

Democratic capitalism: a Tory rescue plan



by [DAVID HOWELL](#) | [@LORDHOWELL](#)

New Conservative groups are popping up all around in search of ways to reverse the big Tory slide in the polls. Bright ideas have emerged for changing this policy and that one. But somehow the really big question remains unanswered – namely, what does the modern Conservative Party now stand for? What is the grand narrative or story which Conservatism can offer the British nation in deeply uncertain times? We can hear the separate instruments in the orchestra (and the Prime Minister is a fine one), but where is the concerto?

Hardly a political column ends without a call for a vision, a strategy, a narrative, a purpose, and so on. The trouble is that convincing answers to this sort of demand don't just surface fully formed or get served up in bullet points by slick public relations experts. Nor is it much use relying on old ideological rallying calls of the past in facing huge and entirely new challenges, when the digital revolution has changed everything, nationally and internationally, and AI is about to change it still more.

Covid, described by one author as “one of the most devastating events humanity has suffered in recent times”^[1], the world energy upheaval and a hideous war in Europe, have all drained Government resources almost to the last drop. The need, if anything inspiring is to emerge, must be to reach far deeper into the philosophies of the passing age, unravel the numerous contradictions, pull together a myriad of many new strands and open up new paths of hope.

There is no single way of doing this. This has to be a beckoning and well-framed new landscape, not a portrait or still life. But there is one theme, or unifying set of ideas, which should stand near the centre of that

landscape. It is both old and new, it has been tried before and failed and yet its time may now at last have come.

The theme is nothing less than the reform of today's capitalist system, how it works and how it ought to work, supposedly nowadays for everyone but obviously not turning out that way. Capitalism needs renewing – fundamentally. This demands moves, and the turbo-boosting of already existing trends, which sit above almost all the ideologies of the past, and the tired partisanship which goes with them.. It means thinking the unthinkable; it requires courage and holding tight to the handrail as we go forward.

In its modern state the capitalist system we have now is not the ally of democracy it should be, it is not working the way it used to, it is not the partner of either justice or fairness and it is not safe or stabilising. Its defenders are mostly hopeless, locked in silo thinking, using yesterday's arguments and facing in the wrong direction. The old adage – that capitalism will carry on enriching some, but benefit all through higher wages and salaries, no longer stands. We need – the world needs — new ways of bringing the benefits of capital asset ownership, not least the security and dignity they endow, to millions of families living on the knife-edge of weekly wages or monthly salaries.

In the current stale debate, capitalism is presented as the bastion against socialism, but that is not where the challenge is coming from. The two ugly great autocracies, China and Russia, and their hangers-on, have long since moved on to other things. China now runs a sort of mixture they call capitalist socialism, (socialism with Chinese characteristics), while Russia has descended into a type of corporatist gangsterism.

The global argument is no longer about rival economic systems. Instead the argument has to switch and become more than ever about method and context, about the rule of law, human rights and freedom of expression, and showing convincingly that those who ignore these fundamentals and live behind a façade of faux liberalism must fail, whatever their system.

The real capitalist challenge comes from within. It is excluding most people. The time has surely come to recognize this openly and bravely and

embark on establishing a new kind of social capitalism which spreads its benefits far wider, and in a far fairer way, than the present system. How long can we tolerate what is seen, increasingly, as limiting capital ownership and its benefits to a pinnacle class.

Doing nothing in face of this trend, or harking back to the powers of past capitalist development, which undoubtedly enabled industrialisation and lifted much of the world out of mediaeval poverty, plays into the hands of those who are itching to “try” state socialism yet again, which always, always fails, always causes increased poverty, inequality and inevitable instability – as power falls into the hands of new elites — and brings new unfairness, resentment and collectivist oppression.

The danger now is that thinking about how to meet this new situation, this age without old ideologies, seems just too difficult. In a book entitled *Look Where We're Going* (Unicorn 2019) I tried to warn that the situation was coming to the boil. The very words “capitalism” and “socialism” are leading up dangerous dead-ends in social and financial reform, and in public comprehension of the financial system. This warning fell flat, as the cheerleaders on both sides pressed on with the old clichés, divisive line-ups and Manichean global perspectives about different economic systems.

But in truth this warning was only a copying and gathering exercise from a long line of advocacy over the last hundred years. In the UK context it can be traced from Keynes himself to Churchill, Eden and Macmillan, and latterly, under Margaret Thatcher, to Nigel Lawson and John Moore.

