Where Next?
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The text which follows was written as a background paper for the ‘Rethinking Value Chains’ meeting to be held in La Bergerie in January 2018.

It is difficult to make real progress towards sustainability when value chains are impaired by increasingly dysfunctional economic and financial systems. When change is resisted through appeals to a broken hegemonic economic narrative, those who seek change need to find a new narrative which will make it possible.

Challenging the hegemonic discourse requires its opponents to understand its origins, its development and its weaknesses. This paper is divided into four major sections:

- How did we get here?
- Where are we now?
- Where are we going?

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INTRODUCTION

It is clear why we feel the need to rethink value chains. Whether we look at the production of bananas, clothes, electronic goods or milk we seem to find the same overall patterns. The people who produce the things we need (and in many cases things we actually don’t need), the people who do the real work, usually earn so little money that they struggle to meet their basic needs. Often their lives are precarious, they have few rights and they are exposed to unnecessary and unacceptable health risks.

Meanwhile the territories within which they work are frequently polluted to levels which, when viewed globally, threaten our collective survival. Alongside the particular localised threats caused by the use of dangerous chemicals in agriculture and in many types of industrial production processes, there are the global threats of climate change and the build-up of plastics in the oceans.

Huge blocks of ice are breaking away from the poles and up to 70% of the Great Barrier Reef has died or is dying. A large part of the Middle East is wracked by war (coinciding in many areas with unprecedented levels of drought).

However, even after the great financial crash of 2008, our social, political and economic élites still have nothing to offer, except for more deregulation, more privatisation, greater freedom for capital flows (including via shell companies to tax havens), the destruction of what remains of ‘unaffordable’ welfare services and greater austerity for the mass of the population. While unemployment benefits, pensions and health care are cut, the private security industry is one of the areas of growth in an otherwise bleak economic landscape. ‘Security’, internal surveillance, CCTV, collection of personal data, monitoring of e-mails and telephone calls are presumably ‘affordable’ and necessary, as more of us slip over the frail borderline between civilisation and chaos.

Meanwhile the 1% who now earn 80% of the world’s wealth continue to become richer by the day, while the 99%, many of whom now own virtually nothing, slip into ever deeper poverty. Democracy has become the plaything of powerful financial interests and substantial proportions of populations almost everywhere are veering towards xenophobia and fascism.

All of this was foreseeable. Indeed it was foreseen. To be more precise it was foreseen as a danger but it was hoped that this danger could be avoided by changes to policy which would lead to ‘sustainable development’.

Our Common Future

In 1987 the World Commission on Environment and Development, under the Chairmanship of the former Prime Minister of Norway, Gro Harlem Brundland, presented its report, Our Common Future, to the General Assembly of the United Nations.

“Our report”, the authors stated on page 1, “is not a prediction of an ever-more polluted world among ever decreasing resources. We see instead the possibility for a new era of economic growth, one that must be based on policies that sustain and expand the environmental resource base. And we believe such growth to be absolutely essential to relieve the great poverty that is deepening in much of the developing world.”

Little did the authors of the report suspect that, although many people were indeed raised out of poverty in the developing world in the short term and although some of their élites would become rich beyond the dreams of avance, 30 years later many of these people would be once more slipping back into the mire but accompanied now, in a globalised economy, by many more of the people who were once reasonably comfortable in the developed world itself.

Our Common Future put the idea of ‘sustainable development’ on the map. At the time it seemed to be not only a call to action but also a source of genuine hope. Within ten years the word ‘sustainable’ was everywhere. It is still with us today but does it mean anything anymore?

From the outset the report envisaged a new era of cooperation in which the key actors were to be governments, industry and civil society. For example, on page 329 the report stated, “Internationally, governments in co-operation with industry and NGOs should work through appropriate regional organisations to develop basic codes of conduct for sustainable development..."
Sustainable development however rapidly came to mean different things to the different constituencies involved. It was immediately obvious that sustainable development needed to be constructed around three pillars – environmental, social and economic. However the ways in which these three were treated, in the context of the Brundtland and its aftermath, were given rather different emphases.

**Environment, Society and the Economy – and the Greatest of these is the Environment**

The argument around environmental sustainability was fairly uncontentious. It was clear that, as the sheer power of industrial and agricultural production processes delivered their impacts, it would not be possible to continue to treat the environment as an infinite sink into which pollution could be poured indefinitely without consequence.

Indeed as early as page 3 of the report, the Commission transmitted a sense of urgency when it observed the following:

“The World Commission on Environment and Development first met in October 1984, and published its report 900 days later, in April 1987. Over those few days:

- The drought-triggered, environment-development crisis in Africa peaked, putting 35 million people at risk, killing perhaps a million.
- A leak from a pesticides factory in Bhopal, India, killed more than 2,000 people and blindered and injured over 200,000 more.
- Liquid gas tanks exploded in Mexico City, killing 1,000 and leaving thousands more homeless.
- The Chernobyl nuclear reactor explosion sent nuclear fallout across Europe, increasing the risks of future human cancers.
- Agricultural chemicals, solvents, and mercury flowed into the Rhine River during a warehouse fire in Switzerland, killing millions of fish and threatening drinking water in the Federal Republic of Germany and the Netherlands.
- An estimated 60 million people died of diarrhoeal diseases related to unsafe drinking water and malnutrition; most of the victims were children.”

While the report was far from silent regarding human suffering and its broader social consequences, these were often treated in terms of what was seen as being the primary problem, environmental degradation itself. Thus on page 28:

“Environmental stress has often been seen as the result of the growing demand on scarce resources and the pollution generated by the rising living standards of the relatively affluent. But poverty itself pollutes the environment, creating environmental stress in a different way. Those who are poor and hungry will often destroy their immediate environment in order to survive: they will cut down forests; their livestock will overgraze grasslands; they will overuse marginal land; and in growing numbers they will crowd into congested cities. The cumulative effect of these changes is so far-reaching as to make poverty itself a major global scourge.”

The subtext was clear. The affluent might not necessarily care much about poverty in remote parts of the developing world (although clearly some did) but, if nothing was done about poverty, the environmental impacts generated by poor people struggling to survive would ultimately destroy the resource-base on which we all depend, and even the affluent would suffer. However indifferent some affluent people might be therefore to the plight of the world’s poor, they really needed to do something about poverty if they were to protect their own long-term interests.

When it came to the economic pillar, the primary focus was on macro-economic matters like debt, overseas investment and tariff barriers. Nevertheless industry was enjoined on page 222 to act in the following terms:

“Industry’s response to pollution and resource degradation has not been and should not be limited to compliance with regulations. It should accept a broad sense of social responsibility and ensure an awareness of environmental considerations at all levels.”
Economic Sustainability Equals Profitability

But how did the three constituencies respond to this call to action?

At the intergovernmental level those who had launched the race for sustainability could hardly be faulted. Almost immediately a timetable was set up to work towards the United Nations Conference on Environment and Development. This would be held in Rio in 1992 and became known popularly as the ‘Earth Summit.

NGOs (Non-Government Organisations) as they were then usually known or Civil Society Organisations (CSOs) as we more often call them today, were quick to draw up their own plan of action and organised a parallel event in Sao Paolo; this was intended to feed into the main government-run event in neighbouring Rio de Janeiro. For those of us who became involved at this early stage, a pattern began to emerge right from the outset.

While CSOs started to act almost as soon as the ink on the report was dry and while the UN itself remained fully committed, the two other main constituencies mentioned in the report - government and business - dragged their feet or showed only limited interest.

In my own region of the UK (East Anglia) for example, my colleague Alistair Smith and I (then working for an NGO called Farmers’ Link) with the help of other regional activists set up BEAR, ‘Brundtland East Anglia Response’ and started organising public meetings throughout the region. We approached local businesses, from farmers to energy generators, and invited local and national politicians to attend our events. Thousands of similar initiatives sprang up across the globe.

