

BOW

February 09

Capitalism

R. J. P.

Top Marks, Marx?

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Editor's Note



It all seemed to be going so well. They said greed was good, and the economy was fueled by an ever more complex and heated game of pass-the parcel of debt... and then the music stopped and the bastions of capitalism began to fall like dominoes.

Back in the heady days of summer, Crossbow highlighted the dangers of "Binge Britain". The brutal hangover has arrived.

Right at the beginning it seemed distant to most of us. We'd watch monumentally bad news on TV, the collapse of another major bank, with the same sensation as you get when it gets to the tragic or dramatic climax in movies and they cut the sound... It all seemed a bit surreal and it was easier to talk about the crisis in terms of concepts and theories.

Then New Year. The spending splurge of Christmas is over. There are no more excuses to kick-start the economy by splashing out and reality begins to hit. Everyone is either directly hit, or knows someone whose job is under threat or has been lost; shutters are going up on businesses on high streets across the country.

Things are bad, and no one knows where the bottom of this pit

really lies. Gordon Brown seems to be in a panic induced state of denial (which does no one's confidence any good) but at the same time seized by some daemonic urge to bring the country down with him by spending all the public money he possibly can. "If I'm not going to have a future" he seems to be saying "you're not going to either." He appears intent on building a New Labour Nightmare that will last long after New Labour is dead.

And inevitably, amongst the carnage of the economic collapse, people are looking for someone to blame. "Banker" has become an expletive; Gordon Brown must take responsibility for his de-regulatory measures of the city and political appointments like Crosby; society must ask itself what it has been doing this last ten years of binge. Ultimately, we need to take a long hard look at where it all went wrong. This edition asks, is capitalism dead? Has it taken us back to the bad old days of the 1970s? Sunny Hundal, blogger for Liberal Conspiracy, says RIP capitalism and about time. Peter Cuthbertson writes in defense of capitalism while Michael Fallon MP plants the blame at the door of Gordon Brown. Ryan Shorthouse and Dolan Cummings argue that capitalism itself has opened up a new kind of class war:

Challenges facing us as individuals and as a society are huge. There is the struggle of individuals to survive the economic storm, and there is the challenge for us all – from individual to economic guru- to emerge from this with a coherent understanding of where we went wrong, and how to build our new system.

If the destructive climax of these boom decades has taught us anything, it is to question the accepted truths. So in the spirit of asking the unthinkable, Crossbow poses the question – "Full marks, Marx?"

Charlotte Leslie - Editor, Crossbow Magazine
PPC, Bristol North West

The Bow Group - Council 2009

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The Death of Capitalism

by Sunny Hundal



If capitalism isn't dead then someone should certainly strangle it and put it out of its misery.

And once that is done, it would be nice to have a sane economy back.

The precipitous decline of financial companies and the knock-on effect on other industries has been described by many as a "once in a century" event. But it is clear that in many ways, capitalism and Milton Friedman's free market model, which had become prominent since the late 70s, is now beating a hasty retreat.

With the myth of wealth creation over the past decade now exposed as an asset bubble with a heavy price, the era of huge bonuses may be over forever.

Laissez-faire, as John Maynard Keynes famously said, could be at an end. Again. Here are some reasons why. For one, government intervention as a lender of last resort has become fashionable again to the point where even analysts on the American network CNBC, a haven for free-marketeers, have opined that the government may have to nationalise large parts of the financial sector to ensure it doesn't go under.

With government intervention and rescue of banks comes added regulation. Many blame the hands-off approach in the US and UK that led to companies developing lax lending standards, but the problem here is two-fold.

Not only has it become painfully obvious that governments have to maintain tight regulation in sectors including finance, but that those companies failed overwhelmingly to adequately assess their own risks and financial models.

As Alan Greenspan, former Chairman of the US Federal Reserve, said recently, "those of us who have looked to the self-interest of lending institutions to protect shareholder's equity [myself especially] are in a state of shocked disbelief."

That isn't just a crisis amongst a few banks, but a crisis of confidence in a system that assumed the brightest and best-paid examples of free market capitalism would uphold its basic principles.

The last few months have also seen an outpouring of anger towards the rich bankers that are now desperately seeking bailouts. That also makes it much harder for politicians to hold up 'wealth-creators' with the reverence they did until recently.

Not only do tax-loopholes look increasingly unjustifiable, but the awe that greeted the multi-million bonuses look like a thing of the past.

To take one example, Merrill Lynch had record earnings in 2006 of \$7.5 billion, with about 5-6 billion handed out that year in bonuses. Mr Dow Kim, who managed the company's mortgage business, was awarded \$35 million in bonuses that year in addition to his nominal \$350,000 salary. The compensation system, as New York Times pointed out, "turned out to be a mirage."

With the myth of wealth creation over the past decade now exposed as an asset bubble with a heavy price, the era of huge bonuses may be over forever.

But there's always the danger in predicting

the end of capitalism that any short-term trends vanish in a few years and our economy reverts back to as it was.

What's important now is which arguments win the ideological battle.

One prominent line of argument ventures that the crisis has demonstrated the importance of government intervention and the Federal Reserve in bringing stability to financial markets. The Fed was most famously attacked by Milton Friedman as an unnecessary intervention when banks were perfectly capable of taking care of their own interests and that of the economy. When it came to the crunch, the most ideologically right-wing government for decades was forced to interfere in the economy and bring reassurance.

“The capitalism of preceding decades was more corporatism than free market laissez-faire. It was an economy biased towards big corporations that encouraged oligopolies, abnormal profits, excessive risk-taking and unfair competitive practices.”

Concurrently, it is also arguable that just as Keynesian went out of fashion because of stagflation, the credit crunch has brought about circumstances that have rendered monetarism useless. Banks across the world have lowered interest rates to near zero, and yet despite the cheap supply of money hasn't yet persuaded banks to lend and for the economy to recover.

Related to this is the second argument; that over the past decade America has imported cheap capital and cheap goods, but has little to show for it other than a consumption fuelled boom that has come to an abrupt end.

President Barack Obama's recently outlined plan to invest hundreds of billions to upgrade America's technology, environmental and transport infrastructure, while creating jobs, kills two birds with one stone.

If the *New Deal* plan works well, then not only will the traditional American aversion to government investment become severely dampened, but it would also strengthen the argument that the government can be a force for good in the economy.

Editorials from Newsweek and the Washington Post have said the crisis heralds an end of 'American style capitalism' or 'The End of Libertarianism', but classical libertarian economists say the opposite is true. As a Reason magazine editorial said in September 2008, "The free market has nothing to do

with the current crisis." The final ideological argument is that the capitalism of preceding decades was more corporatism than free market *laissez-faire*. It was an economy biased towards big corporations that encouraged oligopolies, abnormal profits, excessive risk-taking and unfair competitive practices.

In this context, the fall of major corporations such as General Motors and Citigroup, both of which may be broken up, is a blessing in disguise for true free marketers, who would like to see less government support for corporatism and oligopolies.

Much of how these arguments now develop depends not only on events but, as I said earlier, on how successful government efforts deal with the crisis are. It is also likely that financial markets

are unlikely to give receive such support and incentives in the past, or be seen so readily as engines of growth.

Capitalism then, in the form it has developed over the last generation, is now dead. A new era will rise from the ashes but its too early to say what that will look like. In a generation, as the Indian and Chinese economies become dominant, the models will have to change again. Call it the creative destruction of capitalism itself.

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<http://www.liberalconspiracy.org>

He also contributes regularly to the Guardian and other newspapers on media and race related issues.

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Is nudging the answer?

Nicholas Hillman reviews Nudge by Cass Sunstein and Richard Thaler



The book *Nudge* is persuasive – up to a point. Helping guide people towards the right decisions, while not making those decisions for them, is important for public services and private companies. So what the authors term ‘choice architecture’ is vital. But this book is not as original as I had hoped.

As the text notes in its more candid moments, choice architecture is often unavoidable. For example, where food is placed in a cafeteria affects what we choose. And, in truth, the nudging idea is an old one – cigarette packs have carried health warnings for around 40 years. So the key question is: what does the best choice architecture look like?

The answer is provided by turning the word ‘Nudges’ into a rather laborious mnemonic: iNcentives; Understand mappings; Defaults; Give feedback; Expect error; Structure complex choices. Fortunately, there are also useful examples to bring the idea to life. User-friendly websites showing the majority of people support organ donation can dramatically improve donation rates. Sad faces on the utility bills of high-energy users can encourage them to use less.

So far, so good. But *Nudge* contains little groundbreaking research. It largely covers pre-published work by other people and by

the authors themselves. For example, Thaler has previously produced excellent work on auto-enrolment for pensions. This means putting people in pensions even when they have not actively chosen to join, but with an opt-out. Not only has Thaler’s work – which is recapped in a simplified form here – been published before, it has already contributed to policy changes in New Zealand and the UK.

