Communist Party Summer 2024

Unity!

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ideas and action for trade unionists

the labour movement needs a new alternative economic and political strategy

ideas and action for trade unionists

Labour's economic problems the political and econ

Welcome to the second in an occasional series of supplements to the Communist Party newspaper Unity! prepared by the party's Industrial Committee.

We welcome original contributions, letters and commentary.

THE NEWLY ELECTED Labour government, in July 2024, inherited a desperately weak economy with the lowest growth in the G7 group of nations. UK productivity consistently lags behind that of other advanced economies. Years of Tory austerity have weakened that economy yet further, eroding public services, damaging growth, holding down tax revenues.

Labour has so far only offered at best a partial loosening of this austerity, arguing that it will stick to fiscal discipline by keeping to existing debt rules that commit it to lowering debt as a proportion of GDP while changing the way it measures the deficit so that capital borrowing is excluded.

The new Chancellor Rachel Reeves appears to be gambling on a new generation of public private partnerships in infrastructure spending to create growth, lift tax revenue and enable more public spending later. There are immediate and more structural problems with this. The immediate problem is the scale of the suffering among working people.

The cost-of-living crisis has not gone away. Poverty remains high and the number of people in deep poverty is rising. Incomes have not recovered to before the financial crash, in-work poverty is embedded in our society through structural mechanisms such as the unregulated housing market, Universal Credit and outsourced and highly insecure employment, unsecured debt is rising, inequality is rising, economic growth remains the lowest in the G7 and company insolvencies are rising again, indicating that small businesses are struggling. Five local authorities have gone bankrupt since 2022 including Birmingham (Europe's largest public authority) with many more at risk.

Working people can't wait on the merest hope that growth will enable future government action.

Labour will not have much time to deliver meaningful change that people feel.

Yet Labour's gamble on growth is deeply problematic, not just because it is fenced in by promises to hold down public spending, but also because it does nothing to tackle the profound problems with the British capitalist economy.

These are not just long-term issues to be fixed on another day. They lie behind the immediate problems that face the new Labour government.

PERHAPS THE biggest immediate barrier is the power of the financial interests organised in the City of London and the Bank of England.

1 THE CITY OF LONDON'S STRANGLEHOLD ON PUBLIC SPENDING AND GOVERNMENT POLICY

The City of London exercises a vice-like grip on government policy around taxation and borrowing. The obsession with fiscal discipline and borrowing rules, such as Gordon Brown's 'golden rule' and the various deficit and debt targets adopted by subsequent governments all stem from the City's obsession with keeping inflation low, maintaining the value of its assets and investments holding down public spending. This is given organised voice through the economic and political power of the Bank of England.

The Bank of England was given independence allegedly to take 'politics' out of monetary policies that set interest rates and given a single mandate to attack inflation using that instrument. This was based on the assumption that rising wages cause inflation and can be held down by cutting business activity by raising the cost of borrowing. This is why, during the costs of living crisis, the Governor publicly argued for wage restraint and hiked interest rates in spite of all the evidence that they had nothing to do with rising prices.

But it also uses its political influence within government and civil service and its economic power to argue for and enforce fiscal discipline and the need to hold down public spending. As the 'mini-budget' cooked up by Liz Truss's government showed, if the City of London doesn't like a government's spending plans it can force up government borrowing costs and the government will rely on the Bank of England to bail it out. This gives the Bank huge political power, which it duly exercised against the Kwarteng-Truss faction by hinting that it was time to change course. The Conservative Party dutifully dumped its Prime Minister and Chancellor.

The Bank intervenes economically by buying government bonds and selling its own bonds in schemes like Quantitative Easing (QE) and the Asset Purchase Facility (APF). The terms on which these are bought and sold have direct effects on the government's ability to borrow and on the Treasury's spending power. Its insistence on being indemnified against any losses on the APF directly affect the Treasury's spending power and is estimated to cost the Treasury at least £110 billion over the next five years.

It is Labour's anxiety to reassure the City of London that has led it to reaffirm its commitments to fiscal discipline, debt reduction over 5 years, Bank of England Independence and a refusal to contemplate the kind of corporation tax rises undertaken by the Biden administration.

omic power of the City of London

These commitments threaten to prevent Labour doing anything substantial to restore, or lift public sector pay, help local authorities or raise living standards, which will force the organised working class into confrontations with a Labour government.