Indeed it was when Alistair attended the Earth Summit that he met representatives of the Windward Islands Farmers Association and representatives of the Latin American Coordination of Banana Trade Unions, COLSIBA and it was as a result of that meeting that Farmers’ Link decided to set up Banana Link, with the precise intention of seeing how a single global supply chain could become sustainable.

But where were government and industry representatives in all this? The then US President – Bush Senior – decided not to attend the Rio meeting. No change there then! As time went on and our work unfolded, our national political representatives began to show that they could not really be relied on to deliver policy frameworks capable of delivering sustainable development, even when they acknowledged the need for new approaches. When they were in opposition they were enthusiastic, agreed with everything we said, understood the need for sustainable development and so on, whatever their political persuasion. As soon as they were in power, they didn’t seem to want to know us anymore.

The most blatant example of this occurred when the Labour Party swept to power and Tony Blair formed his first government. Before the election we had had several visits from Labour MPs keen to show they understood the need for change and informally implying that if we had the power to influence people's thinking we should encourage them to back Labour. Shortly after the election I was invited to an event in London in which the newly appointed Minister for Overseas Development, Clare Short made her inaugural address to all those CSOs who had a history of cooperation with the ministry.

Her first words were: “We are in grown-up politics now.” The rest of her speech was devoted to making it clear that whatever the party may have said before the election, the main concern of the new government would be to keep industry and the City of London ‘sweet’ (in the interests of economic stability, without which nothing would be possible anyway) and that we shouldn’t expect too much.

It was evident that the revolving door between business and government was going to stay spinning and that any hopes we might have had for greater social justice or for more environmentally friendly policies, let alone the much-vaunted ‘ethical foreign policy’ which the Party had promised, would remain of secondary importance.

So what of these business interests? From the outset of our work with business, when we were trying to persuade industry players of the necessity of taking the sustainability issue seriously and trying to discuss with them how practicable sustainable systems might be developed, we received a single response with depressing regularity. In short, the almost universal response was: ‘You can’t have sustainability without economic sustainability. And to be economically sustainable businesses have to make a profit. If businesses don’t make profits, there will be no system either sustainable or unsustainable’.
The Iron Laws of Economics

For nearly 15 years businessmen seemed to be incapable of escaping their bubble of pure free-market fundamentalism. Either markets should be completely free and unrestrained or capitalism would collapse about our ears. The idea of minimum standards supported by regulation was apparently an impossibility. The notion of differential tariffs allowing preferential access to the EU market for more sustainably produced products was similarly unacceptable. Any attempt at regulatory change was seen as an assault on their capacity to make profits, and without profits ‘economic sustainability’ would be impossible to achieve so one of the three pillars of sustainable development would collapse, bringing down the whole structure.

It is true to say that the discourse has moved on in the last five or ten years and it is not often today that one hears anyone from the industry side resort to quite such crude thinking. If anything, the trend is in the other direction. Now the tendency is for industry actors to try to say that everything they do is sustainable, however implausible the claim. But behind the new sustainability facade the old commitment to absolute freedom of action tempered only by voluntary initiatives and self-regulation remain as strong as ever.

And after all, if the hidden hand of the market is allowed free play, won’t the market adjust itself? Won’t wages find a new sustainable equilibrium? Won’t new technical solutions emerge to solve our pressing environmental problems? Won’t the rational behaviour of ‘Homo Economicus’ inevitably lead to the best of possible worlds? And isn’t the role of government to maintain a hands-off enabling environment where business can do what it does best - create wealth and encourage innovation - driven only by man’s insatiable urge to seek his own advantage and in the process to inadvertently generate the best outcome for society at large?

What could possibly go wrong?

SECTION 1: HOW DID WE GET HERE?

From Keynes and the New Deal to Neo-Liberalism

At just about the same time as the UN was warning us that we needed to implement plans for sustainable development, changes in the world of economic thinking (inspired by Ayn Rand, Friedrich Hayek, Milton Friedman and others) were transforming the economic landscape.

The 1929 stock market collapse, and the Great Depression of the 1930s which followed, had laid bare the potential catastrophic effects of speculative bubbles and their potential to collapse in capitalist economies. There had of course been speculative bubbles before but the Great Depression appeared to be of a greater order of magnitude than previous such collapses.

Two major changes were made which ultimately helped the US economy to recover.

Firstly the Glass-Steagal Act was passed in 1933, insulating retail banking from speculative trading activities. Throughout the US, banks, including small local banks, had used deposits made by their clients to invest in the New York stock market. When the market collapsed the banks folded and depositors lost most or all of their money, meaning that farmers could not buy seed for the next harvest, businesses could not buy raw materials or pay wages and so on. The Glass-Steagal Act protected the retail banking system from much of the effects of potentially highly lucrative but also potentially ruinous financial speculation.

Secondly Roosevelt’s New Deal provided government funding for infrastructural development and basic welfare, stimulating the economy and ultimately providing the taxes to repay the initial funding.

The spirit of the New Deal was carried over into the post-war period with the Marshall Plan, overseen by the Bretton Woods system. With much of the world in ruins (particularly Europe and Japan) but with the US largely intact, US planners understood that their industries would continue to find export markets only if Europe and other regions recovered sufficiently to start purchasing. Underlying Bretton Woods was a system for currency stabilisation, in which European currencies were pegged to the US dollar while the US dollar was in principle exchangeable at a fixed rate to gold. (Without such a system of currency stabilisation many...
European currencies would have lacked credibility, with all the dangers of hyperinflation which that would imply).

The Central Banks of European countries were under an obligation to maintain the actual value of their currencies at the same level as the officially sanctioned rates of exchange by, for example, adjusting interest rates. So if the value of the Deutsch Mark (DM) began to fall, the German Central Bank should raise German interest rates, which would encourage currency traders to buy DMs, thus restoring its value relative to the US Dollar.

Once the system had stabilised however several European powers, including Germany and France, began to play the system. By printing money (essentially creating money out of nothing) they could cause their currencies to fall. They could then use this new money to buy US gold, invoking their right to buy at the higher official rate rather than at the actual value of their currencies. Subsequently, if they chose to, they could buy back their own currencies at the actual rather than at the higher official rate, getting back their original stake plus a healthy profit. Effectively they were stealing gold from the US treasury and reducing its national reserves.

In 1971 President Nixon retaliated by breaking the link between the US Dollar and gold, allowing the US Dollar to float and beginning the slow unravelling of the entire system of international currency stabilisation, and arguably the Bretton Woods system. While the link with gold was now broken, the US Dollar remained the reference point for all international currency transactions.

As the world economy recovered US businesses found increasingly that they were unable to compete with industrial producers like Germany and Japan, which had the advantage of new state-of-the-art industrial systems and infrastructures, built as part of the reconstruction which the Marshall Plan had financed. To balance its books however, the US only had to borrow more money knowing that, as the world’s reference currency, it was too big to fail. The US’s national debt began to grow exponentially and is still growing today.

Arguably this marked the beginning of a slow shift (which was later to become an avalanche of change) away from notions of ‘sound money’. The economies of the 1970s looked very different from how they appear today. In the approach advocated by Keynes, governments should pay back debts or save during the good times, and borrow or spend savings when economic activity tailed off, ideally using these savings to invest in infrastructural projects. These would in turn provide the foundation for the next period of economic expansion based on newly-emerging technologies (research having been frequently financed by public money). Part of the job of civil services was to assess and supervise research and investment, liaising and consulting closely with business interests whose remits were mostly focused on the production of goods. The overall intention was to avoid as far as possible the destructive impacts of ‘boom and bust’, which tended to be a feature of unrestrained capitalist activity. Government expenditure on infrastructure and research during the bad times generated a demand for labour, which allowed money to be spent usefully rather than being dissipated in social welfare support for the unemployed. During these low points in the business cycle, investors struggled to find safe places to put their money and government bonds tended to be relatively attractive. If a government could establish a reputation for sound financial management it could borrow money at very low cost. Financial institutions (as well as the civil services) were also focused on low risk and good planning. Where money was used to enhance road and rail links, improve the efficiency of energy generation etc., it would provide a cheaper platform for business activity later, when the business cycle moved on.