A second problem with the book is the terminology. The word ‘nudge’ suggests a light push. But automatically removing money from people’s wages at source and investing it in the stock market via a pension plan is more than a nudge. It may be a sensible way to tackle the pensions crisis, and I wrote in favour of auto-enrolment in a recent Policy Exchange pamphlet. But even if arrangements like auto-enrolment and presumed consent for organ donation (which the book also recommends) are sensible, they are also rather heavy-handed. That is the reason why pension companies have tended to use the term ‘soft-compulsion’ rather than auto-enrolment.

“The word ‘nudge’ suggests a light push. But automatically removing money from people’s wages at source and investing it in the stock market via a pension plan is more than a nudge.”

In other areas, nudging is perhaps a better description of the various proposals. But here the ideas are less promising. The authors say the mortgage market could be improved if mortgage firms were forced to provide their prices in a comparable form. Then websites could spring up to compare the rates on offer. But the element of coercion is probably unnecessary and the book is behind the curve: price comparison websites already exist for various

complicated financial products, including mortgages.

Throughout the book, nudging is termed libertarian paternalism. This is a nice strapline. The phrase encapsulates ‘the politics of and’ – like eighteenth-century enlightened despotism or nineteenth-century liberal toryism, it combines two apparent opposites. But libertarian paternalism underestimates the job of policymakers. It implies all they need to do is marry libertarianism and paternalism on each issue. In reality, the specific proposals in *Nudge* sometimes stress libertarianism, as with energy saving and financial products, and sometimes paternalism, as on pensions and organ donation. It is difficult to disagree on principle with such evidence-based ideas. But whether they make up a wholly new way of looking at the world or ‘a real Third Way’, I rather doubt.

In the end, *Nudge* is as intellectually stimulating but also as frustrating as the other one-idea books that have emerged from the US in recent years. They include *The Tipping Point* (how small ideas become big ideas), *The Wisdom of Crowds* (groups are better than individuals), *The Paradox of Choice* (too much choice is counterproductive), *Super Crunchers* (lots of data aids decision-making) and *A Perfect Mess* (being messy can have advantages over being tidy). In all these books there is a sound idea struggling to get out, lots of clear examples and accessible language.

But all of them are too long and over-egg the pudding. They are really articles extended over hundreds of pages in order to promote academics. *Nudge* includes many interesting ideas and is definitely worth reading. But it does not really provide a whole new world-view to solve today’s problems. Just as before, there is no magic bullet.

Nicholas Hillman is Chief of Staff to David Willetts MP and a member of the Bow Group

Broken by class

by Ryan Shorthouse



Critics of David Cameron's belief that Britain is broken should take note. The recent economic meltdown has exposed that Britain is indeed broke, not just financially, but socially too. Britain is broken by class.

“The super-rich have sailed, yachted even, into the sunset, their attachment to the rest of society deteriorating over time.”

The gulf between the super-rich and those on modest and middle incomes has been brought into sharp focus. The City is in chaos yet the salaries of the directors of the top companies still rose by 11.5% in 2008. They live in a different world- still guzzling champagne and indulging in luxury goods- while financial hardship remains a worry to everyone

else. The designer label Burberry- which sells handbags at £11,000- reported a 13% rise in revenue for the latter part of last year. 3 million mere mortals, on the other hand, face the prospect of being out of work by the end of 2010, living on just £60 a week on jobseekers allowance.

Class tensions, simmering for so long, have intensified. Read the comments across the blogosphere: average earners blame the metropolitan elite for the worries they now face. George Osborne's popularity plummeted because he partied with Russian oligarchs. At the same time, the super-rich are so far apart from mainstream society that they can no longer get an accurate picture of what life is like for most households. Polly Toynbee asked top bankers what they thought the poverty line was. They said £22,000 a year. This is double the actual amount and, in reality, about the average median salary in the UK.

The super-rich have sailed, yachted even, into the sunset, their attachment to the rest of society deteriorating over time. Despite a massive rise in boardroom salaries over the past decade, charitable giving has fallen by a quarter as a percentage of gross national product since 1992. And tax evasion by the top earners is estimated at a massive £10 billion a year.

This is a new class that is detached from the rest of us, playing by its own rules and- despite admirable exceptions- putting two fingers up to its obligation of ensuring wealth creation benefits all.

What is even more concerning is that the divide between those at the bottom of the social heap and Middle Britain has become more pronounced, the two classes drifting further and further apart. Prole-bashing is increasingly popular, the word chav entering the dictionary in 2005 and the programme Little Britain- where viewers can laugh, mock, snarl

even, at the supposedly typical behaviour of those from our more deprived areas- the highlight of the TV viewing week. The think-tank IPPR have done some interesting work revealing the gradual hardening of attitudes towards benefit claimants - in the early 1980s, 50% of the British public agreed with redistribution to the less well-off. Now, it is just above 40%. Attitudes towards welfare are likely to become harder still during the recession as the cash-strapped middle-classes become resentful of state-handouts to supposedly do-nothing proles.

The distance between these two socio-economic groups has grown so wide people from the poorest homes find it increasingly difficult to jump out of poverty, social mobility disappointingly and shamefully stagnant. If you were born in the 1950's, it was much more likely that you would climb out of poverty than if you were born in the past few decades. Indifference towards the plight of the poor has grown, yet it is much harder for the poor to improve their socio-economic condition.

“Indifference towards the plight of the poor has grown, yet it is much harder for the poor to improve their socio-economic condition.”

The tension and division between the different classes has grown in these troubled times, leading to resentment and misunderstanding between all of them. The widening gulf between the different classes in Britain, the bridges that connect them burning, shows that our society is broken.

Ryan Shorthouse is Political Secretary of the Bow Group and Deputy Editor of CrossBow

The Centre Right's Current Regulatory Dilemma

by Paul Blanchard

Given the apparent all party consensus that currently appears to exist in calling for more financial regulation for the British banking sector and the centre right's liberal use of the word regulation in many recent policy speeches, is a retreat of centre right ideology on deregulated markets inevitable? Might there be still an acceptable ideological line that can be adopted and still might prove popular with the electorate at large?

Firstly, let's deal with the nomenclature issue here, what exactly do I mean by regulation?

My definition, and I suspect my definition is the same as that of Gordon Brown and the Labour party, is of a more verbose and prescriptive rules based system that is merely additive to the existing regulatory system. The same regulatory system that has so patently failed. I suspect it will mean more form filling and box ticking without actually getting to the heart of the problem, and thus a relevant solution. It will also add to banking business' cost base at a time when they are trying to fight for survival, by being forced to employ more non-productive compliance staff to pour over the new rules and implement bureaucratic processes.

The problem from my perspective at least, is that in the past regulators have gone into individual banks and looked at various risks on an individual firm basis, without taking into account the interdependencies of the risks they were running. Forms get filled in and boxes get ticked, job done right? Wrong!

Let's take an extreme example to make the point: If Bank A decides to lend half its capital base to Russia then this is OK. Aggressive perhaps, unwise perhaps, but not illegal, immoral or wrong. If one ignores the moral hazard argument for a moment, then this is at the risk of

shareholders of Bank A only. The regulator, assuming all capital ratios are met should have little to say. But let's say this exact trade is repeated now by all the top banks in the UK.

The nature of the risk on a Russian default has changed from an individual risk on Bank A and its shareholders only, to a systemic risk to capital for the entire British banking system. It is at this point, prior to any Russian default, a regulator should be able to recognise the unacceptable systemic risk to the whole of the UK banking system and then take pre-emptive action. It should step-in and then require the banks to reduce their individual risk to Russia across the board. Thus it is not more regulation that the UK Banking industry requires, it is more effective supervision and an understanding of risk correlation from a regulatory body that is mandated to take such action.

The problem has also been compounded in the past, as regulators themselves have failed to understand or implement action around these issues, possibly from a lack of quality personnel or lack of resource allocation.

However, this article is not meant to heap blame on the regulators. It is intended to illustrate that it is of critical importance for centre right politicians not to fall for the current "Group Think" doing the rounds. Centre right politicians should still recognise that bureaucratic rules-based regulation will act as a drag on financial business as they emerge from recession, and given the current proportionate importance of the financial sector to the UK economy, financials need to be helped in the current environment rather than hindered.

The key point in all of this is that supervision can be light-touch but, critically, is more effective than rules-based regulation. Effective supervision

requires regulators who understand what they are doing and may even be trailed as intervention. This should satisfy the current public zeitgeist, but continue to champion centre right principals as well.

In this way, centre right politicians can make the critical distinction between effective supervision and ineffective regulation that must come out of the current mess. It may also help to bring forward any recovery by avoiding crowding out type measures. A financial sector that is effectively supervised as opposed to ineffectively regulated may emerge sooner from recession and this has to be better for us all.

It is not more regulation that the UK Banking industry requires, it is more effective supervision and an understanding of risk correlation from a regulatory body that is mandated to take such action.

