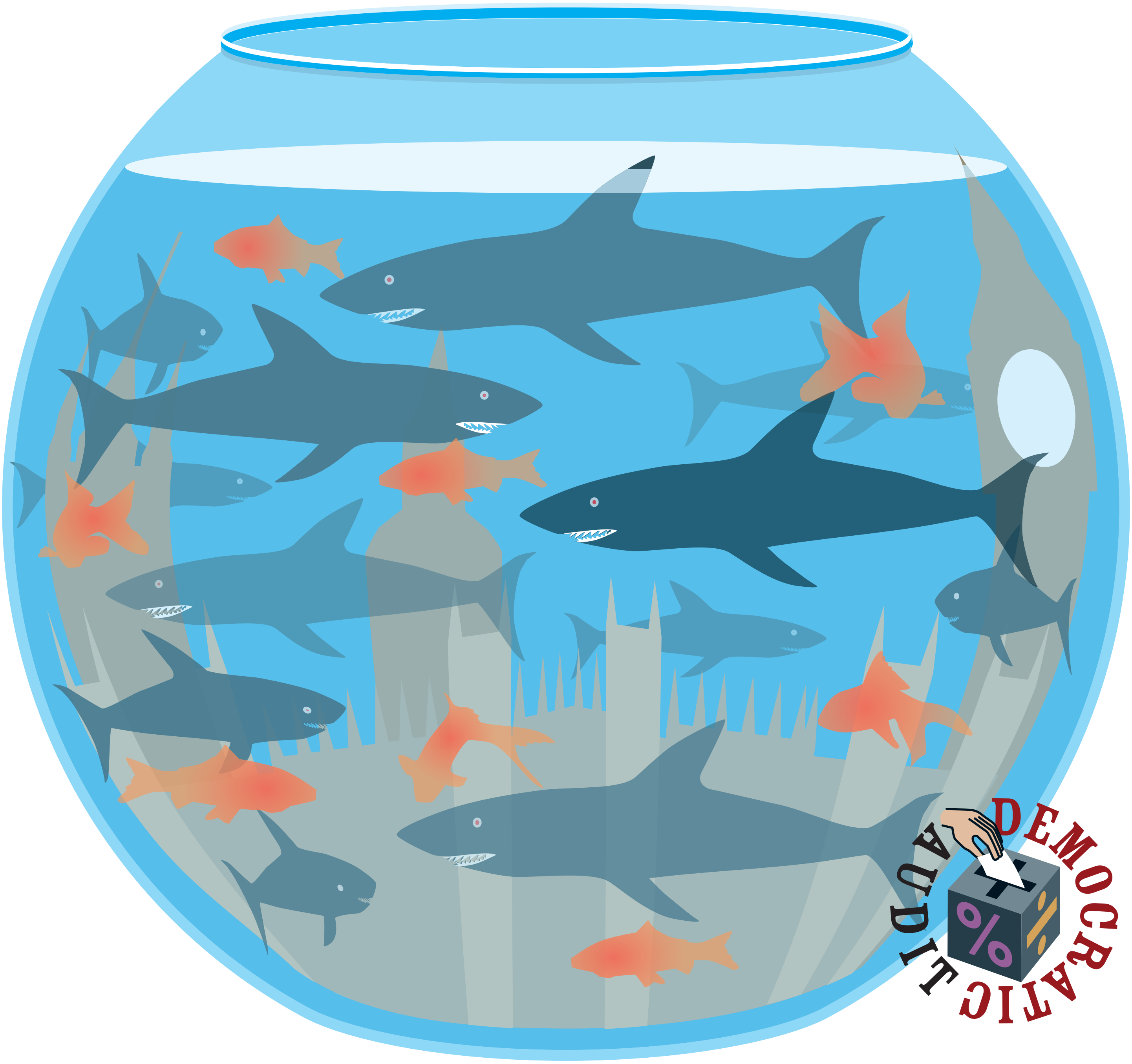
Unelected Oligarchy

Corporate and Financial Dominance in Britain's Democracy

David Beetham



Democratic Audit

Executive summary

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The financial crisis of 2007-8 and its aftermath have intensified the perception that the UK government works largely for the benefit of the corporate and financial sectors rather than of ordinary citizens and taxpayers. As part of a wide-ranging audit of Britain's democracy, this paper explores the extent to which this perception is valid.

The first part traces the historical changes since the 1980s – ideological, economic, fiscal and operational – which have led to the increasing dependency of government on the private sector.

The second part identifies the different channels through which corporate and financial elites have inserted themselves into the heart of government over successive administrations, and how they continue to exercise a predominant influence over it – through the financing of political parties, think tanks and lobbying organisations, membership of advisory bodies, 'revolving doors' and joint partnerships with government. This situation is then assessed against internationally accepted criteria for democracy which Democratic Audit has employed over the past two decades.

The paper combines a rigorous evidential base with a principled analysis of what makes a system of government democratic. It will interest all those concerned with the current condition of Britain's democracy.

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This democratic audit of the UK takes place in the aftermath of the most severe financial crisis and economic recession since the 1930s, whose consequences will be with us for a decade or more. Like that of the 1930s this crisis has a global reach and significance, though with particular features distinctive to the UK in view of the comparative weight of the financial sector in its overall economy. The purpose of this paper is to identify what are the implications of this crisis and recession for the health of our democracy, in terms of both their causes and effects, and for what they reveal about the nature of power in a political process where supposedly 'everyone counts for one and none for more than one'.[1]

It will be worth beginning by posing a simple question or question series. How have we arrived at a situation where the government:

- has been unable to prevent a near-terminal crisis of the banking system from taking place, with a subsequent recession affecting all sectors of the economy including the public finances?
- has only been able to prevent a total collapse of financial markets by using enormous sums of taxpayers' money to bail out the banking sector?[2]
- expects the burden of resolving the crisis to be borne by ordinary taxpayers, service users, welfare dependants and other vulnerable groups, rather than by the banks which were mainly responsible for the crisis?[3]
- is seemingly unable to control the bonus culture in the financial sector, or to get credit flowing to the businesses on which economic revival depends?
- is so pusillanimous in reforming the way the banking system is organised, which Sir Mervyn King, Governor of the Bank of England, has described as 'the worst it is possible to have'?[4]

Answering this question series involves exploring a two-sided historical process since the 1980s, whereby, on the one hand, governments have increasingly lost capacity to control key areas of policy, particularly economic; and, on the other, the corporate sector as a whole has come to enjoy an unprecedented level of influence across all aspects of government and public life. Certainly governments, especially in the US and UK, have often proved all too willing collaborators in these processes. Yet the outcome of them has been an extraordinary limitation in government's discretion on issues of substantial public concern, especially when faced with determined pressure from key corporate and financial elites.

The implications of this situation for democracy are well spelled out by Nobel economist Paul Krugman in a recent article in the *International Herald Tribune*. Although he is referring to the US, what he writes could equally apply to the UK:

> In principle, every American citizen has an equal say in our political process. In practice, of course, some of us are more equal than others. Billionaires can field armies of lobbyists; they can finance think tanks that put the desired spin on policy issues; they can funnel cash to politicians with sympathetic views. On paper, we're a one-person-one vote nation; in reality we're more than a bit of an oligarchy, in which a handful of wealthy people dominate… It was super-wealthy players, not the general public, who pushed for financial deregulation and thereby set the stage for the crisis of 2008-9, whose aftermath is the main reason for the current budget crunch.[5]

> Never in the field of financial endeavour has so much been owed to so many by so few.
>
> Mervyn King

> We are more vulnerable than perhaps we have ever been since the nineteenth century to the advent of rule by an unelected oligarchy.

