Class Struggle and the UK Economy, 1945-2017*

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1 Introduction

In the 2015 election for leadership of the Labour Party, Jeremy Corbyn stood on an anti-austerity radical programme which enthused the Labour Party membership, and won him a landslide victory. This prompted 18 months opposition and noncooperation from most of the Parliamentary Labour Party, culminating in two thirds of the Shadow Cabinet resigning, and Corbyn losing a vote of confidence among his MPs (by 172 votes to 40). In the following leadership challenge in September 2016, in which just over half a million Party members and supporters voted (a turnout of 77.6%), Corbyn won nearly 3 percentage points more votes than the 59% he had won in the previous year. Most of his opponents could only sullenly acquiesce, although a significant number continued their war of attrition.

The following year, Prime Minister Theresa May decided to take advantage of Labour Party divisions and called a General Election. Facing predictions of a landslide Conservative victory, but with a manifesto 'For the Many, not the Few', Labour dramatically increased its

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vote share by nearly 10 percentage points, to 40%, the largest increase in any General Election since 1945, and its net gain of 30 MPs deprived the Conservatives of their parliamentary majority. The latter could only remain in power by depending upon the Democratic Unionist Party of Northern Ireland. Since then, the domestic politics of the UK's future relations with the European Union (EU) has dominated, tempered by an unedifying sideshow of the mismanagement of disciplinary proceedings concerning the emergence of antisemitism within the Labour Party and its weaponization by Corbyn's opponents.[1]

Meanwhile, health, social care, education, housing, policing and transport are all in various stages of crisis, varying from the chronic to the acute. This is not just about the politics and economics of austerity, which have been indeed a disaster for the many. It is less well recognized that the contemporary era of neoliberalism is one of long-term economic decline. Table 1 adopts a common periodization of the economy: a Golden Age of social democracy from the late 1940s to the early 1970s, followed by a short transition through the remainder of the 1970s, to its replacement following the Conservative victory in the 1979 General Election. This marked the start of the 'neoliberal' era of globalization, which can be divided into three phases: the Tory years to 1997, the Labour years to the 2007 Financial Crisis, and the years since the outbreak of that crisis.

Several features are noteworthy.[2] First, in the Golden Age, output per head grew faster than consumption per head, creating a significant space for growth in investment. The reverse was true in the neoliberal era: consumption per head grew faster than output per head, and investment during the Tory neoliberal years lagged some considerable way behind,

[1]Commentary on Israel-Palestine and Zionism by some on the left has involved anti-semitic positions especially on social media. These have been used by Corbyn's opponents within Labour as a destabilizing weapon against Corbyn's leadership. That leadership has also been compromised by a seeming inability to focus as precisely on the social media offence as it does on the destabilization thereby enabled.

[2]Small differences in growth rates over long periods of time compound to produce very significant differences.

	Social Democracy		Neoliberalism and Globalization		
	Golden Age 1948-73	Transition 1973-79	Tory years 1979-97	Labour years 1997-2007	Crisis and austerity 2007-17
GDP per head	2.90	1.51	2.11	2.38	0.34
Consumption per head	2.34	1.46	2.70	2.94	0.21
Total Investment	7.46	0.62	1.59	3.27	0.77
Output per hour	3.62	1.68	2.29	2.02	0.33
Average Weekly Wages	2.48	2.33	2.47	2.21	-0.09

Table 1: Average Annual Rates of Growth (%, 2016 prices)

only picking up in the Labour neoliberal years as some repair was done to the neglect of public services (especially health), but still at less than half the pace of the Golden Age. Similarly, labor productivity (output per hour) grew faster than average weekly wages in the Golden Age, whereas the opposite was the case in the neoliberal era. More generally, all growth rates were lower in the neoliberal era than in the Golden Age (except for consumption per head), and the long-term decline has accelerated since 2007 with growth rates derisory in historical context.

To reverse this long-term decline, it is tempting to imagine that a major burst of public expenditure is all that is required, a rediscovery of the Keynesian economics that is supposed to have underpinned the thirty years after World War II and then abandoned in the 1970s. Indeed, in this perspective, Labour's 2017 Manifesto was mostly only radical when set against the development of the UK economy since 1979. From the perspective of the 1960s, the Manifesto was only mildly left of centre. A deepening of its themes (on which some work has been proceeding) is essential: were Labour to win a General Election, it would be faced with a neoliberal economy requiring major transformation. But what sort of transformation?

To understand the scale of what is required, consider not the many, but the few. Looking at deciles of (equivalized) households, the neoliberal era saw an increase, post-tax-and-benefit, in the ratio of (equivalized) household average income of the top decile to the bottom decile from about 4 to about 6, and in the ratio of the top decile to the 5th decile from about 2 to about 3, these changes all occurring through the decade of the 1980s. However, decile comparisons fail to capture what has happened at the very top of the income distribution, which is different from what has happened to the average of the top decile. Estimates for the top 1% of the distribution based on household surveys would draw on too small a number of households to make accurate estimates. An alternative approach uses tax data rather than household surveys, and Figure 1 shows the pre-tax shares in national income of the top 1% and the bottom 50% of tax payers.[3]

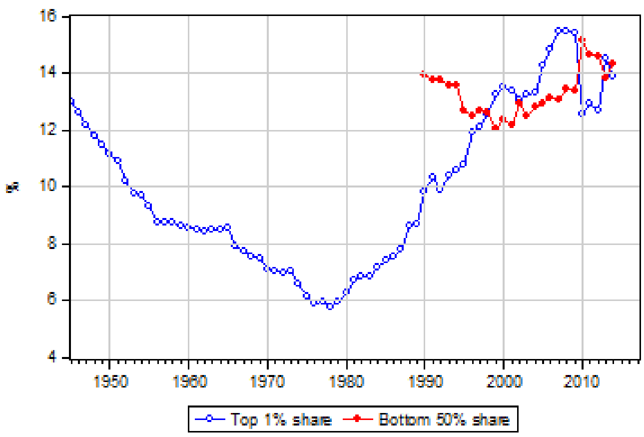

Figure 1: Pre-Tax Shares of National Income, UK, 1945-2014

The Golden Age and the 1970s transition was a period of falling income share of the top 1%, from 13% of national income in 1945 to a trough of *5.7% in 1978.* But neoliberalism more than reversed this fall, and the pre-tax income share of the top 1% climbed to a peak of *15.4% in 2007.*[4] Compared with 1990 (11 years into the neoliberal era), by 2007 the top

[3]There are difficulties here with tax avoidance and evasion. Note also there is a data break: from 1990 onwards joint tax assessment of husbands and wives was replaced with individual assessment. Missing years are interpolated.

[4]Its post-tax share was 12.6%. Note that net national income in the ratios cited excludes the gross operating

1% had increased its pre-tax share of net national income by 5.6 percentage points, whereas the bottom 50% share had fallen by almost 1 percentage point. These are very large sums. Comparing what both would have received in 2007 had 1990 shares not changed, with what they actually received, the top 1% had (at 2016 constant prices) £84.6 billion *more* and the bottom 50% had £13.5 billion *less*. Figure 1 also shows that in the later years of neoliberalism the pre-tax amount appropriated by the top 1% was roughly comparable with the pre-tax amount accruing to the bottom 50%.

So a return to the 1945-1973 era is not possible: the conditions that underpinned that economy have long since disappeared. To evaluate what might be an appropriate and feasible set of policies for an incoming Labour Government requires as pre-requisite an understanding of how UK capitalism has evolved into its present state. This evolution of UK capitalism is best understood through the prism of class struggle, which provides a rather different perspective from the more common story of a Keynesianism at first implemented from 1945 to the early 1970s, and then abandoned.

2 A Framework for Empirical Analysis

2.1 Class Relations

Capitalism is above all else about making money, summarized as an aggregate flow of profit to the capitalist class. This is captured by a focus on profit as a share of total output, with the remaining share going to wages. Because the profit share and the wage share exhaust total output, each class only gains share at the expense of the other. So fluctuations in the

surplus of households and nonprofit institutions serving households, in order to avoid the entanglements of imputed rent.

profit share summarize an important aspect of class conflict and its outcomes.[5]

Profits arise out of the sale of output, hence from success in the war of competition. Since competition is fought through productivity increases, and productivity increases derive from innovation, then a second important indicator, in addition to the profit share, is the relation between output per labor hour (or *labor productivity*) on the one hand, and the means of production per labor hour required to produce that output (*capital intensity*) on the other. This ratio of labor productivity to capital intensity is called *capital productivity.*[6] Historically, the predominant pattern of technical change in capitalism has been labor-saving (via mechanization), raising capital intensity. What happens to capital productivity therefore depends on *how much labor productivity is generated by increases in capital intensity.* So how capital productivity changes through time is determined by the interplay between the type of technical change (generic or industry-specific, yielding changes in capital intensity) and class struggle at the point of production (over attempts by capital to raise labor productivity and extract more surplus-value).

- If labor productivity rises less fast than capital intensity, then capital productivity falls.

- If labor productivity rises faster than capital intensity, then capital productivity rises.

In sum, movements in the profit share capture changes in distributive relations between capital and labor (how much accrues to each class and how that changes over time), and movements in capital productivity (labor productivity relative to capital intensity) capture

[5]Of course, this is an imperfect measure. Some profits are really labor income (for example, pension payments to the working class are sourced from profits on investments) and some labor incomes are better seen as profits (for example, the increases in labor income that have driven the increase in top incomes since the early 1980s).

