Kelly’s actions and the Hutton inquiry were inconceivable at the time. Most official reports, however, are based on evidence that is challengeable, and the degrees of defensible politicisation are much lower.

It has not always been thus. Before the 1980s, civil servants owed an immediate duty to the government of the day, but, as servants of the crown, they could retain some independence by advising in the national interest – a conveniently undefined concept. If ministers strayed too far from the national or public interest, they were admonished by a ‘permanent secretary’s letter’. Such a letter might have questioned why an attack on Iraq was being justified by the questionable WMD argument when many thought the real motivation was oil and a strong military presence.

John Chapman, former senior civil servant  
*The Guardian* 1 March 2004

note being taken. The Cabinet secretary was absent from all crucial meetings. Key phone calls went unrecorded, which is against civil service rules. Over a two-week period, there were only three written records for up to 17 meetings a day as the state machine rolled into action against Kelly and the BBC. Hutton, of course, whitewashed the state cleaner than white and New Labour exacted its revenge by removing the chairman, the director-general and reporter Andrew Gilligan in the space of three days. Greg Dyke, the ex-director general, then revealed what pressure the BBC had been put under by the government. He revealed that Alastair Campbell had demanded the withdrawal from Baghdad of BBC reporters such as Rageh Omaar, claiming they were “compromised”.

Campbell had sent letters to Richard Sambrook, the BBC’s director of news, attacking the BBC’s coverage of Iraq “week in and week out for a period last year”, said Dyke. “It was a classic case of the Downing Street press office trying to intimidate the BBC,” he told the *Sunday Times* (1 February 2004). In a letter to Blair on 21 March 2003, he displayed open defiance. Dyke wrote: “I do not mean to be rude, but having faced the biggest ever public demonstration in this country and the biggest ever backbench rebellion against a sitting government by its own supporters, would you not agree that your communications advisers are not best placed to advise whether or not the BBC has got the balance right between support and dissent?” Dyke went on to make a stout defence of what he saw as the BBC’s duty to be impartial: “You have been engaged in a difficult battle fighting for your particular view of the world to be accepted and, quite understandably, you want that to be reported. We, however, have a different role in society. Our role in these circumstances is to try to give a balanced picture.” What Dyke had missed, however, was the changed nature of the state, of which the BBC is a part.

### **The authoritarian state**

The growth of the power of the prime minister has evolved into an effective presidency. This has made it much more difficult to present Britain as a functioning parliamentary democracy. In his

book *The Last Prime Minister*, the moderate Labour MP Graham Allen, commented that the office was in effect an unelected, unacknowledged presidency.

Blair is also seen by his colleagues in this way. “The Prime Minister is operating as chief executive of various subsidiary companies and you are called to account for yourself”, Jack Straw, told *The Times*. (25 September 2000) Allen described concepts such as the “supremacy of parliament”, “parliamentary sovereignty” and “democratic accountability” as “comforting myths which allow the executive to maintain its apparatus of power without anyone noticing”. The British parliament has “an impotence” and an “irrelevance”, he added for good measure. The MP said that for

almost 200 years the British Prime Ministership evolved and adapted in a way that no other political institution was able to, or allowed to... By the early part of the 20<sup>th</sup> century, this asymmetry was such that the executive, selected from the House of Commons, had become dominant, and was checked by nothing more substantial than its own self-control.

During this time, the legislature, which is the Commons and the Lords, has evolved into a rubber stamp. This is seen in the way that after an election, it is a royal summons that creates the prime minister. The House of Commons is effectively the House of Government. Out of 412 Labour MPs elected in 2001, 142 were in the government and 113 on select committees because Downing Street has allowed them to be. Allen says sorrowfully: “The presidential quango has developed – without being directly elected in a way which has effectively privatised political power

#### **The death of Cabinet**

Cabinet died years ago ... It is now a matter of strong leadership at the centre and creating structures and having people to do it. I suppose we want to replace the Departmental Barons with a Bonapartist system.

No.10 aide. *The Guardian*, 24 September 1999

**Decisions made elsewhere**

There is no glib solution to this trend [non-voting]... And the inevitable tendency of decision-making in the modern world to recede to European and even global forums makes political power appear even more remote to individual electors and even further beyond the practical influence of their votes... The problem is not that the British people have no opinion on the issues of the day but that more and more of them no longer feel ownership of their parliamentary democracy or believe that its political culture can solve the problems in their lives.

*The Point of Departure*, Robin Cook MP

beyond our publicly owned and representative institutions.” As for the Cabinet, Allen describes it as “a relic of pre-presidential government”.