Here is Robert Peston writing in the same vein specifically about the UK in his book *Who Runs Britain?*

> We've witnessed in the past decade the way that all the main political parties have been prepared to grant access and influence to those with the wherewithal to fund their operations. Even with reform of the system of funding political parties, the wealthy will find a way to buy political power – whether through the direct sponsorship of politicians and parties, or through the acquisition of media businesses, or through the financing of think tanks. To put it another way, the voices of the super-wealthy are heard by politicians well above the babble of the crowd….It means that we are more vulnerable than perhaps we have been since the nineteenth century to the advent of rule by an unelected oligarchy.[6]

The situation Krugman and Peston describes directly challenges the two key principles which the Democratic Audit has always used for its assessment of the democratic condition of the UK: popular control and political equality.[7] It is the people who should be the decisive source of influence on government and its policies, and they should be treated as equals politically. The situation described above not only contradicts these principles; we also address it directly in two of our audit questions: 'How far is the elected government able to influence or control those matters that are important to the lives of its people?' 'How far is the influence of powerful corporations and business interests over public policy kept in check?' Moreover its implications reach into almost every area of democracy covered in the audit:

- into issues of inequality, not just of income and wealth, but the distribution of costs and opportunities between citizens;
- into trade union and workplace rights, and corporate regulation;
- into party and candidate financing;
- into equality of access in government consultation on policy and legislation;
- into the level of integrity in public life;
- into the independence and pluralism of the media;
- into external influences which compromise the domestic democratic process;
- into support for the rule of law and democracy overseas.

As a starting point for reviewing the changes that have taken place since the 1980s which have led to where we are today, it will be useful to consider an analysis of the relation between business and government written in the 1970s by Charles Lindblom in an influential book entitled *Politics and Markets*.[8] In this he describes what he regards as the normal position of government in a market democracy. Fundamental is the fact that, in a market economy, economic activity is not directly under the control of government, but depends upon private business decisions for investment, production and the delivery of employment and services. This means that a government's goals for the economy, which lie at the heart of all government policy, can only be met *indirectly,* through securing conditions favourable to business, and giving priority to its interests. In short, government is in a condition of dependency in relation to the business sector.

There may be nothing particularly sinister in this, says Lindblom, once one understands the simple fact of life in a market economy. However, this inherent dependency of government on business for the realisation of its own goals is reinforced by other advantages that business has, when compared, say, with other associations that try to influence government. It has far superior resources of wealth and organisation. Above all, it has attained an insider position in many government ministries, where it acts as a privileged consultant and provider of necessary information in the formation of policy. Because of their key function in the economy, he writes, 'businessmen cannot be left knocking at the doors of the political system, they must be invited in.'[9]

Lindblom concludes that business cannot be regarded simply as one pressure group or interest group along with others. It constitutes a power that in many cases is equal to that of government.

And although its interests may well coincide with the interests of society at large, this is not necessarily so. At the very least, what governments believe to be in the public interest is itself refracted through the lens of the particular interests of business. As Lindblom concludes, what we call democracy is in fact a compromise between the power of the vote and the power of business, with government negotiating the interface between the two.

If this is what Lindblom, writing in the 1970s, regarded as the normal situation of government in a 'market polyarchy', as he called it, what is so different or so remarkable about where we are today? In the first place, key systemic changes in the international economy since the 1980s have significantly reduced the capacity of governments in relation to business, and greatly increased their level of dependency when negotiating with it. At the same time the range of powers available to the corporate sector to influence or determine government policy has considerably expanded as it has become increasingly enmeshed with government, while potential countervailing powers of a more democratic kind have been correspondingly weakened. To use Lindblom's terms, the balance between the power of the vote and the power of business has become increasingly one-sided since his time. The next section outlines the systemic changes since the 1980s which together have served to limit the capacity of governments in relation to the corporate sector.

Systemic constraints on government capacity

In what follows I identify four sets of interlocking changes since the 1980s which have radically altered the balance between government and the private sector, with reference particularly to the UK. These can be termed ideological, economic, fiscal and operational respectively.

1 **Ideological:** the triumph of 'market fundamentalism'

Among the most important developments since the 1980s has been the almost unquestioned dominance in the Anglo-Saxon world of a set of ideas which Nobel economist Joseph Stiglitz and others have called 'market fundamentalism'.[10] It was developed first in right-wing think tanks, elaborated in university economics departments, and from there became widely accepted as the new common sense by governments, central banks, financial journals, international institutions such as the International Monetary Fund, the World Bank and World Trade Organisation, and of course by the corporate sector itself. The ideas gained the wide currency they did partly because of the crisis of welfare economies in the 1970s and a corresponding loss of credibility of Keynesian ideas on which they had been based. They were also given an enormous boost by the collapse of the Communist system in 1989 and the loss of any recognisable alternative to free market capitalism. They penetrated even into formerly left wing political parties such as New Labour under Blair and Brown.[11]

Market fundamentalism (also known as 'neo-liberalism') comprises two related sets of ideas. First, that unfettered markets constitute a self-regulating and self-correcting device to maximise efficiency and economic growth, whose benefits will 'trickle down' to even the poorest; and that, by contrast, the state is wasteful, incompetent and bureaucratically restrictive on business enterprise. Second, that market models of competition and consumer choice provide the only way to improve service delivery in the public sector; and that citizens should be reconfigured primarily as consumers.

The first of these sets of ideas influenced and justified policies of business and financial deregulation from the 1980s onward, starting with the Thatcher and Reagan governments. Under Mrs. Thatcher exchange and capital controls were abolished, the stock market was deregulated (the so-called 'Big Bang' of 1986) and distinctions between different kinds of bank and financial institution were eroded. The second set of ideas drove the process of privatising state enterprises, putting public services out to tender and introducing market mechanisms into those that remained in public hands.[12] A particular version of this process, developed under the Major and Blair governments, was the Private Finance Initiative (PFI), whereby private companies were contracted not only to build or rehabilitate public facilities, but

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to manage them with guaranteed taxpayer funding over several decades, or else sell the contracts on to third parties if they found the commitments too burdensome or the sale especially profitable.[13]

The core ideas of market fundamentalism and the policies associated with them were not the product of disinterested speculation. They were actively promoted by the corporate and financial sectors which would most directly benefit from them, and whose executives could expect enormously enhanced remuneration as a result. Not everyone would agree with Stiglitz's assessment of his own economics profession that it 'had moved from being a scientific discipline into becoming free market capitalism's biggest cheerleader'. But his more measured conclusion, that the belief in the rationality of markets 'was a result of contagion from the conservative market participants themselves' and 'was convenient for many special interests', has plausibility.[14] In the case of the UK, where the ratio of FTSE company directors' pay to their average employee in 1989 was 19:1, by 2006 it had risen to 75:1, and by 2010 it was 145 times the median national full-time wage.[15]

In terms of the effect on government, which is the main concern here, the twin policies of deregulation and privatisation have led to a considerable loss of steering and oversight capacity on the part of governments, and an increased vulnerability to private sector default. When a privately run service which is essential to society ceases to be profitable or its providers are threatened with bankruptcy, the government is forced to step in with taxpayers' money to rescue or maintain it. This occurred under New Labour with the rail infrastructure and operating companies, with the modernisation of the London Underground, with the failure of complex IT systems, and also in the health, education and local government sectors.[16] As Tony Travers, an expert on local government from the LSE puts it, 'The risk of the private sector going bust is always present. And then the public sector has to step in to sort things out.'[17] Of course this occurred most spectacularly with the collapse of the banking system in 2008, where complex new types of security, combined with huge levels of leverage and a shadow banking system had escaped all effective scrutiny and oversight. While the taxpayer-funded bailout of the banks may appear to have shown government's indispensability and capacity to exercise control, in fact it simply demonstrated and reinforced its relative weakness and vulnerability. Like Railtrack, the rail infrastructure company, the banks were simply too important to be allowed to fail, even though they were the chief agents of their own failure.[18]

2 **Economic:** globalisation and financialisation

A second substantial constraint on government capacity since the 1980s has been the process known as 'globalisation'. This refers to the way in which trade, investment and finance have all been progressively internationalised, and to the corresponding growth of trans-national corporations and businesses which have the capacity to switch their production and investment between countries, according to where the conditions are most favourable. 'Most favourable' means not only where wages are low, but where corporation taxes are light, company contributions to social security are minimal, and regulations over working and environmental conditions are lax. This freedom of movement by multinationals tends to penalise governments which seek to maintain standards of social welfare and regulatory or taxation regimes that are significantly out of line with their competitors, and to bring pressure on them to change. Overall, these changes substantially reduce the effectiveness and reliability of national economic policy instruments, and diminish the power of governments relative to private markets and firms.[19]