[6]The term is misleading because it seems to imply that capital is productive. Interpreting it as a ratio of labor productivity to capital intensity, with movements in the latter causing movements in the former, should avoid confusion. In addition, the paper assumes that the same price series is used to deflate the variables. If different price series are used for the different variables, matters become more complicated, and the paper ignores this.

changing outcomes in the production of surplus-value. While these movements are not independent of each other, at least proximately they describe different but crucial aspects of the course of class struggle.

2.2 Class Fractions

Capitalism is based on labor market transactions between those who sell their labor-power and those who possess (either by ownership or through loan contracts) the means of production. In principle, these are *individualized* contracts, potentially pitting workers against each other in the competition for jobs. Consequently, the growth of trade unions was motivated by the realization that only *collective* organization could confront the power of capital.

Two consequences of this are important. First, once trade unions were established, it became useful for many (particularly large) employers in unionized sectors to agree to negotiate wage bargains collectively with relevant trade union leaderships. Significant trade union wage premia could thereby be established, making union membership in turn more attractive. Second was the issue of how responsive trade union leaderships were to their members, and relatedly, how decentralized was union activity. In addition to local area representatives of national unions, parts of UK industry at plant level had 'shop stewards', locally elected and unofficial trade union representatives, whose autonomy from national union leaderships could become a major problem for employers (as well as national union leaderships). If shop stewards could gain and retain local influence and authority, then employers had to negotiate with two sets of union representatives, one official and national, the other unofficial and local. Class power in the latter resulted from the ability of shop stewards to call for a 'work to rule' or in extremis an unofficial ('wildcat') strike.

For the economy as a whole, some indication of actual and/or potential working class power is given by the overall measure of trade union density – the proportion of employed trade unionists to total employment. This is shown in Figure 2. Once peacetime conditions

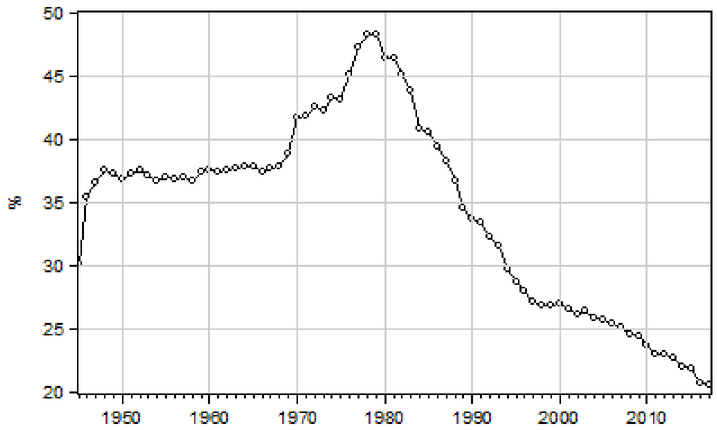

Figure 2: Trade Union Density, UK, 1945-2017

were established, union density was fairly constant to the end of the 1960s, rose through the 1970s to peak in 1979, and thereafter fell. In 2017 trade union density, measuring actual and/or potential working class power, was at its lowest not just between 1945 and 2017, but for the 100 years prior to 2017.

Whereas 'labor' can be divided into those who are organized and those who are not, 'capital' can be divided across different dimensions. First, one fraction of capital is internationally oriented while the other is entirely domestically oriented. Second, of that fraction that is internationally oriented, one part derives its profits from the export of goods and services, and the other part derives its profits as income from property held overseas. Both of these are shown quantitatively in Figure 3.

The left-hand panel shows the relative international orientation of UK capital by depicting the ratio of profits derived from any international activity to the profits derived from purely domestic activities. The right-hand panel shows the type of international orientation by

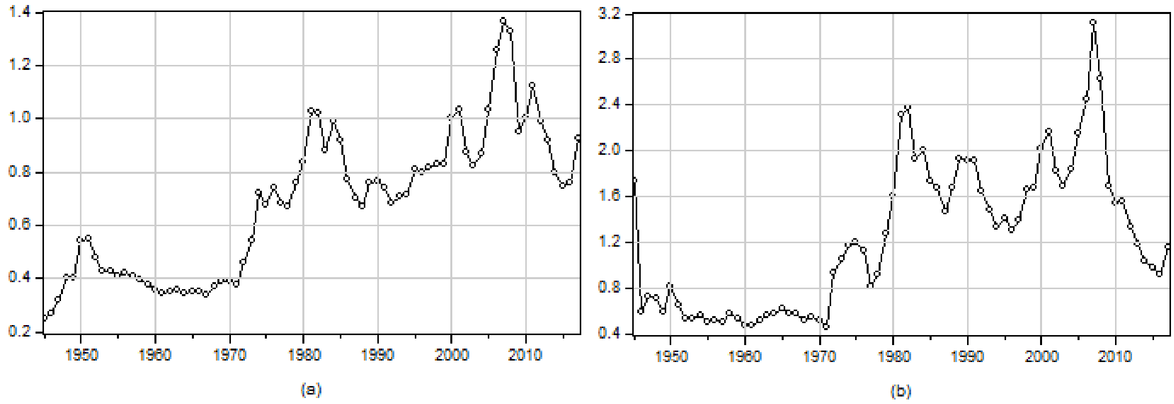

Figure 3: Indices of Internationalization, UK, 1945-2017
(a): Profits from any international activity relative to profits from purely domestic activities.
(b): Property income from overseas relative to profits from exports.

depicting the ratio of property income from overseas to the profits derived from the export of goods and services.[7]

How the activities of capital are oriented affect the expression of its immediate interests.

- If profits are derived from the production of goods and services, then capital is proximately interested in expansionary policies that encourage both domestic investment in productivity-enhancing growth, and the growth of stable markets with high levels of demand. Broadly, this fraction of capital is summarized as 'industrial capital'.

- For UK capital receiving property income from overseas, UK holders of foreign debt are interested in the security of their loans, and UK holders of overseas assets (from which are derived profit remittances) are interested in the security of their investments. If such security is threatened, holders of that capital would want to sell their assets and move

[7]The right-hand panel understates its case, because the export of financial services is a component of the exports of goods and services, whereas generically the interests of financial capitalists might be expected to be more tied up with those receiving property income than with the export of nonfinancial goods and services. In terms of scale, in 1986 about 4% of all UK exports were exports of financial services, changing little until 1996, then rising to 12.4% by 2007 before falling back to 9.5% by 2017.

their capital elsewhere. Hence capitals in receipt of property income from overseas tend to advocate a deregulated world order because regulation typically hinders the mobility of capital. Broadly, this fraction of capital is summarized as 'financial capital'.

In Figure 3, panel (a) shows from the early 1970s the profits from international activities becoming relatively more important than profits from domestic-focused activities (albeit with considerable fluctuation), that is, an increasing internationalization of the UK economy. Panel (b) shows that from the mid-1970s, property income from overseas was almost always more important than profits from exports.

In sum, from 1945 through to the early 1970s, profits from domestic activities were quantitatively more important than profits from any international activities, and profits from exports were quantitatively more important than property income from overseas. Industrial capital was thus the dominant fraction of capital. This changed during the 1970s. By the end of that decade, financial capital had superseded industrial capital as the dominant fraction of capital; and it was precisely thereafter that trade union density began to fall.

2.3 The Rate of Profit

Multiplying profit share and capital productivity together yields the ratio of profit to the fixed capital stock, which is the *economy-wide average rate of profit.* Hence movements in the rate of profit occur if and only if there are movements in its constituent parts, the profit share and capital productivity. Figure 4 shows the rate of profit, capital productivity and the profit share for the UK economy.[8] It should be emphasized that the rate of profit is used here as a summary statistic of the relative success of profit-making. There is no long run falling

[8]In Figure 4, and in all subsequent Figures, for visual clarity the scale of the vertical axis is adjusted to fit the data. While this provides visual impact, it is important not thereby to exaggerate the fluctuations that the graphs depict.