Word play? Perhaps, but where centre right politicians should be differentiating themselves is by getting to the heart of the current problem: establishing a regulator that understand systemic risks across different asset classes and that has a risk concentration mandate. In this way, perhaps, we can prevent future systemic risk to the UK banks' capital, if we're ever again in a situation where everyone needs to head for the exit at the same time again.

Paul Blanchard is a new member of the Bow Group

How very middle-class

by Dolan Cummings



The financial crisis and likely global downturn were not predicted by anyone, and have come as a shock to many. One hardly has to be a Marxist, however, to have been sceptical of claims since the demise of Communism that capitalism would flourish without problems in perpetuity, and specifically that Gordon Brown had brought an end in Britain to the economics of boom and bust.

A brief survey of history shows that capitalism has always thrown up periodic crises, and political intervention is often required to overcome them. The idea that the market could be relied on to go on producing wealth for the rest of time, while politicians got on with important stuff like banning smoking and rebranding Britishness, was always naïve. New Labour's granting of independence to the Bank of England in 1997 symbolised a more general depoliticisation of the economy, which was regarded as a good thing at the time, but has left government unused to taking political responsibility for the economy, and perhaps more importantly unable to comprehend what is happening.

One notable feature of the current crisis is the low profile of the working class. In the past, one could expect an organised working class response to recessions: resistance to job cuts and any reduction in living standards, which would in turn demand a political response from government. True, we have seen wildcat strikes in Lincolnshire, but a major militant response is unlikely even if things get much worse. Across the West, trades unions have been effectively neutered, lacking salience in the absence of a socialist alternative to the market.

While this might be seen as one less thing for government to worry about, it is part of a broader public disengagement from and disaffection with politics, which is more of a problem because it throws into question the legitimacy of the state. Instead of angry workers fighting for their jobs, the government is faced with a disgruntled middle class worrying about its future. The closest thing we have seen so far to a re-emergence of class politics has been resentment at the bailing out of the banks, and even a degree of schadenfreude over layoffs in the financial sector.

Instead of angry workers fighting for their jobs, the government is faced with a disgruntled middle class worrying about its future

This is a characteristically middle class response, fuelled by moral outrage rather than political militancy. One can hardly begrudge the middle class that, however. Having been patronised for years by politicians insisting everything was on the up and the only thing to worry about was getting too fat, people are rightly angry to find themselves facing a recession or worse, with a seeming

clueless political class in charge. A further expression of public disaffection with the state, which may become more pronounced in a recession, is a loss of confidence in the welfare system. The general public now sees benefits not as a welcome safety net for 'people like us', but rather as a permanent subsidy for 'people like them', an undeserving underclass. Again, this might be seen as a middle class concern, but tellingly it is one increasingly shared by people with working class occupations and backgrounds. Rather than re-opening class divisions in an old-fashioned sense, then, the downturn is likely to lead to 'middle class' disgruntlement across society.

While Marx wrote that capitalism had produced its own gravediggers in the form of the working class, and predicted that in time that class would overthrow the system, this was primarily an historical rather than merely 'economic' argument. The historic failure of the working class to do as Marx had hoped means we are in very different circumstances, and as all good Marxists know, history does not repeat itself. Capitalist crisis does not automatically mean class conflict, then.

Just as traditional working class politics cannot be rescued from history as some on the left might wish, however, there can be no return to traditional conservative politics either; the dream of a harmonious society where everyone knows his place. The disgruntled middle class is inchoate and full of contradictions, but its resentment toward the rich and the feckless is less significant than its resentment toward the political class. The downturn might precipitate political change after all.

Dolan Cummings is the Research and Editorial Director at the Institute of Ideas

Back to the 1970s? Not quite.

by Daniel Cowdrill

The recent 'Crisis of Capitalism' may expose the imperfections of the Capitalist system, but it also reveals the imperfection of governments. It is a central responsibility of government to regulate Capitalism and prevent its socially destructive fluctuations.

During its time in office the Government has patently failed in this duty. Between 1997 and 2007 aggregate property prices soared by 216% while wages rose by 52%. There was a corresponding expansion in the UK's subprime mortgage sector and a growing lender dependence on the wholesale market. The UK's fifth largest mortgage lender, Northern Rock, was allowed to offer 125% mortgages and depend on the wholesale market to fund three-quarters of its balance sheets. Its loan-to-deposit ratio was a staggering 215% and well above the UK average.

The precarious balance sheets of some institutions created optimum conditions for financial contagion, exposing the entire financial sector to foreign shocks. In March 2007, the IMF warned of "the gap between customer lending and customer funding through deposits", leading to a reliance on the wholesale markets. It concluded that "given growing cross-country linkages, global risks are particularly important to the UK financial system."

In spite of this and a stream of warnings,

in June 2007 the Prime Minister confidently claimed that this period marked "the beginning of a new golden age for the City of London." Only three months later Northern Rock collapsed, bringing the boom to an abrupt end. In 1997 the government claimed that there would be "no return to boom and bust", yet this is precisely what it presided over.

In 1978 the proportion of the workforce that were members of trade unions reached a historic peak of 55%

It is clear with the benefit of hindsight that the government could have done more to protect the economy from a banking crisis. However, it is far less clear that this failure of government policy takes us back to the dark days of the 1970s.

2008 does provide some similarities with 1978. In his pre-budget report the Chancellor estimated that national debt as a portion of GDP will rise to 57% in 2011, massively exceeding the 38.5% predicted by Alistair Darling's predecessor, and even exceeding the 47.1% the last Labour government managed in 1978. The political response to the scale of national debt is dividing the two main parties along the economic battle-lines of the 1970s. Labour are advocating higher borrowing

now and higher taxes in the future to jump-start the economy, while the Conservatives are hoping that fiscal restraint will resonate with the electorate.

That said, 2008 is far from a mirror image of 1978. Although inflation declined to 7% in 1978, there was an inflationary peak of 24% in 1975 and another of 20% in 1980. In 1978 the proportion of the workforce that were members of trade unions reached a historic peak of 55%, and the number of days lost to labour disputes reached 15 million in 1975 and 30 million in 1980, the highest recorded since the General Strike. Indicating the power of trade unions, the inflationary peaks of 1975 and 1980 followed peaks in union activity and inflationary wage settlements.

In contrast, today inflation is 4.2% and predicted to fall to 0.5% by the end of 2009. The proportion of the workforce that are members of trade unions has fallen to 29%. The number of days lost to labour disputes is below one million. And while it is true that unemployment in 2008 reached comparable levels with 1978, 'full employment' is no longer the main objective of economic policy and the unemployed do not belong to monolithic state industries and organised trade unions.

The dissimilarities between 1978 and 2008 show the decline of the British Labour movement and the failure of post-war political economy. The Conservative party not only turned the intellectual tide, but translated the free market and individualism into a populist agenda that radically altered the nation's view of the correct role for government. The financial crisis of 2008 and 2009 is unlikely to force a reassessment, and while there are similarities to 1978 and 1979, the hands of those resisting a return to the politics of the 1970s are strengthened by the outcome of the 1980s.

Daniel Cowdrill is a member of the Bow Group



An Ohio Yankee in the Bow Group's Court

by Dane Davis

They say in America everything is bigger: the cars, food, television screens, and even people. Even the think tanks are bigger.

During the spring and summer of 2008, I had the excellent opportunity to intern at the American Enterprise Institute, a classically conservative think tank that is by some estimate to be, or at least was, the most influential in Washington. I have also had the distinct pleasure of interning at the Bow Group during my year abroad at the London School of Economics. Though the two organizations possess the similarity of being conservative think tanks, the differences could not be more striking.

Situated in the heart of D.C.'s lobbying district, the American Enterprise Institute occupies a full three stories of a posh office building. Situated on the top floors, A.E.I.'s office possess a commanding view over the district and its daily business. For a think tank, the amenities at A.E.I. rival some of the top business offices worldwide. Several libraries, a reception lobby, numerous private offices for each of the scholars, a dining room with staff, several private conference rooms, and a top floor café are just a selection of the facilities available to A.E.I.'s staff and scholars.

The staff differences are stark as well. The American Enterprise Institute commands a full time staff of around 190 people, including a bevy of interns. Listed among its scholars are some of the most controversial, and respected, researchers and former politicians including Paul Wolfowitz, Newt Gingrich, Lynne Cheney, and John Bolton. Each full time researcher has access to a paid research assistant, usually a recent graduate from university. Underneath these research assistants are the humble interns, of whose number I was proud to be a part.

While Bow lacks the resources of its American brethren, it retains something that the American Enterprise Institute does not have; that is, independence

In the days of Republican governance in D.C., the American Enterprise Institute was host to a flurry of events and discussions with various politicians, media leaders, and scholars over the important issues of the day. Frequent

panel discussions featuring a complimentary (and delicious) breakfast or lunch enticed a legion of reporters to come and observe the happenings.