While governments and financial institutions maintained a focus on long-term developments, the world of personal finance was equally cautious. As the economist and former banker John Kay so clearly documents in his book ‘Other People’s Money, the Real Business of Finance’, household credit was extremely tightly controlled. Bank managers used to interview individual applicants personally, examining their accounts and assessing the security of their jobs before, for example, offering them mortgages to purchase their own homes. Small businesses were subjected to similar or even tighter scrutiny before loans were offered. While it could be very tough getting credit, once this had been obtained the relationship between the borrower and the bank was frequently seen as a partnership, with a recognition that both partners had an interest in making a success of enterprises. Banks did not lightly foreclose on loans which they had formerly approved and would typically support small enterprises when they hit difficult periods, helping them to develop new business strategies when possible.

All this was to change dramatically, as we shall shortly see.
Alongside this emphasis on sound finance, pay structures were very different from those seen today. Even CEOs of major companies could expect salaries which were seldom more than 10 times the average annual wages of employees. The least well rewarded of these employees could expect to buy consumer goods, even automobiles, stimulating demand in the economy. As most were unable to access mortgages, they remained largely reliant on public housing, usually at very modest rents, meaning that much of their income remained ‘disposable’.

Perhaps more fundamentally, the reverse side of this cautious approach to running a capitalist economy could be stagnation. Governments often backed the wrong kind of research & development and civil servants gained a reputation for supporting ‘white elephants’, particularly in the UK. Innovators with exciting new ideas often found it difficult or impossible to get financial backing for new projects. A feeling began to grow amongst many businessmen, financiers and politicians that economies were being held back. What was needed was more individual initiative, more risk taking, more preparedness to fail and less regulation and caution. Asian ‘Tiger Economies’, less controlled and more nimble footed, were taking business away from the cautious and sclerotic old economies of the established western developed world and things had to change.

It was not only industry leaders and managers who felt that ‘socialistic legislation had gone too far’. In the sector of private housing in the UK, landlords were held in check by legislation which prevented them from raising rents, even as inflation was increasing the cost of goods and labour. While this legislation was highly popular for obvious reasons with tenants, landlords argued that rents were becoming insufficient to cover the cost of maintenance of their properties. There was little chance of investing in improvements, such as installing central heating, when their profits had been so drastically reduced. While low rents were popular with tenants, there was a downside even for them, as property owners neglected their buildings and allowed them to deteriorate, sometimes to levels where they became uninhabitable.

Even in social housing there were a great many problems. Council workers, also heavily unionised, gained a reputation for inadequate work. Tenants were unable to get the council properties fixed. They were not allowed to undertake their own repairs and many had to tolerate leaking roofs, damp, and even fungi growing inside their houses or flats.

A feeling began to grow among right-wing thinkers that trade unions were too powerful, that workers had a sense of entitlement (in which they expected the state or other private employers to provide them with good wages and benefits but were increasingly unwilling to work) and that, as the Tiger Economies surged ahead, everything was falling apart at home.

All this set the stage for the emergence for a radical new way of thinking, an ideology which was even dubbed by some of its proponents ‘The New Enlightenment’. The pendulum was about to swing and to swing with a vengeance. It was a swing whose force might perhaps be likened to that of the soon-to-be-famous swing of the Iron Lady, Mrs Thatcher’s handbag! And it was indeed Mrs Thatcher and Ronald Reagan and, lest we forget, General Pinochet, soon to be President of Chile, who were to be among this movement’s most celebrated and often hated political advocates.

**Radical Individualism and the Death of Socialism**

The dominant ideology in the West, and indeed in much of the so-called ‘developing world’ up until the 1970s, could be characterised as a kind of weak socialism. The West continued to support capitalism and ‘free enterprise’ and indeed to a large extent defined itself in opposition to the Communist blocks led by Russia and to a lesser extent China. However it was a form of capitalism which was modified by regulation, central planning and support for social welfare systems.

Economic thinking in universities and in politics, even amongst politicians of the political right, continued to be dominated by broadly socialist assumptions.

Outside the mainstream however, an opposing ideology of radical individualism had been incubating. The roots of this ideology went back to the pre-war period and to a large extent drew its inspiration from figures like Ayn Rand (a Russian who had escaped the repressions of the Stalinist era and fled to New York) and Friedrich Hayek (an Austrian who had fled initially to the UK and later to the US to escape the rise of fascism in Europe). One of Ayn Rand’s youngest intellectual disciples was Ben Bernanke, an economist who was to become Chairman of the Federal Reserve and who was to play a key role in the economic collapse of 2008. One of Hayek’s followers was Milton Friedman, who in later life, with help from Hayek, would go on (with his contemporary George Stigler) to found the Chicago School of Economics. Milton Friedman’s monetarist
theories were to provide the intellectual underpinning for Reagan and Thatcher’s dismantling of the post-war economic and social order.

For both Rand and Hayek (and indeed a network of other excluded intellectuals), the main enemy was authoritarianism, not only the obvious and explicit authoritarianisms of Stalin and Hitler but also the much weaker dominant ideology of the West, with its emphasis on the role of governments in state planning and welfare state provision. While fascists and communists might be distinct at a rhetorical level, their totalitarian aims were, in Hayek’s opinion, broadly the same - and totalitarianism remained the ultimate destination at which all forms of socialism, even the then current dominant democratic socialism would inevitably arrive.

Hayek’s first key text, *The Road to Serfdom*, published in 1944, claimed on page 10 (Routledge, 1944), “We are rapidly abandoning not the views merely of Cobden and Bright, of Adam Smith and Hume, or even of Locke and Milton......the basic individualism inherited by us from Erasmus and Montaigne, from Cicero and Tacitus, Pericles and Thucydides is [also being] progressively relinquished”.

Hayek himself was much influenced by the ‘Austrian School’ whose great proponent was Ludwig von Mises. Mises’ seminal work was a critique of socialism, ‘Socialism’, which he wrote as far back as 1922. The Austrian school drew on the works of early economists, such as Adam Smith and Vilfredo Pareto. Key to the ideas of this school was the ‘price mechanism’, which alone (in the school’s analysis) is capable of transmitting information about preferences and relative scarcities. Only markets can disperse such information among literally millions of economic actors. It is through these signals that entrepreneurs are able to know what to produce, given that they can never meet or know the people for whom they are producing goods. Market prices allow the extended order of modern societies to exist. In fact an ordered society emerges more or less automatically from all the individual choices which producers and consumers make in the market place of life. By contrast, a central planner, like a government department, can never know what is needed by the great diversity of individuals who make up a society, and its ill-informed decisions will almost automatically lead to economic failure.

“The belief that governments tend to lose touch with reality and to become self-serving havens for bureaucratic élites, who pay themselves generously but who fail to deliver vibrant economies capable of serving the general public, was well expressed by President Reagan in his comment that “Washington is the problem”. One of his other most renowned sayings is: “The nine most terrifying words in the English language are: I’m from the government and I’m here to help.” The sentiment has been echoed more recently by the US Tea Party, and indeed contemporaneously by President Trump himself, when he shouts to rallies of his supporters: “Drain the swamp” (The US capital, Washington, having been built on the banks of the Potomac river, in the middle of a swamp).

The idea that only individual action will create a workable economy and society was also encapsulated by Mrs Thatcher, when she claimed “There is no such thing as Society”.

