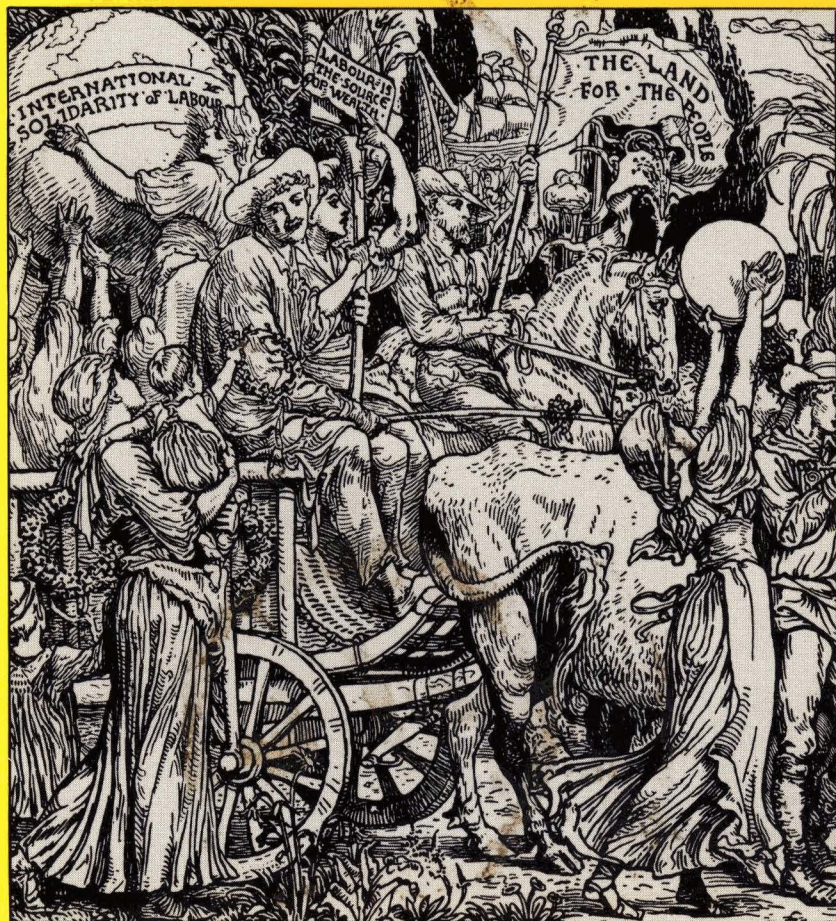


Fabian Essays in Socialist Thought



◆ Edited by Ben Pimlott ◆
for the FABIAN SOCIETY

15 New Directions in Municipal Socialism

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I

Fabian economic writing has always been remarkable for its optimism. With the Webbs it was an optimism of detail. For Shaw it was a confidence that state power would grow as a necessary counter to the abuses of landlords and private monopolies. In the 1930s, Dalton, Jay and Durbin retained an uninhibited belief in the capacity of a Labour government to control the private economy through planning, nationalisation and New Deal budgetary policy, and to achieve equality through the redistribution of income and wealth. In the post-war years, the question was not whether a Labour government could control the economy but by what means and by how much.

The events of the last decade have disturbed this optimism. The main pillars of Fabian economic thought have one by one been undermined. The first to be questioned was nationalisation as the answer to private monopoly. In the first *Fabian Essays*, William Clarke had argued that private monopolies, though efficient, needed to be made public for distributional and democratic reasons. The first detailed Fabian discussion of nationalisation was in 1910. By the 1930s it was a prime theme, and Dalton's *Practical Socialism* contained a large section on 'socialisation', the different forms it could take, how to ensure democracy within state-run industries, and the industries where it was most necessary. By the time of the *New Fabian Essays* in 1952, Crosland was calling a halt to 'the further multiplication of public boards on the present model'. Like Clarke he saw nationalisation primarily in redistributive terms – substituting 'fixed interest payments to capital for rising dividends' – and thus not a main line of advance in an economy with government controls and high rates of taxation.

Unfortunately the debates of the next 25 years did not centre on the extension of democratic control over nationalised as well as nationalisable

industry, but on the multiplication of the 'present models'. As a result public ownership is now on the retreat. State industries and public services have too often been experienced by both workers and consumers as alien. Authoritarian hierarchy, time and motion study and technology that deskills and controls those who work with it – all these features of private capitalist work organisation from the period of Henry Ford have been increasingly experienced by public sector workers. Similarly, tenants and other public sector consumers have had to campaign for a say in the services that were said to be organised in their name. Indeed it became clear that much of the programme of post-war nationalisation had primarily served to rationalise production for the sake of private industry; that what had been regarded as a socialist project was in the end part of a capitalist project, to restructure the infrastructure of British capitalism.

Not only did nationalisation as such lose considerable consumer support, but when the Tory offensive for privatisation gathered momentum in the 1980s, the public sector trade unions have in many fields found themselves with only limited support from users in their campaigns of resistance. The last five years have therefore been particularly traumatic: not only has nationalisation failed to win mass support as a path for socialist advance, but the ratchet, which Fabians have always believed would guarantee advances already made, has been released and the gains unwound.

To the first evil of capitalism, monopoly, the Fabian answer was socialisation. To the second evil, *laissez faire*, the answer was planning. The early Fabians were more concerned with the inequity of capitalist *distribution* rather than the malfunctioning of capitalist *exchange*. But the latter became a more substantial theme in the inter-war period. Some writers emphasised the failure of market prices to reflect social costs and benefits – and this has been a continuing theme in Fabian economics and the justification for state intervention in the market economy. Others had a more macro concern, using planning as a mechanism to avoid economic crises. During the Second World War, there was a remarkably extended system of physical planning, which was continued in a number of fields, along with a wide range of controls, by the post-war Attlee government.

Again it was Crosland in the *New Fabian Essays* who called for an end to this planned assarting of the market economy:

Controls over industry should be directed to certain basic planning ends – full employment, the balance of payments, location of industry, utility schemes and the like. Beyond this they should not be multiplied. A complex mass of detailed controls is highly unpopular, bad for industrial efficiency, and distorting in its effect on production.