Yet, the pomp and poshness of the American Enterprise Institute came at a price. It's funding, largely through private donations by large companies, arguably meant a loss in its dynamism and policy independence. Furthermore, by allying itself with a specific faction of the Republican Party, it unknowingly locked itself in to irrelevance when the Bush administration left.

In the CAN Mezzanine of London's Southwark sit the office (or rather desk) of the humble Bow Group. While Bow lacks the resources of its American brethren, it retains something that the American Enterprise Institute does not have; that is, independence. The members of the Bow Group are loyal to Conservative principles, not party. As such, they and their research possess a creativity and originality that is unhindered from any party manifesto or conventional wisdom. Sometimes, bigger is not always better.

Dane Davis is an intern for the Bow Group

The Bow Group talks to the Shadow Home Secretary

Tuesday 10th March 2009, 7pm-9pm, Boothroyd Room, Portcullis House, Westminster.

You are invited to a discussion with Chris Grayling MP, the new Shadow Home Secretary. This is an opportunity for members of the Bow Group to ask questions to Chris Grayling MP on a range of subjects - his life before politics, his reputation as the Tory attack dog, his views on welfare reform, his plans for the Home Office and his ambitions for the future. Literally, Bow Group members can ask him anything – within reason, of course.

Please email Ryan Shorthouse (political@thebowgroup.org) to reserve a place.

The Condition of England

Jenny Edwards, Chief Executive of Homeless Link, the national umbrella organisation for frontline homelessness charities, considers how Conservatism can deliver change to the most vulnerable in our society at a time of rising economic and social pressures.

“I want to give everyone - no matter what their background or their circumstances - the chance to lift themselves up and make the most of their lives. And an important part of that means tackling homelessness - giving everyone the security that a roof over their head brings.

David Cameron launching the Homelessness Foundation, May 2008

When David Cameron launched the Homelessness Foundation last year he arrived well prepared to make his speech. After a few minutes of hearing about the issue, he chose to throw away the script and speak from the heart. He spoke about his pride in the record of Conservative initiatives to tackle homelessness. He spoke about the importance of keeping the big vision – ending homelessness once and for all – in sight.

“The Homelessness Foundation will now take this work on and see how better we can build on these plans so we can - once and for all - end homelessness in our country. We can tackle homelessness. I mean it.”

David Cameron

In 1967, the Conservative Shadow Chancellor, Ian MacLeod, had the vision to set up Crisis, one of the largest fundraising and campaigning charities for the homeless. In 1990, Sir George Young as Housing Minister launched the first systematic Government attempt to help people sleeping on the streets through the Rough Sleepers' Initiative. It invested in dedicated accommodation for former rough sleepers, which offered a route away from the streets. Many of the cardboard cities, for which Britain was renowned, gradually disappeared as inhumane “spike” accommodation was closed and much of the emergency homelessness provision was transferred from the state to the voluntary sector.

Neither the issue of the homelessness nor

the Conservative Party's resolve to tackle it are new, and indeed can perhaps be traced right back to the origins of the party under Disraeli.

I met David Cameron at the launch of the Foundation and was pleased to accept the role of Chair to the Advisory Panel. Homelessness is not a topic on which there needs to be great party political division. It is clear that all parties have made important contributions to tackling the problem. There is an all-party consensus that we must work to bring about an end to rough sleeping within the next few years. However, there are differences of approach to be debated and there is the enormous challenge of doing this while the economic conditions have turned hostile.

The challenge for 2009 is, given the economic and social pressures that will bring more people into risk of homelessness, what solutions does the Conservative Party have? How can a party, potentially a year away from Government, show that it will give priority to a small number of deeply excluded people when there are so many other demands from the electorate for attention? What new ideas and answers are out there, maybe in Conservative-led local government, that show what really works?

As the Mayor has shown in the capital, local leadership is vital to driving the process. Ending rough sleeping in London by 2012 is a very challenging objective, particularly given the economic downturn. London has half the street homelessness in the country and remains the place where people arrive when their homelessness has not been prevented elsewhere.

Boris Johnson has shown he is up for the challenge and has moved quickly to establish a delivery board involving statutory and non-statutory partners. There are parts of the country where the challenge is less and this ambition could

be achieved early. We urge Conservative leaders in local government to follow the Mayor of London's example and to show that Conservatism can deliver the answers on this issue. It affects comparatively small numbers of people in each area but we all are diminished by its presence on the streets of 21st century Britain.

If we are to achieve the goal, we need all local areas and communities to sign up to the vision of our country free from homelessness. There is another change that is important. When the last Conservative Government moved the old “spikes” out from the Department of Social Security and to third sector charities it knew that to work effectively with people who have been on the streets for a while you need people who care about homeless people and who are skilled and knowledgeable in what they are doing. This achieved great progress in getting rid of the cardboard cities and getting rough sleeping down by about two thirds. 9,000 people were successfully taken off the streets of London alone over the last 10 years, never to return.

However, the same sources of homelessness led new people to arrive. To go further we have to get closer to the source.

And we've got to be honest about saying that it's no use just tackling the symptoms of homelessness - but address ourselves to the long-term task of removing its causes.

David Cameron

The reality is that homelessness is not respectful of background. Whilst it is more likely to affect the most disadvantaged people in our society, it is not unknown for people from highly-paid professions to find themselves without a home of their own. This is because there are numerous different routes into homeless such as relationship breakdown, loss of a job or coming out of the armed forces or other

institutional background (care, prison, mental health services).

The Opposition has an important role to play in raising “systems failure” in the delivery of public services, and to produce proposals for change. This has been a major area for discussion for the Homelessness Foundation Advisory Group. Grant Shapps MP, the Conservative housing spokesman, has initiated very useful work to examine the feeder routes to homelessness covering care, prisons, hospitals and issues affecting women and children. One such example is hospital discharge, which revealed weaknesses in the health service’s approach to working with rough sleepers and other vulnerable groups, whilst positively identifying examples of good practice and ways of raising standards across the board.

There are also structural causes, most starkly at the moment the potential of an increase in homelessness brought on by the current financial downturn. Tenancy evictions and mortgage repossessions have been rising. Grant Shapps’ report on the new homeless revealed that 44% of mortgage holders are worried about being

able to meet their mortgage payments over the next 12 months. Nearly half (47%) of local authority and housing association tenants are worried about being able to meet their rent payments over the next 12 months.

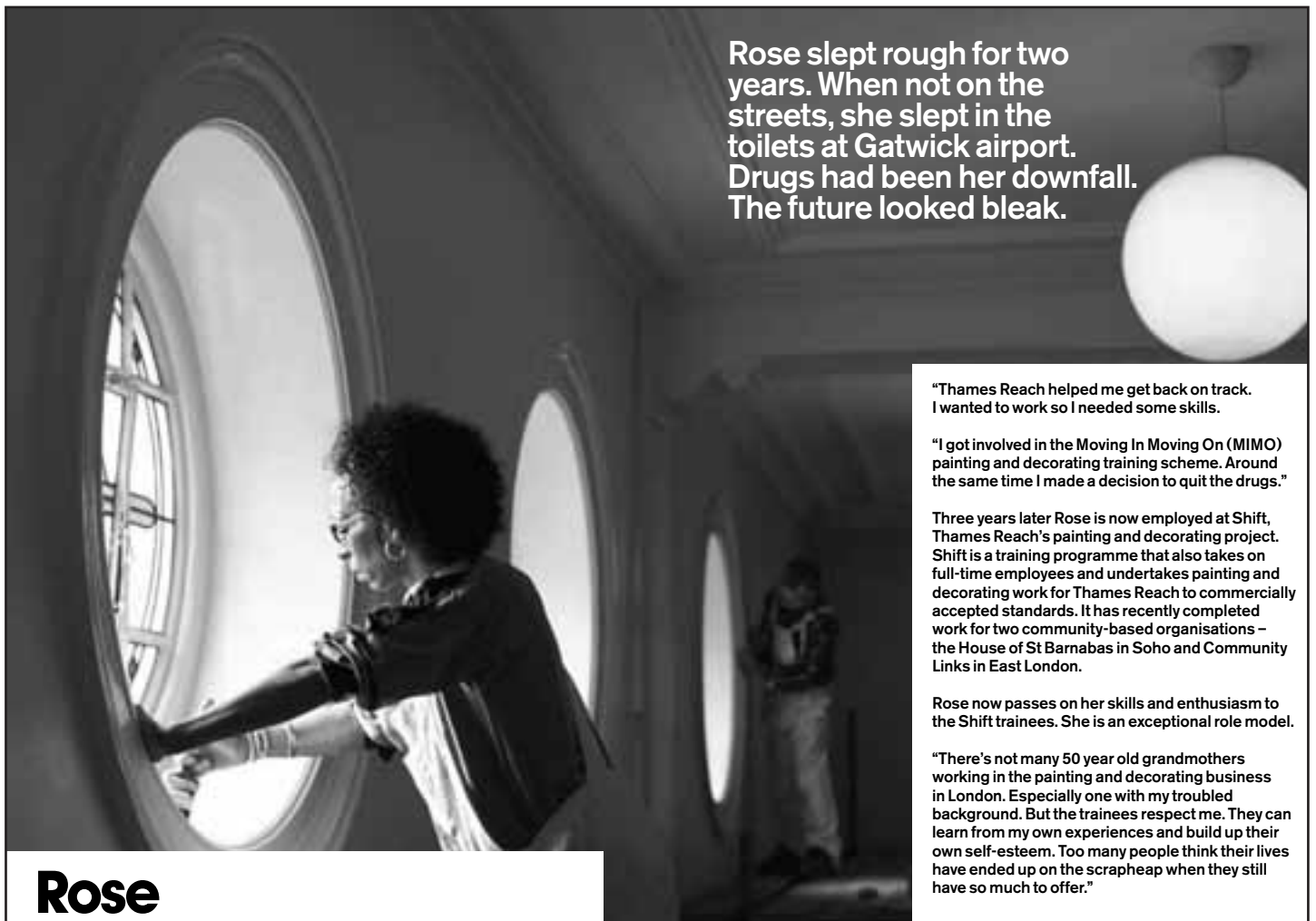
Over two fifths (41%) of private renters are worried about being able to pay the rent over the next 12 months.