A similar process has overtaken the Labour Party itself, with a decline of representative democracy that parallels the changes in the state. New Labour created national policy forums, where discussions grind on and no criticism ever gets through. It is not possible to refer back the forum reports when they come to the conference. The national executive committee, once a powerful body inside the party, now has little influence, while the role of the constituency parties has declined. The party conference, where policy decisions would be taken – and then ignored – no longer goes through the motions. Any unexpected defeat is shrugged off and ignored. New Labour’s conference is now heavily sponsored by global corporations and directed towards impressing the media, particularly the Murdoch press. “Preferred speakers” are drawn up by the delegate support office and constituencies which had 10% of votes now have 50%. Membership has fallen sharply. Figures published in August 2004 showed that membership had halved since Blair became prime minister. Discounting lapsed members, the total stood at 190,000 – the lowest since Ramsay MacDonald split the party in 1931. This is a reflection of the fact that New Labour is not so much a political party as a managerial organisation in charge of the state.

While the state has given up economic and political powers to a variety of non-elected national, regional, international and global bodies, it has strengthened its power to oppress people at home and abroad. Although this was well under way before the September 11 attacks on the United States, the process has accelerated with the “war on terror”. Philip Bobbitt, a noted academic and adviser on security questions to the Clinton administration, has written an analysis of the modern state, its origins and the question of war. What he calls the market state lacks the legitimacy and authority that the post-World War II nation states established. For him this means war, prolonged war at that, before humanity can create a new “society of market states”. Gloomily he contends:

The pattern of epochal wars and state formations, of peace congresses and international constitutions, has played out for five centuries to the end of the millennium just past. A new constitutional order – the market-state – is about to emerge. But if the pattern of earlier eras is to be repeated, then we await a new epochal war with state-shattering consequences.

Among those cited as architects of the new constitutional order are Clinton, Bush and Blair. Bobbitt adds: “The nation state is dying, but this only means that, as in the past, a new form is being born. This new form, the market state, will ultimately be defined by strategic threats that have made the nation state no longer viable. Different models of this form will contend. It is our task to devise means by which this competition can be maintained without its becoming fatal to the competitors.”

Bobbitt acknowledges that as a consequence of global economic developments the state seems “less and less credible” as a means by which a “continuous improvement of its people can be achieved”. The inability of the nation state to protect its own culture from globalisation is another key weakness. The result of all this, according to Bobbitt, is the “disintegration of the legitimacy of the nation state”.

In perhaps his most sinister sentences, Bobbitt insists: “There is a widespread view that war is simply a pathology of the state,

that healthy states will not fight wars... War, like law, sustains the state by giving it the means to carry out its purpose of protection, preservation and defence.” He concludes: “If we wish to ensure the new states that emerge are market states rather than chronically violent nation states it may be that only war on a *very great scale* [emphasis added] could produce the necessary consensus. We should not exclude the democracies from idealistic ambitions that could lead to conflicts on such a scale.” Bobbitt urges the use of the tactics of relentless air strikes, special forces teams and indigenous allies to deal with the threat posed by opponents of the market state. “Out of this epochal conflict can come, some day, the consensus that will provide the basis for a constitution for the society of the new form of the state.”

This is what the invasion and occupation of Iraq was essentially all about. Iraq was outside of the new market state arrangements, while it possessed a large slice of the world’s oil reserves without being able to finance their development. The regime change carried out by force of arms is intended to pave the way for the wholesale privatisation of the formerly state-run Iraqi economy. Global corporations have formed a US-approved queue to carry out major infrastructure work. The degeneration of the capitalist state at nation level is the impulse, therefore, for a relentless drive to war against the opponents of the market economy.

Meanwhile, in Britain, the state has taken powers to detain people without trial, while the police are able to intercept emails and mobile phone calls without warrants. New legislation allows the state to assume dictatorial powers under the guise of a terror alert. Jury trials have been curtailed and mass imprisonment introduced to deal with an increasing range of offences. CCTV surveillance is becoming ubiquitous and ID cards are on their way. Richard Thomas, the Information Commissioner who is responsible for data protection, expressed his concern at ID cards and two other Home Office population registration schemes. He told *The Times* (16 August 2004): “My anxiety is that we don’t sleepwalk into a surveillance society where much information is collected about people, accessible to far more people shared across many more boundaries than British society would feel

comfortable with.”