Paul Hirst and Grahame Thompson argued in an influential book that the relative incapacity of governments in the face of international markets has been considerably exaggerated. Governments still have policy instruments available to them to encourage those economic sectors where the country has a competitive advantage.[20] However, the choices available to them are restricted, and, once made, the economy remains vulnerable to external pressures and constraints. In the UK successive governments from Mrs. Thatcher onwards have decided to build on the historic strength and connections of the City of London, where the UK has a competitive advantage, and to encourage its ambition to be a global leader in financial services by offering the most deregulated market, so attracting traders from all over the world. By 2007 the average turnover of financial derivatives directly traded in London peaked at $2 trillion every day.[21]

In this new 'financialised economy', the giant firm is no longer the only or even the main locus of economic power. As Mike Savage and Karel Williams have argued, over thirty years of unprecedented financial innovation have produced an 'increasing number of highly paid financial intermediaries whose role is not the executive management of "men and things" within corporate hierarchies, but the switching and servicing of flows of money through market trading and corporate deals whose profits greatly increase the numbers of working rich….. high income financial intermediaries now hugely outnumber high-income corporate executives.'[22]

Now it can certainly be argued that the huge growth in employment in the City that has resulted has boosted government revenues through payroll taxes, and made a contribution to the economy through value-added out of all proportion to the numbers involved. Yet, as many commentators have pointed out, this dominance of the financial sector has been detrimental to other sectors of the economy, since it has generally been more profitable to invest in financial trading than in domestic businesses, except where company takeovers have generated windfall profits.[23] This dominance has also given the City enormous political leverage over governments. In the fourth volume of his monumental history of the City of London, David Kynaston describes how its values and interests have come to exercise a profound influence over British society and state. Robert Peston calls the City a 'state within a state'. In his book on tax havens, Nicholas Shaxson writes of 'the penetration of the City consensus into the British body politic'.[24]

Of all forms of economic activity, financial trading is the most mobile, as it requires minimal fixed plant or determinate location. 'The City's firms and executives are global citizens, not national ones,' writes Robert Peston; 'they are happy to set up shop where the tax breaks are greatest and the pickings are richest.'[25] The government is therefore particularly vulnerable to threats on the part of banks and traders to move offshore if they deem systems of regulation or taxation to be too onerous in comparison with those elsewhere. Such threats have become particularly pronounced since the crash of 2008, as proposals for banking reform and a curb on pay and bonuses have become current in public discourse. When the Chancellor, Alistair Darling, introduced a bankers' bonus tax in 2009 in response to public pressure, 'I received lots of calls from lots of bankers,' he recalled; 'they said this was causing them to think long and hard about London.'[26] Even such direct threats are hardly necessary to pressurise a Chancellor. All it needs is for the word to be put about that a major bank or trader 'is thinking of moving abroad', as happened in early March 2011 with both Standard Chartered and HSBC, accompanied by a reminder from the Director of the Confederation of British Industry (CBI) that 'mobile talent needs a good reason to do business in the UK'.[27]

Given the squeeze that the financial sector can put on any UK government, it is hardly surprising that proposals for reform have so far produced so little. Four months of discussions between the major banks and the government on bank lending and pay produced so-called 'Project Merlin', described by Lord Oakeshott as 'a weak waffly aspiration with vast wiggle-room', by Chuka Umunna MP as 'hardly worth the paper it was written on' and by *The Observer*'s business editor, Andrew Clark, as 'a hopeless pamphlet of platitudes'. 'For those who object to vast extremes of City wealth,' the latter writes, 'it's difficult to see this as anything other than the missed opportunity of a generation. The credit crunch presented a crossroads. Would we continue as before? Or attempt a root-and-branch reassessment of the financial industry's role in the economy? We've opted for the former.'[28]

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3 **Fiscal:** the undermining of government revenues through the tax avoidance industry

A fair and effective tax system is important to democracy in at least three ways:

The increasing ability of corporations and wealthy individuals to avoid taxation, and the enormous effort expended on devising ingenious schemes for doing so, is damaging to democracy at many levels.

- **facilitative:** it delivers the revenues essential to the provision of public goods and services;
- **symbolic:** it gives recognition to the value of the public sphere and collective responsibility for sustaining it;
- **distributional:** it shares the burden of payment between different groups and individuals in a way that is broadly accepted by citizens as fair, because of its redistributive effects between the wealthy and those less able to pay.

The increasing ability of corporations and wealthy individuals to avoid taxation, and the enormous effort expended on devising ingenious schemes for doing so, is damaging to democracy at each of these levels. It means that those doing so are able to take advantage of the infrastructure necessary to their wealth and profits while escaping the responsibility to pay for it. This has come about through a combination of the two developments already analysed, the ideological and the economic. Central to free market ideas has been the contention that government is wasteful, and that tax rates should be reduced to free resources for the more efficient and productive private sector. Minimising a company's payments to the exchequer is seen as responsible 'tax efficiency' in the interests of shareholders. At a more philosophical level, there has been the convenient theory that the outcomes of free exchange between consenting market partners are necessarily just, and that taxation represents a form of legalised theft or forced labour.[29] If such ideas have provided a ready justification for tax avoidance, the process of economic globalisation has provided the means and the opportunity, by enabling companies and rich individuals to take advantage of the widely differing tax regimes and rates across national borders.

The ways in which *companies* can avoid paying tax on their profitable activities in any given country are manifold, but three are recurrent, depending on the particular cross-border taxation agreements in force:

- **Transfer pricing** *(or 'mispricing').* This is the method whereby trans-national corporations charge artificially high prices for goods and services traded across borders between their subsidiaries, so as to cut profits in higher tax jurisdictions and increase them where tax rates are low. Since around two-thirds of the world's cross-border trade takes place within trans-national corporations, the amounts lost to national exchequers are enormous.
- **Shifting domicile.** This is the method whereby a company can avoid or reduce its corporation tax in a country where its main trading takes place by shifting its head office to a lower tax jurisdiction, where its profits are then registered. This also often happens when a company is taken over. Recent examples in the UK are Betfair's decision to move its operating licence to Gibraltar, and the Kraft takeover of Cadbury's, which has since become subordinate to a Swiss holding company, so transferring much of its tax liability from the UK to Zurich.
- **Debt-loading.** This is the method whereby a company, often through being taken over, is loaded with debt so that its profits are reduced, while the interest payments are owed to a financial entity in another jurisdiction. This method is particularly favoured by private equity firms. If the company makes a loss it may even be entitled to a repayment of corporation tax paid on previous years' profits, as happened, for example, with the private equity takeovers of Debenhams, Saga and the Automobile Association respectively.[30]

The result of these and other methods has been to substantially reduce the amount of corporation tax as a percentage of the UK's taxation, and to shift the burden onto ordinary taxpayers. An investigation by the National Audit Office in 2007 discovered that a third of the country's largest 700 businesses had paid no corporation tax in the previous year. The UK tax liability of Rupert Murdoch's News Corporation is minimal, while in 2009 Barclay's Bank only paid £113m in UK corporation tax on profits of £11.6bn, a rate of around one percent. Such examples can be multiplied.[31]

As regards wealthy *individuals*, methods of tax avoidance on personal income and wealth are naturally not the same as for corporations, though many of them involve exploiting differences between tax jurisdictions and rules differentiating between where a person lives and where they are 'domiciled' for tax purposes. Examples making news, such as British legislator Lord Ashcroft, who has avoided paying tax on his non-UK income by being domiciled in Belize, or Sir Philip Green, who avoided tax on 1.2bn of dividends from his business empire Arcadia by having them credited to his wife in Monaco, are simply the tip of a very large iceberg.[32] An investigation in 2006 by *The Sunday Times* found that the 54 billionaires living in Britain paid income tax between them of a mere £14.7m on their estimated total wealth of £126bn.[33]