It is an irony, that as the recession bites, demand for the services of homelessness agencies goes up, whilst donated income comes down. Big reductions in income may mean smaller budgets, less frontline support and fewer services at a time of greatest need.

At a wider level, beyond housing policy, there are a number of issues which need to be addressed if we are serious about ending rough sleeping - preventing the flow from prison to the streets and back again; stopping the creation of destitute groups who are subsequently left to develop new problems on the streets, particularly those coming from the EU accession countries; developing services for those people with the most complex problems who recycle through the system and become increasingly isolated.

It was very positive to see that the Conservative Blueprint for Tackling Homelessness accepted the need to go beyond dealing with it purely as a problem of housing and instead accept the multi-faceted nature of homelessness. The increasing practice of working across portfolio lines to look at solutions is a welcome development. We expect to see this approach being adopted by Conservative led local authorities as well as by the shadow cabinet. The homelessness sector is adopting this approach too – if it is a while since you visited a hostel or day centre please make a point of going to see one of the new Places of Change where people receive the help they need to gain skills and move forward into independence.

The next three years are a challenge – a challenge to homelessness charities, a challenge to homeless people themselves and a challenge to political leaders of all parties. Can we keep, develop and grow what works, throw out old ways of thinking and look for answers to prevent the root causes of homelessness? I believe the answers are within our grasp. With your help we can make it happen.



Rose slept rough for two years. When not on the streets, she slept in the toilets at Gatwick airport. Drugs had been her downfall. The future looked bleak.

“Thames Reach helped me get back on track. I wanted to work so I needed some skills.

“I got involved in the Moving In Moving On (MIMO) painting and decorating training scheme. Around the same time I made a decision to quit the drugs.”

Three years later Rose is now employed at Shift, Thames Reach’s painting and decorating project. Shift is a training programme that also takes on full-time employees and undertakes painting and decorating work for Thames Reach to commercially accepted standards. It has recently completed work for two community-based organisations – the House of St Barnabas in Soho and Community Links in East London.

Rose now passes on her skills and enthusiasm to the Shift trainees. She is an exceptional role model.

“There’s not many 50 year old grandmothers working in the painting and decorating business in London. Especially one with my troubled background. But the trainees respect me. They can learn from my own experiences and build up their own self-esteem. Too many people think their lives have ended up on the scrapheap when they still have so much to offer.”

Rose

C-grade Marx

by Fabian Richter



Two middle-aged Russians in London who have been hit by the credit crunch are talking about old times. One said to the other: "You know, everything the Communists told us about communism was a complete and utter lie." Responds the other: "Unfortunately, everything the Communists told us about capitalism turned out to be absolutely true." That sums it up, pretty much.

Yes, capitalism is a highly volatile system and, just as Marx had diagnosed, it is prone to violent swings and deep, recurring crises. But does the credit crunch mean that we might, by some more or less deterministic route and with some revolutionary stirrings, be moving towards communism? And is it even useful to think of communism as advocated by Marx as a credible basis for ordering our economy?

Let's look for a moment at what Marx actually said. Over time, the ability of capitalism to accumulate capital through what Marx called 'surplus labour' declines due to competitive pressures. Capitalism becomes more and more prone to crises, sparking a communist revolution to occur. Crucially, communism eliminates capitalism's cyclical phases of rapid growth followed by recession, and it can also focus more resources on mitigating negative externalities and socially productive investments (think about the

recent argument that much of the GDP recently contributed by financial services has not actually been economically productive). Both factors result in a more efficient allocation of labour. In fact, the productivity gains from communism are such that the resource constraints which have governed all human history are overcome. Competitive struggles simply cease to exist because people no longer need to compete over a finite pool of resources.

This argument breaks down at two levels. First of all, it casts competition as a negative, rather than a positive factor for driving economic growth and innovation. While Eastern Europe never put communist theory into practice, it is still the biggest experiment ever conducted to test Marx's theses. Competition was reduced, not least because there were fewer consumer goods and fewer financial incentives for people to compete, but so was the incentive to innovate. The single biggest transforming factor in economic and personal life over past 50 years, the IT revolution, never occurred in Eastern Europe and computers had to be imported at high cost from the West. According to Marx, this shouldn't have happened because communism is meant to have greater, and more stable, productive and innovative power than capitalism.

What it boils down to is your view about human nature. Are you an idealist who believed that humans, once freed from the chains of oppression, would ultimately be self directed towards the greater good for society? Or are you a sceptic who suspects that, whatever the economic circumstances, people tend to prioritise their own welfare and require incentives (whether social, financial or emotional) to perform to the best of their abilities?

Since Marx's death the rise of the welfare state has allowed most developed countries to provide 'to everyone according to their needs', at least as far as the basic needs for survival are concerned. Yet has that made Western societies even a little less materialistic or more altruistic? And are societies with the

most extensive welfare state and the greatest wealth per capita those with the greatest productivity and least competition for resources? You just need to think of some of the main oil-exporting countries to know that is not true.

This points to the second flaw in Marx's argument. Even significantly higher human productivity will not eliminate resource constraints, as human demand for goods and services increases in proportion with supply. And even if people stopped demanding more and more, consider the fact that our planet has finite (and dwindling) resources. If we want to maintain life on earth, there will not just be limits to how much we can increase our consumption of global resources, we actually will have to reduce it. Since global population levels are still rising, you don't need to be a glum Malthusian to conclude that human life will always remain resource constrained. And even if amazing inventions and the most fantastic productivity gains allow us to increase our consumption ad infinitum, our expectations of what we believe we need will just rise in line. We will never live a biblical life of abundance.

It is perhaps unsurprising that Marx wrote relatively little about what life under communism would be like and how exactly resource constraints would be overcome. It is equally unsurprising that there are actually no examples of 'communist' societies or local communes which have been able even to match the productivity levels of capitalist economies, never mind trumping them. The simple fact remains that, however imperfect capitalism may be, there are currently no viable or more efficient alternatives.

So is it 'Top Marks, Marx' then? Well, analysis of problem: pass with merit; design of a solution: fail. Makes an overall C-grade – at least that would bring it still within the Government's target for educational achievement. I always knew that school standards were slipping...

Fabian Richter is the Conservative Parliamentary candidate for Bath

Against a Windfall Tax of Energy Companies

by Robert Dean

Arguing against a windfall tax on energy companies when they are currently making vast profits at a time of economic hardship may be unpopular, however now is not the time for the Government to throw economic prudence and consistency to the wind, as Gordon Brown has so often done. Since 2003 British Gas customers have seen their bills increase by an average of 76.7%, electricity bills have also risen 74.3%, mainly as a result of global increases in energy costs. Profits however have soared. In July Centrica announced that pre tax profits have increased 88% to £2.97 billion for the first half of the year.

A windfall tax on energy companies is now a central part of Liberal Democrat policy, as well as the Labour Left. Surely these super wealthy Corporations should be forced to cough up for the sake of poverty stricken pensioners struggling to make ends meet? Certainly not. The truth is that the energy companies are among the most taxed businesses in Britain. The big six energy companies are already being effectively forced to pay for a programme to reduce carbon emissions, as well as having to shell out for free energy saving light bulbs, and loft and cavity wall insulation.

Huge profits equate to huge tax revenues for the Government. Why should successful businesses be penalised for their profitability? A one off windfall tax will also mean the energy companies will have to severely cut back on investment for the future, including research and development into renewable sources of energy. Developing ways to make so far inefficient green sources of power more viable for the future is an extremely costly process - at present, green sources of power cost around three times as much as traditional gas powered fire generation. It's estimated that in future the UK energy industry will need up to £100 billion worth of investment in future infrastructure and power development in order to avoid severe energy shortages and logistical problems.