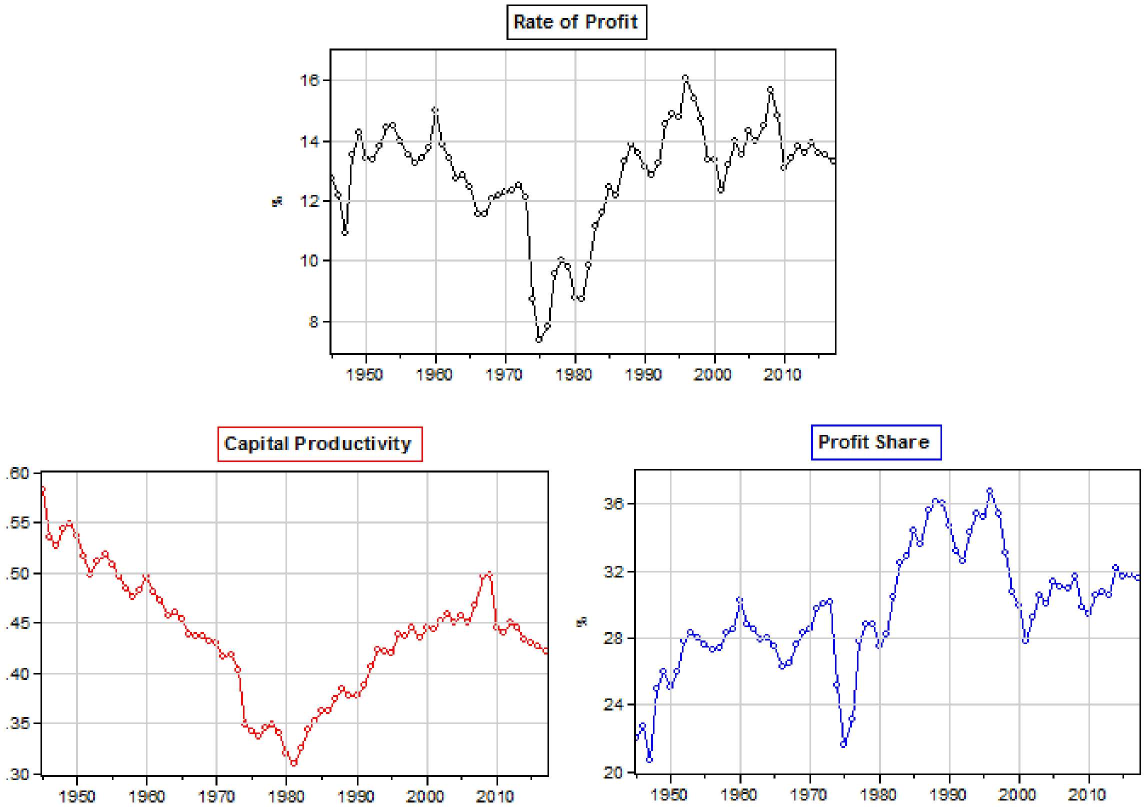

Figure 4: The Rate of Profit and its Components, UK, 1945-2017

rate of profit driving down the rate of accumulation. While the rate of profit almost halved from 1960 to 1975, it then rose to a post-1945 peak in 1996, and, after a fluctuation, rose almost as high in 2009. There are periods of falling profitability, periods of rising profitability, and periods of broadly stationary profitability. These periods can now be considered in more detail.

3 The Golden Age 1945–73

The last years of World War II and the immediate post-War years initiated an era of social democracy, characterized by the creation of the modern welfare state, nationalisation of basic industries, and some policy commitment to the pursuit of full employment. Complementing the direct domestic controls over credit and financial institutions was a new international framework established at Bretton Woods in 1944: a post-war dollar/gold standard of fixed exchange rates, along with a regulatory framework operating through the international institutions of the World Bank and the International Monetary Fund. These complementary international and domestic regulatory frameworks were successful in encouraging both the growth of multilateral international trade and alongside it a post-war investment boom. The consequences were low levels of unemployment and rising levels of domestic demand (in particular the growth of mass markets for consumer durables).

While the UK shared in the general prosperity of the metropolitan capitalist world through the 1950s and 1960s, its performance in terms of productivity and growth was less impressive. Partly, there were characteristics of European capitalist economies (such as large agricultural populations that could move off the land and into industrial employment) that the UK did not share contemporaneously (because of its earlier industrialization). Partly, post-war (indicative) planning proceeded in a somewhat haphazard and disorganized manner: the nationalized industries were never adequately coordinated with one another nor used as significant instruments of overall industrial policy; indeed, Cold War rhetoric disavowed planning as undemocratic. These features shaped both class struggle and technology, summarized in Figure 5.

Capital productivity fell steadily throughout the Golden Age, as greater and greater increases in capital intensity were required to generate a given increase in labor productivity. While UK labor productivity failed to keep up with its competitors, nonetheless the buoyant conditions of demand through the 1950s and a relatively quiescent labor movement subdued by cold war rhetoric combined to produce an increase in the profit share that up to 1960

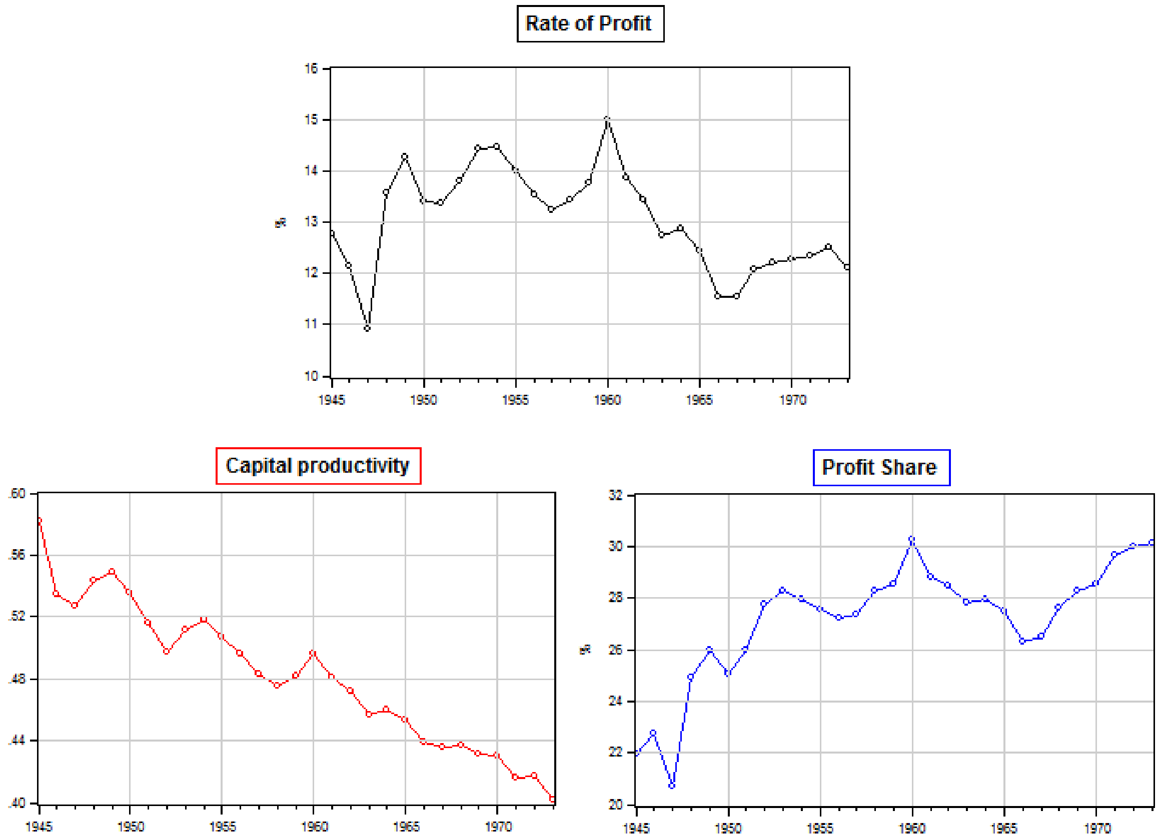

Figure 5: The Rate of Profit and its Components, UK, 1945-1973

more or less compensated for falling capital productivity, so that the rate of profit fluctuated along a flat trend.

After 1960, this was no longer the case. With growing labor militancy (culminating in a seamen's strike in 1966) the profit share fell and combined with falling capital productivity to produce a falling profit rate, only partially arrested by a devaluation of sterling in 1967. The fall in capital productivity was relentless, manifesting itself politically as the claim that labor productivity was just not high enough. This in turn was attributed to the 'problem' of organized labor.

3.1 Organized labor

The historical development of trade unionism in the UK was quite different from that of later developing capitalist economies. Prior to the 1970s, statutory legislation was conspicuous by its absence. There was no legislation compelling employers to bargain with trade unions, no legislation that made collective agreements legally enforceable, no legislation concerning either workers' rights to join a trade union or employer recognition of unionization, and no legal right collectively to withdraw labor and hence to strike.

This was because English common law (based on judicial opinion over the centuries) had evolved to protect individual rather than collective rights (for example, the property rights of landowners rather than the customary rights over common land). Any action that interfered with contract and property rights was a 'tort', and those so interfered with could seek punitive legal redress (with effectively a judicial guarantee of success). Hence because any collective action by organized labor was a 'restraint of trade', in common law trade unionism was impossible. The only way to nullify this was both to exempt trade unions from liability in tort, and to protect individual organizers of trade union activity from torts concerning trade disputes. This was the effect of the 1906 Trades Disputes Act, which was the sole legal basis for trade unionism until the 1970s. There was indeed a raft of legislation in the 1960s and 1970s establishing *individual* rights for workers: minimum notice periods for employees (1963), minimum redundancy payments (1967), protection against unfair dismissal (1971), protection in case of accidents (1974), extensions of workers' statutory rights (1975 and 1978), and protection against discrimination on grounds of sex (1970 and 1975) and race (1976), together with a system of industrial tribunals before which breaches of individual rights could be brought. But these were not the collective rights of trade unionism. The latter only existed by virtue of the 1906 immunity from torts arising out of restraint of trade.

For this reason, the development of trade unionism in the public sector was especially important. The wave of nationalizations after 1945 in mining, utilities, transport and communications, in pursuit of a modernization that the inter-war private sector had demonstrated that it could not deliver, together with the expansion of public sector health, social services, housing and education, encouraged the spread of public sector trade unionism.[9] And post-war growth also boosted trade unionism in private sector manufacturing.