Although the Labour Manifesto on which the 1964 election was won re-asserted the importance of industrial planning, George Brown's

National Plan was an empty indicative plan, without power of purchase. The Department of Economic Affairs was subordinated to the Treasury, and the July 1966 measures confirmed the end of this shallowest of experiments. Even the industrial planning bodies which came later – the IRC and the NEB – had a narrow brief, limited power, and except in the brief period when Tony Benn was Minister of Industry, ignored the concerns of workers and consumers within the industries they attempted to plan. As with the nationalised industries, industrial planning, to the limited extent it was introduced, appeared as an instrument of capitalist rationalisation, rather than being in any way socialist.

The carefully prepared campaign by the monetarists in favour of the free market thus met with little resistance. The stream of Hobart papers and Chicago market ideology spread to every cranny of Britain's social economy. With the notable exception of books like Titmuss's *The Gift Relation* (about the economics of the distribution of blood), planned, non-market distribution had little theoretical defense, or recent practical examples of success at a macro level. As a result the market has now got an overwhelming ideological hegemony in current economic thought. Viability, competitiveness, freedom of choice, balancing the books – this is the vocabulary of economic approval. Subsidy, lame ducks, uncompetitiveness, unproductive – these are the words used to erode the legitimacy of the public economy. All define themselves in terms of market exchange.

The third pillar of Fabian economics was adopted from a Liberal in the 1930s – Keynes. The control of macroeconomic fluctuations through fiscal and monetary policy grew from being one part of a general case for public planning to a separate and indeed dominant argument for state intervention at the macro level. The macroeconomic implications of propensities to save and to consume were woven into the older Fabian case for redistribution. The post-war economic boom was linked to Labour policies analysed through a Keynesian grid. Redistribution increased consumption which encouraged investment. In spite of academic doubts that Keynesian policy might increase fluctuations rather than smooth them out, there was for thirty years a confidence that the long economic boom was somehow associated with government economic management.

From the mid-1970s, the Keynesian consensus has been broken. In this country and elsewhere there had been an ever gathering crisis in the private sector, reflected in a falling rate of profit, and from 1973 a fall in investment. Keynesian theory indicated the use of public spending to maintain demand and thus the rate of profit. But the traditional instruments of macroeconomic management when operated to this end proved incapable of stemming the decline of private profitability, and the rise of inflation and unemployment. Tony Crosland – who had been so much

the symbol of the 'post capitalist mixed economy' – turned first on the welfare state in his celebrated 1975 speech declaring that 'the party's over'. Denis Healey – himself a contributor to the 1952 *Fabian Essays* – the following year further marked the turn against public spending and wage-earners with what became known as the 'IMF measures'. The post-war confidence that redistribution and public sector expansion would increase growth, was now inverted. Unable to attack the private sector crisis directly, Labour economic policy was forced to attack two of the foundations of the social democratic tradition, the welfare state and the level of wages. In Whitehall it no doubt appeared as though there was no alternative. But to the troops in the field it felt like being fired at by one's own generals.

Into the vacuum of economic policy monetarism marched with the confidence of a zealot. In practice and theory, monetarism has lost every economic argument to the Keynesian reponse, lowering inflation only through collapsing the economy as a whole. Yet in the 1983 election, Mrs Thatcher was returned with her historic majority, and the opinion surveys have shown that Labour actually lost the economic argument. This is a measure of the crisis of Labour economic policy. There was clear public evidence that monetarist policies had doubled the severity of the international economic depression as it affected the UK. Keynesian reflation policy offers to halve the effects of the crisis as it stands now. But Mrs Thatcher's appeal rests partly on the fact that she is offering to attack the whole of the problem. And to this the Keynesians have no adequate response.

Swept away as part of this defeat of Keynesianism has been the fourth pillar of the social democratic tradition – redistribution. Already in the 1960s the post-war welfare settlement was being re-evaluated, as having redistributed income and services within classes rather than between them. In addition there were similar problems to those affecting the nationalised industries, how to make welfare services – both for the servers and the served – supportive rather than controlling, on our side of the fence rather than theirs. On top of this a decade of cuts has left many of these services in tatters.

Since 1979 there has also been a growing inequality in incomes. Monetarist policy has asserted that it is now inequality that is necessary for growth, providing incentives for the technocrats and managers and an inducement to invest for the property owners and large corporations. The taxation and control of wealth and high incomes have all been discontinuously lowered. For the unemployed, however, the government directs that poverty should rule, as an incentive for the unemployed to look for work, and for the employed to keep at it. Peter Townsend's monumental study shows how deep a poverty still remains.

As with the monetarist drive to privatisation, and the championing of the market against planning, so the re-appearance of unemployment and the re-assertion of inequality shows the unravelling of the post-war social democratic system. The trauma for Labour economic policy has been not merely the collapse of each of the four pillars of its traditional programme, nor even the destruction of the achievements in these fields by the current Tory government, but the fact that the retreat on all of them has been started by Labour ministers themselves. These ministers were in most cases the architects of the earlier policies, and the bearers of that post war confidence. It is against this background that Labour economic policy must be re-assessed.

II

What is now at issue in Labour thinking is not just particular ideas or policies but the whole framework of economic analysis. Fabian economics has been dominated by neoclassical theory and, since the 1930s, by Keynes. But it has by and large failed to come to terms with Marx. The exceptions were the early Fabians. Their first serious collective discussion took the form of a reading group on Marx's *Capital*. Shaw, Belford Bax, and later Wells, argued Marx's position. Sidney Webb and the neoclassical economist Edgeworth argued the utilitarian case. Marx lost, Shaw settled for an inelegant – even if amusing – theory of rent, and Wicksteed took on the task of tutoring the Fabians in the principles of marginalism.

Over the last 15 years there has been a revival of this debate. From the mid-1960s a generation of students came to realise that neoclassical economics not only failed to adequately answer the major issues confronting the labour movement but that it was also an ideology of the right. By the early 1970s *Capital* reading groups were springing up, arguing about value as the early Fabians had done. What this direct reading of Marx revealed was that the issues debated in the secondary texts, and in many Fabian interpretations of Marx, were far from central to Marx's political economy: the increasing immiseration of the working class, the inevitable tendency to the breakdown of capitalism, and other 'hypotheses' which those from an empiricist tradition formally 'tested'.