These different methods of tax avoidance have been greatly facilitated and enhanced by the growth of tax havens (or 'secrecy jurisdictions' as they should properly be called), whose sole purpose is to provide a home for money and business seeking to avoid tax and regulation elsewhere. In his recent book, *Treasure Islands*, Nicholas Shaxson has described the web of offshore jurisdictions, many of them small islands, radiating from the City of London, which acts as a global centre of expertise and provision for tax avoidance. The British Virgin Islands, for example, with fewer than 25,000 inhabitants, hosts over 800,000 companies. 'More than half of world trade,' he writes, 'passes, at least on paper, through tax havens. Over half of all banking assets and a third of foreign direct investment by multilateral corporations are routed offshore.'[34]

Several attempts have been made to calculate how much tax has been lost as a result of all these arrangements. For the UK, Richard Murphy has estimated that gross annual tax avoidance amounts to about £97bn, or 16.6 per cent of expected tax receipts, or 6 per cent of GDP, with tax losses attributable to tax haven use standing at approximately £18.5bn a year. The Tax Justice Network calculates that world-wide the amount of tax not paid because it is hidden offshore represents a loss to governments and their citizens of US$255bn each year. Developing countries lose ten times more in tax avoidance than they receive in aid, while within the European Union the tax gap – the difference between expected liabilities computed from published corporate profits and actual tax paid – amounts to between 2-2.5 per cent of GDP.[35]

In the context of our UK democratic audit, tax avoidance at these levels undermines the linkage between taxation and democracy in all three ways outlined at the start of this section. It deprives the government of revenue necessary to the provision of public goods and services. It degrades the value of the public sphere and any sense of collective responsibility for it. It redistributes the burden of taxation onto the shoulders of ordinary citizens and the less well-off, and challenges any concept of fairness in the social compact between the state and its citizens. At a time of unprecedented cuts in public services to shore up government finances, it is not surprising that the issue of taxation has now become politically and democratically more salient.

4 **Operational:** the decline in government expertise and organisational capacity

The widespread assumption since the 1980s that the private sector is efficient, and government wasteful and bureaucratic, has had a disabling and demoralising effect across the public sector. This has been intensified by the repeated top-down reorganisation of services; by the introduction of inappropriate forms of competition and management systems from the private sector; by the 'cherry-picking' of the more profitable parts of a public service by private businesses, leaving the remainder increasingly hollowed out or unviable. Above all, the ongoing process of privatisation has left government at central and local levels short of expertise in organisational planning, project development and management, and key specialist skills, reinforcing its dependence on the private sector.

This dependence can best be traced in the enormous increase since the 1990s in government spending on consultancies, which more than quadrupled under the Blair government, reaching a high water mark of £1.8bn spent by central government in 2005-6, and a further £1bn by other public bodies.[36] Right-wing critics have argued that much of this has been wasteful, particularly through the failure of IT systems and through systematic overcharging in comparison

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with rates for the private sector itself. Left-wing critics have argued that consultants typically favour private sector solutions, especially in one of the biggest departmental spenders on consultants, the Department for International Development, where the privatisation of services has been recommended for developing countries, which in many cases has been inappropriate.[37]

A National Audit Office report in 2006 concluded that 'it is not possible to make an overall assessment of the benefits that have resulted from the money spent on consultants, partly because departments rarely collect information on what has been achieved.' It made a number of recommendations which together, it estimated, could save around 30 per cent on the money spent:

- Start from the assumption that a public body's own staff are the best fit for requirements.
- Recruit staff to fill core skills gaps, or transfer skills from consultants to internal staff.
- Make greater use of fixed price or incentivised contracts.
- Build greater commitment from clients and consultants to make consulting projects a success.[38]

Although spending on consultants had decreased by 2009-10, a report by the Public Accounts Committee on central government's use of consultancies in December 2010 showed that none of these recommendations had been effectively implemented. Among its conclusions were the following: 'Relying on consultants for commonly required skills is expensive….. Where skills do exist within government, departments lack the knowledge and flexibility to deploy people where they are needed…..Departments frequently fail to adequately define the service required or negotiate the most advantageous contractual terms, and therefore cannot assess the performance of consultants or whether the work done was of benefit.'[39]

Of course, some of these failings arise because, as Cabinet Secretary Sir Gus O'Donnell pointed out in his evidence to the committee, the civil service is at a disadvantage in recruiting and keeping staff because they can earn significantly more in the private sector. Yet the record on the use of consultants is symptomatic of the general level of dependency and also vulnerability of government in relation to private business. Lindblom's conclusion about the dependency of government on business for the realisation of its own goals has already been referred to. What has changed since he wrote in the 1970s can be summed up in two mutually reinforcing developments. On the one hand, the *extent* of that dependency has enormously increased, from the economy to the delivery of many key public services. On the other hand, the *capacity* of government to influence, oversee or control the private sector has considerably diminished – externally, through the pressures of globalisation, and internally, through the loss of expertise and organisational capability. The financial crisis demonstrated both sides of this twin process at work.

Naturally the corporate sector has not been a passive observer of these processes. Its members have been active agents, both individually and collectively, in influencing government policy to its own advantage. A review of the different ways in which it continues to do so forms the next section of the paper.

Modes of corporate influence

The progressive weakening of government and its dependence on business and finance, analysed in the previous part of the paper, has its counterpart in the increased influence of the corporate sector over government, and its active leverage over policy across all areas of public life. This leverage has been reinforced by the weakening of possible sources of countervailing power: in the trade unions, through successive legal restrictions on their activities; in the political parties, through the stifling of inner-party democracy; and in the limited reach of voluntary organisations, which restrict themselves to single-issue or –sector campaigning. The leverage enjoyed by the corporate sector is not automatic, however, but is exercised by active agency through a variety of methods and channels to be explored in this section. But first a few words are in order as to who these active agents are.

In quotations I reproduced at the outset of this paper both Krugman and

Peston speak of an unelected 'oligarchy' of the wealthy which is coming to dominate public decision making. A recent revival in the study of elites in political science and sociology has sought to locate this stratum more precisely than is suggested by terms like the 'wealthy' or 'super-rich'. The concept of an elite or 'power elite' denotes a group identified by the *power* they exercise in one domain of activity, which can be transferred or parlayed to another – in this case from business to government.

Differences exist, however, about where this business elite should primarily be located, and what is the source of its power. One view, which can be traced back to James Burnham's book *The Managerial Revolution* in the 1930s, locates the elite in the directors and chief executives of the largest corporations, whose power is based on the control of organisational staff and resources, and the status and rewards that follow from this control. So, for example, a recent comparative study of the directors of the 100 largest companies in the UK and France, which for the UK includes banks as well as manufacturers and retailers, has charted their rise to power, their social networks and their influence in society-wide decision making. 'Corporate power,' the authors conclude, 'is highly concentrated in the hands of a small number of dominant agents.....

> These individuals variously hold multiple company directorships; play leading roles in trade and industrial standards organizations; advise governments; join industry and government commissions; establish charities and pressure groups; participate as experts in public debates; and join the boards of leading cultural, sporting and educational organizations. It is through these channels that they promote institutional change and pursue organizational goals.'[40]

A different view of who the 'dominant agents' are is based on the changes since the 1980s, which have made financial trading and services central to the UK economy. Much of this trading is done through private equity firms and investment companies which stand outside the large corporations, but whose fates they may often determine. This is the view, for example of Savage and Williams, already quoted. According to them the power of this new elite is based, not on the management of 'men and things' within corporate hierarchies, but on the control of money as an active resource used to shape and continually re-shape the corporate world. This elite is not a unitary one, they argue. Many of its members are individuals working for themselves, but using distributional coalitions which 'form and re-form around money-making deals and innovations in financial markets that change with each conjuncture.' Competing on individual deals though they may be, they can also work collectively to defend and promote their common interests. As the authors conclude, 'those who control money are establishing themselves as central social and political agents, who can also embed themselves in wider circuits of power.'[41]

We do not have to choose between these two versions of the power elite, which in any case overlap through the large banking firms and their investment arms. Even if we should rather speak of business 'elites' than a single 'power elite', what their members have in common is enormous wealth, a capacity for social networking and a variety of means to influence public life and government policy for those who choose to do so. The vast majority of them are also male. Different sectors of the business world will naturally have a closer interest in the policy of some government departments than others. Yet, wherever their interest is located, they bring pressure on government for a largely common agenda, deriving from their neo-liberal world view: privatisation and outsourcing of government functions and services; cutting the 'burden' of government regulation, and promoting self-regulation; lowering taxes, especially on business and the wealthy; remedying the deficit in the public finances in short order; in sum, promoting business-friendly attitudes and solutions across the public sector, from education and health to diplomacy and foreign policy. Their success in promoting this agenda, regardless of the party in power, is achieved through a variety of means.