Outside of private sector manufacturing and the expanded public sector, trade unionism was much weaker; it was the historically low levels of unemployment that made trade unionism appear stronger that it in fact was (but this was not evident until the 1980s). With the low unemployment of the Golden Age, the 'problem' of organized labor was identified as its apparent ability to lead a wage-price inflationary spiral through wage demands in excess of productivity increases. Three approaches to resolving this issue were attempted. The first was to incorporate trade unions in some form of corporatist agreement around wage increases (known as an 'incomes policy' to its supporters and 'wage restraint' to its opponents). The second was to alter the legislative framework to which trades unions were subject. The third was to manage the economy at higher levels of unemployment to weaken the position of those in employment.

These three approaches were not alternatives, but received different emphases in the decades after the 1950s. After a hesitant experiment with a timid corporatism in the early 1960s, the remainder of the 1960s saw attempts at an incomes policy, the voluntary adherence to which was intended to be bought by policies of 'fairness' towards both incomes and prices.

[9] In 1980, for example, trade union density among full-time employees of nationalized industries was 97% and of general government 89%.

But the unions never wholeheartedly signed up to the policy, particularly at grass roots level where the 'prices' part of the policy was seen as merely a cover for the implementation of wage restraint. Recourse was additionally made to higher levels of unemployment. The increase in unemployment appeared large at the time (an increase in the unemployment rate from less than 2.5% in the mid-60s to 3.75% in 1970) but international demand conditions remained buoyant, and the increase in unemployment proved too small to have much impact. With neither incomes policies nor rising unemployment seeming to work, towards the end of the 1960s proposals were made to alter the legislative framework governing trade union activity, but the (Labour) government was divided, and the proposals came to nothing. By 1970 then, all three approaches to trades unions had been attempted. But none had had great success, and the difficulties that organized labor posed for capital remained unresolved.

3.2 Collapse and Transition 1973–79

These difficulties deepened in the first half of the 1970s at the same time as the Golden Age came to an end. The Conservative Government of 1970-74 attempted to alter the legislative framework, but the imprisonment of trade unionists did not prove popular, and an unwise confrontation with the National Union of Mineworkers (NUM) triggered a 'who governs?' General Election which the Conservative Government lost in 1974. Cooperation was then tried again, but the circumstances were not propitious, for the post-war conditions of buoyant demand had evaporated.

Throughout the Golden Age from its inception to the early 1970s, the profits derived from export production were about twice as important as property income from overseas (Figure 3, Panel (b)). In that sense, the interests of industrial capital predominated. It took some time for these interests to dominate the nostalgia for 'empire', but in 1961 the UK applied to join the European Economic Community (EEC). However, the application was vetoed by France in 1963, fearing that the UK would act as a US-sponsored trojan horse with respect to European integration.

After this rejection, there was political drift for a decade. But in 1958 the dismantling of exchange controls had begun, and through the 1960s the debt financing of both US domestic social programmes and the US war in Vietnam led to substantial off-shore Eurodollar dealings in which the City of London proved important.[10] The domestic liberalization of post-war financial flows was further facilitated by the introduction of 'Competition and Credit Control' in 1971, when Bank of England replaced the previously existing direct controls over the money supply and lending with market-based activities. Just as joining the EEC was finally achieved in 1972-3[11], there was a significant increase in the relative importance of property income flowing into the UK compared with the profits derived from the export of goods and services. That is, financial capital began to increase its significance just as the Golden Age ended.

The Golden Age had been structured around US hegemony amidst an acute dollar shortage. The US had financed the economic recovery of its defeated enemies, (West) Germany and Japan, partly as Cold War economic bulwarks against the USSR and China, and partly also to provide growing markets for US exports. But German and Japanese recovery, alongside that of the other countries of mainland Europe, began to undercut US supremacy in productivity, so that by the 1960s the dollar appeared over-valued in terms of its exchange rate with gold. Because of the dollar's reserve currency status, other capitalist countries were forced to finance the growing US budget and payments deficits by holding dollars overseas,

[10] The 1960s Eurodollars (and other eurocurrencies) were so-called because they were held offshore from their original domicile; the etymology is unfortunate, for they had nothing to do with the much later euro. They were important because they were an unregulated source of bank borrowing outside of the reach of the US Federal Reserve.

[11] In 1975, a referendum confirmed continued EEC membership by 67.2% to 32.8%.

whether or not they wanted to, and this destabilized the system of fixed exchange rates, forcing the US in August 1971 to suspend the convertibility of the dollar into gold at the Bretton Woods fixed rate. Subsequent attempts to revive the fixed exchange rate system failed in the face of speculative currency attacks, and in March 1973, a floating rate system was established.

This massive deregulation proceeded surprisingly smoothly. The same could not be said of the consequences of the rise in oil prices in October 1973. A symbol of waning imperial dominance, the OPEC price rise (part of a world-wide commodities price boom) had a sudden and large deflationary effect on the world economy. From a low of 2.2% in 1967, (CPI) inflation increased to over 9% in 1971, peaking at 22.7% in 1975; it then fell back somewhat, but was still 11.4% in 1979. At the same time unemployment 1973-79 averaged 4.7%, compared with 2.8% in the 1960s decade, a comparison which was seen at the time as a shocking failure of the post-war demand-management consensus.

Figure 6 summarizes the outcome. There was a steep fall in the rate of profit from 1973 to 1975, produced by the continuing fall in capital productivity and a sharp fall in the profit share. Profits fell with declining demand, but the unions were strong enough that wages increased with prices. For trade union density had risen from about 30% in 1945 to about 42% in 1973 (Figure 2), with a substantial shop stewards' movement whose local autonomy was to an unusual extent encouraged by some national union leaderships.[12] Strikes by the powerful National Union of Mineworkers, power cuts, a three-day week, and the election of a Labour Government with elements of a radical manifesto all served to produce a sense of the possibility of dramatic change.

[12]Especially the two large unions, the Transport and General Workers Union and the Amalgamated Union of Engineering Workers.

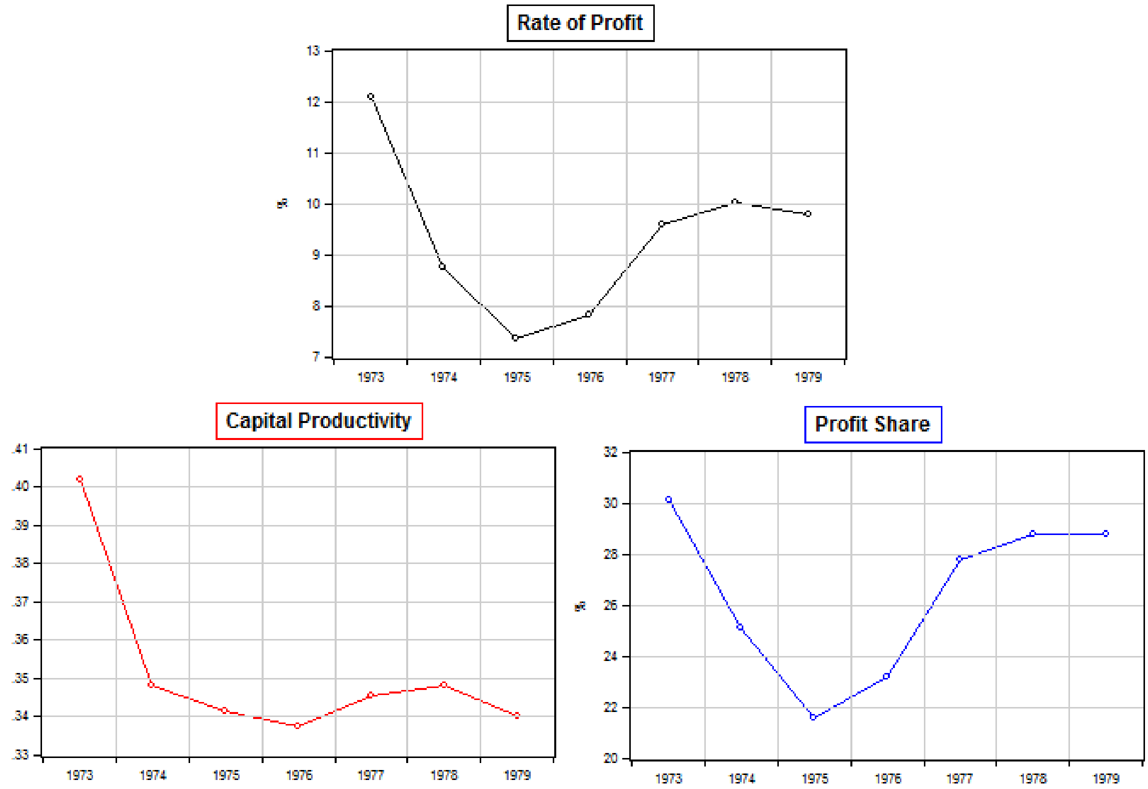

Figure 6: The Rate of Profit and its Components, UK, 1973-1979

In these 'stagflation' conditions, capital was split between industrial interests whose representatives wanted an expansionary fiscal policy and an accommodative monetary policy to boost demand in the face of falling profitability, and financial interests whose representatives wanted a deflationary fiscal policy and a restrictive monetary policy to increase real interest rates. This conflict between industrial capital on the one hand and financial capital on the other played out in policy terms as a Keynesian-Monetarist controversy in which the Monetarist approach was increasingly ascendant. The abandonment of the Keynesian approach was definitively announced in the UK in Prime Minister Callaghan's 1976 speech to the Labour Party Conference.[13]