2 DISTORTING INVESTMENT AND STIFLING INDUSTRY

The City of London also exerts huge power over the British economy beyond government spending through the way it influences the cost of corporate borrowing and the way its short-termist shareholding culture gears firms toward the generation of shareholder value.

The preference of City of London financial institutions for high interest rates to support a strong exchange rate for the pound in the 80s and 90s, combined with its lack of interest in long-term investment in industrial modernisation, drove Britain's extraordinarily rapid deindustrialisation. British firms were unable to compete when exposed to European competition, while multinationals offshored production to the global south in search of higher profits.

★ Manufacturing now accounts for only 10% of GDP and 8% of employment in the UK.

★ In 2023, financial services accounted for 8% of GDP and 5% of employment.

★ 4.3 million manufacturing jobs have been lost since 1978 and 1.8 million since 1997.

Financial interests also work to lock in this position of industrial weakness. The same absence of long-term 'patient' capital for investment and R&D prevents the building of a new generation of hi technology export industries.

British firms invest the equivalent of 1.5% of GDP in research and redevelopment, compared with 2% in Germany, 2.3% in the USA, 2.5% in Japan, and 3.6% in South Korea.

Country	Percentage of GDP spent by businesses in Research and development 2019
United States	2.08
Japan	2.54
South Korea	3.65
Germany	2.04
Sweden	2.11
Finland	1.52
Belgium	2.03
United Kingdom	1.53

Source: OECD Factbook 2022

Instead, British companies are geared toward the search for short-term shareholder value. This is one major reason for the particularly vicious attacks on workers' pay, jobs and conditions from big British, predominantly service industry employers.

Partial understanding of this issue underpins Labour's discussion of the importance of an active state, an industrial policy and its proposals around a National Wealth Fund. But these proposals lack ambition and scale.

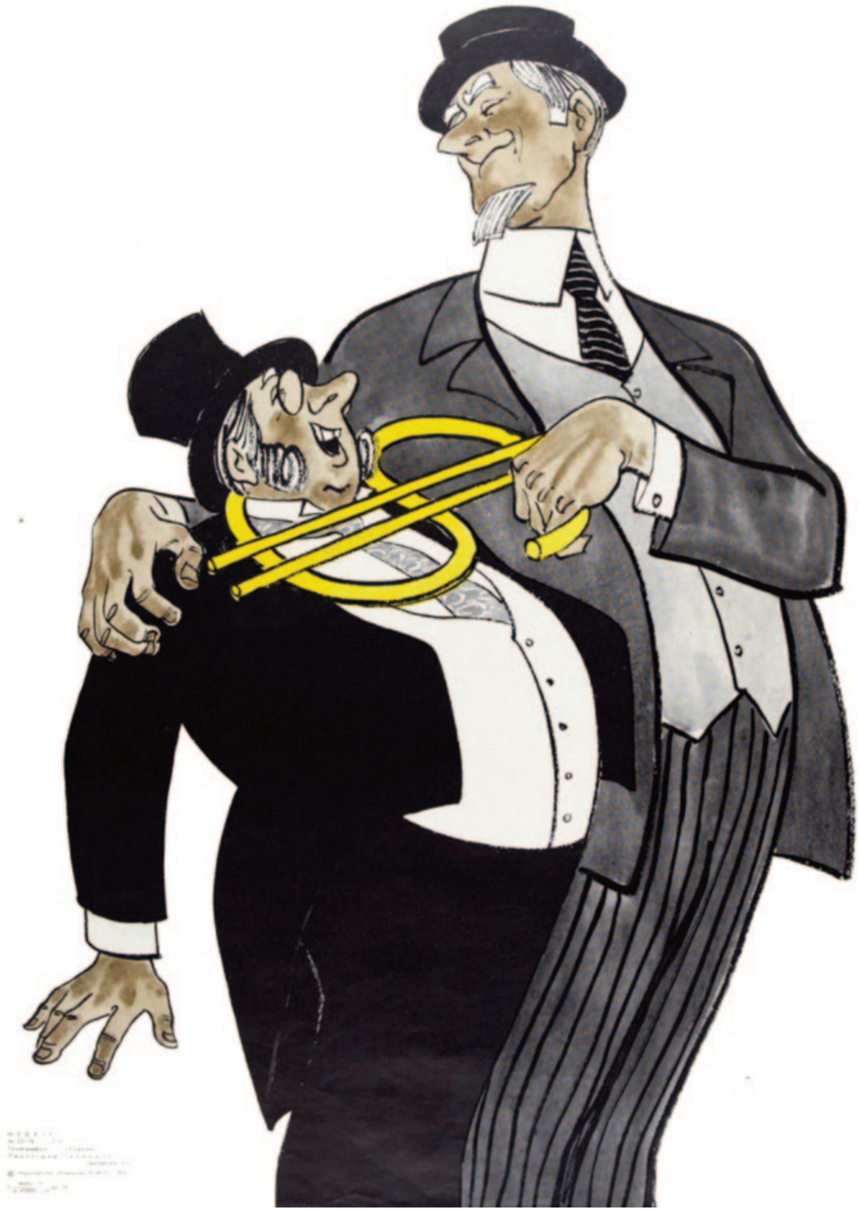
It's also vital that the public at least partially controls and benefits from the assets created by such investments. Labour's plans appear to involve creating a new generation of public private partnerships with asset management funds like Blackrock investing in infrastructure. But infrastructure investment and reindustrialisation are not just a matter of throwing money at the corporate sector and hoping. Money will just vanish into the pockets of City of London shareholders unless there is democratic public control of investment.