Developing a typology of modes of business influence on government, so

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as to bring some order to an otherwise disparate list, is not straightforward, since any distinctions made readily break down under examination. So, for example, differentiating between the exercise of financial clout and the influence of personal connections is eroded by the obvious point that the first is often intended to lead to the second, as in the financing of political parties. In what follows I shall distinguish between having an *indirect* impact on government, through media influence on public and elite opinion, and exercising a *direct* influence; and I will concentrate on the latter, since this category is extensive enough. Within this category I propose a simple two-fold classification:

1. Buying informal influence. This category includes the financing of political parties, think tanks and lobbying activities, supporting individual parliamentarians and parliamentary groups, corporate hospitality.

2. Revolving doors. This category can be subdivided into *Revolving out* – from full-time positions in government to business directorships, consultancies, etc., from where informal influence can be exerted; and *Revolving in* – from business into formal government positions, whether as a minister, legislator, civil servant, regulator, member of advisory committee, joint partnership, etc. in a full-time or part-time capacity.

Buying informal influence

In this category the paper will confine itself to the financing of political parties, think tanks and lobbying activities, since these constitute the most significant modes of influence.

Financing political parties.

Running and financing a political party in the UK is an increasingly costly business, due to a combination of the professionalisation of political campaigning, the communications revolution and the so-called 'electoral arms race'. The parties' operational expenditures are estimated to have risen threefold since the 1970s. This means that the main parties have all become dependent on a few wealthy donors, typically from the business and financial community, to fund their operations. As a study by Democratic Audit has shown, 'just 224 donations, originating from fewer than 60 separate sources, accounted for nearly 40% of the three major parties' declared donation income between 2001 and mid 2010.'[42]

This dependency is as true for the Labour Party as it is for the Conservatives and Liberal-Democrats. Once Tony Blair became leader in 1994 he was determined to reduce its reliance on the Trade Unions for funding, as this damaged the image of 'New Labour' he was trying to establish. He struck up an association with Michael Levy, who became his chief fund-raiser among the corporate wealthy. Levy is estimated to have raised £7m for the blind trust that funded Blair's oppositions office, and nearly half of the £26m three-year election campaign to 1997. Dependence on such sources, which extended to the private equity sector as well as more traditional businesses, continued throughout the Blair era, with knighthoods and peerages granted to many donors. In his account of Labour's fund-raising Robert Peston concludes, unsurprisingly, that 'the long-term importance of Levy's expert fund-raising was that it ultimately reinforced the influence of the wealthy over Labour.'[43]

With the arrival of the Conservatives in government in 2010, greater attention has been focused on their funding sources, which can be traced from the regular returns to the Electoral Commission required under the 2000 Political Parties, Elections and Referendums Act. The Democratic Audit study mentioned above, by exploring the family and business links between individual and corporate names on the returns, has shown that £45.5m of donor income, or just under one-third of all received between January 2001 and June 2010, came from just fifteen 'donor groups' in trade, industry and finance.[44] Research by the Bureau of Investigative Journalism for the period leading up to the 2010 general election has further shown how donations from City of London names rose from a quarter to one half of all Tory donations in that time.[45] While it is impossible to trace any direct influence from donors to particular policies, it is a reasonable inference that the steep increase in City money prior to the election was designed to head off any serious reform or regulation of the financial sector. As with Labour, the donor list also provides a good indication of who senior party figures regularly mix with at a social level.

Financing think tanks

Providing finance for think tanks offers a means to influence the policy process and to frame the terms of public debate without *direct* association with a political party. Think tanks provide the public impression of impartiality and academic rigour, even though they may be devoted to promoting a particular economic and social philosophy, and be more closely associated with one political party than others. Unlike with political parties, the names of donors do not have to be identified in the accounts; if the think tank is a registered charity, donations are also tax-deductible. As far as public corporations are concerned, agreement from share-holders for donations to think tanks is much more readily attainable than to political parties.

A few think tanks, such as the Labour-oriented Demos and Institute for Public Policy Research, voluntarily list their donors on their websites, or, as the Liberal-Democrat oriented Centre Forum does, their corporate sponsors. For most, especially those on the Right, the only public evidence of business connections is through the published list of board members and trustees. So, for example the trustees of Policy Exchange, founded by Tories and with close relations to David Cameron, which describes itself as an 'independent, non-partisan educational charity….working with academics and policy makers across the political spectrum', are drawn mainly from the City of London, among them several donors to the Conservative Party. It is hardly surprising, then, that the charity is 'particularly interested in free market and localist solutions to public policy questions.'[46]

Think tanks became publicly visible with the acknowledged influence of the free market advocating Institute of Economic Affairs, Adam Smith Institute and Centre for Policy Studies (CPS) on the policies of the Thatcher governments in the 1980s. The CPS was founded by Sir Keith Joseph and Margaret Thatcher in 1974 explicitly to 'convert the Tory Party to economic liberalism'. Its current website claims that it is 'independent of all political parties and special interest groups', though its board comprises a mixture of financiers and Tory grandees.[47] The IEA, unlike the other two a registered charity, believes in 'free markets', and that 'government action, whether through taxes, regulation or the legal system, should be kept to a minimum'. Several of its trustees are also major donors to the Conservative Party in an individual capacity.[48] While it would be going too far to say that many Right-wing think tanks are simply a front for the Conservative Party, they certainly complement the work of its own research department. As Iain Dale wrote in a *Daily Telegraph* article in 2008 about the 'thriving state' of Right-wing think tanks, 'many rich people now prefer to donate to think tanks, rather than give money to political parties, with all the attendant hassles.'[49]

Lobbying activities

Lobbying can be straightforwardly defined as the activity of contacting public decision makers in order to influence their decisions. It is a central element of the democratic process, whether it be constituents contacting their MPs or organised groups seeking to influence the decisions of central government. Lobbying helps to keep government informed and responsive. What has made it an issue of democratic concern is the increased professionalisation of the activity, the enormous growth of lobbying companies and in-house government relations units in large corporations, the secrecy with which they can operate, and the 'revolving door' whereby ex-ministers and senior civil servants come to be taken on by these units and organisations because of their contacts in government (this last will be dealt with in a separate section below). A typical lobbying company, or 'public affairs consultancy' as they prefer to be known, will offer its clients not only advice on how to identify, approach and influence 'the key decision makers', but its own informal contacts in government, as well as a media relations strategy to bring influence to bear on government indirectly as well as directly.

One outcome of these developments

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> There is a genuine issue of concern about lobbying that there is an inside track, largely drawn from the corporate world, who wield privileged access and dispropor-tionate influence.

has been to make the process of effective access to government decision makers increasingly expensive, and open mainly to the corporate sector and the larger public interest groups. Writing about the US in his book *Supercapitalism*, Professor Robert Reich, former Secretary of Labour under Bill Clinton, shows how the enormous growth of lobbying has led to 'the corporate takeover of politics', as 'the cost of entering the political fray has continued to rise.'[50] In the UK an important report on lobbying by the Commons Public Administration Select Committee (PASC) in 2008 argued that 'there is a genuine issue of concern, widely shared and reflected in measures of public trust, that there is an inside track, largely drawn from the corporate world, who wield privileged access and disproportionate influence ….. [and that] commercial corporations and organisations have an advantage over not-for-profit bodies which is related to the amount of money they are able to bring to bear on the political process.'[51] On an uneven playing field, business can bring forward contestable evidence, for example on the business costs, loss of jobs, etc., resulting from existing or proposed government regulation, without fear of contradiction.[52]