As the 1970s unfolded, stimulated by such shocks as the Arab-Israeli war and the oil price hike, the Anglo-Saxon economies (and many others) entered into a period of crisis. Higher oil prices fed through to other parts of the economy, causing consumer prices to increase rapidly. Public sector workers threatened or took industrial action, so that wage levels would rise in line with inflation. This in turn pushed up inflation further. Sectors of the economy which were less well unionised, or which had less leverage over the economy and over political parties, found that they were falling behind, with wages and profits shrinking in real terms. By the end of the decade, enough people were desperate for change that the way was open for a new kind of right-wing politics, one which had its roots in liberalism and its descendent, neo-liberalism.

The political stage was set for a dismantling of the state, the transfer of public assets to private hands (including in the UK the selling off of publically owned social housing to tenants at prices which were well below market value), de-regulation of industries (crucially including financial services), and a renewed push for free trade and globalisation.

“Where there is discord, let there be harmony....”

When Mrs Thatcher became Prime Minister for the first time, she gave a speech on the steps of Number 10 Downing St, in which she paraphrased St Francis of Assisi’s famous homily, saying: “Where there is discord, let there be harmony...”. Far from harmony prevailing, the 1980s in the UK was to be a period of intense conflict. Central to this conflict was an attack on the power of the trade union movement and the closing
down of traditionally powerful industries like coal mining. Important also was the privatisation of other state-
rung enterprises (such as British Telecom and the railways), but while many of those who worked in these
industries struggled to keep them in the public sphere, hoping to defend such benefits as government-
guaranteed pension rights, many outside the industries (including a large proportion of the ‘working classes’) were equally keen to take advantage of the undervalued share offers, allowing them in many cases to buy the quota of shares set aside for individual members of the public and to then sell them only a few weeks later when share prices stabilised at more realistic values on the Stock Exchange.

The traditional working classes were divided between those who wanted to defend public ownership of
assets, pension rights and trade union rights and those who preferred to take advantage of the cash bonanza
offered by the state as it sold off public enterprises and council houses, allowing vast swathes of the
population who had never dreamed of such a possibility to become owners of both homes and shares almost
overnight.

Once these individuals became owners of property and once credit became easier to obtain, they became
able to borrow money (taking out mortgages on properties which had been undervalued in the initial sale),
sparking off a consumerist spending spree.

By the end of the decade the proponents of the new freedoms, in spite of many ups and downs, appeared in
many ways to have been vindicated. Thatcher had won her war against the Argentinian military dictator
General Galtieri. The Berlin Wall came down in 1989 and the Soviet bloc had rapidly crumbled, bringing a
whole swathe of Central and Eastern Europe into the ‘free world’. The Cold War had ended and the threat of
nuclear destruction eliminated (or so it seemed) and at least in the Anglo-Saxon world trade unions had
largely been neutralised. The free market and capitalism had triumphed.

Financialisation

However the 1980s marked the beginning of a new era of ‘financialisation’, which would change everything.

Faced with the threat of the US losing its dominant position, Paul Volcker, who was to become Chairman of
the US Federal Reserve at the beginning of the 1980s, came up with a strategy which would allow the
country to retain its hegemony in spite of being a deficit nation with a growing national debt.

His solution was for the US to switch from its traditional emphasis on the production of goods to becoming
the world’s banker. By raising interest rates (at one time to as high as 20%) the US could attract foreign
surpluses (from Germany and Japan and later from China and others) into Wall Street. Anyone with a surplus,
whether this be a country or an individual, is likely to want this money to work for them and high US interest
rates offered much better short-term returns than investing in productive enterprises.

The influx of money combined with a deregulation of financial instruments (a process which would lead
ultimately, under the Presidency of Bill Clinton, to the repeal of the Glass-Steagagl Act itself) led to a frenzy of
financial trading of everything from currencies, commodities and futures to insurance policies. As time went
on, ever more complex ‘derivatives’ were devised, which allowed investors to gamble on the likelihood of
other investments failing. The value of all these financial transactions soon began to outstrip the actual value
of productive enterprises and real commodities. The UK, or more precisely the City of London, followed Wall
Street’s lead and its economy also rapidly became skewed away from production and towards financial
services. Similar developments were to follow somewhat later in other EU countries, with Frankfurt and Paris
taking the lead on the continental mainland.

Faced with this massive growth in financial trading and speculation, companies which had formerly
concentrated on the production of goods in factories located in their home countries for sale on domestic and
overseas markets, began to see these factories and the relatively high wages they still paid their workers as
burdens rather than assets. Famous brands realised that they could improve their profitability by closing
down their factories and relocating to countries like China (following the reforms of Deng Xiaoping),
Indonesia, the Indochinese states, Bangladesh, Mexico, Turkey or Tunisia, any country in fact which
combined political stability (often achieved through authoritarian control) with low wages and minimal
environmental and labour standards. Free Trade Agreements allowed capital to move between countries
without the barriers which had formerly made such outsourcing impossible. Relocation seldom required
these brands to invest in or build factories overseas themselves. Most such relocation involved
subcontracting, divesting the brands of responsibility for standards and allowing a ‘race to the bottom’ to
occur unimpeded.
Whole swathes of the productive economy were closed down in developed countries and, with fierce competition among ‘developing nations’ to become the new centres of production, costs could be minimised. Brands concentrated on advertising and lifestyle promotion, massively expanding this sector of the developed world’s service economies. Meanwhile the gap between production costs and retail prices grew, allowing big brands, like Nike and Reebok for example, to sell trainers which cost around $10 to make, at prices of $100 - $150 to consumers in developed economies. Some companies used the profits thus generated to develop their own trading arms, so they could also gain from the new opportunities offered by the growth of financial services.

As production moved out of the developed economies, unskilled and low-skilled workers found that the kinds of jobs they had previously held were no longer available, and increasingly had to turn to low-skilled, low-pay service sector jobs, usually un-unionised and with little or no long term prospects. The gap between the rich and the poor grew rapidly. CEOs for example, by the turn of the new millennium, could earn not just 10 or 15 times (as had been the case in the 50s and 60s) but 300 or even 500 times the average incomes of the workers they employed. Wages for the less skilled remained at 1970s levels.

**Big Retail and Debt**

As the rich got richer and the poor got poorer, capitalist enterprises, hoping to sell their goods and services, potentially faced a problem. If workers are increasingly driven into low-pay service sector jobs (and if indeed as technology develops, workers are decreasingly going to be needed in a great many sectors) then who is going to buy the goods and services on offer?

Up until the crash of 2008 there were two solutions to this apparently insoluble dilemma. To some extent the solutions have remained in operation to the present day - but how far they will remain viable in future remains to be seen.

One solution was provided by the growth of big retailing chains. One need look no further than the quintessential case of the US company Walmart, the biggest global retailer, a company so large that its annual turnover dwarfs the Gross Domestic Product of a great many sovereign states, to comment on its underlying dynamics.

Big retail offers products at such low prices than it can wipe out most competitors except for other retailers who adopt similar strategies. Economies of scale allow it to pressurise suppliers to sell at prices which barely cover the costs of production. Many big retailers impose onerous conditions on suppliers, these have come to be known as Unfair Trading Practices (UTPs). They include such practices as demands for retrospective discounts, late payments, return of unsold goods, charging suppliers for shelf space in stores, special offers made by the retailer without consultation with the supplier (such as BOGOF – Buy One Get One Free), refusal to sign contracts, etc. Within such companies highly efficient automated systems (from Point of Sale ordering and self-checkouts to automated warehousing) allow labour to be minimised. In the case of Walmart at least, trade unions are fiercely resisted and labour costs for all staff are kept at the lowest possible levels. By transferring risk to suppliers and by reducing labour and other costs to an absolute minimum, big retailers have been able to undercut smaller enterprises and capture large proportions of national markets, particularly in the grocery sector (in the process turning many urban centres into ghost towns). These strategies have transformed grocery markets in a great many countries, and in many of them as few as 4 major chains account for 70% - 80% of all sales within national markets (in a few there are only 2 or 3 who share that same proportion of the total market).