Finally, the City of London was a major beneficiary of the privatisation of utilities and public services, from the 1980s sell-offs, to the proliferation of PFIs and PPPs under New Labour. These not only took public services out of public control, but also created huge new financial assets to be traded and economic interests to be defended. Coupled with its reluctance to borrow and upset the City of London, this explains Labour's queasiness about public ownership, in spite of its massive public popularity. Once more it is likely to look to private capital in the financial sector to invest in public services.

Workforce change since 1997

workforce (000s)	*1997*	*% of all jobs*	*2023*	*% of all jo*
Agriculture, forestry & fishing	426	2%	260	1%
Mining, energy and water supply	366	1%	511	2%
Manufacturing	4,343	16%	2,528	8%
Construction	1,927	7%	2,151	6%
Wholesale, retail & of motor vehicles	3,964	15%	3,578	11%
Transport & storage	1,362	5%	1,610	5%
Accommodation & food services	1,309	5%	1,664 5%	
Information & communication	773	3%	1,728	5%
Financial & insurance activities	1,177	4%	1,507	5%
Real estate activities	203	1%	414	1%
Professional, scientific & technical activities	1,529	6%	3,019	9%
Administrative & support services	1,054	4%	1,404	4%
Public admin & defence; social security	1,523	6%	2,764	8%
Education	2,122	8%	3,344	10%
Human health & social work activities	2,924	11%	4,635	14%
Other services	1331	5%	1,790	5%

Source ONS EMP13: Employment by industry May 2024



▲ Anti capitalist poster Soviet Union 1979 attributed to The Fighting Pencils Collective

3 SYSTEMIC SECURITY RISK TO THE ECONOMY

The British financial sector poses a massive systemic risk to the security of the British people and the global economy.

The British-based financial sector is a source of massive global financial instability. This was made blindingly apparent in 2008-9, when the British banking system had to be bailed out at astronomical cost. The banks were entangled in complex securitised asset markets whose value no one knew. When they collapsed, they had to be recapitalised by interest free loans, bailouts and Quantitative Easing (QE) from central banks, securitised through deep public sector cuts as part of internal devaluation policies aimed at restoring the international competitiveness of UK Plc by reducing wages and social costs to employers.

Since 2009, while interest rates were low, there has been massive growth in the so-called Shadow Banking sector – non-banking financial intermediaries like private equity funds, hedge funds and asset management vehicles owned by investment banks who engage in lending without being subject to banking regulations.