Of course, as the PASC report points out, access does not guarantee influence, but without access there is no influence. In any case, it is implausible to believe that corporations would spend all the time, effort and money they do in ensuring contact with ministers and officials, if they did not think it made a difference to policy outcomes, and the way these were presented to the public. What the Select Committee was primarily concerned about, however, was that in the UK, unlike the USA, Canada and elsewhere, lobbyists are wholly unregulated, and their activities are often shrouded in secrecy. It called for a compulsory register of lobbyists, which would include any previous history they had in the public service, the names of their clients, records of their meetings with decision makers, and so on.[53] To this recommendation the bodies representing the lobbying industry, such as the UK Public Affairs Council, responded with a demand for self-regulation and a voluntary register, in an attempt to pre-empt the imposition of a statutory one. After much delay, this voluntary register has now appeared (1st March 2011), but up to 90% of lobbyists are not included, and the information it does contain is, according to Austin Mitchell MP, 'riddled with errors, omissions, inconsistencies and redactions'.[54]

In the absence of any public records of lobbying and lobbyists in the UK, it would be impossible to conduct here the kind of research done by three IMF economists in the US, which showed which banks had spent money on lobbying to prevent the regulation of predatory lending and excessive risk taking prior to 2008, how they achieved success, and that they were also the ones most likely themselves to have engaged in risky securitisation and other questionable practices.[55] However, detailed case studies can bring much evidence to light, even here. And the fact that a great deal of lobbying of government is conducted in association with a very public media campaign provides a good indication of where and from whom pressure is being applied on given issues. In addition, if those being lobbied are determined to resist, they may well decide to make public the pressure they are under. So, for example, we know that the banks had been lobbying hard to water down the proposals on bank restructuring in the Independent Commission on Banking's interim report (published on 11th April this year), in part because the Chairman, Sir John Vickers, was concerned to resist some of their arguments. At the same time, bank insiders were keen to show that they were putting up a strong fight, and revealed that they had been meeting with Treasury officials 'on an almost daily basis'[56].

Some commentators have argued that the enormous growth of lobbying organisations and in-house government relations departments in larger companies has lessened the influence of industry-wide bodies such as the Confederation of British Industry (CBI).[57] However, the latter still retains its influence and impact on industry-wide issues, such as taxation and regulation. In contrast to the USA, where Reich argues that most lobbying of government is simply an extension of the competition between domestic corporations, in the UK much of it is designed to give UK business a competitive advantage in relation to its international rivals. Moreover, since so much of the legislation that affects UK business is determined in international bodies such as the European Union or the World Trade Organisation (WTO), a corresponding amount of lobbying effort is directed at the government's negotiating position in these bodies. And new international consortia of business associations are being formed regularly to lobby these international bodies directly. So, for example, rules developed by the WTO to open up public services to private providers, and to limit the range of permissible environmental and social regulation, were largely the product of lobbying by international business coalitions. Such decisions can have a large impact at the domestic level, yet they are subject to no effective democratic input or accountability.[58]

In view of the role of the financial sector in the UK economy, it is not surprising to find a veritable web of bodies there involved in lobbying government. Besides the large banks themselves, there are associations to represent specific interests, such as derivatives traders, hedge fund managers, private equity firms, accountancy firms and so on. Then there are the industry-wide bodies, such as the British Bankers Association, International Financial Services London (now TheCityUK) and the CBI, in which the financial sector has a substantial presence. Above all there is the City of London Corporation itself, which is 'committed to maintaining and enhancing the status of the City as the world's leading international financial and business centre', acting as a coordinating force for the financial services industry and as a powerful lobbyist both domestically and internationally. It has direct connections to the Governor of the Bank of England, Chancellor of the Exchequer and Treasury officials. It even has its own official Parliamentary lobbyist known as the 'Remembrancer', a post dating back to the sixteenth century. Nowhere more than in the financial sector is the old political science law true, that intense and powerful special interests can readily prevail over a much more diffuse and unorganised public interest, even when something as essential as preventing another financial crisis such as the last one is at stake.[59]

Revolving doors

'Revolving doors' denotes the practice whereby, on the one side, ministers, top civil servants and other government staff move into private sector jobs once they leave office ('revolving out'); and, on the other side, people from the corporate sector are appointed to government posts, advisory committees, departmental boards, joint partnerships, and so on, on a full- or part-time basis ('revolving in'). Revolving out involves the informal exploitation of expertise and contacts gained in office, on behalf of a private company or companies. Revolving in involves a formal appointment to a post of influence within government. Revolving in both directions hugely increased under the Labour governments from 1997 onwards.

The practice is typically justified on the grounds that, on the one side, government needs to know what is going on in key sectors of the business world, and to use business expertise to improve government organisation and service delivery; on the other, companies need good contacts into government so as to position themselves better for winning government contracts, now hugely expanded with privatisation and the outsourcing of public services. However, the practice powerfully reinforces the privileged position of the corporate sector in relation to government, and influences the expectations of ministers and senior civil servants about who their future paymasters may be.

Revolving out

The Labour governments under Blair and Brown witnessed a regular parade of former ministers into the private sector, as directors, consultants, advisors, etc., often with firms related to their previous department. Under the rules of the independent Advisory Committee on Business Appointments (ACoBA), for two years after leaving their respective service Crown servants and former ministers must apply for permission to take up any outside business appointment. Permission is usually granted, with the proviso that, for up to two years after leaving office, the individual should not become personally involved in lobbying ministers or Crown servants on behalf of their company. How this proviso can be policed remains a mystery, but it indicates what is regarded

“Rules developed by the World Trade Organisation to open up public services to private providers were largely the result of lobbying by international business coalitions, but were subject to no democratic input or account-ability.”

Intense and powerful interests can readily prevail over a more diffuse and unorganised public interest, even where something as essential as preventing another financial crisis is at stake.

as a major purpose of private appointment. As the PASC report on lobbying noted, 'part of the appeal of employing former ministers is the perception - accurate or not – that they will be able to offer access across government.' In any case, with regard to former ministers, the Committee's recommendations are only advisory, though a list of them is published on a regular basis.[60]

The numbers of former ministers 'revolving out' raised particular concern in Parliament and the press in 2008, when the list for the previous two years revealed that no fewer than 28 former ministers had taken up jobs in the private sector. Of these, thirteen were still MPs. Paul Flynn, a member of the Commons Public Administration Select Committee (PASC), commented that 'he could not remember ministers hopping into the private sector like this…..It is a way of buying access.'[61] This number of 28 compares with a total of 31 in the list published in March 2011, which covered the previous twelve months.[62] A smooth transition to the private sector could now be said to be the normal expectation for a government minister.

Of the departments involved, health, defence and the Treasury and business departments provide the most frequent 'exports'. From the two lists mentioned, seven former health ministers moved to posts or consultancies with private health and care companies. Six former ministers from the MoD moved to work for defence contractors; to this number should be added four senior civil servants and four military top brass in 2010-11 alone.[63] Seven former ministers moved into financial services, led by Tony Blair, working for J.P.Morgan and Zurich Financial Services. As regards individual companies, a 2009 study of 'revolvers' in both directions in the financial sector by Professor David Miller of Strathclyde University for OECD showed that Barclays Bank had no fewer than fourteen 'revolving door connections', and a further ten banks had more than five each. The UK stood out in the extent of such connections.[64]

These connections have hit the headlines when a particularly controversial government decision has been claimed to have been influenced by the practice. So, for example, the return to favour of the nuclear power industry under Tony Blair in 2007 was said to have been influenced by former ministers working for the sector.[65] The decision to approve the third runway for Heathrow in 2009 was held to have been facilitated by the move of Blair's official spokesman, Tom Kelly, in 2007 to become group director of corporate and public affairs for the British Airports Authority, and to help organise the government's public consultation on the issue.[66] And the decision in November 2010 to allow a tax write-off for Vodafone was said to have been helped by the connections between its Head of Tax, John Connors, and his former colleagues in HMRC, where he worked until 2007.[67] While such claims cannot be proved, the connections involved hardly contribute to an impression of honest government. The same can be said when under-cover reporters catch a private executive in the health sector saying of a former minister that 'his use is his connections and the people he knows'; or when former ministers claim to be able to influence ministerial decisions at a fee of up to £5000 per day, 'a bit like a cab for hire'.[68]

Attention has now turned to the role of ministerial special advisors, or Spads as they are known, who are particularly well placed to develop contacts across departments, and many of whom move directly into lobbying consultancies or in-house public affairs roles. According to information provided to PASC by the Chair of ACoBA, Lord Lang, these will all now be required to notify his Committee of any outside appointment they are proposing to move to. However, Lord Lang said that he was concerned that 'the new non-executive directors in the departments, tsars, special envoys, taskforce leaders' remained outside the Commission's remit. Whether reference to ACoBA will do anything to reduce the frequency or impact of revolving out must be open to doubt.[69]

Revolving in

'Revolving in' takes many different forms. There are outside appointments to government departments, whether as ministers, senior civil servants or part-time members of Departmental Boards. Then there are a variety of roles as advisors to ministers, members of advisory committees, task forces, commissions of enquiry and so on. Finally, there are partnership bodies, staffed from both government and the private sector, working towards common goals across a range of policy areas. Even this list is not exhaustive, and it will only be possible to provide a brief summary and a few key examples of each.