The results of previous Labour windfall taxes prove that any future windfall tax on energy companies will ultimately be unproductive and harmful. In 2005, the windfall tax on North Sea oil drilling caused a decrease in drilling activities and a fall in investment. This led to a fall in tax revenues for the Government. The present Government has also shown it is unable to properly use windfall funds: in 1997, New Labour taxed the newly privatised utilities a whopping £5.2 billion, using the money to fund the criminally wasteful New Deal, which has failed despite its promises to cut long term unemployment and those claiming incapacity benefit. Would this windfall tax actually make it to those least well off or would it instead be used to once again extend and shore up Labour's huge Client State of inefficient, wasteful public sector workers?

If the hard left gets their way on plundering the energy companies profits, they are unlikely to stop there. Equating all high company profits with exploitation and greed, the Government may well turn its attention to big British Pharmaceutical companies who post billions in profits for a one off "health" windfall for the NHS or impose higher taxes on successful sports clubs like Manchester United to build leisure centres in deprived areas. Sounds ludicrous? No more so than seizing shareholders lawfully earned profits to redistribute wealth and shamefully garner votes from the least well off.

At what point does a business cross the line from successful to greedy? If in the future the Government continued its habit of penalising success and retrospectively taxing unpopular but profitable businesses we can expect a flight of investment and talent to quickly depart from our shores. How can businesses plan for the future and expect to operate in an environment when a year of high profits could be followed by a populist windfall tax worthy of Hugo Chavez himself? The whole affair also demonstrates once again the hard left's lack of understanding of how economics

actually works. Energy companies' prices stay higher after global prices come down because they have to buy in advance, and that's why it takes time to pass on price cuts to the consumer.

As energy prices now look set to fall it seems unlikely that a windfall tax will materialise, but if prices were to rise again, especially close to election time it is doubtful Gordon Brown could resist being seen to strike a blow against greedy big business by imposing a tax or even fixing prices for certain sections of society. He would do the Nation a better service if he was to state that despite the current economic climate, it is the market and the market alone that is the most effective way to set prices, and that punishing success is likely to make the UK a much poorer, less dynamic Nation, where success, achievement and profits are automatically equated with exploitation and greed. Sadly this Labour philosophy already pervades our State Education system, where achievement and hard work are positively discouraged in case it offends less motivated pupils.

Ultimately, a windfall tax will hit those that the Liberal Democrats and the Left of Labour claim to protect. If Energy companies cost's rise then they will be forced to pass that cost on to the consumers, the elderly and those on low incomes will no doubt be hit the hardest. This combined with a lack of future investment will ensure that any short term benefits from a windfall tax will be quickly cancelled out by increased costs for consumers, lower tax revenues and no future research and development in much needed infrastructure and green sources of power. In short, it will ensure that future generations will be left with higher energy prices, without the means or resources to find new ways to generate green energy.

Robert Dean is a freelance researcher and campaigner for the Conservatives in North-West England.

It's Time to Catch the Tide

by Tony Lodge



Ministers are slowly waking up to the fact that the UK is increasingly adrift of its binding EU targets on renewable energy. Britain signed up to meeting 15% of its energy needs through renewables by 2020, but on current policy we'll be getting just 5%. This sorry state of affairs has been apparent to energy planners for some time and yet very little has been done to get a stronger mix of renewables in place, instead of just supporting one over and above all the others.

The 'one' renewable which has received the lion's share of the renewables pie is wind energy. It has received huge political and financial support and yet only last week it was announced that a huge 11GW of wind development is stuck in the planning system as a result of red tape and local planning objections. This is the equivalent of four large coal fired power stations.

In light of this, more and more commentators believe that Government support needs to be redirected to those renewables with greater capacity to deliver more predictable and reliable long term carbon free electricity and ones

which do not antagonise local feeling and exacerbate bitter planning opposition. Only one renewable source ticks all of these boxes; tidal stream.

It has been estimated that the tides around Britain's 11,000 mile coastline, which feature some of the world's strongest tidal ranges, could be capable of producing more than 20% of the UK's current electricity demand.

The ocean's tides present an inexhaustible and self renewing supply of power. It has been estimated that the tides around Britain's 11,000 mile coastline, which feature some of the world's strongest tidal ranges, could be capable of producing more than 20% of the UK's current electricity demand. The UK is blessed in having around its shores over 50% of the

EU's tidal resources. These areas include the Humber, Scotland's Pentland Firth and Western Isles, the Irish Channel, Portland Bill off Dorset, the Channel Islands, the Isle of Wight, parts of the Welsh Coast and the Bristol Channel.

Whereas wave energy is harnessed near the water's surface and can be unreliable, like wind, the stronger and predictable tidal currents deep beneath the surface are where tidal stream turbines can deliver the real difference. These turbines, secured up to 60 metres below the surface, on the sea bed, harness the fiercest ebb and flow of the tides and come closest to a renewable baseload supplier.

Importantly, at this depth the systems offer no hazard to shipping or ecology, unlike the proposed Severn Barrage which could affect the future of large and important ports like Avonmouth as the port seeks to expand to take larger ships. The turbines revolve slowly enough for fish and other creatures to avoid being damaged by the blades.

Tidal stream power is perpetual and, unlike wind, highly predictable for centuries into the future. No other source of renewable energy offers such scale, reliability and contribution to security and diversity of supply. Importantly, the environmental impact is non-existent as tidal stream technology is effectively invisible, thus eliminating costly and time consuming planning inquiries which are holding back so many unpopular wind applications.

But why is Britain not better harnessing this unique tidal opportunity? Developers, investors and electricity supply companies are all acutely aware of the binding renewable targets but are anxiously awaiting a more determined lead from the Government.

Hull based tidal stream company, Lunar Energy, is Britain's leading pioneer in this exciting area and has ground-breaking plans to install a huge 300 tidal stream

turbine field. Costing £500 million this will be the world's largest tidal stream energy plant at 300MW and will provide enough energy to power 200,000 homes by 2015. But, sadly for the UK, this plant is being built by Lunar in South Korea, in conjunction with Korean Midland Power. Where the Koreans have recognised early on that Lunar's technology is worth supporting and developing, Britain still appears hesitant. All is not negative however. Last year, Lunar Energy and E.ON announced a joint project to develop an 8MW commercial tidal power field off Pembrokeshire. But this is tiny in comparison with Korea.

It is a sad truth that development overseas is currently a simpler process than within the UK. Although the UK is blessed with one of the highest levels of tidal stream energy in the world there does not yet seem to be the Government will to remove the considerable planning and crucial grid connection obstacles that are beginning to slow home based growth of this new regional energy industry. There is reasonable cause for concern, and yet again, a technology first created in the UK could actually see its main exploitation abroad if we don't move now.

Although the UK is blessed with one of the highest levels of tidal stream energy in the world there does not yet seem to be the Government will to remove the considerable planning and crucial grid connection obstacles that are beginning to slow home based growth of this new regional energy industry.

A major planning issue concerns the Crown Estate which owns almost all the seabed around the UK to a 12 mile radius. The Government will urgently need to guarantee a more positive approach from the Estate given that their support will determine the ultimate success of tidal

stream development in Britain. For tidal developments to fulfil their potential they have to be extensive, as with Lunar's Korea project, so bodies like the Crown Estate need to be on board and better joined up with Government thinking.

Of even more importance is the current inability of a company such as Lunar Energy to connect into the National Grid. A new offshore grid network is vital and should go hand in glove with a general modernisation of the national network. Energy harnessed by underwater tidal fields has to have a grid connection to feed into.

As an island nation with some of the world's fiercest tides Britain stands on the edge of an energy revolution. It must move to better harness this free resource and provide tidal with a fairer slice of the great renewable pie or it will not only fail to meet its renewable targets, but become even more dependent on foreign gas for electricity with all of the security of supply and price implications this represents.

Tony Lodge is a Council Member of the Bow Group and a Research Fellow at the Centre for Policy Studies

Individualism: A social evil or a social good?

Monday 30th March 2009, 7pm-9pm

Thatcher Room, Portcullis House, Westminster

David Willetts MP,

**Shadow Secretary of State for Innovation,
Universities and Skills**

Matthew Taylor,

**Director of the Royal Society of Arts (RSA) and Former Head of the
Downing Street Policy Unit under Tony Blair**

Please email Ryan Shorthouse (political@thebowgroup.org) to reserve a place.

Out of Debt

by Simon Dixon

As the financial crisis grows more and more intense, it seems increasingly certain that many of our major banks will be taken into state ownership. This is a mistake – if we are to nationalise anything, it should not be the banks, but the money supply itself.