Often engaged in highly leveraged lending in complex securities to generate high returns over short timescales, according to Bank of England analysis, these institutions now account for half of total financials sector assets in the UK

They also provide around half of funding for British businesses. If there is a collapse in this unregulated lending sector, it will have devastating consequences. Thousands of jobs will be lost and as we saw in 2008-9, when these markets crash, the real cost is born by the British people through the repeated resort to 'austerity' policies that beat down the standard of living.

the multinationals – profiting off insecurity and blocking economic renewal

THE FINANCIAL INTERESTS of the big banks, insurance companies, pension funds and investment vehicles organised in the City of London are a major problem. But they are also part of a larger group of big businesses located in Britain that use it as a base for their activities but who stand squarely in the way of any project of broad-based economic renewal, let along redistribution of wealth and power.

Among the biggest companies with huge overseas operations and interests operating in Britain today are a small group of oil and gas firms (BP, Shell, and Centrica) mineral extraction and mining companies (BHP, Rio Tinto, Anglo American and Glencore), pharmaceuticals giants (AstraZeneca and GlaxoSmithKline) and arms companies (BAE Systems, Rolls Royce, as well as UK subsidiaries of US companies such as Lockheed Martin, Northrop Grumman, Honeywell, L3 Harris and Raytheon).

In close alliance with similar US companies, these push for British government subsidies and lobby to policies to ensure access to raw materials markets and beneficial international trade rules. Until recently this has involved tying to rig the rules of international free trade treaties.

Now, as the global free trade consensus breaks down, arms companies lobby for more government funding to help them meet growing demand from the spiralling wars in Yemen, Ukraine and of course Israel's genocide in Gaza.

These big businesses may provide some jobs and are even key employers in some regions, but the overall effect of their power and overseas interests is to distort government spending around their interests and commit Britain to an interventionist international economic and political role in spite of the consequences for the peoples of those countries being interfered with and regardless of any consequences for the people of Britain. Tony Blair clothed this role in the fine-sounding language of global human rights until the slaughter he helped unleash in Iraq finally buried him.

Starmer's Labour pivots toward the need for 'security' in an unstable world, seemingly oblivious to the fact that Britain's tailing of US economic and foreign policy is the single biggest source of global instability, a fact recognised by an increasing number of the world's peoples. An isolated Britain, shackled to an increasingly isolated and bellicose United States does not represent security but a profound threat to the safety of Britain's people.

multinationals and Britain's 'foundational economy'

UK based Multinationals in the world's top 100

Company	*Sector*	*Total assets*	*% of assets held overseas*	*Total employment*	*% of overseas employment*
Shell	Mining, quarrying& petroleum	366 226	92%	93 000	68%
BP	Petroleum refining & related industries	286 439	83%	66 300	20%
British American Tobacco	Tobacco	184 661	96%	50 397	60%
VodafoneGroup P	Telecomms	169 136	91%	98 103	91%
Rio Tinto	Mining, quarrying & petroleum	96 744	100%	53 726	100%
Unilever	Food & beverages	88 827	93%	138 000	80%
AstraZeneca	Pharmaceuticals	95 920	83%	82 000	88%
Linde	Chemicals & Allied Products	79 658	97%	65 010	97%
National Grid	Electricity, gas & water	114 653	60%	29 450	57%
Anglo American	Mining, quarrying & petroleum	67 014	94%	62 000	95%
GlaxoSmithKline	Pharmaceuticals	72 334	84%	69 400	57%

Source: UNCTAD World Investment Report 2022

BRITAIN'S 'FOUNDATIONAL ECONOMY' - the parts of the economy on which its domestic citizens and businesses depend - is also dominated by big businesses and increasingly by foreign owned ones.

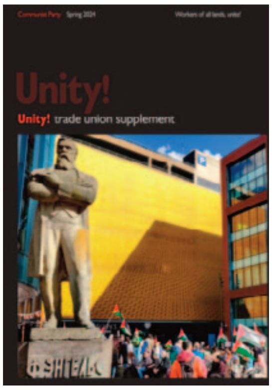
Retail and distribution are dominated by companies like Tesco, Sainsbury and Asda. These companies employ many thousands of workers directly and economically dominate smaller firms and producers in their supply chains, subjecting all of them to the demands of producing shareholder value by cutting costs.

Britain's public services and utilities are dominated by a public services industry of parasitic national and increasingly transnational firms, many foreign-owned and all of them with ownership structures that tie them to finance capital in the City of London and around the world. Water companies, energy suppliers, transport companies, outsourcing giants and many more commonly degrade and commodify public services to maximise profits while turning government funds into shareholder value siphoned overseas through tax havens.