[13]"Britain faces its most dangerous crisis since the war ... The cosy world we were told would go on for ever, where full employment would be guaranteed by a stroke of the Chancellor's pen, cutting taxes, deficit

Against this background, successive Labour Governments (1974-79) attempted a more corporatist approach towards organized labor, involving a 'social contract' in exchange for an 'incomes policy' in an attempt to toughen the incomes policy stance that had been adopted in the 1960s. The right of the Labour Party had successfully faced down the more radical elements of the Party seeking an alternative industrial strategy, so that the 'social contract' became straightforward wage restraint. This enabled the profit share (in Figure 6) to begin to rise from its 1975 nadir. Moreover, the fall in capital productivity bottomed out in 1976. Rises in capital intensity began to be matched by rises in labor productivity because union leaderships managed to impose more cooperation with capital on their members. Hence there was a mild rise in the profit rate in the second half of the 1970s. But under the stresses of three successive years of wage restraint, the social contract of the mid-70s disintegrated in a revolt of the low paid in a 1978-79 'winter of discontent'. The General Election of 1979 resulted in a Conservative government committed to the abandonment of any sort of corporatism, the reduction of the size of the public sector, deregulation and a vigorous anti-union legislative agenda.

spending, that cosy world is gone ... When we reject unemployment as an economic instrument – as we do – and when we reject also superficial remedies, as socialists must, then we must ask ourselves unflinchingly what is the cause of high unemployment. Quite simply and unequivocally, it is caused by paying ourselves more than the value of what we produce ... We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting Government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked on each occasion since the war by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step. Higher inflation followed by higher unemployment."

4 The Neoliberal Era From 1979

4.1 The Dominance of Finance

The 1970s drift away from a managed Keynesianism towards a deregulated neoliberalism was hard to combine with a wholehearted commitment to a neo-corporatist EEC and its social market underpinnings. Relations with the EEC in the 1980s were dominated by UK resentment and renegotiations over the financial commitments that were entailed by membership, and then by the negotiations over the Single European Act of 1986 followed by the Maastricht Treaty of 1993. Insofar as these treaties revolved around the single market, they were supported by UK capital, but as these treaties also presaged and developed extra-economic processes of integration, the UK's general attitude ranged from ambiguous support to outright hostility, particularly towards anything that might be interpreted as support for Franco-German proposals for greater political integration.

Commitment to the EEC required a serious attempt to modernize UK industry, but the 1970s retreat from even a weak form of social democracy ensured that this did not happen. After the Conservatives took office in 1979, the deregulation agenda of financial capital was pursued enthusiastically: in 1979, all exchange controls were abolished, and in 1986 the City was opened to US capital by abolishing the institutional separation of stockjobbing from stockbroking, retail from wholesale banking, and commercial from merchant banks. This consolidated the City of London as a major financial centre of the world (alongside Wall Street), and its orientation to financialization within a world market took precedence over any modernization of the UK's industrial structure. So deregulated markets condemned the latter (apart from certain niche areas) to low investment, low productivity, low wages and contraction.

After the end of the Golden Age, property income inflows became significantly more important as deregulation proceeded (Figure 3). While all capital could unite in support of the bonfire of regulations that created the Single Market, property income inflows became larger than the profits derived from exports. The increasing openness of the UK economy gave an outside option to capital in struggles over the wage bargain, and the lack of modernization amplified that effect by making closure, relocation and outsourcing much easier. In terms of class struggle, the international orientation of capital significantly tilted the balance of power away from labor.

4.2 Defeating Organized labor

The monetarist policies pursued by the incoming Conservative Government had an immediate effect on the manufacturing sector. This was partly because there was a rise in the (trade-weighted) exchange rate as North Sea oil came onstream and OPEC raised oil prices for a second time. This exchange rate rise rendered much of manufacturing uncompetitive; as a percentage of domestic demand, manufacturing imports were 26% in 1980 and 45% in 1995. It was also partly because of the ways in which labor-saving new technologies affected a number of sectors (notably printing, newspapers, shipping and the docks). The traditional strength of (craft) trade unionism was thereby undermined by an intensification of product market competition. The collapse of manufacturing in turn increased unemployment as the employment rate dropped very sharply. Compared with an average unemployment rate of 5.3% in the 1975-79 period, unemployment averaged almost double that rate over the next 15 years: 10.1% over 1980-84, 9.8% over 1985-89 and 9.1% over 1990-94.

With this backdrop of a collapse in manufacturing and a normalization of higher levels of unemployment, there was a state-sponsored assault on the institutions of organized labor.

This took a number of forms. Privatizations reduced the size of the public sector, the head-count employment in nationalized industries falling from 1.85 million in 1979 to 0.72 million a decade later, and to 0.23 million in 1997. State-sponsored support of collective bargaining was reversed, with the elimination of procedures that had extended the effects of industry-wide collective agreements to non-unionized private sector firms. In the early 1980s, the 27 wages councils set legal minimum rates of pay for some 2.7 million workers. But the powers of wages councils to set wage floors were reduced in 1986, and wages councils themselves were abolished in 1993.[14] All of this was an historical reversal of the encouragement of trade unionism through the public sector, substituting in its place a state-sponsored active low wages policy in both public and private sectors.

At the same time, the state began an assault on trade union organization. A succession of Employment Acts restricted (1980 and 1982) and then eliminated (1988 and 1990) the legal basis for the closed shop, rendered secondary picketing illegal (1980), imposed balloting requirements upon unions (1984, 1988), and, crucially, partially removed trade union immunity from torts by successively narrowing the definition of what constituted a legitimate trade dispute (1980, 1982, 1984 and 1990). There were also significant changes to what constituted unfair dismissal. After a decade of 'reforms', in the event of unofficial industrial action, unions were faced with endorsing the action (opening themselves to damages in tort) or repudiating the action (in which case they could not defend their members from selective dismissal). Further, while these 'reforms' were in progress, a conflict was deliberately provoked with the National Union of Mineworkers in 1985-86, and aggressive policing was used demonstratively to crush the union.[15] Thereafter, employers were not slow to use the new

[14]Except for the Agricultural Wages Board.

[15]While there was some criticism of the NUM's tactics in mobilizing the support of its members, the NUM probably had little choice in its responses to a state determined on payback for the humiliations suffered by the Conservative Government at the hands of the NUM in the early 1970s.

legislation to obtain injunctions and penal damages against (largely craft-based) unions with pre-entry closed shops.

The consequences of the neoliberal assault were significantly to reduce trade union membership. First, the sectors in which union membership was concentrated – manufacturing and general government – were contracted. In 1973, at the end of the Golden Age, well over a third (37.5%) of all jobs were in production industries (mining, manufacturing, utilities and construction), and not far short of three-quarters of these (26.8% of all jobs) were in manufacturing. A further 7.6% of all jobs were in public administration and defence. By the beginning of the Financial Crisis in 2007, the proportion of all jobs in production industries had halved to 17.5% (and only just over half of these were in manufacturing); and in public administration and defence, the proportion had fallen by over a quarter to 5.5%. Secondly, the counterpart of the systematic and successful attack on trade unionism was ideological demoralization and demobilization, so that unions failed to gain recognition in private sector firms formed in the 1980s.

There were two further consequences of note. First, whereas more than four-fifths of the workforce had been covered by collective bargaining and statutory sectoral wage arrangements in 1980, by 1994 just under half the workforce was so covered. By 2007, collective bargaining agreements covered just 20% of all private sector employees, and 72% of all public sector employees, in total just over a third of all employees in the economy. The UK thereby had moved away from the European experience, and much closer towards the North American situation. Second, the abolition of wages councils, and the statutory minimum pay levels they had set, facilitated greater pay dispersion in the lower part of the wages distribution, affecting not only the traditional low paid sectors (agriculture, retail, hospitality and care) but also the young, and this contributed to wages inequality growing more rapidly in the UK than in any other developed capitalist economy save the USA.

For the economy as a whole, trade union density had stood at just over 48% at the outset of the neoliberal era in 1979. Under the impact of the assault of the state, it more than halved to 23.6% by 2010. In the private sector, density was 14.2% (2.5 million trade unionist employees), and in the public sector 56.4% (4.1 million trade unionist employees). Unsurprisingly, the trade union wage premium was just 5.9% in the private sector whereas it was 20% in the public sector.

In sum, by 2007 trade unionism had only a marginal significance in the private sector of the economy, and the relentless pressure of neoliberalism on the public sector threatened its position there. The legal sanctions made available to employers after 1979 were the latest step in a long-run historical record of economistic class conflict in British labor-capital relations. British trade unionism had always tended to demur from the social market traditions of Continental Europe and the social democratic traditions of Scandinavia, so that comprehensive economistic defeat meant that there was nothing to fall back upon.

The massive defeat of organized labor had entirely predictable effects on profitability and its components, illustrated in Figure 7. First, capital productivity rose steeply. Increases in labor productivity were generally faster than increases in capital intensity right through the neoliberal era from 1981 to 2009. In part, this was the era of the computer and the internet. But the state assault on organized labor also dramatically altered the balance of class forces at the point of production (symbolized by the growth in zero-hours contracts), so that resistance to the extraction of surplus-value was considerably lower than in the Golden Age.