Rather, Marx offered a major critique of classical and vulgar (what later became neoclassical) economic thought. He argued not that they were incorrect, but that they were theoretically inadequate, and in the case of vulgar economics, so superficial that they quite misspecified the issues. Key to the argument was that we observe economics at work in the sphere of circulation – markets, distribution and consumption. But what happens in circulation is determined by forces whose origin lies in the process of production. In Volume 1 of *Capital* – subtitled the Production Process

of Capitals – he offered a theory of production and its relationship to the sphere of exchange. Here for the first time we saw placed at the centre of economic concerns not the declining marginal utilities of some abstract individual, but the concrete details of production, the nature of work, the length of the working day, the drive for productivity and mechanisation, for time economy and ever more extensive controls by capital over labour in the factory. Here, too, was a long-run theory of technical change and accumulation which was self-evidently richer and more explanatory than the formal growth models of neoclassical and Keynesian thought.

Against this background, the first thing to say about Fabian economic thought is that it has been almost entirely concerned with problems of circulation rather than production. The early Fabians emphasised income distribution. The reason they developed a theory of rent was to explain inequality of wealth and income. They defined socialism in terms of distribution. The task of the state was the nationalisation of rent and its redistribution. Redistribution has remained a dominant theme in Fabian thought. ‘Socialism is about equality’: the words are Crosland’s, but they stand for what is still the principal definition of socialism within the social democratic tradition today.

Exchange has been a secondary theme, strongest amongst social democratic economists concerned to argue the case for state intervention on the grounds of the inadequacy of the market. One strand of argument has been based on Marshall’s analysis of external economies, that market exchange did not necessarily reflect social costs and benefits. Another strand was provided by Keynes with his analysis of the labour and money markets. In both cases, the state could intervene through the medium of circulation – imposing taxes, providing subsidies, or deficit financing – in order to ensure that the market system would work.

The third aspects of circulation – consumption – has principally entered Fabian economic theory via Keynes, and his treatment of consumption in terms of its aggregate quantitative amount.

As with orthodox economics, these three different parts of economic circulation have by and large been treated separately, unconnected to and unconstrained by production. In this section I want to argue that our starting point should be production, and that only by developing a new economics and politics of production will we be able to understand the changes in circulation. This is the major theoretical change required in Labour’s economic thinking. I will briefly sketch out what is involved in an economics of production, and how developments in production affect and constrain distribution, exchange and consumption. In this way I hope to provide some signposts out of the impasse in which the left finds itself as a result of confining the main thrust of its economic policy to the circulation sphere.

The social democratic tradition has treated production technically. It is seen as a black box into which suitably motivated inputs are fed, and from which outputs somewhat mysteriously arise. As in the Third International's version of Marxism, technology was also seen as technical rather than social. The idea that many people were living a majority of their lives within factories, that these lives were subject to a lawful tyranny as grievous as that of any totalitarian state, that the ensuing battles within the factory affected how and why technology developed – these issues have scarcely merited a footnote.

Indeed it is a constant theme in Fabian writing that capitalism's main contribution is what it has done for production. This is Shaw writing in the 1931 reprint of *Fabian Essays*: the capitalist system 'worked wonderfully well in the sphere of production and trade. It built up our factory system, our power machinery, our means of transport and communication. Unfortunately these unprecedented achievements in production and finance have been accompanied by a failure in distribution so grotesquely inequitable and socially disastrous that its continuance is out of the question'. There is the same optimism that is found in much Communist theory – East and West – that the forces of production were unproblematic and progressive, and were merely being held back by the relations of production.

The last decade has seen the development of a profound challenge to this view. In Italy it started in the mid-1960s around the work of Mario Tronti. In the US, the key point was the publication of Braverman's book *Labour and Monopoly Capital* in 1974. In this country, the change began the following year. What it has involved is a re-interpretation of economic and labour history around the history of production, and the re-examination of the traditions and meanings of science and technology. The black box of production – formerly entered only by sociologists of work, management scientists, and the management and workforce themselves – has been opened and re-connected to socialist concerns for the first time since William Morris. The key distinction was between capitalist relations of production in circulation and capitalist relations of production in production. The former, which has characterised Fabian and much Marxist work, saw the key feature of capitalism as the monopoly control of the means of production by a minority of private capitalists and the enforced working for them of a proletariat separated from their means of subsistence. The relations of production were therefore determined by private monopoly ownership, and they were reflected in distribution. The capitalist received unearned profit (over and above some notional wage of management) while the worker received a wage more or less related to the cost of subsistence. Shaw and a number of later Fabians argued that it was only by 'socialising' the means of production that the

unearned income and exploited wealth could be redistributed by the state in an equitable way.

The monopoly control of production also gives the capitalist rights within the factory. By purchasing labour with a wage the capitalists or their managers have the right to set that labour to work. The history of production is a history of how to enforce that right to the greatest benefit of the capitalist. The key point of transition is the change from manufacture to 'machinofacture', when the skill and control of the labourer is taken away and embodied in management and machines. Instead of the machine being controlled by its operative, it now controls the operative, in pace, direction, and judgement. The rise of scientific management around the practice and principles of Frederick Winslow Taylor from the 1880s marked the turning point in capital's movement from the formal subordination of labour to its real subordination. Henry Ford embodied Taylor's principles in the production line. The key features of Taylorism were the fragmentation of tasks, hierarchy, deskilling, and the drawing of the sharpest distinction between mental and manual labour. These changes in the factory were soon reflected in distribution. Taylor (at the Mid Vale Steel Company) offered workers who would accept his new systems higher wages, and this was one of the characteristics of Fordism as it spread through the assembly industries.

Fordism also produced a new mode of consumption. The higher wages bought the very goods they were paid to produce. The terms of Fordism's contract was that any worker who accepted the tyranny of the production line would be paid enough to transform his or her home with consumer durables. It was this contract which formed the basis for the post Second World War boom.