The fact is that these big business interests have little interest in the health, education, welfare and living standards of the vast majority of the British people. Their interests lie in directing government resources into their largely overseas interests and, in the case of the financial sector, restricting overall public spending. Their power is an obstacle to any government attempting to improve living standards for working people, encourage small and medium businesses and enable genuine regional economic renewal. It's also an obstacle to localised attempts to regenerate communities in around the interests of working people and smaller businesses. The ideas behind 'Community wealth building' for example, cannot be realised without forcing changes to overall public spending or the cost of credit in Britain.

There is no way to avoid the economic and political power of the British-based multinationals. If the labour movement does not confront it, it will simply continue to profit from insecurity, degrade the living standards of our people and determine the limits of the possible for our governments.

we need an alternative economic strategy



▲ Spring 2024 issue of the Unity trade union supplement available at www.communistparty.org.uk

THE COMMUNIST PARTY argues that Britain needs an alternative economic and political strategy to raise living standards, erode the power of the handful of monopolies and financial institutions holding the economy back and to create broad-based economic growth. We argue that only taking on the established power of this group of big business interests can enable policies to help the mass of British workers and smaller businesses, rebuild regional economies. It is also only by taking on these interests that we can replace the current gearing of our economy toward overseas interventions and, increasingly, war, with the building of positive economic relationships in the global economy.

While the broad contours of such a strategy can be mapped out now, the exact proposals must be developed and actively, consciously fought for by the movement itself. Many of these exist already as popular labour movement policies.

As a first step, the trade unions could press a Labour government for an alternative strategy based on:

● Abandonment of the self-imposed rules of 'fiscal discipline' in favour of fiscal policy aimed restoring sustainable growth, national renewal and rebalancing the economy. There is a broad spectrum of opinion already in favour of this. Borrowing, spending and taxing decisions must be driven by the needs of the British people, not the overgrown financial sector.

● Restoration of democratic control of the Bank of England and the reintegration of monetary policy into wider economic planning. The threats to the British economy do not arise from short-term political interference in monetary policy but from a long-term structural bias toward the interests of finance capital.

● Raise tax revenues to finance borrowing and public spending and shifting the burden onto big business and the super-rich. This should include raising corporation tax on big businesses and a series of wealth taxes, including a tax on assets over £10 million, a series of windfall taxes on monopoly profits and the abolition of Tax Havens in Crown dependencies.

● Measures to counter any attempts by the financial sector to destabilise government finances or create a run on the pound, as well as limit outflows of capital into the City of London's offshore currency markets. This would mean developing proposals for capital and exchange controls, as well as using the threat and reality of nationalisations wherever it proved necessary. Action should also be taken to regulate the Shadow Banking sector and wind it down.

● Creation of a properly funded national investment bank and taking other financial institutions into public ownership as necessary. These publicly owned institutions should have mandates to do more than simply support small businesses but to invest in and retain public stakes in a new generation of nationally significant manufacturing industries with the potential to create new exports. This will not only ensure that investment is not directed toward shareholder value but also that the public benefits from the industries, companies and wealth that it creates.

● In place of the use of subsidies, a new generation of planning agreements with major infrastructure and manufacturing firms, including creation of better jobs and mandates to work with regional governments.

● Defence diversification to erode Britain's reliance on the exporting of arms across the world, reduce the political influence of arms monopolies in the British state and create broader-based regional economies in which jobs are based on production for civilian needs and exporting for development instead of war. This must be achieved on the same 'Just Transition' basis as trade unions argue for in decarbonisation. There must be a robust defence of jobs, with commitments to like-for-like replacement of skilled jobs. There must be long-term prior planning and investment based on identifying the needs of civilian markets.

● Public ownership of and investment in the renewal and reintegration of critical national infrastructure, including energy, transport and digital communications to support economic recovery. These were and remain popular policies commanding mass support and they are a vital support for economic renewal.

● Investment in and public control of health, education and social care and measures to de-commodify these services and extract them from entanglement with finance capital wherever necessary. There must be no return to PFI style infrastructure deals that erode current budgets and put pressure on frontline services and the private sector should be phased out of front line NHS work.