Increasingly cheap groceries allow many of the poorer members of society to survive but there is of course a knock-on effect. As these chains have grown they have wiped out many small retailers, generating more unemployment and therefore exacerbating the original problem of poverty. At the same time, by putting pressure on suppliers to lower prices and by demanding economies of scale from their suppliers, they have pressurised the latter into shedding labour and reducing wages, again adding to the original problems of low pay, precariousness and unemployment.

A second solution was the provision of easy credit. We noted at the beginning of this paper that in the 1970s bank managers would carefully assess the capacity of creditors to repay loans. This is clearly no longer case and has not been for a considerable period of time. In fact quite the reverse is the case. A great many bank workers at junior levels underwent a change in pay structures in the 1990s. Their pay and conditions were frozen or even lowered in some banks but they could restore or exceed previous pay levels by taking advantage of a number of incentive schemes. If they could persuade customers to take out loans, whether to buy a house, a car or to invest in their businesses, or simply to pay for a much-needed holiday, then they
would receive a bonus. In some banks, workers had to meet lending targets and failure to meet these could lead to their dismissal. Typically they were not required to undertake any serious assessment of the customer’s ability to repay. Peter Kay (in the book referenced above) cites extreme examples of this kind of lending in the US. Not only were there no checks on the ability of lenders to service debts but in the case of mortgage lending there was often almost no assessment of the value or condition of properties being purchased.

A naïve observer might ask how banks and other lenders could be so stupid as to lend to people who had no capacity to service debts, as in the now famous cases of ‘sub-prime loans’ but this would be to disregard the sophistication of the financial sector. Sub-prime loans were packaged up with loans which were known to be sound, to form a variety of financial derivatives. Some loans would obviously fail but this could be reflected by the interest rates demanded overall. Other loans wrapped up in the same package were known to be sound (as they had been taken out by borrowers who had a track record of servicing their debts). These packages were sold to other financial institutions, which in turn took out what were effectively insurance policies, such as Collateral Debt Obligations. These in turn were insured, and then reinsured and reinsured again, by a web of financial institutions, so that the range of complex derivatives would mean that any single failure would be covered essentially by the survival of the whole network of financial instruments. Although traders were often unable to understand what they were buying (as the terms of packages sometimes covered up to a thousand pages of legal jargon) the packages had been judged to be sound by econometricists, using complex formulae calculated by computers. Many economists themselves were unable to relate to the complex maths involved however, and financial institutions employed young physics graduates, fresh from university, who had experience with the kind of advance calculus involved in such specialisms as quantum mechanics. Typically these new recruits knew nothing about economics or finance but they were very good at writing algorithms for computers. With this level of mathematical sophistication, expertise and computing power, clearly nothing could go wrong…

SECTION 2: WHERE ARE WE NOW?

2008 – the House of Cards comes tumbling down!

A few individuals who had held quite responsible positions in the great trading houses realised that the entire financial system was deeply flawed, that it was built on foundations of bad debt, that the complex system of derivatives built over these foundations meant that almost all aspects of the economy were implicated in a web of mutual obligations and that the whole system could collapse at any moment once a single brick at the base of the tower of debt was removed. Extraordinarily those who tried to warn their senior managers were mostly told that they had lost their grip and were summarily relieved of their duties.

As long as everyone believed in the system, as long as everyone followed the herd, the bubble of profits grew and grew but, like all bubbles, it would inevitably burst. The first bank run hit Britain’s Northern Rock in 2007. Deposits in the bank were immediately guaranteed by the British government and the bank run was contained. Shortly afterwards the much more significant US investment bank, Bear Stearns, had to be bailed out by the US taxpayer. The US Fed’s Chairman Ben Bernanke (yes that Ben Bernanke, disciple of Ayn Rand – remember him?) and New York Fed chief Timothy Geithner struggled to contain the contagion by printing as much new money as it took to replace the private money which was melting into thin air, in a desperate attempt to keep the banks afloat. Private debt which could never be repaid was being turned into public debt. They allowed only one major financial institution, Lehman Brothers, to collapse in September 2008, little more than a symbolic gesture that things had to change (which in fact they hardly did ultimately).

Yanis Varoufakis describes what follows in his ‘And the Weak Suffer What They Must?’ (p154, Vintage 2016):

‘Wall Street’s troubles instantly infected the City of London, and the Anglosphere went from financial supremacy to global basket case. Officials in Brussels, Paris and Berlin rejoiced, confident that the Anglos, who had been lecturing them on the flimsiness of Europe’s monetary union and social market model, had got their come-uppance. Until, that is, they realised that German and French banks were in a state worse than Lehman, with their asset books weighed down with US-sourced derivatives that had lost 99% of their value.

The German federal government set aside €500 billion of credits and transfers to save German bankers. Similar action was taken in France where the top four financial institutions faced immediate obliteration.’
Threatened by unsound derivatives trading, hardly had the collapse of the banks been averted when a new threat emerged. Loans made by German, and to a lesser extent French, banks to the peripheral deficit regions of the Eurozone threatened to bankrupt Ireland, Spain and Greece. If these countries’ banks collapsed, their governments would not be able to afford to rescue them. Having just asked their parliaments to authorise the transfer of hundreds of billions of Euros to their own banks (meaning that the governments were effectively transferring the private debt of banks to their own nations’ taxpayers), the German and French governments felt unable to ask their parliaments to take on the debts of Irish, Spanish and Greek banks as well. However these countries were also part of the Eurozone (as of course were also Portugal and Italy which were also looking compromised) and confidence in the Euro could not be allowed to collapse. Whereas the US and the UK could create new money (‘quantitative easing’ as it was euphemistically termed) the central banks of Eurozone nations had no power to issue Euros and the ECB (European Central Bank) was disallowed under the terms of the Maastricht Treaty from lending either to member-state governments or to insolvent banks.

What Bernard Connolly had called, in his book of the same name, ‘The Rotten Heart of Europe’ (Faber and Faber, 1995), was being laid bare for all to see. Connolly was head of the Commission unit responsible for monitoring and servicing the European Exchange Rate Mechanism and was therefore well-placed to describe the way in which the foundations for launching the Euro were established. In his book he documented the secret deals, the breaking of rules and the deliberate distortions of financial reporting which made the Eurozone possible. He subtitled his work The Dirty War for Europe’s Money.

The Aftermath to the Crisis

The way the financial crisis was handled, and the way its aftermath has unfolded up until the present day, raise fundamental questions about the motivations of the economic, social and political elites which rule us, whether we be citizens of the USA, the UK, any of the Eurozone countries or indeed citizens of almost any country in the world. These questions in turn have implications for democracy itself. Does democracy mean anything anymore or has it become little more than an elaborate confidence trick, a cloak which allows a small minority to grab ever larger swathes of the world’s resources without a care for either our collective future or the future of our planet itself?

To the proverbial ‘man in the street’ it looks as though our élites have mostly come through the crisis even richer and more comfortable than before. While élites apparently continue to flourish, the vast majority are offered only a vista of indefinite austerity and a future in which our descendants must struggle ever harder to get the bare necessities of life.

And when the people are allowed the opportunity to vote, the reaction of many appears to amount to little more than NO!!! No to the Swamp (Trump beats Hillary Clinton in the US); No to the EU (‘give us our country back’ in the UK); No to Spain (Catalonia); No to immigrants (Hungary)…and on and on. And yet, as Naomi Klein says in her 2017 book, reacting to what she calls the ‘new shock politics’ of President Trump and others: ‘NO is not enough’ (Allen Lane, 2017).