Fordism further redefined the nature of exchange. It created a mass market. In Britain this was at first a national market. The growth of the motor industry in the 1930s was largely based on import substitution. After the war, the ever increasing economies of scale have been the material basis for the development of multinational corporations, increasingly integrated at the European level, and now - in the case of Ford itself - on the brink of producing a world car. In addition to the extended range of markets and integrated production, Fordism has added market research, advertising, and the manufacture of style. It has also added credit which mushroomed with the boom in order to avoid that Achilles heel of mass production, overcapacity and a steep climb in unit costs.

At the macro level, these changes in production affect the quantitative aggregates in the economy. As the scale of production grows, capital laid out both on machinery and raw materials increases relative to labour, and there is a tendency for the rate of profit to decline. The development of new products and processes raises productivity. This offsets the fall in the

rate of profit, and encourages investment. Accumulation proceeds until it has worked out these new seams, and run up against barriers to expansion in existing branches of production.

When this happens there is a major economic crisis. Historically crises have had three characteristics. First, there is a massive writing down of fictitious capital values, through bankruptcies, bank failures, and factory closures, and now with central banks acting as lenders of last resort, through inflation. Second, there is an attack on labour, both to lower wages, and to increase control and the intensity of work in production. Thirdly, there is the introduction of new methods and machinery in order to increase productivity, as well as the shaking out of the less efficient producers and the concentration of economic activity in the hands of the strong. In this way profit rates and the conditions for renewed accumulation have been restored – though not without a severe social and political crisis.

Some of the mechanisms of an economic crisis work within the sphere of circulation. Financial crashes and the devaluation of capital values is one example. The cut in wages (and now in welfare provisions) is another. But central to any economic crisis and the restoration of profitability have been the major changes in production. The more limited these changes, the greater is the attack on wages, and the more severe the decline of markets. But these circulation crises will only lead to a sustained upturn if their effect is transmitted to production. As in all the examples I have given from Fordism, it is the changes in the factories which are primary, and which determine and limit the movements on the market.

III

If we turn now to economic policy, I want to show why it is totally inadequate to base Labour's economic strategy on a perspective of redistribution, managed markets and deficit financing, without a major and dominant programme for transforming production.

First, as far as distribution is concerned, whereas the early Fabians saw distributional issues as quite separate from production, later theorists were well aware of the constraints that accumulation presented to redistribution. Their reaction has been to play down redistribution. Durbin, for example, was by 1940 against further redistribution because he thought it would raise consumption and reduce savings. Crosland agreed, though he couched his argument in terms of redistribution affecting incentives among the better off. More recently – particularly in the Wilson period – increased growth rather than redistribution was seen as the way to improve the position of the less well off. It was offered as a dynamic rather than static approach to poverty. But with the slow-down of growth and

with the present government taking this argument to its uninhibited conclusion, by redistributing in favour of the rich and of business, the left has been on the defensive. For it finds itself without an adequate theory of accumulation which would allow growth at the same time as allowing the reduction of inequality.

There are similar objections to policies confined to the public perfecting of markets. There are four common objections made to the market as a means of allocation: (i) the Marshallian argument on externalities; (ii) income inequalities, particularly those based on inherited wealth; (iii) the existence of monopolies who may follow a price cutting policy in order to drive out competition; (iv) the fact that a growing national industry may need some protection until it is strong enough to match already developed international competitors. In each of these cases, it is not the market as a mechanism which is held to be at fault. Merely that its particular signals are not accurate, and that state intervention is needed to correct them: taxes, subsidies, a wealth tax, anti-monopoly legislation, infant industry tariffs and so on. The market remains the dominant economic nexus. Modifications to it can be made at the level of circulation without reference to production.

But the major current issues concerning the market as an economic nexus are not so easily dealt with. First, an increasing number of major investment decisions – public and private – are so large, and made over so long a timescale that the market is no longer an adequate guide to choice.

Second, a crisis in the process of accumulation, whose causes should be sought in the development of production, nevertheless makes its formal appearance in the sphere of exchange. Inflation, falling demand, financial collapse, a profits squeeze – these are all linked to the market. Managing the market in these circumstances is highly problematic. For a policy must either suspend the full impact of the market on producers – in which case production will remain untransformed, or discipline producers through the market in order to change production. The latter has been the policy of the monetarists who have quite explicitly engineered a deterioration in market conditions. The mechanism used was spelled out before the 1979 election by monetarists at the London Business School; it involved raising interest and exchange rates, squeezing industry between a declining export market and increasing imports, bankrupting the weaker firms and shifting resources and markets to the strong. Every market price over the last five years should be seen in this context. They have been manipulated for a particular end. The results for British industry have been disastrous. Quite new plant has had to be scrapped. In some case it is the most advanced firms that have been put out of business (those based on mass production), while the less efficient, but more flexible have

survived. In some branches of production there is no serious base left on which any recovery could be built. Those large British firms who have restructured themselves, have tended to make their major new investments abroad. In the British economy, the long-term strategic decisions have again and again gone by default. The monetarist strategy of restructuring production via the market has weakened the British economy so severely that some sectors will never recover.

Thirdly, the use of the market to restructure production involves a direct attack on labour. This was also an explicit aim of the monetarists. By squeezing profits they intended to squeeze labour. In the private sector they have been remarkably successful. Workforces have been set against each other. One after another has accepted redundancies, lower wage settlements, changes in work practices, in order to keep an enterprise afloat. It has been more effective than any incomes policy. But a socialist view of the economy does not take the side of capital against labour. It cannot therefore accept that the market price is the magnetic North around which all else revolves, if that market price is a mechanism which encourages weak labour to replace strong, or part time, lower paid, casual work to outcompete those who are working on proper contracts in adequate conditions. Mrs Thatcher has used money and the market as an instrument for weakening labour in production as in exchange.

Fourthly, there is no mechanism in the market economy to ensure that the destruction of some jobs will be matched by the creation of others. In other words there is no mechanism for clearing the labour market. Rather the history of capitalist development has been one of creating a surplus population. That is how I read the phenomena of unemployment in the third world. On the one hand advanced country technology drove a rapier through artisanal forms of economy in the countryside and in the small crafts of the towns. Much of the resultant profit was then repatriated to metropolitan countries for accumulation there. Advanced country accumulation and full employment were maintained, at the expense of accumulation and employment in the third world. In the current period this mechanism has no longer been sustained. From the early 1970s the decline in levels of profitability led to money capital being exported back to the NICs and to the socialist world. Accumulation in the advanced countries slowed down. New technology further reduced the demand for labour. Unemployment rates have risen dramatically throughout the advanced capitalist countries. Even with an economic upturn there is no longer a likelihood of full employment, particularly in less competitive economies like the UK.