Second, the decade of the 1980s saw a large increase of more than a quarter in the profit share. After a fluctuation due to the collapse of a property boom at the end of the 1980s, the

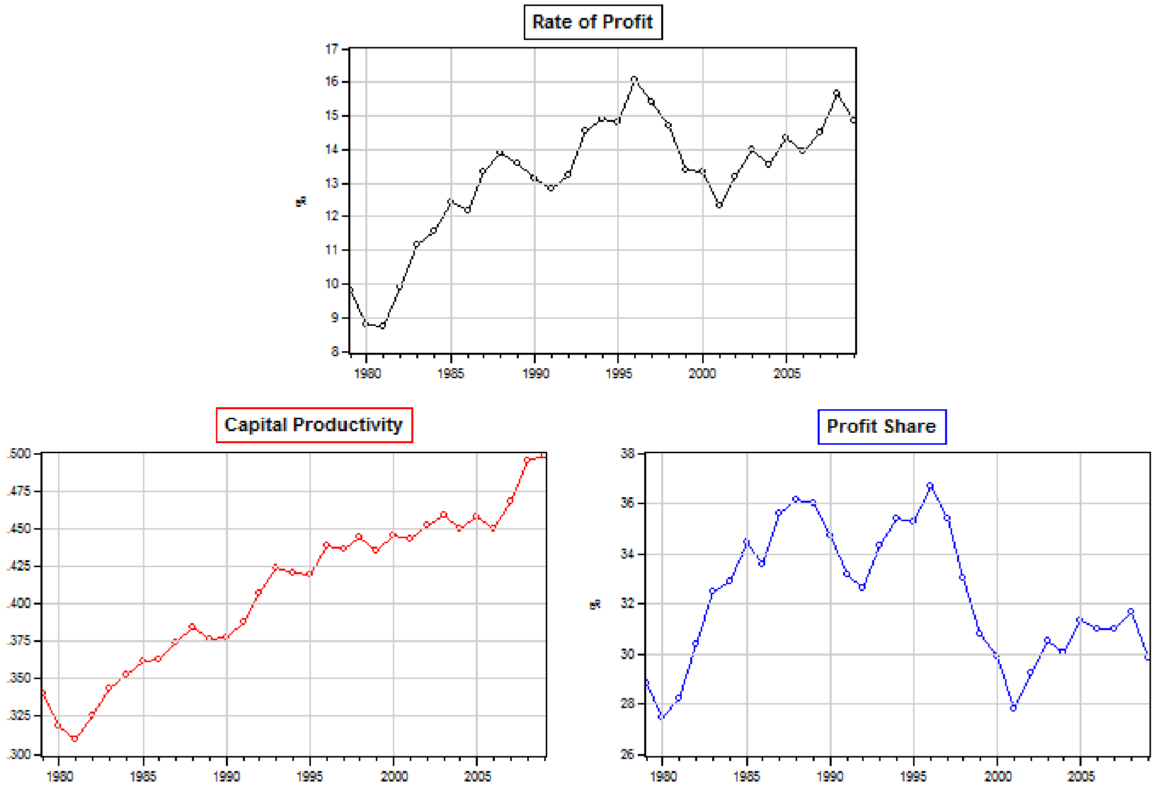

Figure 7: The Rate of Profit and its Components, UK, 1979-2009

profit share rose to a peak of 36.7% in 1996. Combined with rising capital productivity, this generated a rise in the rate of profit from around 9% in 1980 to 16% in 1996, higher than at any time since World War II.

Third, the second half of the 1990s saw a complete reversal of the earlier rise in the profit share. This was partly because of a pent-up demand for wage increases: whereas real average weekly wages had grown by a total of 4.7% from 1991 to 1996, from 1996 to 2001 they grew by a total of 13.5%. It was also partly because of New Labour policy to support incomes at the bottom of the income distribution.[16]

The second half of the 1990s saw the rise in capital productivity flatten – rising real wages

[16] New Labour's National Minimum Wage came into effect in April 1999.

and perhaps the optimism engendered by the 1997 election of a Labour Government made it more difficult for capital to continue to extract high levels of labor productivity from rises in capital intensity. This combined with the fluctuations in profit share to produce a fall in profitability from 1996 to 2001. But New Labour was explicit that it would not reverse the labor market legislation of the 1980s, and the years running up to the Financial Crisis saw a restoration of the earlier trends of the neoliberal period.

4.3 The Financial Crisis 2007–10

The neoliberal assault on trade unionism combined with its contraction of production industries, its pressure on social security benefits (and its demonization of their recipients), and its tolerance of high levels of unemployment, generated considerable distributive changes. The rise in the income share of the top 1% was detailed earlier in Figure 1. This rise had a dramatic consequence.

Through the second half of the 1980s and through the decade of the 1990s, banking had been restructured to make every part of the loan-making business into a separate market process with its own financial institutions. Each stage of the process sold its 'output' to the next stage, and financed the process by borrowing in short-term money markets against the revenues to be received. The end of the process was the sale in tranches of bundles of loans as bonds, specified according to riskiness. The financial institutions involved might be subsidiaries of an existing bank, or they might be quite independent, or indeed somewhere in between; but since they were all engaged in the classic business of banking (borrowing short and lending long), they were either banks (and subject to banking regulation) or 'shadow' banks (and subject to no regulation).

The whole set of processes which turned a bundle of (credit card, auto and especially housing) loans into bonds is summarized by the term ‘securitization’. And it required willing buyers of bonds to work. Partly, these buyers were the financial institutions themselves; they needed the bonds to post as collateral in order to borrow short-term cash to finance themselves. So they were selling bonds and buying them back after a short period of time (often overnight). And partly they were world-wide investors who used the short-term purchase of bonds from financial institutions and resale back to them as a safe way of earning short-term interest on very large cash-holdings.

The increase in income share of the top 1% was a world-wide phenomenon (the UK being notable for one of the largest increases), and so year by year from the late 1980s onwards there were larger and larger amounts of money seeking a home. This put continued upward pressure on the price of bonds and hence downward pressure on their rate of return. Real rates of return fell steadily through the 1990s, in turn exacerbating a ‘search for yield’ by investors, and driving financial innovation in the securitization process, particularly in the supply of complex derivatives ultimately based on housing debt. But the US house price bubble burst in the summer of 2006, and after a further year of gradually growing turmoil (as lower grade mortgagees could not refinance their debt and lost their homes) it became impossible to value the complex derivatives built out of mortgage debt. The markets in which they were dealt froze, and so financial institutions could no longer use these derivatives as collateral to borrow the short-term cash out of which they financed their activities. Consequently, they were effectively bankrupted; bank lending collapsed, and without bank lending industry was forced to cut output and employment.

The Financial Crisis was the worst since the crisis of 1929-33. It was world-wide, because the neoliberal international financial system was based on the US dollar and run from Wall Street and the City of London. And the response in every country was large-scale increases in sovereign debt as the banks were subsidized and recapitalized, together with some support to aggregate demand. Arguably, only China responded with respect to the latter on the scale required, embarking immediately on a very large stimulus programme of domestic spending.

4.4 The Age of Austerity from 2010

Capital productivity peaked in 2009, and Labour lost the General Election of 2010. Following the huge bank bailouts, and the subsequent sharp recession, sovereign debt had increased dramatically. National Debt relative to GDP rose from 36% in 2006 to 71.7% in 2010. This was not especially high historically; it was less than its level in every year from 1945 to 1967. Under the impact of debt-financing of World War II, the ratio had peaked at 262.7% in 1946, but had been steadily reduced thereafter by GDP growing faster than the National Debt, and by inflation.[17] With meagre growth rates and negligible inflation after the Financial Crisis, such methods of reduction were not possible. In their place was put a set of unprecedented austerity policies by the Conservative-led coalition government formed after the 2010 General Election. The imperative to reduce debt was justified by the frequent reiteration that states like households had to live within their means, and that too high a level of debt would lead to a crisis of confidence by lenders. The former was theoretical nonsense, and the lack of evidence for the latter was dubbed the 'confidence fairy' by critics. Nonetheless, 'austerity' became the *leitmotif* of policy.

Its effects on the Debt to GDP ratio were to *increase* it from 61.2% in 2009 and 71.7% in 2010 to 86.1% in 2017. But rather than see austerity as therefore a spectacular failure (which it was in terms of its stated aim), it is more appropriate to see it as aimed in a different direction entirely. Following the crushing of organized labor through 'reform' of the trade

[17] Inflation reduces the real value of debt, and redistributes from lenders to borrowers.

unions in the 1980s, austerity's purpose was fundamentally to restructure and reduce the Welfare State by consistently supporting and extending individual responsibilities over social responsibilities. It did this by greatly reducing the social safety net which was supposed to support the poorest and most vulnerable, by privatizing as much of the National Health Service as was politically feasible, by taking schools out of municipal control and placing them in the hands of private trusts (academies), by supporting and encouraging the growth of the private rented sector in housing and marginalizing social housing, and by massively reducing the ability of local authorities to fund social services.