What happened to ‘the cradle of democracy’, Greece, in the aftermath of the 2008 crisis illustrates how élites at the centre of power in Europe remained focused on the interests of their closest allies and their national interests, while disregarding the interests of the least powerful, particularly those of the ordinary citizens in the peripheral parts of the Eurozone.

The Case of Greece

In Yanis Varoufakis’s book (referenced above) which is subtitled ‘Europe, Austerity and the Threat to Global Stability’, the author examines the history behind the creation of the Eurozone, the 2008 crash and in particular the way in which European leaders, notably German and French financial and political leaders, handled its aftermath.

Varoufakis, as is well known, temporarily became the Greek Finance Minister at the height of his country’s debt crisis (his main professional career however has been as an economist and not as a politician). Like Bernard Connolly, he was, during his period of political office, directly involved in key meetings - knew personally the most powerful figures - and is similarly well-placed to describe the way that the EU works outside the public spotlight. Although Connolly (without stating this explicitly) appears to be politically to the right, Varoufakis explicitly states that his sympathies lie to the left. In spite of their different political stances, their accounts of the process which led up to the creation of the Eurozone and of the ‘democratic deficit’
which lies at the heart of the European project, have remarkable similarities (though Connolly’s account stops at 1995 before the Euro was actually launched).

It is no secret that the original European Coal and Steel Community (forerunner of the European Economic Community which in turn became the European Union) was established with the deliberate intention of preventing France and Germany from going to war yet again. It is also no secret that the German-French partnership remains the axis around which Europe turns today (a partnership which is being confirmed yet again at the time of writing by Angela Merkel’s recent statement that her new coalition government will work closely with France’s new president Emmanuel Macron to ‘reform and strengthen the EU’).

While the political relationship between the two countries is always portrayed as one involving friendship and cooperation, this friendship masks some very real conflicts of interest. Key to this conflict is France’s cultural commitment to a social model and Germany’s obsession with the avoidance of inflation (inherited from its own historical experience of hyperinflation before Hitler rose to power). Key also is the sense felt by a succession of French presidents, that Germany’s economic and industrial power has often left France feeling like the more junior partner; and key to this in turn has been the independence of the German Bundesbank which has jealously guarded its freedom to act in financial matters without political ‘interference’ by German politicians (let alone from French politicians!).

When it came to the creation of the Eurozone, the German Bundesbank was resistant to allowing too many powers to be given to the proposed European Central Bank, the institution to be responsible for issuing Euros and overseeing the new currency.

It was widely understood by many, before the Euro was launched, that it was inadvisable for national economies as diverse of those of Germany and the Mediterranean periphery (and Ireland) to share a single currency (indeed the difficulties of continuously having to ignore the rules of the Exchange Rate Mechanism in order to make this transitional arrangement work had already made this clear). However the prospect was highly seductive, as a shared currency would remove at a stroke all the costs and difficulties involved in converting between currencies as goods, services and capital moved between nations within the Single Market. However fundamental differences between nations meant that the Euro would have different impacts on different countries.

For Germany the Euro was highly favourable. The inclusion of the peripheral countries made the value of the Euro lower than the German DM would have been, meaning that German industry could sell internationally at cheaper prices than would have been possible had DMs remained the German currency. The greatest advantage to German producers occurred within the new Eurozone itself however. In particular the price of German products were kept artificially low in the peripheral countries of the Eurozone since local currencies like the Drachma or the Peseta could not fall in value when Greece or Spain increased their buying from Germany, without simultaneously selling products back to it at an equivalent rate. In short Germany (and to a lesser extent France) developed large surpluses while the peripheries developed large deficits.

As surpluses grew in Germany and France, interest rates in those countries fell. Meanwhile in the peripheral countries, growing deficits meant that interest rates grew. German and French banks found that they could maximise their profits by promoting lending to the peripheral countries (to their governments, their banks, their industries and private borrowers) and bank staff were sent there to lend money, regardless of the likely ability of borrowers to service debts. As Varoufakis was told by one disconsolate banker, (who had spent most of his career carefully assessing the soundness of prospective lenders in countries like Greece) - after the Euro: “I lived the life of a predator lender. Greece was our sub-prime market. Good luck.”

All this continued fairly unnoticed until the credit crunch kicked in. German and French banks, already hit by their unwise investments in US derivatives, needed their money back from the peripheral countries if they were to avoid bankruptcy.

If they could not get their money back from Greece, Ireland and Spain, they could either declare bankruptcy or they would have to be bailed out by the European Central Bank, as had happened in the UK or the US, when their governments authorised their central banks to embark on programmes of ‘quantitative easing’. If the ECB had adopted a similar policy, it would have transferred the debt from the private Eurozone banks to the Eurozone’s national debt and therefore to the Eurozone’s tax payers. The problem was however that there was no country called ‘Eurozone’, there was no Eurozone government who could make that decision on behalf of its tax payers and there were no Eurozone tax payers! The Eurozone was merely a collection of nations, each of which had its own Central Bank and its own democratically elected government and the rules of the ECB specifically disallowed it from supporting either bankrupt banks or bankrupt governments.
As Varoufakis put it: “[The EU] had created a monetary union featuring states without a central bank to back them at a time of global crisis and a European Central Bank without a state watching its back. The Maastricht rules were impossible to abide by”. (p158, op.cit)

As always, the EU found a ‘fudge’. They made the Greek government (and later a series of other peripheral nations’ governments) guarantee a series of IOUs. These were actually worthless as the Greek government was already effectively bankrupt but the subterfuge would allow the ECB to issue Euros to prop up the threatened banks, thus saving the French and German banks from collapsing and transferring the cost of all this to the Greek state and its people. Whenever the Greek IOUs ran out, they would be re-issued but only on condition that Greece cut its spending by imposing ever more onerous austerity on its own people. As the Greek people faced the destruction of their country, with no prospect of escape and no power to act, the fascist Golden Dawn party grew in strength (‘And the Weak Suffer What They Must’). While the solidarity of France and Germany remained intact, for Greece and many other peripheral countries, the cherished principle of EU solidarity began to look very tarnished.

Austerity and the End of Welfare States

Throughout the developed world ‘austerity’ came to be seen as the only solution. The globalised financial system was so interlinked that governments had been forced to prop up the banks. If more than a handful of banks had been allowed to fail the contagion would have spread and the entire global economy would have crashed. However bailing out the banks had meant that governments had transferred private debt onto the accounts of governments, in some cases doubling or tripling the already inflated debts of nations, many of which like the US and the UK had already been living on Chinese (and Saudi, and Russian and Norwegian…..) credit for years. Now it was essential to cut the current account deficits of these debtor nations and to start reducing national debts.

There are only a few routes out of national debt. Inflation (which hits the poor hard and the rich a little), devaluation (but this works only if the debt is in the country’s own national currency - currencies which are freely traded like the US dollar, the UK pound sterling and the Euro can only be devalued by the workings of currency markets); tax rises (believed by neo-liberals to be counterproductive as higher taxes are claimed to lessen incentives to invest and grow); growth (which had fallen near to zero in most developed countries) or budget cuts. For most countries, as in Greece, the only immediate option was budget cuts and that mostly implied austerity. Unemployment benefits, disablement benefits, social care, publically-funded health services all needed to be cut, inevitably hitting the already precarious lives of many of the poorer sections of society but leaving the wealthy mostly unaffected.

While the meagre benefits of the most desperate members of society are being squeezed, something entirely different is happening at the other end of the pay scale. The dominant economic narrative claims that the best way out of austerity is through growth. If an economy has healthy growth, debts however large will eventually become insignificant; but to have healthy growth business needs to employ the very best people at the top. Top executives are highly skilled and the market scarcity of these immensely talented people means inevitably that they have to be paid the highest possible salaries or they will leave the country and be snapped up by competitors. In the UK executive pay has tripled since the 2008 banking crisis.