Summary

● Further development and deepening of the New Deal for Workers. This should go beyond Labour's New deal for Working People to include enshrining the right to strike and extending fair pay agreements and sectoral collective bargaining across the economy. Crucially, it should also include, restoring the right of workers to take solidarity action, for the strong to take action to support the weaker. An effective active working-class movement will be able to rebuild effective collective bargaining and ensure its spread across the economy. Unions will be able to regulate the price of labour within industries through collective action and negotiation. This will raise living standards and increase labour's share of wealth far more effectively than the structures of Minimum Wages or the Low Pay Commission, even with its revised mandate. It will also help to rebuild a confident, militant working-class movement with greater coverage of the working class.

● This should be accompanied by measures to restore and promote democracy throughout our political system, our social life and our economy. Power should be restored to democratic institutions and moved closer to working people. This should include reversing attacks on civil liberties, supporting measures to erode monopoly power over the press, measures to rebuild the sovereignty of Parliament over economic policy, support for a new 'progressive federalism' throughout Britain, and the rebuilding of local democracy.

THE MEASURES set out here would enable a Labour government to raise living standards for working people and take pressures off smaller businesses by tackling the biggest barriers to economic development and redistribution of wealth – the power of the City of London, multinationals and big business which do so much to determine the functioning of our economy and the life chances of our people.

These measures can't be seen as a menu of options from which the labour movement can choose, but an interlocking strategy for weakening the vice like grip of monopolistic big businesses and the financial interests in the City of London. These measures also anticipate the reactions of this small group of interests and propose further measures that might be necessary in the face of resistance.

The programme outlined here would build support for a Labour government among the mass of people including the organised working class, the wider working class beyond the trade union movement and also among large sections of the domestically based business community.

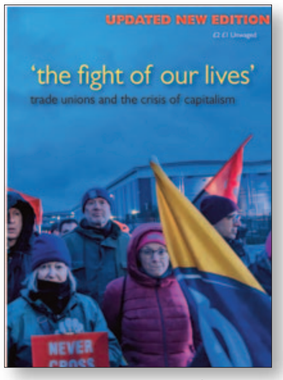
Importantly, the programme would also support the creation of new unionised jobs in manufacturing and free the unions to be able to expand out of their current bases. In this way, they would be measures to re-build an active, organised labour movement.

What we have outlined here is only an indication of what this programme should look like. The work on further developing this alternative is to some extent going on already, throughout the movement. In policies developed democratically by unions, in the ideas of community wealth building in our cities and regions and in the heterodox economics that endures around the edge of the academic mainstream.

But this work needs to be better coordinated, further developed and seen as part of a coherent challenge being made in the name of the mass of the British people to entrenched selfish powerful corporations and led by the organised working class.

The Communist Party believes that ultimately it will prove necessary to go further and develop socialist control of the economy. This is because the capitalist system itself is the deeper problem. It cannot offer any fundamental solutions to the multiple existential crises facing us.

But the approach we set out here would be a starting point. It would form a programme around which the trade union movement could unite now and offer to the broad mass of the people struggling across our communities and across the economy as a whole as a way of winning concrete improvements now and making inroads into the organised power of big business and the financial sector.



An updated edition of *The fight of our lives: trade unions and the crisis of capitalism* is now available in digital and print. Author of the best-selling Manifesto Press book *Our Trade Unions* Nigel Flanagan says this pamphlet is recommended for all working class and trade union activists. www.manifestopress.coop

If not you, who? If not now, when?

Now is the time to join with the communists. Capitalism in Britain is a bankrupt system – economically, politically and ideologically.

It has nothing to offer working people; except more poverty, more oppression, more war and the destruction of our planet.

But our lives don't have to be this way. Working people are the engineers of history. We have the power to change everything.

There has never been a more important time to join the fight for socialism.

The Communist Party is the united party of the working class and liberation. It is growing throughout England, Scotland and Wales especially amongst young workers, anti racists and antifascist activists and trade union and women's movement activists.

Go to www.communistparty.org.uk/join


Workers of all lands, unite!
Communist Party July 2024

Unity!

Oil workers strike

ALEX GORDON
SOLIDARITY

A WELCOME AND A WARNING

UNITY REPORTER
GENERAL ELECTION

▲ COMMUNIST REVIEW
Communist Party theory and discussion journal bi-monthly

Left: **Unity!** *Communist Party monthly for the movements*