Specifically, the tightening of eligibility criteria, the capping of totals and the freezing of benefits to working age people have all been implemented across a wide range of social security benefits. There has also been a sustained policy of raising income tax thresholds, benefiting those who pay income tax and doing nothing for the poorest who don't. Restrictions on the availability of legal aid (affecting particularly the poor and people with disabilities) together with the tightening of means-tested eligibility criteria meant that legal redress to challenge benefit denials or reductions was unaffordable for most. From 2010-11 to 2017-18, there was a 49% cut in the real terms central government funding of local government, forcing local government to reduce spending on services by 19% and focus provision on statutorily mandatory adult social care and child protection services.

The effects of austerity were obvious and visible: because there were fewer resources to support the poor, the poor increasingly had to rely on charities and crisis services. From 2010 to 2017, homelessness rose by 60% and rough sleeping by 134%. There were 1.2 million people on the social housing waiting list, but just 6,463 social housing homes were built in England in 2017-18. Food bank use increased by almost four times; whereas there were 29 foodbanks during the Financial Crisis, by 2017 there were almost 2000. In general, those most affected were children, women, racial and ethnic minorities, single parents, and people with disabilities. By 2017, a total of 14 million people lived in poverty, and of these, 4 million lived more than 50% below the poverty line, and 1.5 million were destitute. A recent report characterizes Government policy as a "punitive, mean-spirited and often callous approach apparently designed to impose a rigid order on the lives of those least capable of coping, and elevate the goal of enforcing blind compliance over a genuine concern to improve the well-being of those at the lowest economic levels of British society."[18] Table 2 summarizes the effects of austerity on both cash and in kind benefits in real terms, comparing 2016-17 first with the pre-crisis year of 2007-08, and second with 2010-11, the first year of the Coalition Government.

Percentage changes	Average Benefits in Cash		Average Benefits in Kind	
2016-17 compared with	Bottom decile	All households	Bottom decile	All households
2007-08	1.3	7.0	-10.3	2.3
2010-11	-11.7	-3.7	-0.9	-6.4

Table 2: Benefit Cuts at 2016-17 prices: % Changes, 2016-17 from 2007-08 and 2010-11

As Beveridge recognized in 1944, social insurance was both for those who were poor and for a very much larger group of people (about 2.5 million in the UK in recent years) who were a single crisis (an unexpected health condition, the loss of a job, family breakdown, a child with disabilities, housing problems) away from financial disaster and ensuing poverty. While employment was obviously better than unemployment, the prevalence since the Financial Crisis of insecure jobs, zero hours contracts and above all low wages meant that a buoyant employment market was not a secure way out of poverty. Nearly 60% of people in poverty were living in families in which someone worked, and 2.8 million of those in poverty lived

[18]Visit to the United Kingdom of Great Britain and Northern Ireland: Report of the Special Rapporteur on extreme poverty and human rights, United Nations A/HRC/41/39/Add.1, 23 April 2019.

	Indexed on London	
	1997	2016
UK total	**82.1**	**71.6**
London	100.0	100.0
South East	98.2	82.4
East of England	86.5	74.7
South West	84.8	70.3
Scotland	74.2	67.1
East Midlands	74.9	62.8
West Midlands	74.8	61.8
North West	74.3	61.7
Yorkshire and The Humber	73.4	60.3
Wales	71.6	58.3
Northern Ireland	66.8	57.9
North East	70.3	57.4

Table 3: Regional Household Disposable Income per Head of Population (2015 prices)

in families in which all adults worked full-time. The median real weekly wage of adults in full-time employment peaked in 2009 and by 2017 had only recovered to its 2004 level. Marx died in 1883. In the years 1883-2017 there are 126 ten-year periods, and, comparing the total growth in each ten-year period, *every* one of the 125 ten-year periods has higher real average weekly wage growth than the period 2007-17.

Austerity's effects were not distributed evenly across the UK. Table 3 shows regional gross household disposable income (GDHI) at 2015 prices per head of population in that region.[19]

Each column of the table is indexed on London's GDHI per capita for that year. Hence for example, the North East region had a per capita GHDI in 1997 which was 70.3% of London's per capita GDHI in 1997; by 2016 it was only 57.4% of London's per capita GDHI in 2016. The falling figures across each row indicate increasing regional inequality, regions falling progressively further and further behind London.[20] This was largely a consequence of

[19]Since people live in households of varying size and composition, per capita figures provide at best a crude indication of living standards. Note also the figures are distorted by the high housing costs of London.

[20]Of course these are broad averages, completely hiding, for example, that London has areas that are among the most deprived in the country. But nevertheless they do indicate the increasing scale of regional inequality.

neoliberal deindustrialization, with little investment in anything coherent to take its place, declining infrastructure, and with a concentration on financial services in London. Large swathes of the country had thereby been 'left behind'.[21]

There was little class resistance to the imposition of austerity. Largely this was because of the weakness of the organized working class, for trade union density had continued its fall. By 2017 just over a half of public sector employees were unionized, and in the private sector just 13.5%. Overall, trade union density levels in 2017 were lower than at any time since the early years of World War I. But also there was a massive political failure of the Labour Party, at least until 2016, to propose any alternative. The Conservatives had placed the blame for the Financial Crisis and its effects upon the then Labour Government. While the indictment was absurd, it both reinforced the right-wing trope that progressive governments were financially incompetent, and demobilized any opposition to the cuts, because the Labour opposition held out no alternative to the Conservative shrinking of expenditure in order to live within one's means.

Figure 8 describes how profitability and its components changed over the years of austerity. From 2009 capital productivity began to fall, meaning that productivity increases had become less than capital intensity increases. Investment rates were not high after the Financial Crisis but productivity increases were very low indeed (Table 1). The suspicion was that instead of any conventional causal effect from productivity increases to wage increases, the reverse had become the case: with high levels of employment in low-paying jobs, technical progress had become labor-using rather than labor-saving; the productivity increases thereby available were negligible. The same low pay and insecurity of employment saw a rising profit share,

[21] One consequence was that a substantial section of the working class in the north and the midlands nihilistically voted to leave the European Union in the 2016 Referendum, no matter what the consequences.

Figure 8: The Rate of Profit and its Components, UK, 2009-2017

and the latter combined with capital productivity changes after 2010 to generate a high and stable profit rate, profit share and profit rate being little different from their Golden Age levels.

But there *was* a major difference, for neoliberalism had transformed the UK economy into one of insecure employment, low wages and low productivity. This was reinforced by austerity, by opening up areas of social activity to profit-making that had hitherto been partially or completely closed off. Many of these were labor-intensive, dominated by women and poorly paid, but with better than average working conditions. Effectively privatizing such areas through contracting out could reduce those working conditions to private sector standards and at the same time weaken organized resistance in the remaining public sector.[22] In one sense of course, this was just a continuation of neoliberalism. But it is not that profitability was low (quite the opposite historically, as Figure 4 shows), but rather that neoliberalism has so wasted the structure of the economy that the scale of investment in the production sector required to compete in global markets was too great – far better to pick off the low-hanging fruit of the domestic public sector.

Second, low wages were reinforced by welfare policies of income support and housing benefit to the working poor; originally intended by Blair's New Labour to support the poorest, in-work benefits have become an important subsidy to wages, enabling private employers to keep wages low. Third, and directly related, the international orientation of capital shown in Figure 3, panels (a) and (b), implied that globalized capital had no particular interest in the reproduction of the UK working class. The net effect was that the hardships produced by austerity were only of interest to capital if money could be made out of them.

5 Labour's Economic Programme

What policies might be appropriate to the scale of the task involved in transforming the UK economy in a more progressive direction?

First, a simple rejigging of monetary and fiscal policy is unlikely to suffice. As regards monetary policy, currently the Bank of England sets interest rates that it thinks consistent with its mandate of a 2% inflation target. Labour is considering expanding this mandate (the Fed for example has a broader mandate than just an inflation target), but no final decision has been taken. The Bank is also responsible for overall financial stability, and again Labour is considering reforming the financial stability framework.

[22] Thus competitive tendering was controversially extended to the National Health Service in 2013.

As regards fiscal policy, there are serious political constraints around increasing taxation, because the years of neoliberalism have cemented an ideology of low taxation: taxation is the state taking its citizens' (hard-earned) money; individual freedom always requires that the individual is the best judge of how her resources should be used; and the state will always use money wastefully because it is not bound by market discipline and the profit motive. As long as Labour's record is one of accommodating to this destructive ideology, rather than actively opposing it, the scope for increasing tax revenues will remain limited. The rich could be taxed more heavily on their income, but the consequent tax revenues are more uncertain, because the rich are more mobile internationally, and also are more able to switch resource between income and capital depending on the structure of taxation.[23] Similarly, companies could be taxed more heavily on their profits, but with potentially similar problems.

Labour is proposing modest increases in taxation on the top 5% of income-earners, an increase in Corporation Tax back to its 2011 level, and is considering other measures such as a land value tax[24], reforms to Inheritance Tax, a company levy on very high salaries, and extending VAT[25] to private school fees. The intention is to increase annual current expenditure on public services by just under £50 billion, and to finance this entirely from increases in taxes. This would take the overall tax take back to its 2010-11 levels, repairing the more egregious damage of austerity but enabling little else.[26]

While increases in current expenditure are basically to be financed by increases in taxes, increases in capital expenditure (some £250 billion over a 10 year time horizon, via a new

[23] Only the US taxes its citizens on their world-wide income, but the beneficial effects of this are overwhelmed by the number and variety of exemptions and tax breaks.