Is this because the companies they run are doing so well or because they are doing a particularly good job? Apparently not... According to Peter Fleming (p66, The Death of Homo Economicus , Pluto Press, 2017): “For example, BP made a $6.4 billion loss in 2015, suffered 7000 job cuts and saw its shareholder value (and dividend) decrease by 23 per cent. However, CEO Bob Dudley’s salary increased 20 per cent in 2015 to £14 million.”

Reviewing the current state of the USA and Britain, Peter Fleming refers to a new type of capitalism guided by what he calls ‘Wreckage Economics’. On p44 (ibid) he explains:

“The emphasis is on capture or enclosure of community-based resources and economic activities, since the public sphere is now the last pool of value that hasn’t been sapped dry by the corporate takeover of society over the last 20 years.”

Later he continues: “This parasitical logic of big business has only intensified after the economic crash, especially given [that] corporate investment in infrastructure and R&D halted almost overnight. The increasing reliance on unearned income – either from simple rent on assets or riding on the back of the public sphere – now typifies this present smash-and-grab era of capitalism.”
While the fruits of neo-liberal thinking are there for all of us to see, while indeed it is hard to understand how anyone can fail to see that everything appears to be falling apart around us, the hegemonic narrative appears stuck, like an old record, still calling for more deregulation, more privatisation, more austerity. Are we all sleep walking into our own destruction?

**The New Shock Politics**

Apparently not, according to Naomi Klein. Far from this wreckage economics being just bad luck, poor management, lack of imagination, blindness or pure stupidity, she suggests that it is now becoming deliberate policy – and the puppet master in chief of all this is now, she infers, none other than the new President of the US Donald Trump!

Furthermore, she suggests that it is not just the economy which is being destroyed but also democracy. Neo-liberal economists have almost invariably linked the idea of economic freedom to political freedom, seeing these two as more or less different sides of the same coin of liberty. One of Milton Friedman's most famous books, *Capitalism and Freedom*, makes the link explicit and we have already noted above that many of the thinkers and writers behind the neo-liberal agenda saw themselves as fighters for freedom, a belief which is easily understandable when one takes into account the early life experiences of those of them who had fled from authoritarian societies.

With irritating regularity however, the populations which were granted the gift of freedom by the neo-liberal agenda, often supported by the might of the US's military-industrial complex, have frequently failed to appreciate what they have been offered. Above all the poor have resisted, unconvinced that what looked like freedom for the wealthy and powerful would translate into freedom for the masses, except perhaps for their inviolate human right to go hungry.

Klein's most recent book, "*NO is not enough*" (Allen Lane, 2017) was written rapidly with very little research, the author feeling that someone had to react immediately to the election of President Trump. However she makes use of the detailed research she carried out when she wrote a series of books, including 'The Shock Doctrine' to recapitulate her own intellectual history as background to evaluating the significance of Trump's success and as preparation for suggesting strategies for future civil society action, aimed at transcending the setbacks which this success appears to represent for social and environmental movements.

Klein documents how conflicts over resource use have been intensified by US politicians, allowing them to declare states of disaster, which in turn enabled them to privatise resources, while normal democratic checks and balances were suspended. Finally she predicts that President Trump will use his unusual approach to government to create disorder, providing yet more opportunities for his hyper-wealthy allies to grab resources and push through cherished neo-liberal agendas.

**SECTION 3: WHERE ARE WE GOING?**

**After Capitalism?**

Although the current status quo might be interpreted as the triumph of neo-liberalism and capitalism, it represents an odd kind of triumph. According to liberal theorists, individuals acting in their own self-interest in a free market should generate an ordered society in which entrepreneurs invest in innovative productive processes and develop the means to meet all the needs of participating individuals.

What we seem to have today is a different kind of set up in which some individuals at the bottom of the hierarchy have very few choices available to them while others, born into the right kind of families at the right time, tend to get catapulted into powerful and lucrative positions. While some in these positions doubtless do innovate and help to provide the means to meet people’s needs, an increasing number live on what economists tend to refer to as ‘rents’, whether through the ownership of capital assets or through establishing monopolistic control over essential services (or both). Could it be that we are moving into some kind of post-capitalist feudal system?

Essential to the liberal model is also the acceptance of the possibility of failure. If, for example, a financial institution consistently makes bad choices it should eventually be allowed to go bankrupt but the reality is
that currently such institutions are considered too big to fail and governments have to step in to prop them up. Peter Fleming argues (and he is not alone in doing so) that we seem to have a new pattern in which the very rich live in a socialist world (where the state will provide for them with public money when things go wrong) while the poor are exposed to the classic condition of ‘Homo Economicus’, offering his or her labour on a fluid and open market as an isolated individual, increasingly with no safety net to help when things go wrong (illness, misfortune or old age).

Whereas in the 1960s and 70s it was the poorer end of the social hierarchy who felt they were entitled to help (much to the disapproval of many right-wing thinkers), it now seems to be the rich who show a similar sense of entitlement (as in the case of the CEOs who seem to believe they deserve to be paid 300 times more than the people they manage). This sense of entitlement of today's wealthy is oddly reminiscent of the attitudes of European élites in the Belle Époque shortly before the continent embarked on the First World War (the ‘war to end all wars’…)

The Information Technology Revolution and beyond

As Paul Mason points out in his “PostCapitalism: A Guide to Our Future” (Allen Lane, 2015) the 2008 crash appears to have marked the end of capitalism’s fourth long economic cycle. Normally we would expect a new technological paradigm to emerge and we would expect this to attract loose capital (increasingly concentrated in ever fewer hands as Thomas Picketty has demonstrated). This would be invested in new productive infrastructure, which in turn would form the basis for a new period of economic growth. The new activity would lead to more jobs, higher employment, more pay and therefore more capacity to consume (in other words more demand for the products of the new productive processes). In short, we could expect a gradual recovery of the economy, a recovery which would accelerate with time, which would boom and then finally collapse again in about 50 years time. However it is possible that the new cycle which appears to be emerging now will be quite different from previous ones.

Paul Mason suggests that a fifth cycle began in the 1990s overlapping with the previous fourth cycle (which had been associated with such technologies as long-cycle transistors, mass consumer goods, factory automation, nuclear power and automatic calculation). The technological paradigm which is emerging now (associated with the fifth cycle) is one which, centred as it is on information technology, smart systems, increasing automation, 3D printers, nanotechnology and robotics, threatens to make human labour redundant at an unprecedented speed. Driverless vehicles, superior voice recognition technology, unmanned drones and a host of other technologies are no longer science fiction but seem to be on the verge of replacing whole sectors of the economy with human-labour-free production processes (in the examples cited: transport and delivery systems, call centres and defence systems). Even in agriculture, Harper Adams University has just announced the first ever successful year of cereal production in its so-called ‘Hands Free Hectare’. Harper Adams is now moving on to design lightweight, highly mobile, intelligent machines for such labour intensive work as fruit picking and vegetable harvesting. It is not only physical labour which is being superseded. Professional jobs are also under threat. In Glasgow a pharmacy has been developed in which intelligent machines make up prescriptions with much greater accuracy and speed than human pharmacists can achieve (and machines don’t need coffee breaks). Furthermore the design of new computers, algorithms and smart systems themselves can already be undertaken more efficiently by machines than by people, meaning that even as IT develops it is rendering IT workers themselves increasingly redundant.