Outside appointments to departments

The arguments for bringing expertise from the private sector into departments have been much rehearsed. As regards ministers appointed through the House of Lords, it is contended that members of the Commons increasingly have no experience of working outside politics. As regards opening up civil service positions to external competition, it is a matter of specific gaps in professional skills and the desirability of fresh perspectives. With regard to Departmental Boards, the managerial expertise of the private sector in cost cutting and securing value for money is particularly valued. At the same time, the considerable increase in such appointments over recent years serves to reinforce the close linkage and range of informal contacts between the private sector and the heart of government.

The appointment of members of the House of Lords to government posts has always been a feature of the UK system, given the legislative role of the second chamber. The proportion such posts comprise has been fairly consistent over the years at around 20% of all government posts. What was relatively new under the Labour governments was the growth in the number of ministers brought in directly from outside through appointment to the Lords. When Gordon Brown announced on becoming Prime Minister that he would be creating 'a government of all the talents' (or 'Goats' as they came to be known), there followed no fewer than ten ministerial appointments from outside Parliament during his time in office. Of these, half came from the corporate sector. In a PASC report, *Goats and Tsars*, the Committee wrote that 'the number of such appointments in a relatively short space of time is unprecedented….. It raises questions about why such appointments are being made and their impact on government and Parliament.' Concerns focused on the size of their departmental responsibilities, their lack of accountability to the elected chamber, and the relative speed with which they subsequently 'revolved out' again.[70]

Even more striking is the number of senior civil service posts that are now filled from the private sector. Another report from PASC in 2010 showed that, for the previous five years, the proportion of external recruits to the senior civil service (Deputy Director level and above) constituted 30% of the total, the majority from the private sector. For the 'Top 200' group, comprising permanent secretaries and Director General level, the proportion was even higher, at over 50% average each year. Concerns expressed to the Select Committee related to the internal implications of this recruiting practice: the fact that 'outsiders' were paid more than equivalent inside appointees, were not noticeably more effective and tended to stay in post for a much shorter period. Among other Committee recommendations was one which reiterated the repeated call from reports into the use of external consultants, that skills which were missing in the civil service should be developed in-house rather than be bought in from outside. Here what is remarkable is the sheer extent of revolving in that is taking place, as well as revolving out again.[71]

In contrast to the ministerial and senior civil service appointments, the appointment of outsiders to Departmental Boards is on a part-time basis. Departmental Boards were developed in the Blair period to provide improved management to government departments, but have been criticised for lack of clarity in their precise role. The Coalition Government early on decided on a substantial reform and enhancement of Departmental Boards, giving them a wider strategic role and bringing in many more non-executive directors from the private sector. 'The Departmental Board forms the strategic and operational leadership of the Department,' says the Department of Health website. And the Department for Education: 'The Board provides strategic leadership of the Department, focusing on performance and the delivery of DfE's priorities.' Lord Browne, former CEO of BP and Chair of the Committee on University funding, was given the task of recruiting Board non-executive members from the private sector across all departments. 'By appointing world-

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> Even more striking is the number of senior civil service positions that are now filled from the private sector, and the central role given to private sector members of Departmental Boards.

> The number of Gordon Brown's appointments to ministerial office from outside Parliament through the House of Lords was unpreceden-ted, and raised questions about their impact on Government and Parliament.

> All the commissions set up by Gordon Brown to enquire into the financial crisis of 2007-8 were chaired and staffed by bankers.

class leaders from outside government to Whitehall's departmental boards,' he said, 'we have taken an important step forward in realising the Government's reform agenda….. The non-executive board members will play a principal role in bringing a more business-like ethos to the very heart of government.'[72]

The typical Board is chaired by the Secretary of State, and comprises three or four senior civil servants and an equivalent number of non-executive directors, drawn almost exclusively from the private sector, one of whom is designated 'lead non-executive' (as Lord Browne himself is in the Cabinet Office). Non-executives will also typically chair Board committees. Their powers include that of recommending that the permanent secretary be removed from his or her post.

Among notable features of these appointments are the number drawn from former executives of BP, a key 'revolving door' company in both directions. The lead non-executive in the Department of Energy and Climate Change is the CEO of the multinational alcoholic drinks group Diageo, which was reported by *The Guardian* to have reorganised its UK businesses to a Dutch holding company to reduce its UK corporation tax to a minimum.[73] The lead non-executive at the Department of Transport is the CEO of Centrica, the largest energy supplier in the UK, currently engaged with government over controversial issues of competition, domestic fuel prices and other issues. The three non-executives appointed to the Department of Culture, Media and Sport are, or have been, board members of media companies. Two of the non-executives at the Department of Education are major donors to the Conservative Party: John Nash's private equity firm, Sovereign Capital, is a substantial investor in private schools; Theodore Agnew is a trustee of both Policy Exchange and New Schools Network. The latter is devoted to the promotion and creation of academies and free schools; its current Director was a former researcher for Michael Gove, Education Secretary; he has established a 'formal link' with the organisation and given it a departmental grant of £500,000 to help ensure that groups 'get the support they need to start forming schools'. The possibility of such conflicts of interest, or, better, alignments of interest, in these new appointments is considerable.[74]

Advisory committees, task forces, etc.

The multiplication of committees and task forces composed mainly of 'outsiders' to advise on any and every aspect of government policy was a distinctive feature of the Blair premiership. An early exhaustive study of these by Anthony Barker for Democratic Audit in 1999 identified 295 task forces, and a predominance of representatives of producer interests among them. However, he was cautious in the conclusions he drew. 'Can it be assumed,' he asked, 'that a more than 2:1 imbalance between private business and voluntary body members….must mean that business has been enjoying the same imbalance of influence with government?' Here we have the same issue about access and influence that has been discussed above.[75]

What is evident is that Tony Blair and Gordon Brown each readily turned to the corporate sector both to provide personal advisors on secondment, and to head up high profile committees of enquiry. While putting bankers in charge of enquiries into the banking sector, as Gordon Brown did, might ensure the benefit of insider knowledge, it could also blunt the prospect of serious criticism or reform. All three reviews following the 2007 crash, by Walker, Foot and Bischoff into UK banking governance, British offshore financial centres and the UK international financial services respectively, were chaired by bankers, the last with membership drawn entirely from the City of London. Not surprisingly, all produced bland reports, the first recommending minimal disclosure of executive pay, the second lauding the benefits to the UK of its offshore dependencies, and the third rehearsing the value of the financial sector and arguing that any further regulation should wait upon international agreement.[76]

While the blandness of these reports may have ensured that they escaped much public attention, the same has not been true of current Health Secretary Andrew Lansley's appointment of industry insiders alongside independent experts to his 'responsibility deal' groups to tackle major public health issues such as obesity and alcoholism. The food group's members include representatives from McDonalds, KFC, Mars, Pepsico and Compass (of turkey twizzler fame), while the alcohol group is chaired by the chief executive of the Wine and Spirit Trade Association, and the overarching board is dominated by industry representatives. Lansley's argument has been that it is more effective to improve public health through voluntary agreement than through regulation, in line with the broader 'nudge' approach of the government to changing behaviour. However, independent experts on the groups have been highly critical of a voluntary approach, which they argue has not worked in the past. Professor Sir Ian Gilmore of the Royal College of Physicians expressed doubt as to whether there could be 'a meaningful convergence between the interests of industry and public health.' This proved only too true when the 'responsibility deal' on alcohol produced bland 'pledges' by the industry whose effectiveness it is impossible to measure. The chief executive of Alcohol Concern said it was 'the worst possible deal for everyone who wants to see alcohol harm reduced.'[77]

Government-private sector partnerships

Government-private sector partnerships are joint organisations to promote and deliver common objectives. They take many different forms, according to their distinctive purpose. There are partnerships to open up the public sector to private business. Then there are partnerships to organise international trade rules so as to open up other countries to UK business. And then there are partnerships actively to promote UK business overseas. One of each type will be briefly examined below.