Contrary to popular belief, most money in our economy is not created by the government or the Bank of England. It is created by the commercial, high-street banks every time they issue a loan, mortgage, credit card or overdraft. This is made possible by the fact that most money these days is not cash or coin, but simply electronic numbers in computer systems. Whenever a loan is made, these numbers are not actually transferred, but simply duplicated. This sounds unbelievable, but happens simply because the current method of accounting within banks is 500 years old, and has not been updated to take account of this new, non-physical money.

We need to nationalise our money supply and we need a monetary system that does not rely on debt.

As a result, we have arrived at the point where less than 5% of money in existence is actually issued by the government and the authorities. The remainder, many hundreds of billions of pounds, has been created through individuals and companies taking out loan after loan, mortgage after mortgage, and borrowing money that has already been borrowed many times before.

This problem is at the heart of the financial crisis. All the currently proposed reforms – including better regulation, state ownership of banks, bonus/malus schemes for the City boys, or a complete end to capitalism – are simply treating the symptoms of a problem that is barely being discussed, but in history has been one of the most topical issues.

The key question is this: did the banks' privilege of creating bank-account money

to lend to us and one another play a significant part in fuelling the credit bonanza, subprime market and financial boom that led to bust, leaving such a tangle of international interbank indebtedness that central banks and other authorities like the Financial Services Authority could not assess the potential consequences if it unravelled? The answer, of course, is yes. There is a particularly perverse effect of this current monetary system: common understanding would state that, as the banks lend more and more money, they will eventually run out of money to lend, and any lending boom would eventually run out of steam. In reality, the more money that the banks lend, the more money they have available to lend. Every loan they make returns to the banks, is recorded as new money, and then can be lent again, indefinitely. A lending boom therefore fuels itself and accelerates, until things become unsustainable and it all comes crashing down. That collapse is exactly what we are seeing now.

So is capitalism dead? I don't think so. The current problems are not a result of capitalism – they are a consequence of using a banking system that still assumes that all money is either cash or coin.

Under the current, debt-based monetary system, the growth of our economy depends entirely on the amount of debt that we support. Is there any clearer evidence of our economy's reliance on debt than the fact that the main concern of governments at the current moment seems to be re-open credit lines and re-ignite lending?

So what should we do now?

We need to nationalise our money supply and we need a monetary system that does not rely on debt.

The reform is not especially complicated – the most practical proposal simply involves changing the internal accounting practices of banks and would require no real change for the average member of the public.

Estimates by Huber and Robertson back

in 2000 suggested that the loss to the government of allowing commercial banks to create money was in the order of £49bn per annum. Add to this the cost of servicing the national debt, at £32bn per annum, and the cost of stimulating recovery during recession after recession, which runs to hundreds of billions, and the absurdity of allowing our high street banks to create our money supply should be clear.

The reaction that I see when I present this topic to students or those currently working in the City is usually one of puzzlement – as though they had just heard the Earth was round in the time of Galileo.

If this is your first introduction to the issue of monetary reform, your head may be spinning right now. The reaction that I see when I present this topic to students or those currently working in the City is usually one of puzzlement – as though they had just heard the Earth was round in the time of Galileo. As I ask them to question some of the key assumptions of economics and the monetary system, they soon come to an understanding that something is very wrong, and I expect more and more of the public to come to the same understanding over the next few months.

This is a serious issue that needs serious discussion. When the G20 meet in London this coming April I suggest this problem should be top of the agenda. There can be no recovery from this crisis until these problems are addressed and our debt-based monetary system is reformed.

Simon Dixon is Managing Director of Benedix, a Training and Recruitment company for Banking and Finance. To stay informed on the move towards monetary reform, visit www.simondixon.org.

The banks failed. The FSA failed. Gordon Brown failed.

by Michael Fallon MP, Deputy Chairman of the Treasury Select Committee



But as the session went on, those apologies started to fade. It was all down to the "turn of events". Things happened that nobody foresaw, that nobody could have foreseen.

This won't do. It wasn't a "turn of events" that brought down RBS and HBOS. Each bank made serious mistakes, and their boards failed to prevent them.

RBS made two huge mistakes. Its funding gap – the gap between its liabilities and its deposits – grew from £83 billion in 2003 to £164 billion in 2008. That gap was easily the biggest of any British bank, and twice the size of Barclays' funding gap. It was one third of the total funding gap of all six big UK banks.

Ten years ago banks didn't lend out more than they had in on deposit. But in the rush to get bigger and bigger – and to claim those bonuses for deals done

rather than value added – they simply borrowed more and more from the wholesale money markets.

Much of RBS's funding gap was the result of a further mistake – the acquisition of ABN Amro. RBS paid £10 billion for Amro right at the top of the market. They pressed ahead with the acquisition even after Amro had pre-sold LaSalle, the business RBS really wanted, even after every City investor and analyst said they were paying too much, even after the credit crunch had started.

Today the former chairman confirmed to me that RBS's investment in Amro is now worthless. They're having to write off £15-20 billion on the deal. That's almost exactly the amount the taxpayer has now had to put into the RBS balance sheet. Thank you Sir Fred Goodwin.

HBOS' mistake? 40% of their lending was for property and construction. But

They said they were sorry, deeply sorry. One by one, each of the four disgraced bank chiefs apologised in front of the Treasury Select Committee.



even after the property market turned down, they just went on lending.

Remember: when Gordon Brown first set up his new system of banking supervision, the amount British banks lent out was matched by the amount that they held on deposit. In fact, they were often in overall surplus. By the time he finished as chancellor, they were lending over £625 billion more than they had on deposit. That's not supervision - it was sheer recklessness.

Often they took equity stakes in the businesses they were banking. All of this has now had to be written down, as property values here in the UK have fallen. Nothing to do with sub-prime

in the US. But whatever happened to regulation Why did the banking supervisor, the FSA, approve all this lending? Did it not understand how much RBS was over-paying for Amro? Or how much HBOS was exposed to the property bubble? Or how both banks were over-dependent upon the wholesale money markets?

Yes, the bank directors were feeble. There weren't high calibre non-executive directors capable of standing up to powerful chief executives. But again, why didn't the FSA step in and insist that the Boards be beefed up?

The regulator failed. In fact everybody failed to blow the whistle.

The dealmakers needed acquisitions for their multi-million bonuses. The government had every reason to keep the party going: those bonus were a huge part of its income tax yield. The FSA was hooked on its light-touch regime.

Remember: when Gordon Brown first set up his new system of banking supervision, the amount British banks lent out was matched by the amount that they held on deposit. In fact, they were often in overall

surplus. By the time he finished as chancellor, they were lending over £625 billion more than they held on deposit. That's not supervision - it was sheer recklessness. It's that funding gap which is the key to understanding how our banks have crumbled.

Never again. We need banks that do banking - simple, straightforward banking. Taking in deposits and lending out against them. Measuring risk properly. Tailoring bonuses to genuine performance and long-term shareholder value.

And we need a proper regulator. Brown's FSA quango has failed us all - it slept through Northern Rock, it didn't challenge the Scottish banks, and it didn't warn against the Icelandic banks. 3,000 bureaucrats who didn't do their job. Thank you again Gordon Brown.

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<http://conservativehome.blogs.com/platform/2009/02/michael-fallon.html>



In defence of the Free Market

Peter Cuthbertson reviews Compassionate Economics by Jesse Norman

At a moment when free market capitalism is under siege from so much of the left, it might seem to be the duty of every conservative to man the barricades in its defence. But it is no bad thing if conservative thinkers are also willing to go back to first principles and ask how much of this economic approach remains relevant. In the case of Jesse Norman's *Compassionate Economics*, the answer appears to be a great deal.

Norman begins his analysis with a withering critique of Britain's economic record since 1997. Unambiguous in the credit it gives Margaret Thatcher, the chapter is ferocious in dissecting how poor Britain's economic performance has been throughout the period Gordon Brown has had control. In a strikingly successful move from the general to the particular, the reasons economic growth sustained for so long in spite of such poor policy-making are then enumerated. But perhaps macroeconomic failure was the price paid for improved public services? Just as persuasively, this notion is shattered.

Even economic failure on this scale is only a part of the story. The concerns of social conservatives about the fabric of society have likewise been vindicated. Politically, a "homogenous political and media class" is too distant to understand public concerns, let alone respond to them effectively.

What makes *Compassionate Economics* so unconventional is its attribution of these failures to the economic textbooks - and those who read them.

While criticism of conventional economics has tended to come from the political left, Norman is right to argue that the right's greater realism about human nature should cause conservatives to question any economic thinking that assumes too much rationality, or depends upon it. But this reader found the book more convincing

as an attack on the misunderstanding and misuse of textbook economics by politicians and academics.

As an attack on right-wing economics itself, caricatures are savaged while subtler interpretations are left unblemished. So the "basic thought that people are purely economically self-interested" is demolished and the lasting relevance of families, culture, music, clubs, love and friendship are all stressed. But who would actually uphold the former or deny the latter?