The significance of these four issues is that a socialist economic policy cannot be confined to adjusting the market. In the first case, long term strategic planning has already moved beyond the market in the private as

well as the public sector. Rather the market is being made to fit in with strategic decisions – through advertising, guaranteed state purchases, protection (as in South Korean economic planning) or tax relief. In the case of labour, the market is a means whereby one group of workers are set against another – consciously and directly so within large corporations who compare performances of different plants and expand or contract accordingly.

As far as economic crisis is concerned, Keynesian measures will be confined in their expansionary effects. This is because an expansion of aggregate demand will have only a limited impact on the central crisis of profitability when its causes are rooted in production. In the short term such an expansion will allow firms to produce nearer to capacity, lowering unit costs, raising profit, and even encouraging some new investment. But in as much as the long-term trend of profitability is downwards, new investment will be limited, and any budgetary induced expansion short-lived. This is what happened in the early 1970s. The advantage monetarism has over Keynesianism is that it is a direct assault on production. It has simulated the mechanisms of restructuring through a classic economic slump, with all the attendant brutality and waste. The only socialist answer is an equally direct intervention in production, but on very different terms to that underlying monetarism. This is the case for industrial planning on a scale unmatched since the Second World War. Given the economic desolation which already exists after five years of monetarism, only an industrial programme of this scope and detail can hope to restore substantial vitality to the British economy. Deficit financing, import controls and national investment banks are not enough if there has not been a major intervention in production which they can support.

Equally, any serious response to long-term unemployment cannot remain at the level of adjustments to the policy levers of market circulation. It is of course absurd to have people working long hours and overtime while others have no work at all. But even if work was redistributed to avoid this, and even if a 35-hour week was generally adopted, it is probable that there would still be significant unemployment.

One possible response to this would be a full employment policy based on the direct planning of the public economy. At the moment nearly a third of national production is undertaken by the state. This public economy is fragmented, unco-ordinated, largely geared to serving the market economy and private accumulation rather than the other way round.

Yet if an input-output table were constructed we would see that this economy had a considerable degree of self-sufficiency. If we take a wage worker in the public sector, for instance, more than half of his or her income may go on state services, through tax, rates, public transport fares,

council rents, electricity, gas and the telephone. The remaining income goes to the private sector: clothes, food, private transport, domestic appliances. As during wartime, it would not be difficult to develop public provision in each of these fields, and pay for 'imports' from the private market economy by 'exports' of public services and taxation. Once such a system of co-ordination was established, those without a job could be guaranteed one, since the extra cost of employing them in terms of *imports from the private sector* would be small, and could be met by exports of their production to the private sector.

What I am suggesting in the present conjuncture is the direct planning of labour within a public economy rather than in a national framework. Instead of protection for all producers within the national economy, it would be geared to protecting the developing public economy. Public production could not ignore the private economy. Its prices and products would inevitably be compared to those in the private sector. But it would have the advantage that it was able to use productively labour which market capitalism ignores. It is one of the paradoxes of contemporary capitalism, that by virtue of an ever more intense drive for productivity increases, capitalism extrudes labour lowering its productivity to zero, and at the same time has to pay for its cost of subsistence. Because capitalism pays people not to work, a public economy could pay them to work, and their product would – if adequately planned – more than cover the difference between social security payments and a proper wage.

At this point I shall summarise my general argument. Fabian economics has been limited both in theory and practice because it has restricted itself to the economics of circulation. It is from the sphere of circulation that it has taken its main issues of concern and definitions of socialism: inequality, market anarchy, monopoly. In demanding a 'socialisation' of ownership it was demanding a power for the state to counter these inadequacies in the system of circulation. But Fabian economics as put into practice by successive Labour governments has consistently run into the barriers set by the requirements of private accumulation. It is the contradictory character of these requirements as they are found in the process of production that socialist economic policy must address.

What is called for is nothing less than a major shift in the economic agenda of the labour movement. I will list my main suggested items for this agenda as follows:

- (1) industrial restructuring through planned intervention;
- (2) the development of publicly controlled technology and systems design, geared to the skills and concerns of labour, and to social needs;
- (3) a redefinition of planning, as popular planning for labour in and against the market;

- (4) the transformation of public services and state corporations, in terms of their internal organisation, their relations with their manual workforce, and with the users of their services;
- (5) a concern with the quality of consumption rather than its mere quantitative aggregate. The Fordist mode of production has been particularly inappropriate in food, culture, health, and education – all key parts of a new mode of consumption, replacing that based on mass produced consumer durables;
- (6) the attack on inequalities within production (particularly the division between conception and execution) which feed back into income inequalities, and inequalities between men and women, and between black people and whites;
- (7) the integration and direct planning of the public economy, and its expansion to ensure a job for all those who are currently unemployed.

This does not mean that the economy will not still require a monetary and a fiscal policy, let alone a strategy towards the balance of payments, and towards income and wealth inequality. But it means it will be subordinate and complementary to productive concerns. The changes will be symbolised at the administrative level by the subordination of the Treasury and the Bank of England to the new Ministry of Industry, rather than the other way round.

IV

Since 1979, socialist initiatives in economic policy have shifted from the national to the local level. Faced with large increases in unemployment, particularly in the metropolitan and older industrial areas, more and more Labour councils have been extending their economic role. These councils – because they have no monetary or foreign trade powers – have had to confront the issues of industrial policy directly. Some have followed a strategy of market support. They have provided industrial premises which the market for one reason or another was failing to provide. They have given incentives to mobile capital, and a battery of advice services, geared particularly to small firms. Limited as they are to market adjustments, these policies no more than scratch the surface of the problem.

A number of authorities have followed an alternative strategy, geared to medium and larger firms, to state industry and services, and to the interests of labour and consumers within a more general process of industrial restructuring. Lancashire, Sheffield, Leeds, the West Midlands, and the GLC are the most developed examples, together with certain London boroughs such as Hackney and Brent. Their policies have had different emphases, but each has taken on – albeit in a tentative way – the issues

arising from the crisis of production which I discussed earlier.