On the other side of the Atlantic, a long trail leads from Louis Kelso back in the 1950s (who met and received an enthusiastic reception from both Harold Macmillan and his son, Maurice) to the apostle of “universal capitalism”, Stuart Speiser^[2]. Then there was Senator Russell Long, who brought the cause to Washington and achieved important changes in US tax law in favour of wider asset ownership of all kinds and participation in the overall financial process by millions of American households. (Some 40% of all US households now hold financial assets directly, as against only 13% in the UK.)

The recovery period following the world financial crisis of 2008-9 might have been the prompting time for starting out on the path to a far wider and more fully shared capitalist reform — capitalism with British characteristics? The potential was for a new pattern, not of universal income (tried and failed), but of universal, or at any rate vastly extended, social capitalism, in place of the distorted version now with us.

It could have been the moment of creative imagination flowering into a powerful and cohering political message from the centre right of politics, as many leading and highly respected commentators had repeatedly been urging – such as the late Samuel Brittan, Ferdinand Mount or George Copeman (who founded the Wider Share Ownership Council). Earlier there were such influential financial journalists as Nicholas Davenport and Patrick Hutber. It could have been the moment for putting paid to cartel capitalism and beginning to temper populism with popular capitalism.

What would that have meant, and what would it mean now? After decades of missed opportunities, why should it make any more progress than in the past? Is it once again too late, too difficult, too daring — good conference oratory but hollow within?

The positive answer to these questions comes from four directions.

First, the digital revolution in the last 30 years has transformed not only the financial system but the potential for understanding and relating to it, and for a generally more educated and mature public interest to emerge as to the processes of economic growth, capital accumulation and financial risk.

Over-concentration of capital ownership worried the earliest pioneer thinkers of wider ownership and wider understanding, as well as intensifying general antagonism to capitalism, promoting Marxian fallacies and creating a yearning for returning to collectivist escape routes, especially in Left wing and trades union leadership circles. All these concerns have been hugely amplified by increased communication power and greater transparency (reliable and fake).

Second, ownership is dignity and ownership is security. At a time when the fourth industrial revolution is poised to make another leap forward, with AI about to displace millions of jobs, the need for between-jobs asset support for every household, hitherto the comforting cushion for the better off, and

over and above the limits of welfare and income redistribution, is mushrooming.

Third, one reason why the cause of direct wider ownership of assets, other than physical property, has languished in the UK, in quite sharp contrast to America, is the enormous expansion of private sector pension schemes in the last thirty years, now covering about 80% of the entire workforce^[4] and creating a pattern of very large and smaller pools of investible funds.

The “ownership”, then, is already there, but without awareness. Scarcely any individual sense prevails in the UK of how or where the money is invested or what the pensioner, future or present, actually owns. As Merryn Somerset Webb has perceptively argued in her book *Share Power*, the shares are there but the sense of ownership is not, nor is any awareness which the right of ownership ought to confer. That stays with the Pension Fund managers, who seem to act like owners.

That’s in the *private* sector, where all but a very few schemes are contributory and the whole system enjoys a state safety net in the form of the Pensions Protection Agency – an interesting example of how state and private interest now have to work together at the mass level in new ways.

In the UK *public* sector, containing one fifth of the workforce, there is an even greater disconnect. Local Government pensions are funded, but that is only about one seventh of the total public sector employment. There are a handful of other schemes which are also funded (Members of Parliament, for instance!). For the rest in public service, pensions are financed on a pay-as-you-go basis. The only link for most public sector workers is the negative one — that their wages get docked for a “contribution” to their pensions – the amount being set by Government actuaries. Where the money comes from is of no concern, except that it is all part of total remuneration, and its cost has to compete with all other calls on public expenditure – an aspect tending to be overlooked by union leaders campaigning for better pay now, or at least for a smaller cut in real wages.^[4] Only the armed forces are excused any contribution at all.

Disinterest, or even total unawareness, about pension funds means disinterest in where the funds put their money, and in the quality and skill of their management. This, combined with a high hedge of bureaucratic

regulation, and an outdated pattern of small and weak funds — which should long since have been consolidated, as recommended again recently by Tony Blair — has led to almost total disconnection in turn between UK pension funds and investment in the UK itself. An even more radical step could be to change all public sector schemes from pay-as-you-go to actual funds for investment.

Where once UK pension plans invested as much as 60% of their funds in UK business and the UK stock market; the latest figure is around 4%. It is this precipitous decline which leads the present Pension Fund Regulator, Nausicaa Delfas, to urge pension funds to broaden their investments, adding “The challenge of the last decade was how to get people saving. And now the challenge for us is how do we make sure that they get the right value from their savings.” She went on to point out that those schemes that had the scale and expertise were able to invest in a diverse range of assets and productive finance — such as illiquid investments, start-ups and growth assets — all had a part to play in a diversified fund portfolio⁵¹.