PartnershipsUK was a body set up from a former Treasury task force in 2000 to develop new markets for public services, and to help organise and implement projects under the Private Finance Initiative (PFI). It was established as a plc, with 51% private equity and staffed largely by private sector procurement and project finance specialists, though with an Advisory Council drawn from government departments. It described itself as providing a 'permanent centre of excellence, moving away from the old model of revolving door secondments that offered no retention of expertise or knowledge.' And its website claimed (2009) that, since its launch, 'over 900 PFI projects worth over £70bn have been procured, and PUK has played a major part in the development of this market.' This model of bringing the private sector into the heart of government through a joint company has been replicated in some individual government departments, such as Community Health Partnerships in the Department of Health. Since the Coalition Government came to power PUK has been merged into a newer body, InfrastructureUK, with a similar structure and purpose.[78]

A different model is the partnership committee to arrange joint bargaining positions between government and business in international negotiations. International Financial Services London (now TheCityUK) is a body set up in 1968 to promote British financial services worldwide, currently with a membership of 150 financial services companies. It runs a joint forum with senior government officials called the Liberalisation of Trade in Services Committee (LOTIS), together with a High level LOTIS group, which meet regularly to discuss trade liberalisation in services in international bodies such as the EU and WTO, where negotiations on its General Agreement on Trade in Services (GATS) are ongoing. The remit of LOTIS extends to trade in services such as health and education as well as financial services themselves. Copies of minutes of its meetings from the early 2000s obtained by Corporate Europe Observatory have revealed the process of alignment at work between financial interests and the government's negotiating positions. They also reveal a coordinated campaign to refute anti-GATS arguments being made by NGOs such as the World Development Movement and Christian Aid. A representative of the FCO was minuted as inviting the private sector's help in countering the anti-GATS arguments. This help was rapidly offered, with monetary backing, as well as the suggestion that 'the exercise should be taken forward in close consultation with the WTO secretariat', as well as with media representatives.[79]

More open than the LOTIS example are the links between the Ministry of Defence and the arms manufacturing companies, and the strong support given

> "Partnerships between government and business to open up the public sector, both nationally and internationally, to private business have been a regular feature since the 1990s."

> In the past we were rather embarrassed about exporting defence products. There is no such embarras-sment in this government.
>
> Peter Luff, Defence Minister

by government to their international trade along with other exporters. The MoD houses a joint committee, the National Defence Industries Council, composed equally of government officials and representatives of defence companies, whose purpose is to align government defence requirements and the interests of the industry, including exports. Until recently there was also a specific department within the Ministry, the Defence Export Service Organisation or DESO (subsequently transferred to the business department), headed by executives of defence companies on secondment, with over 400 staff. This carried out strategic market analysis, international marketing campaigns and helped organise the UK's two main arms fairs. Its website reported that 'successive Customer Satisfaction Surveys of the UK defence industry revealed that over 75% [of arms export orders] would not have been achieved without the existence of DESO.' Under pressure from campaigning groups to have DESO closed down, Gordon Brown transferred it in 2007 to the Department for Trade and Industry, but there is no evidence that its activities have been much curtailed by the move.[80]

Indeed, the Coalition Government has made the promotion of arms exports a key priority. As the Commons Select Committee on Defence recently noted:

> The promotion of arms exports is a key part of the Government's business strategy. While in opposition, the current Defence Secretary, Dr. Liam Fox, said that he would make it his policy to 'maximise the UK's share of global defence exports', while the Defence Equipment Minister, Mr. Peter Luff, has reportedly said that 'There will be a very, very, very heavy Ministerial commitment to the process. There is a sense that in the past we were rather embarrassed about exporting defence products. There is no such embarrassment in this Government.' The Government's emphasis on arms exports was reiterated during our oral evidence on 24 January 2011.[81]

This priority was backed up at the highest level when the Prime Minister led a delegation of senior arms export executives to the Middle East in February, and the Defence Minister accompanied British company executives to an arms fair in Abu Dhabi. The policy fits well with the wider aim enunciated by William Hague to 'inject a new commercialism into British foreign policy, making economic objectives a central aspect of international engagement.'[82] If the concept of 'UK plc' has now become an ever more appropriate characterisation of government, then the FCO is more and more resembling a branch of its sales and marketing department.

Conclusion

What conclusions should we draw from this exhaustive, and no doubt exhausting, survey of developments that have taken place since the 1980s? First, that they have taken place under governments from all the main parties. Second, that they are the result of a combination of *structural* changes in the international and domestic economy, and active *agency* on the part of those best placed to benefit from them. Third, that possible countervailing forces have proved largely ineffective against them. Trade unions have been disempowered and legally hobbled, inner-party democracy has been stifled and strong civil society organisations have at best been able to generate embarrassment and achieve cosmetic changes, such as the transfer of DESO to the business department rather than the outright abolition that had been promised. As to the new media, Reich writes that the blogosphere has proven 'a boisterous outlet for airing views and venting frustrations, but there's no direct or systematic link between these forums and decision makers.'[83] Fourth, that the large cuts in public expenditure currently under way are likely to further intensify the dependence of government on the private sector, as central departments and local councils are forced to further contract out their operations and services, and reduce their own skills base.

Most important, in terms of our ongoing democratic audit of the UK and its principles, these developments reveal a gaping democratic deficit. Instead of the public sphere constituting a separate life domain, with its distinctive values, relationships and ways of operating, it has become an extension of the private market, permeated by the market's logic and interests. Instead of popular control we have subordination to an oligarchy of the wealthy and economically powerful. Instead of everyone counting for one, we have the easy purchase of political influence and the well-oiled revolving door between government and the corporate sector. In Lindblom's terms, where democracy at best is a compromise between the power of the vote and the power of business, with government negotiating the interface between the two, the balance has been decisively, and perhaps terminally, tilted in favour of the latter, as government has increasingly become its promotional agent.

Two tests of this conclusion are currently being played out in the UK. One is the fate of the Independent Banking Commission's interim report on the future of banking in Britain, already being dismissed as a victory for the banks. 'An irresponsible sector beset by conflicted interests is now more certain than ever that the taxpayer stands behind it,' was *The Guardian*'s conclusion.[84] The second is the outcome of the consultation under way on Lansley's health reform bill, whose main supporter and beneficiary, according to the co-Chair of the NHS Consultants' Association, are the private health providers.[85] Here we have a potentially more even contest, with public opinion historically and emotionally supportive of the NHS as it is, and the health professionals lined up against the reforms, as is the only main party that still allows an effective voice to its grass roots. On the evidence of this paper, we should not be too confident about the final outcome.

> These developments reveal a gaping democratic deficit. Instead of popular control we have subordination to an oligarchy of the wealthy and economically powerful. Instead of everyone counting for one, we have the easy purchase of political influence and the well-oiled revolving door between government and the corporate sector.

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About Democratic Audit

Democratic Audit is an independent research organisation that carries out research into the quality of democracy in the UK. The Audit's methodology for auditing and assessing democracy has won international acclaim. It is widely copied across the world, having been employed in at least 21 nations by governments, international bodies such as the UNDP and the Open Society Institute, universities and research institutes. Democratic Audit has published three major successive democratic audits of the UK, using the methodology, and many path-breaking reports on specific aspects of the UK's political life from a clearly defined democratic perspective. Democratic Audit is a not-for-profit company, grant funded by the Joseph Rowntree Charitable Trust. Registered in England and Wales; company no. 6145962.

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