New Labour has supported the illegal detention of its citizens without charge or trial in Guantanamo, with Straw declaring: “As a result [of their detention] valuable information has been gained which has helped to protect the international community from further al-Qaeda and terrorist attacks.” Britain has its own Guantanamo at Belmarsh, south-east London. Here non-British nationals are held indefinitely, without charge or trial, on the say-so of the Home Secretary. The state has ridden roughshod over the rule of law and democratic rights (see Chapter 8). In 2003, there were 30,000 raids under terror laws, resulting in only 100 people being charged with terrorism offences.

As we have seen, the capitalist state is less and less democratic, more and more autocratic and authoritarian. The market economic forces unleashed by globalisation have transformed the way we live – from what we eat to how we are governed. We are living through a pronounced and irreversible shift away from parliamentary-based democratic forms of rule. The new market state is by its nature incompatible with previous forms of rule based on representative parliamentary democracy. An historic, qualitative change is taking place in the way that the state functions.

The loss of legitimacy that has resulted is clearly seen in the turn-out for general elections in all the major countries. In Britain, it has fallen from 82% in 1950 to 59% in 2001. The fall between the 1997 and 2001 elections was a remarkable 12%. Meanwhile, the proportion of people who “just about always” or “most of the time” trusted British governments fell from 39% in 1974 to 16% in 2000, according to the British Social Attitudes survey. That figure has undoubtedly fallen even further in the wake of the Hutton whitewash and the Iraq WMD fabrications. The proportion saying there was “not much” difference between Labour and the Tories rose from 24% in 1997 to 44% in 2001. Of the 18-24 age group, 61% voted in 1997 – falling to 43% in 2001. Figures for 25-34 were 68% and 55%. In a further report, the survey cautioned against assuming any revival in voting. “After all, many an analyst has suggested that globalisation has reduced the freedom of policy manoeuvre available to

governments, and thus the ability of political parties to offer divergent political programmes.”

In February 2002, the MORI opinion research organisation found that 73% of those questioned believed that politicians generally did not tell the truth. An in-depth survey in June 2003, found that half the public believe that the government distorts facts in its favour on issues like genetic testing, GM food and climate change. Only about one person in nine had confidence they do not. Only one in four believe the government acts in the “public interest”. As to listening to public opinion, only 15% believe the government listened to opinion about radiation danger from mobile phones. Only one person in 10 thought the government provided them with all the information available on these issues, while two-thirds were laughing at the idea, MORI reported.

It is interesting to note that the Blair government has given people even more opportunities to vote, with the formation of the Scottish Parliament, Welsh Assembly, the Greater London Authority and planned regional assemblies in the north of England. This extension of the right to vote has, however, done nothing to inspire a belief in people that they are more represented, nor that they have more control of their affairs. The point today is not so much to have the opportunity to vote, but the opportunity to vote for something that will really change things.

In the formative days of industrial capitalism there were no democratic institutions to speak of. These were created in the 19<sup>th</sup> and 20<sup>th</sup> centuries under great pressure from the mass of the people. Now, in the 21<sup>st</sup> century, we have democracy as a shell, with parliaments that are of more significance to tourists than working people. The principle of representation that the Levellers fought for during the English Revolution of the mid-17<sup>th</sup> century and which reached its climax in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries in Britain, has been eroded and undermined. This is the dialectic of the parliamentary democratic state, whose form has represented a political compromise between the employers and working people. Globalisation means that this arrangement can no longer work. The long period of

parliamentary politics is giving way to a new, authoritarian state rule.

What we have can perhaps be termed an “unfinished democracy”. In Britain, the dialectic of the struggle for the vote produced enfranchisement for the masses, many of whom saw the vote as a route to transforming society; today they are effectively disenfranchised. The Labour Party was formed to represent workers’ interests in parliament, with the long-term hope of introducing socialist-type policies to mitigate and control the worst effects of capitalism through reforms.

The aim was the avoidance of open conflict with the ruling class. But globalised capital is not in the business of making concessions or promoting reforms. The forces of production and finance transcend borders and this is sufficient to undermine nationally-based reformist policies and programmes. This process has produced New Labour as the unashamed champion of the free-market economy and trade unions whose supine leadership has resulted in the loss of half of the TUC’s membership inside a decade.

The state, even if it wanted to, cannot constrain or dictate to the corporations. It is also patently incapable of getting to grips with the growing ecological crisis (see Chapter 5). The state cannot defend its citizens against terrorism. Instead, Britain and the United States promote policies which intensify the very grievances that give rise to blind acts of terror in the first place. Shorn of legitimacy, the state resorts to the “war on terror” to bolster its rule, knowing that this kind of conflict against an abstract phenomenon can never be said to have ended.

The right to vote allowed for representation without power. Power with representation should be our new goal. How this can work is examined in Chapter 8.