Thus, a chain of connection runs between wider capital ownership to pension fund policy and management to the supply of investment funds for refuelling the British economy to full competitive strength – enabling it to “catch up” – once the slogan of the developing world. Now the boot is on the other foot.

So there we have the obvious breaks in this chain — between pension beneficiaries and the funds which they theoretically own but about whose source and management they barely care or understand, on one side, and on the other the missing involvement of pension funds in British investment of all kinds.

It is this kind of hemmed-in isolation of the entire pensions industry from the nation’s economic processes which indicates exactly where repairs in the chain are most needed. It also screens off the pension-owning public from the real nature and benefits of the modern enterprise economy — with deep and socially divisive results

Besides innovation and enterprise generally there is the new panorama of investment opportunities offered by the green energy transition and by

the Government-backed Long Term Investment Scheme for Technology and Science. This panorama, as the Pensions Regulator herself implies, simultaneously offers better returns for pensioners (together with closer interest in what was being done in their name), while boosting investment in national growth.

A fourth trend is the dawning realisation that China has defied all the models. To put the Chinese giant on the defensive, it will have to be shown that their kind of capitalism is rotten at the roots. Instead, alternative forms of capitalism, that pump the benefits into the mainstream of a changing society and a transformed pattern of work, are evolving and can be developed without ruptures, walkouts, protests, or more of the divisive bitterness we see growing all around us already.

All the above sets a new context for the revival of an old and deep cause. What are the moves which might turn the old dreams of much wider participation in ownership into a new reality? And what does the story look like which might weave them together, giving them both a fresh credibility and appeal — and a central place in the Conservative shop window?

The schedule in the immediate UK context, and in the pre-election debate, would go something like this:

1. Begin now acknowledging, propounding and explaining to the public, with ten times the lucidity and frankness of the past, the flaws and dangers to democracy in “Western” capitalism that have developed. Show how reform is possible to replace today’s loss of faith with a new and less divisive approach, as well as with a more genuine and direct kind of levelling up than anything so far proposed. In short a capitalism reset is both necessary and possible and will be undertaken.
2. Undertake to dismantle the tangle of regulations holding back new homes construction. Update the Thatcher ambitions of a property-owning democracy through council house sales – which went disastrously wrong when the Treasury insisted on taking back all the proceeds instead of launching a massive replacement of existing low-standard social housing with a new and modernised stock, along with new building mostly on brownfield sites both for ownership and rent. This is the number one step towards a more solid sense of ownership, involvement and fairness from which all else follows.

3. Reform the UK pensions industry – both to reconnect members and beneficiaries with the funds they “own” and to lift the barriers (including the remaining EU ones) which prevent these funds underpinning both UK infrastructure and the enterprise economy, as described above.
4. Follow the Kelso, and later, American ideas, for much wider and more diffused employee ownership , via tax incentives to companies raising capital through employee share schemes, backed by safety net state support (as for pensions through the Pensions Protection Agency and State bank deposit guarantees at present).
5. Win above-party and trans-party support for democratising capitalism, and especially win over enlightened trades union support for the powerful new benefits that come with ownership for their members, rather than for ever chasing higher nominal wages to match the cost of living and better living standards, by both futile militancy and retreats to the past, such as a return to discredited nationalisation.
6. Commit in parallel to an entirely new raft of measures which incentivise instead of hampering small and new enterprise in every sector and lift numerous burdens on small and medium-sized business, from which the roots of innovation, ownership and wealth creation grow.
7. Encourage through the tax system all forms of community endeavour and project which enrich the environment.
8. Present this advance to reformed capitalism in its international context as the means of outpacing deformed and illiberal “capitalist” models, and as the distinguishing feature of British creativity and talent as it repositions itself in an entirely changed world of both trade relations and security — and of continued influence.

This is an agenda which, if life can be breathed into it politically, can transcend the rancid party debate and yet at the same time give purpose and direction to modern Conservatism — a difficult but necessary stratagem if the Conservative party is to have any chance at all and of finding a cause which unites it both within itself and with popular trends.

It offers, too, a different and far more genuine kind of levelling up throughout the nation, than anything in present debates or current contorted legislation, especially where “levelling up” has come simply to mean levelling up power as between central government and devolved or new regional, city and local political bosses.

The financial journalist Nicholas Davenport, who knew Keynes well, said that the great economist had the most open mind of anyone he had ever

met. Very open minds are now needed to take the next steps forward in capitalism and democracy, and in carrying popular understanding with them.

This will require strange political bedfellows and enormous political skill and courage. But it is not mission impossible and it might yet give much-needed backbone to the Conservative cause.