Not free market thinkers such as Smith or Hayek, as Norman acknowledges. The assumption of economic rationality is taken to be refuted by so many choosing to enter into crippling debt to buy a house, only to see prices plummeting. But in all its varieties, free market economics stresses individual rationality in the sense of responding to incentives and the price mechanism in a logical and consistent way - a good example the author cites is of people driving more carefully if they are without a seatbelt.

Believing by contrast that individuals will always make the correct financial decisions is more like an assumption of omnipotence than of rationality. Such examples offer a contradistinction, not a contradiction, of prevailing free market economics, which has always recognised the potential for asset bubbles. At one point the author admits that his chief objection is to those bureaucrats and politicians who believe their tinkering and engineering is justified by textbook economics - but far too little is made of how erroneous are such beliefs.

Such economic tinkering meets with severe and convincing assault from the beginning to the end of the book. This makes a great deal of sense - if people aren't so rational and remain difficult to predict, the effects of such tinkering will be similarly unknowable. As becomes clear as the book concludes, this does

much to vindicate the free market, anti-government perspective. So via a lot of much justified criticism of common interpretations of free market economics and a measure of less justified criticism of textbook economics itself, many traditional conservative conclusions are buttressed. Supporters of the Direct Democracy agenda will also be cheered by the consistent call for less centralisation. Traditionalists will appreciate the call for lasting institutions to do more of the things currently done by government. On the big questions of politics, this book is continually right.

The free market position is intellectually not merely unscathed but strengthened by current economic dilemmas.

In closing, it is worth noting that there are further areas where the free market position is intellectually not merely unscathed but strengthened by current economic dilemmas. Could it be over-regulation, not under-regulation, of mortgages, that caused the sub-prime crisis?

Many analysts argue that well-intentioned efforts to use regulation to expand minority home ownership in America resulted in far too many mortgages in the hands of people simply unable to afford them. Do people with few savings spend a temporary tax cut during a recession or do they put it in the bank? The permanent income hypothesis would suggest the latter. Does the housing crash prove that markets are inefficient? Or that fundamental values will, in the long term, reassert themselves? Such textbook economics continues to offer much of relevance.

Peter Cuthbertson is a member of the Bow Group

Staying strong on school reform

by Tristan Donovan

New Labour is dead and class war is back in vogue. After years in the political wilderness, the old left is once again having its views heard in mainstream debate. No longer are calls for nationalisation, swingeing tax hikes for the rich and Keynesian big spending the perverse of bitter old Trots who never moved on from the 1970s. Today these ideas are central to the Government's big-state solution to the recession.

Thankfully it seems unlikely that those excitably heralding the 'death of capitalism' will be proved right. After all the Government is more interested in reviving consumer spending and borrowing than trying to reshape the whole economic system.

What the revival of big-state intervention may do is kill off the uneasy consensus between Labour and the Conservatives on the general direction of school reform.

But what the revival of big-state intervention may do is kill off the uneasy consensus between Labour and the Conservatives on the general direction of school reform. In recent years both Labour and the Conservatives have, to differing extents, embraced the concept of giving schools more freedom from government.

The inspiration for both parties is Sweden's education model. Sweden has in recent years become a beacon in education reform thanks to the 'free-market' school system it introduced in the 1990s. Sweden's reforms allowed companies, parents, charities and teachers to open new schools and get government funds on a per pupil basis. To get the money these schools have to follow the country's national curriculum

and accept all pupils who want a place.

The move created competition for pupils between schools, increased parental choice and gave teachers the freedom to be innovative with their approach. The evidence suggests these reforms have produced significant improvements. Other countries have also experimented with similar ideas and found similar improvements.

Given this success it's little surprise the UK's main political parties have looked north for inspiration. The Conservative Party has embraced the Swedish system pretty much in full, while Labour has taken small but important steps towards such a system with its academy and trust schools although it lacks the vital competition and choice elements of the Swedish approach.

Despite differences in how far they embraced the Swedish model, both parties have been moving in roughly the same direction. But the re-emergence of big-state intervention could prompt Labour to change its position since its members, including some education ministers, feel these reforms are too pro-market. So with old left ideas back on the agenda Labour may well be tempted to quietly ditch these reforms in favour of less effective policies such as fast-tracking the refurbishment of schools in the name of saving the economy rather than in the name of improving children's education.

The old left revival also suggests the Conservatives will face more sustained opposition to its plans, which opponents will paint as a semi-privatisation of the nation's schools. If the public turn against market-driven policies because of the credit crunch it could make this policy a hard one to sell.

But the party should stick to its guns as the policy offers a chance to address two crucial problems facing the UK. The first problem is that while the UK remains above average in the international PISA

measure of educational performance we are losing ground at a time when other countries are improving fast. Carry on as we are and our ability to create the workforce it needs to stay a major world economy is at risk.

The second problem the Swedish model could help address is the UK's dismal levels of social mobility. Our current education system entrenches privilege and poverty – your parent's income is increasingly the factor that decides your own future success.

By injecting choice, freedom and competition into the education system we have a chance to break the depressing social immobility and allow every parent, regardless of ability to pay, the chance to get their children into a decent school and escape from those that fail them.

The evidence is on the Swedes' side. With the future of millions of children at stake, the old left - with their history of failed policies and support for the status quo in education - must not be allowed to let the UK turn back the tide on school reform.

Tristan Donovan is Deputy Editor of the magazine Third Sector and former news editor of Children & Young People Now magazine



Meeting the Pensions Challenge

Nigel Waterson MP, Shadow Pensions Minister



For many young Bow Groupers, pensions will be the last thing on their minds. They may well have a student loan to pay off and be thinking about raising the deposit on their first home. As they get older they may join the so-called “sandwich generation” – looking after children and aged parents at the same time. And many will have been turned off the whole idea of saving for a pension by persistent bad news about existing pension schemes.

Yet young people joining the workforce today will routinely live into their 80's or 90's. Even with the state pension age rising to 68, they will spend a much higher proportion of their lives in retirement than previous generations. If they are to avoid poverty in old age, then radical action is needed.

Curiously enough, the dire economic climate may provide some encouraging news for pensions!

Whether we like it or not, two things are pretty inevitable. First, we are all going to be working longer. It was Bismarck who first came up with a retirement age of 65; and clearly what worked in mid-nineteenth century Germany is not appropriate to modern longevity statistics.

Already some million people in this

country are working beyond normal retirement age – whether through choice or harsh economic necessity. That trend will only increase. And all the evidence is that, whatever age you are, work is good for you!

We also need to have greater flexibility in work patterns. Retirement should be a process not an event. If people are to have longer in the workplace, then there needs to be more retraining available, especially for manual workers.

The second certainty is that savings are going to increase as part of the new financial landscape. When we left office in 1997, the savings ratio was nearly 10%. Recently it has been in negative figures. Gordon Brown built an economy on a mountain of debt, and created a society where it was easier to borrow than save.

We have probably seen the back of the dinner party bore who would announce that he did not need a pension because his house was his pension! I hope people will take a more balanced approach to assets investment, and not be overly reliant on residential property.

Superficially there may be bad news in the short term for pensions. People may have other priorities. They will be worried about losing their jobs, homes or businesses. The fear and distrust of financial institutions and indeed government will take a long time to recede.

Hard-pressed companies will be more likely to close their generous final salary pension schemes. And even more workers will find themselves in defined contribution schemes where the whole risk of the outcome falls on the employee.

But I believe there are grounds for hope.

In the coming years, I think we shall hear much more of a word that has been gathering dust for years. That word is

thrift. We need to find new ways of attracting younger people into the saving habit. I am looking at the US system which allows “early access” to pension funds; so that people can draw down funds for lifetime events like college fees and home purchase. There is considerable evidence that such flexibility encourages pension saving, even if the individuals do not actually take advantage of the possibility to draw down funds.

It is bad enough expecting young people to lock up their money for 40 years, without requiring them to buy an annuity at the end of it. So we Conservatives would liberalise the current rules about annuitisation, giving people more choice over how they deal with their pension pot.

In 2012, we are expecting the new system of Personal Accounts to commence. This could mean several million people who have no pension provision at present being automatically enrolled into the new system.

We Conservatives are looking very hard at the design of this new system, especially with a view to people on low pay not losing out because of the interaction with means-tested benefits.

As a Party we are committed to restoring the link between the state pension and earnings. With 2.5 million pensioners living in official poverty and £5 billion in benefits going unclaimed by pensioners every year, this government has tested to destruction the ability of means-testing to help the worst off.

Perhaps most of all, we need to get away from the slightly staid notion of “pensions”, and move to the idea of “lifetime savings”. In other words, savings which can be deployed to meet a range of life's challenges, not just old age.

Nigel Waterson MP is Shadow Pensions Minister and a former Chairman of the Bow Group

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