I want to outline four features of the experience of one of these authorities – the GLC – which are of particular relevance to the national discussion.

(1) Restructuring for labour

The premise of the GLC's industrial intervention is that effective intervention can only successfully take place within the context of national and international restructuring. There is little point in bailing out declining firms and industries without transforming them. The market economy has its own means of transformation. The older, less productive operations are taken over or supplanted by the more productive. Rationalisations, write-offs, new investment, amalgamations – these are the instruments used by private (and public) capital in order to restore profitability. The GLC's view is that this restructuring can take place in many different ways, with different consequences for both workers and consumers. One of the main functions of a public body concerned with industrial intervention is to ensure that any restructuring that does take place is undertaken in the interests of labour and not at its expense.

The point is clearest in the case of the utilities and the basic infrastructure. Take, for example, the case of combined heat and power and conservation programmes as alternatives to the current government's nuclear power policy. Detailed studies suggest that the former options would lead to over 3000 more jobs in London, for the same investment as at Sizewell B, and a higher rate of return. In transport, in the telephone network, in the dock industry, as in health care, there are alternative paths of restructuring over the next decade, with quite different implications for those who work in these industries, and who use their products.

The same argument applies to private manufacturing and service industries. Employment in London's manufacturing has fallen by more than a half in twenty years, from 1.4 million in 1961 to 650,000 in 1981. On present trends a further 200,000 manufacturing jobs will be lost by 1990. Some have argued that there is nothing that can be done about this restructuring of the London economy away from manufacturing. But on closer examination of London's traditional industries – furniture, printing, food and engineering we have found that there is no necessity for such decline.

Take furniture for example. In 1951 there were over 63,000 furniture workers in London. There are now only 12,000. This collapse has taken place against the background of a major restructuring of the European furniture industry. London's industry lost out because it has been weak on design, unintegrated with retailing, and with two or three exceptions, backward in machinery and technology. Yet it possesses a rich reservoir of

skill. Working with the more progressive manufacturers and the unions, the GLC has identified a strategy which is being implemented by the Council's Greater London Enterprise Board (GLEB) in conjunction with European technical advice, and international distributors. It not only promises to reverse the trend which has seen furniture imports into Britain climb from 7% in 1973 to 26% in 1983, but to do so on the basis of union labour, with enterprise planning that involves workforces in the organisation and strategic directions of the firms.

I have given an example because one feature of a strategy which starts from production is that it is an economics of detail, of material processes and particular products. A production strategy is as much qualitative as quantitative, concerned with the quality of jobs and products rather than simply their amount. It is in the qualitative sphere that we have to distinguish the alternatives.

In furniture the alternatives involve the dimensions of geography and control within the firm. In food, there is the further dimension of the nutritional value of the product. In milk delivery and retailing it is a question of accessibility for those without cars. In publishing, the record industry, and TV and film production, there are the issues of minority interests and political control. Sector by sector we can distinguish the ways in which the market and the loadstar of private profitability bend the development of production to a course which ignores the wider interests of workers and consumers.

In important ways trade unions and user organisations have contested these market determined paths of development. National legislation and local government regulation have supported these initiatives. Inspectorates, subsidies, preferential purchasing and many other instruments have been used to regulate private capital.

As far as industrial policy is concerned, the GLC and GLEB have tried a number of alternatives. In the early days of the administration when only a small team existed, it was difficult to take over and run enterprises directly. The Council therefore signed agreements with private firms, setting conditions for union recognition and enterprise planning. The Council and GLEB have also supported many co-operatives, who embody alternatives in their aims as well as the structure of their ownership. But in the larger plants, our experience is that direct ownership and control is necessary to create socialist alternatives. Put more generally, the restructuring of production for (and by) labour cannot be adequately carried out by regulating circulation. It requires direct involvement in and control of production.

(ii) Technology

Central to the process of restructuring is technology. We tend to think of technology as so many new machines - word processors, numerically

controlled machine tools, robots. But it is equally a question of systems, linking different processes together within production as well as linking production with distribution and sale. The commanding heights of modern capitalism are shifting from the ownership of the means of production to the ownership of the means of conceptualisation. Once the key process and systems have been designed and developed, production can be contracted out. Clive Sinclair makes arrangements with factories to produce on his behalf – in the manner of sub-contractors. He, like many other inventors, will keep control of the design and specification and of the marketing. Production – with its particular problems of controlling labour – is nevertheless relatively straightforward and can be left to others.

The issue for socialist economic policy is how to match capital's control of the new commanding heights – both because this is the key point of the control of profit, and because the use of new technology and the design of systems moulds social relations all the way down the line.

The GLC is a pygmy in the world of multinationals. Yet in its three universities and seven polytechnics London possesses technological capacities which match those of the largest corporations. In addition there are the research departments of public corporations and of specialist institutions. The challenge is how to link the work of these institutions into the planned re-organisation of London industry.

The policy we have followed is to establish a number of technology networks. These are based in or near one of the research institutions, and are staffed by 'go-betweens', people who know the research community, as well as the needs of industries and communities within London. One network specialises in energy, and involves the South Bank and Central London Polytechnics. It links in energy conservation research with local energy campaigns and initiatives, and the development of products.

A second network specialises in new technology, and includes academics from Imperial College, City University, the Polytechnic of Central London and St Thomas's Hospital. It has been involved in the development of a general purpose robot arm (aimed particularly at those with disabilities), of expert systems for use in the medical field, of computer graphics and design, and of the 'human centred' lathe and automatic factory systems. The last project – developed by Professor Howard Rosenbrock at UMIST in association with Mike Cooley, formerly of Lucas Aerospace and now Technology director at GLEB – illustrates one of the key points in the underlying approach of the networks. Numerically controlled machine tools have been designed to deskill the operators. Programming the machines is undertaken by 'white collar engineers', and the old 'tacit knowledge' of the machinist is being lost. The UMIST project designed a lathe which built on the machinists' skill rather than

discarding it (the machine was programmed from the manual operations of the skilled operator). This matched, and even exceeded, conventional machine tools in efficiency, but has only recently been taken up in Britain *via Japan*. Rosenbrock is now building an automatic integrated production system based on the same principles.