[24] Unlike individuals and companies, land is immobile, and its taxation could act as a proxy for a wealth tax.

[25] Value Added Tax is a uniform sales tax.

[26] Specific proposals include universal free childcare for all 2-4 year olds; an increase in social house building; reforms to Universal Credit; free school meals; abolishing tuition fees in higher and further education; insourcing rather than outsourcing service provision by the state, and where outsourcing continues, much greater regulation with sanctions and conditionality.

National Investment Bank) can be financed by increases in borrowing, taking advantage of current very low interest rates. On the one hand, this is sensible; there is no reason why the current generation should pay for the investment that benefits future generations. On the other hand, there is a major difficulty. While building a new hospital or school is obviously a capital expenditure, staffing that hospital with doctors and nurses, or that school with teachers, is a current expenditure; yet employing doctors, nurses and teachers is also an investment in future health and education. Very many aspects of expenditures on social reproduction have this property. The distinction between current and capital expenditure is at the heart of Labour's 'fiscal rule', but it is problematic, and runs the serious danger of importing an austerity bias into social reproduction.

In sum, in its approach to public services, Labour is proposing a certain amount of redistribution, some reforms and additional longer term investment, but these proposals are modest. Its fiscal and monetary proposals are left-of-centre conventional; they provide for some desperately needed investment in the public sector, and reverse many (but by no means all) of the cuts delivered by austerity since 2010. But that is all. Labour's radicalism rather lies elsewhere.

Rather than the market deciding what is produced, where it is produced and how it is produced, Labour is proposing a greater role for the state in determining priorities based on use rather than profit. A Green Industrial Revolution is being planned, alongside reforms to constrain corporate power, promoting value creation rather than extraction, long-termism over short-termism, and strengthening the rights of trade unions to access workplaces and organize. Restructuring in this manner might be considered an updated version of the domestic programme of the post-1945 Labour Government. But what is different is the ambition to integrate this restructuring with a widening of corporate ownership and an extension of economic democracy.

Labour is proposing that every UK company with more than 250 staff set up an 'Inclusive Ownership Fund', and annually transfer 1% of their ownership into this fund to reach an eventual stake of 10%. This stake would be managed collectively by workers, giving them the same rights as any other shareholder over company strategy and receipt of dividends (capped at £500 per employee, with any surplus above that accruing to the state). Each Fund would be run by a Board of Trustees elected by eligible employees. Its shares could not be sold or transferred, but would be held under an asset-lock mechanism, as in current employee-owned enterprises.[27] Alongside this, Labour is also proposing that all companies with at least 250 employees have one-third of their Boards of Directors as directly elected employee representatives. There are also plans to double the size of the cooperative sector, and to establish sectoral collective bargaining. Finally, Labour will encourage Community Wealth Building (local economic strategies based on local public procurement, cooperatives, and living wage policies).

Taken together, these measures amount to a significant attempt to widen corporate ownership, giving workers more of a stake in the companies in which they work, without directly challenging production for profit. But they are also an attempt to deal with discredited forms of nationalization as state monopoly, by instituting new forms of collective ownership in those areas of social reproduction (water, transport, energy and the Royal Mail) which Labour plans to take out of the private sector. These policies of widening ownership and democratizing economic forms of private and public ownership are seen as a crucial means of entrenching a progressive economic restructuring against the neoliberal economy. Instead

[27] More development is required, because the policy would not apply to overseas-listed companies with UK subsidiaries, and it is unclear what would happen to private companies that do not pay regular dividends.

of the market freedom from constraint for the *consumer*, Labour is proposing the positive freedom of the *citizen* through democratic participation, via the creation of a culture embracing universalism rather than means-testing, collectivism rather than individualism, and solidarity rather than competitive behaviour, with increases in well-being rather than money as the criterion of success.

6 What Can Go Wrong?

As with any transformative political programme, it is difficult to strike a balance between the optimism of the goals and the realism of the constraints. Expanding production for use at the expense of production for profit has not had a happy historical record. Labour is proposing a different strategy from the traditional top-down planning of social democracy, but democratizing the economy requires enthusiastic participants, a culture which is quite different from the privatized and individualistic context of the neoliberal economy. Clearly, there is a lot that can go wrong.

First, and most immediately, there is the politics of Brexit. While leaving the EU with some sort of free trade deal and close alignment to the Single Market is Labour's preferred option, leaving the EU without a deal will deliver a sharp trade shock, increase unemployment and precipitate recession. But remaining in the EU might impose unwanted constraints on Labour's development of a state-led industrial strategy, and will anyway require concerted effort to build pan-EU alliances to begin to change the neoliberal orientation of the major EU institutions.

Stepping back from these immediate issues, there are other difficulties. First, 'socialism in one country', particularly in a globalized interdependent world economy with neoliberal international institutions, is not possible. While a start has to be made somewhere, national progress requires an internationalism and international solidarity which seems a considerable distance away. A cornerstone of the neoliberal economy is the promotion of the combination of capital mobility and labor immobility. Transforming the neoliberal economy in a socialist direction requires the opposite, and these remain for obvious reasons the big unmentionables in combatting the material power of finance and the ideological power of xenophobic populism.

Further, if there is an incoming Labour Government, where are the resources to transform neoliberalism to come from? The UK working class is extraordinarily weak politically, because trade unionism has been so marginalized, first by the assault of neoliberalism, and second, by the subsequent New Labour acquiescence in the results of that assault. The difficulties of increasing taxation revenues have already been mentioned. But there are also difficulties in motivating citizens to take up their rights of economic decision-making, in coordinating that decision-making across the economy, in reconciling local and national economic interests and so on. Replacing the allocation mechanisms of a market economy in however a gradual form requires both some detailed elaboration of measures that are at present sketchy and not wholly convincing, and some serious political building of support.

These are difficult problems. And yet perhaps Labour's programme, for all its embryonic properties, is beginning to push at an open door (or at least one that might be ajar). Consider again Figure 4. Because capitalism is technically progressive over the long term, one would expect the trend in the rate of profit to be determined by the trend in capital productivity, and short term fluctuations around the trend to be driven by movements in the profit share. This is what Figure 4 shows. The rate of profit follows the overall pattern of capital productivity, but with more fluctuations corresponding to movements in the profit share. Broadly four different periods can be identified.

1. 1945–1973: **the Golden Age**, ending around the first OPEC oil price rise, characterized by *falling* capital productivity;

2. 1973–79: **the transition to neoliberalism**, with *fluctuating but still generally falling capital productivity*;

3. 1979–2009/10: **the neoliberal era**, beginning with the Conservative general election victory in 1979, embracing Blair's New Labour and finishing with the formation of the Conservative-Liberal Democrat coalition government; characterized by *rising* capital productivity;

4. 2010–17: **the age of austerity** following the depths of the Financial Crisis to the present; characterized by *falling* capital productivity.

This paper has treated the age of austerity as a post-2010 phase of neoliberalism. But in terms of underlying economic fundamentals, the movement of capital productivity is defining an austerity era that is structurally different from the neoliberal era, marking a transition to something else. Whereas the transition from social democracy to neoliberalism in the 1970s was a short one (its advocates knew exactly what they wanted), the transition from neoliberalism to its successor is likely to be protracted since there is no precise vision of what the future might look like. Gramsci famously remarked, "The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear."[28] Right wing populism is of course one possible future, but so too is Corbynism (with or without Corbyn himself). In that sense there is everything to play for.

[28] *Selections from the Prison Notebooks of Antonio Gramsci*, ed. and trans. Quintin Hoare and Geoffrey Nowell-Smith, London: Lawrence and Wishart, 1971: 276.

A Appendix

A.1 Data Sources

All data are from the Office of National Statistics at

https://www.ons.gov.uk/

and are spliced into the relevant series from the Bank of England's research dataset "A Millennium of Macroeconomic Data", version 3.1, available at

https://www.bankofengland.co.uk/statistics/research-datasets.

A.2 Definitions

A.2.1 The Rate of Profit

There is no one rate of profit, but many possible definitions depending on the object of investigation. That used in this paper is a macroeconomic definition appropriate to an index of profitability for the economy as a whole.

The numerator, profit, is GDP at factor cost less imputed rent less compensation of employees less an estimated wage component of mixed income (mixed income multiplied by the wage share in gross value added for all companies).

The denominator, the fixed capital stock, is UK total nonfinancial assets (valued at current cost) less dwellings less the implied value of land under dwellings less other machinery, equipment and weapons systems for central government.

The income denominator in the profit share, and the income numerator in capital productivity, is GDP at factor cost less imputed rent.

Define r as the rate of profit, Π as total profit, K as the fixed capital stock, Y as total net output, H_p as the hours of productive labor and P an index of prices. Then

$$r = \frac{\Pi}{K}. \tag{1}$$

This can be written as the product of the profit share and capital productivity:

$$r = \frac{\Pi}{Y}\frac{Y}{K}, \tag{2}$$

where capital productivity can be expressed as the ratio of labor productivity to capital intensity:

$$\frac{Y}{K} = \frac{\frac{Y/P}{H_p}}{\frac{K/P}{H_p}}. \tag{3}$$

A.2.2 Globalization

UK profits for the production of exports of goods and services is taken as the share of exports in GDP multiplied by total UK profits.