This raises the question of how people will earn the money to pay for the products of ever more efficient processes of production as fewer and fewer people need to be employed in an ever widening range of industries, from heavy industry through to the service economy. Mason also points out that the real value of innovation in this new wave frequently lies not so much in physical things as in the algorithms which instruct them to perform particular productive tasks and that these algorithms can be copied and distributed all over the globe instantly at almost zero marginal cost. The only way that innovations can yield income is by making them artificially expensive through patent systems (a form of ‘rentism’), which are increasingly difficult to defend in the face of pirating, hacking, sharing, illegal copying etc. Creative industries like music and film production have already been under threat for some time as users copy music tracks and DVDs for their friends but the same principle applies to the development of software for controlling 3D printers, robotic automated production lines and other such systems.

Mason suggests that this fifth wave has stalled for the two reasons mentioned above: firstly fewer people need to be employed (reducing the capacity of people to purchase products) and secondly, it is increasingly difficult to get people to pay for new products when they can get them free through informal networks.

The Ecological Limits of Growth
As the capacity of industrial systems to produce ever more with ever less human labour accelerates, we are at the same time coming up against the ecological limits of growth. On the one hand we have the promise of infinite abundance, as machines become able to produce more, faster, quicker, using less energy and materials without most of us having to lift a finger (whilst becoming increasingly reliant on a dwindling population of very skilled engineers and technicians). On the other hand we face scarcity, as energy and materials become less abundant and pollution levels (crucially including greenhouse gases) increase.

The increasing use of automated systems combined with the apparent immanence of ecological catastrophe has led Peter Frase in his ‘Four Futures: Life after Capitalism’ to posit four possible outcomes (‘ideal typical’ outcomes in Weberian terms), based on an ‘x’ axis of Abundance vs Scarcity and a ‘y’ axis of Equality vs Hierarchy, as expressed in the following diagram:

<table>
<thead>
<tr>
<th>Abundance</th>
<th>Scarcity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equality</td>
<td>Communism Socialism</td>
</tr>
<tr>
<td>Hierarchy</td>
<td>Rentism Exterminism</td>
</tr>
</tbody>
</table>

In Max Weber’s methodology ideal types are not expected to actually exist. They are purified and simplified versions of reality. Real live examples are almost invariably mucky mixtures of several ideal types but the ideal types can help us think about what is actually happening. All four of the possible outcomes exist somewhere today in some form.

In the light of the brief overview of developments from the end of the World War 2 to the present day offered above, there would currently appear to be a real danger that we are moving towards the bottom right hand quadrant. This would be one in which the 1% who are increasingly enriching themselves at the expense of the 99% realise that they no longer need the 99%, since technology can increasingly provide them with the lifestyles they want. In this scenario the rich could withdraw into protected enclaves and leave the rest of us to cope with an increasingly hostile environment.

We, in contrast, would probably want (accepting that, in spite of technological advance, scarcity almost certainly will become a problem and indeed already is for many) to move things into the top right hand quadrant, which might correspond to some kind of eco-socialism. Frase’s diagram is of course not sacrosanct and we might prefer to think of the ‘y’ axis more in terms of Democracy vs Autocracy. However, in reality ‘the devil is in the detail’ and when it comes to considering who will or could get access to what in the future, it matters precisely what we are referring to. For example films, music, algorithms for running 3D printers and a great many other products, could in principle be abundant and could easily be shared in a ‘communistic’ way (and such sharing would be greatly encouraged if universal basic annual incomes were introduced, making work something which people would do out of enthusiasm rather than to meet basic needs – such systems have already been trialled in various countries).

However there will always be people who want to keep such information (which is what these all boil down to in digital systems) for themselves as a source of rent while there are other people who would like to earn better incomes by helping to police the use of such information, moving this type of capital down from the top left to the bottom left of the diagram. (It should also be born in mind that there are a range of other products, like drugs, which are information rich, which do cost money to synthesise but which could be at least vastly reduced in price if patent systems were relaxed.)

Energy is another kind of capital which could be scarce or abundant, depending on how it is obtained. As long as we depend on fossil fuels, it is a scarce resource. It could be allocated equitably but in the current political and economic climate it is almost certainly likely to be taken, controlled or sold by powerful financial interests. Patterns of use for this type of capital are therefore likely to involve either rentism or exterminism in Frase’s diagram. Renewable energy on the other hand is potentially abundant, once infrastructure is developed. Potentially this kind of energy could end up in the top left communistic part of the diagram, although in the short term it is more likely to end up in the bottom left quadrant with private companies extracting rents, well beyond the minimum necessary to maintain systems. Territories or communities could potentially invest local taxes in collective schemes moving it up to the left. Reducing rents of all kinds for members of communities potentially frees people up from the struggle for survival (a struggle which is exacerbated not only by actual shortages of resources but also by extraction of unnecessary rents by financial interests). Energy use (beyond our own biological energies) is virtually unavoidable, and how
communities and individuals handle this form of capital will have important implications for the quality of people’s lives.

Food is also clearly essential. Rather than going on to explore this complex area here, it is perhaps better to point out that there is a need for collective reflection.

The examples touched on above show that we might potentially have a viable framework for working out what is feasible and going on to plan precise interventions. That framework would involve exploring different types of capital and seeing what could be done, and by whom, to move their use and control away from the potentially divisive areas in the bottom half of the diagram and towards the more cooperative and equitable areas at the top.

However, it needs to be borne in mind that the financialisation of so much of the world’s resources, and the ownership of so much by so few, means that it will be a challenge to find ways of regaining control of some assets which have been seized by wealthy minorities, some of which appear to be happy to use brutal methods to protect their interests. A related key need, therefore, is to find ways of capturing the imagination of those sectors of the population who are convinced by current hegemonic narratives, particularly those who currently support the right.

As Naomi Klein points out, ‘No is not enough’. She and her partner Avi Lewis have helped to create ‘The Leap Manifesto’ (available online) so that instead of just saying ‘No’ people have the opportunity to say ‘Yes to the Yes’. There is much in this manifesto which points to viable ways of nudging current developments away from the bottom and towards the top right (or even sometimes left) part of Frase’s diagram and there is clearly more that could be done and needs to be done – and possibilities which are yet to be envisioned.

Rethinking Value Chains and Sustainability

This paper began by looking at the Brundtland report and its call to develop sustainable systems. It is no exaggeration to say that, in spite of considerable efforts by CSOs, very little progress has been made in the last thirty years.

In the case of banana value chains, to take one example, environmental pollution is still nearly as much of a problem as it was in 1986 and wage levels for workers remain, in most cases, well below living wages; in some cases, they have even declined in real terms since the 1970s.

In spite of CSOs efforts to redress problems like these, industry players continuously come back to financial and economic constraints, which they allege make change impossible. Environmentally friendly systems of production are too expensive and workers cannot be paid adequately when retailers are locked in price wars.

All of this could be changed if stronger regulation forced enterprises to compete with a framework of higher universal minimal standards. But enterprises are fiercely resistant to regulation and governments remain in thrall to the idea that business needs freedom if economies are to thrive.

While all this is true, and while efforts to develop sustainability may be continuously blocked by industry's appeal to economic and financial constraints, the economy and in particular finance have become hugely dysfunctional in recent years.

It is not only value chains themselves which are impacted by such dysfunctionality; it is also the territories, whose assets and basic services are increasingly seized by the workings of ‘wreckage economics’, leaving their citizens tied in to an unnecessary struggle for survival when they could be innovating and finding more creative and sustainable ways of meeting their individual and collective needs.

We need a new discourse to allow sustainability constraints to be the axis around which our thinking about value chains revolve; instead of such thinking being chained to the requirements of broken and increasingly irrational economic imperatives. We need to escape from a hegemonic discourse, which allows turbulent financial behaviours to destroy our collective futures.

To do this we need the help of economists who can rethink the whole approach to economics itself. Without such rethinking, we and our planet will remain the playthings of the arbitrary workings of market and financial institutions - institutions which are disconnected from the concrete realities of most people’s everyday life and oriented primarily to meeting the needs of a tiny global élite.