Other networks are in the process of development, specialising in electric, electronic and mechanical engineering (North London Polytechnic), medical equipment (Thames Polytechnic) and transport. The response during negotiations has been remarkably supportive from institutions who are aware of the gap that exists between higher research and its applications, and the need for a planned integration of London's public knowledge economy with the restructuring of productive employment.

(iii) Popular planning

Another word to describe the pre-production phase of modern capitalism is planning. Restructuring has to be planned. Multinationals have to be planned, as do their new products and systems. I used the word 'conceptualisation' to describe these processes, because they have a dynamic and creative element, imagining what is over the next hill from ground level rather than seeing and organising everything from above. Our model of planning has been too much the top-down co-ordination of the railway timetable rather than the beyond the horizon adventure of the technologist. Capitalism has both, and socialists need to redefine both.

The socialist tradition has tended to juxtapose the market and the plan, equating capitalism with the market and socialism with the plan. This is misleading. The history of capitalism can be read as the development of a contradiction between the market and the plan, or rather between the market and many plans, for in capitalism planning is largely carried out by different private capitals. In the case of corporate planning, plans are constructed *for* the market, with the aim of maximising private profitability. With alternative industrial plans, we are planning *in and against* the market. We cannot ignore the market. But we can insulate production from the market and resist the tyranny which private capital imposes on labour as the result of its drive for maximum profitability as validated by the market.

In a local economy, three kinds of planning are required: an alternative corporate planning at the level of the enterprise, industrial planning at the level of the branch, and strategic planning at the level of the locality as a whole. In each case adequate planning cannot be done solely from above. It is necessary of course to have an eagle's view, but full-time central planners have in the past exhibited distorted vision, and have no grasp of the detail which workers and users experience as part of their everyday life. For an adequate socialist planning we must break down the division

between mental and manual labour, and between conception and execution. Those involved in the enterprise or industry must be given the time and the support to take the eagle's view. We estimate that up to a quarter of a million people in London are employed in strategy and design work for the capital's planning: software engineers, marketing specialists, financiers, architects, engineers, managers and so on. The labour movement has been starved of both the time and skills to match the detail of this extraordinary complex which comprises London's private mental economy.

At the GLC we have approached this issue from a number of directions. The Labour Manifesto had a commitment to set up a new economic policy group staffed from outside the Council to undertake strategic work. This group now has 45 people working on broader industrial and strategic planning issues. They provide material for the particular corporate and branch strategies required for GLEB's industrial interventions. Within GLEB itself there is a closely related sector strategy division, and a section responsible for enterprise planning within firms receiving GLEB support. There is a programme of grant aid for a network of Trade Union Resource Centres which provide research and planning help to trade unionists at a neighbourhood level. There is an Early Warning Unit within the GLC staffed by former industrial trade unionists which has built up an information network designed to find out about prospective closures and redundancies in time for countervailing action to be taken. There is a Popular Planning Unit who work with trade unionists, community organisations and user groups on alternative plans, and who have also funded a popular planning education programme through Adult Education Institutes.

In all the Council funds some 120 people are working on some aspects of alternative planning, providing just over 4000 hours per week to support alternatives to the plans produced by the 35 million hours of London's private market planners. This is a measure of the imbalance. It means one person working with trade unions and local community groups on an alternative plan for the whole of the retailing sector in London. It means one person working on the alternative to the Government's plans for the private cabling of London. For a socialist economic democracy to have substance, we have to recognise the needs for time and skill in the development of alternative plans. We need a quite new conception of planning – its scope, its process, and the resources necessary to make it work.

We also need a new conception of the power to implement the plans. In traditional socialist views of central planning it is the state which both plans and implements the plans. This was I think the traditional Fabian view. It was certainly the practice of Soviet planning. In advanced capitalist societies, the planning powers of the central state (let alone the local state) are heavily confined. The main power lies with private capital. Not

only does private capital have the real control of production, but in its financial form has the decisive power to move out of the country. In the era of multinational corporations – with as much as £30 billion a year of transactions on Britain's foreign exchanges being one form or another of intra-firm transfer – the capacity of a government to control the exodus of capital is increasingly limited.

In these circumstances the power of organised labour to enforce alternative plans is equally important. In the case of Kodak for example the unions in Kodak Europe have combined to demand of Eastman Kodak in Rochester an alternative set of investment plans, that would maintain a proportion of research and development spending and new production manufacturing in Europe. The alternative of a national industry under public control is no longer a short-run possibility, since the know-how and new products have long since been lost. They can be rebuilt and re-acquired but it would take time and substantial resources (Kodak, for example, are spending some \$800 millions a year on R&D). In the meantime it is the trade unions who, internationally, have the potential power to challenge the priorities and practices of multinationals. The GLC has worked with other local authorities, the European Commission and the European Parliament to provide support to unions in firms like Kodak and Ford who are seeking to develop joint action in defence of their jobs.

In a single plant, the best enforcers of an enterprise plan are again the workforce themselves. They are also the people who can provide the creativity to make the aims of an alternative corporate plan work in practice. Indeed without their full involvement and support, an alternative plan could not adequately be implemented.

Effective popular planning requires an extension of the scope of the trade unions, of collective bargaining, and of resources, and it should be one task of local and national socialist administrations to provide material support for these developments.

(iv) Transforming the state

The argument about popular planning applies as much to the state as to private industry. At the moment, the gas industry, electricity, coal, public transport, water, the GPO and British Telecom are run as state capitalist concerns. The consumer organisations are weak. The trade unions have limited powers. Even the GLC – as a major metropolitan authority – has found it extremely difficult to get any substantial discussion with the public corporations, let alone influence the direction of their development. In many parts of the country other state services – including local council services – are experienced in the same way. Socialists employed in the public sector have started to talk of working *in and against the state*.

As I argued earlier, it is one of the most urgent tasks for the labour

movement to challenge these structures of the state. How we do it cannot be laid down in a blue print. It is a question of learning from initiatives – those that work and those that don't. At the GLC we have tried a number of alternatives: public hearings on British Telecom and on Cable (in the case of Cable we supplemented two days of joint hearings with Sheffield City Council with five local hearings in boroughs); involvement in public inquiries on Sizewell B and on the proposed airport in the heart of London's Docklands; regular conferences with trade unionists and boroughs on the privatisation of local government services; popular planning workshops for trade unionists in public services and for manual workers in the GLC. The Council also has a grant aid programme which it uses to support workforce initiatives and user groups: it has supported a number of local energy campaigns, the BT trade unions, the postal workers, tenants groups, and a local consortium of groups campaigning in Docklands.

As a strategic authority, there are limited services under the GLC's direct control. One exception is London Transport, which operates at arm's length, and which the Council has had to struggle to get to conform to its transport and employment policies, in the teeth of Government opposition, and the bizarre economic interpretations of the House of Lords.

One of the lessons, indeed, of the GLC administration, is the need for a change in the bureaucratic structure. It faced intense hostility from different parts of the bureaucracy to many of its policies – notably those concerned with industry and employment. When there was not hostility, there was too often a lack of drive and imagination, with a bureaucratic caste unable to understand the goals and the spirit for which the administration stood.

Against this the Labour groups have operated pragmatically. They have brought in socialists from outside to carry forward the new policies. They have increased political control of the bureaucracy, and devoted great energy to simplifying the Byzantine grading structure which served to reinforce hierarchical power and rigidity. What has been clear throughout is that the conventional notion of a neutral administrative bureaucracy ready to carry through any policies required of them was quite inappropriate. There are notable exceptions. Some GLC officers sympathised with the new initiatives, but their power was initially curbed. Equally, and for the same reasons, it is not enough to bring in policy advisers. They need to have administrative power. In the field of industry and employment we have learnt that the Labour movement needs an alternative bureaucratic strategy to set alongside any alternative economic strategy.

V

In chapter 14, Roy Green and John Eatwell argue for a return to theory in the labour movement. I wholeheartedly agree. But I do so knowing that there is an intense suspicion of theory in the movement, and an impatience for action. What I have wanted to establish in this essay is that Labour's economic policy crisis is a crisis of that very action which has been so impatiently pursued by successive Labour governments. The answer then is not to have more of the same – with the degree of progressiveness judged by the number of billions by which you want to reflate, and how many companies you say should be nationalised. Rather it is to step back and recognise that at least part of the problem is the theoretical tradition which has guided economic policy and practice. To re-examine this tradition critically is the first practical task which all those impatient for action should immediately undertake.

I have suggested one line of approach which shifts the emphasis from circulation to production, and implies a quite different agenda to that of the post-war Keynesian consensus. Fortunately much of the theoretical ground for this new approach has been tilled over the last 15 years. What has not been done is to translate this general approach into concrete initiatives and programmes. This is where the present municipal experiences are relevant. Local councils have been groping towards new economic policies – falteringly, intuitively, and in the face of the most severe attacks by the Tory government. But the achievements they have already made point the way towards the new national economic policies and politics which are so urgently needed.

Some of the major issues of national economic policy local councils can only tangentially touch. Monetary policy would be one. The erosion of national economic controls by increasingly internationalised corporations would be another.

But in other fields, the municipal initiatives have been a laboratory for new economic policies. Direct intervention is a prime example. All the Enterprise Boards have quickly realised that it is not money but people who are the main constraint. Private capital has the overwhelming monopoly of the skills of restructuring and long-term industrial and corporate planning. They have now added to this their control over the development and application of new technology and new systems of production and co-ordination. If such restructuring is to be done in terms of broader social interests than those of the balance sheet, then it requires people who understand and sympathise with this alternative, but who also possess the skills of the accountant, the management consultant, and indeed the marketing manager. At the GLC we have found that trade unionists are quick to pick up these skills, and there are a few progressive managers.

But the numbers are still small when set beside the tasks and possibilities even within London itself.

Local councils have also experimented with different organisations – notably the enterprise boards. The issue has been how to maintain a political control over a body which needs (and demands) independence on a day-to-day basis. The model of the council making policy and the enterprise board carrying it out has proved unsatisfactory. The politicians need to be involved in the practice in order to learn about the detailed issues at which policy should be directed, while those who are implementing necessarily generate strategies of their own. A variety of devices have been used to maintain political control over the enterprise boards – key to which has been the staffing of the boards themselves. On the basis of this experience, a future Labour government will be able to reconstitute a National Enterprise Board very different from the last.

The concerns with the quality of products and not just their quantity, with popular planning, with human centred technology, and with transforming the services and the administration of the state – all these are also of central relevance to a new socialist economic policy at the national level. But perhaps most important is the consciousness that the state's power – locally or nationally – is quite limited in the face of the power of private capital. The traditional Fabian theory of the state as somehow set apart from classes, an instrument of power which needs to be patiently captured and then run by experts independent of sectional interests – this theory is in as urgent a need of revision as the economic theory. For when the state attempts to control and supersede private capital, the outcome of the ensuing battle will depend crucially on the extent of popular support any administration can command. It is one of the unintended results of the Government's abolition campaign against the metropolitan counties and the GLC that councillors and council workers alike are having to argue the case for their existence to ordinary people. This is a democratic process far more substantial than a four-yearly visit to the ballot box. It involves councillors explaining what they are doing, justifying it, and if they cannot justify it, dropping it in favour of something else. This is one aspect of the necessary link between a socialist administration and the people they represent.

Another is the need to redefine the role of the state as the supporter of other's campaigns and struggles rather than as the universal provider. I discussed this in respect to state support for trade unionists. But it is equally true with respect to discrimination against particular groups of working people – women and black people most notably. Local councils can help directly, through anti-discrimination monitoring of suppliers, and of their own practices. But any successful fight against discrimination will depend on the actions of those who are facing the discrimination, and

it is one task of a socialist council to support them in their struggles rather than offer to replace them.

Power in short is not centralised in the state, but decentralised. A Labour administration has considerable power, but it is the temporary power of holding an important position on a wider field of battle. Its economic policies will affect the relative strength of others elsewhere on the battlefield. Mrs Thatcher has recognised this in using public economic policy as a means of a direct attack on the power of labour in production. It is important that the labour movement takes at least this lesson from monetarism and develops an economic strategy which will shift the balance of economic power back to organised labour.