

Socialising the economy

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Almost every serious commentator from the right wing of politics who also has some knowledge of the real world is pretty worried right now. From [Martin Wolf](#) to the [IMF](#) via many a political leader who sees inequality stripping them of any residual electoral appeal they had, they're all quaking at the inevitability that at some point soon over valued asset prices, from shares to bonds to property, will collapse and drag with them much of the world's banking system that they fear they will be unable to bail out again. The odour of their fear is pretty unappealing as it spreads throughout the pages of the FT and into the blogs of those who once sold the Washington Consensus as the answer to all the world's travails.

At the same time the right wing think tanks are bereft of ideas. Take the Centre for Policy Studies as an example. [At the weekend they demonstrated the limited of their real world business comprehension](#) by claiming that nationalisation was a cost on every household because they could not understand that in exchange for the price paid an asset would be acquired. And this week [they attacked](#) Oxfam for suggesting that there was a problem with inequality and that instead the charity should be celebrating the increasing inequality in the world despite the severe economic, social and political consequences of that trend that literally billions of people around the world understand, but which is beyond the ken of these public school educated policy wonks who believe that the only solution to every problem in the world is more market focussed individualism.

The reality is then that sometime soon people will realise that there is a crisis coming and that this is not only a crisis created by the Right, who dominate world politics at present and cannot therefore deny their responsibility for what is happening, but that the Right has no answer as to what to do about it. Of course, the challenge this will present is enormous. Those who claim they are good with money - which has been the main criteria for selecting those to hold public office for the entire lifetime of the majority of those now partaking in democracies around the world - will sometime soon reveal that this is simply not true. Whatever they may be able to do with a company balance sheet (including coming up smelling of roses after driving it to the wall in too many cases) will be shown to be utterly inconsequential when managing the national

economy.

There is, of course, good reason for that. As some of us have been saying for some time, a national economy is nothing like a company, or a household come to that. That's because the simple fact is that there isn't a company on earth that can create its own currency at will and back its credibility with the promise of future tax receipts in the way that a country can. Even banks, which can charge interest without adding an iota of value to the economy, or landlords who extract rents from land without ever paying a penny to it in return, cannot approximate to this ability to tax, which is uniquely that for the state alone to partake in. And because these money people, and their policy wonks, have not come close to understanding that fact not only are they fearful now that their prescriptions for action are so obviously failing, but they are doubly fearful because they now know that the thing they value most - their own status - is at real risk of collapsing for good.

The result is calls like that issued by Martin Wolf, to which I referred recently, for restoration of a liberal economic order that is obviously now rotten to its core, with that cry unmatched by explanation as to how this might be done. These people know capitalism is dead on its feet. What they do not know is what to do about it.

Let me put it on record that I think that this is unfortunate. There are three reasons for saying so. First, I think that private capital will have a role in the economy of the future. People will still wish to trade on their own behalf and in the company of others, and I can see no reason at all why, if we are to tap their wish to do so for the advantage of all, that those with such inclination should be denied the chance to do so, provided that (and that is a big 'provided that') the rules of the market in which they are to operate are strictly enforced so that all have equal access to the market and a fair chance of success on the basis of the quality of the goods and services that they offer for sale without having to resort to cheating and tax abuse, which is far too common now.

Second, I think it would be easier to transition to the mixed economy in which business plays a part in the future of the type I have just noted if those with some aptitude for business management could embrace this requirement on the basis that it is, very obviously, in both theory and practice the way that markets really are meant to operate if people, including many business owners, are not to be abused by those willing to cheat.

Third, the world is not so over burdened with talent that any available resource can go to waste. If those in possession of it can be persuaded to use it for the simultaneous benefit of themselves and the wider community, which is the prescription on which justice is said to work by all the world's great wisdom traditions, then that's all to the good.

In that case, the current failure of capitalism and its devotees to even conceive of a different way of working in the future is troubling because what it really indicates is an

inability to see beyond the abuse that the system currently perpetuates. Indeed, this is so normal that 'normalisation' is their goal.

The alternative cannot, however, embrace the old normals and the way that happens is not by throwing the game away, but by changing the rules. This is, of course, what happens in almost all games. So, for example, the rules of football today are not those that were in operation when I was young. There is nothing surprising about a process of evolution, and even occasional rapid change. What might those new rules be? I'm merely speculating here, and the changes are both macro and micro.

First, as there was a century ago, there is a need to tackle monopoly. It is prevalent, and abusive. The nature of the beneficiaries might have changed a little: although a few individuals stand out in the public eye the gain is to a whole institutionalised minority as well now, but the fact remains that is at cost to the rest of society and to the rest of business. Major reforms to limit the power of monopoly, force the break up of monopolistic businesses, require their state control in some cases, and to impose higher taxes so that returns are normalised during transitions to new structures will have to be delivered.

Second, international abuse will be tackled. This will either be done internationally, or unilaterally if that fails. My proposal for an alternative minimum corporation tax, made a year or so ago, could be part of that unilateral response, I think.

Third, there will have to be reform to limited liability. By default directors will not be granted limited liability, but will retain it if (and only if) they can provide their actions were reasonable and did not result in default. This will change large company behaviour, considerably. For small businesses the abuse will be aimed at directors who deliberately use limited liability to evade tax.

Fourth, new forms of ownership will be encouraged, including better cooperative structures. I am not an expert on these issues, but I believe co-ownership will become much more commonplace, and tax rules will need to encourage it: a penalty for not, quite literally, cooperating will be a way to assist this process.

Fifth, the age of the company pension fund will pass: common funds that will, however, be funded and at the same time be common pools of pension capital will become the norm.

Sixth, the playing field between businesses will be levelled. Late payment to small business that is a massive impediment to the growth of many companies, and an abuse of their capital by larger companies, will be outlawed. Breaches will be fined, automatically and be enforceable, with payment due by default unless appeal can be registered. The burden of non-payment will fall on the debtor.

Seventh, tax reform will reduce national insurance charges. Increased corporation taxes

on monopolies and 'non-cooperative' companies will help fund this. So too will a turnover tax - a carbon usage tax or CUT as I called it in *The Joy of Tax*.

Eighth, there will be a considerable change to company accounting. All accounts will require full disclosure: the absurd reduced disclosure now available to small companies will disappear. Company reports will be to all stakeholders, and not just for shareholders (little could symbolise the change more than that). The focus will be on accountability to society. Vastly better tax disclosure will be part of that.

Ninth, to reflect this the law on directors' duties will change. The duty will be to creditors and stakeholders as well as to shareholders and the suggestion that profit maximisation is the objective of the company will be removed. Quite explicitly the company will first of all be required to act ethically; to show environmental concern; to pay creditors on time; to maintain staff welfare; to meet pension obligations in full; to make full disclosure of its activities and to comply with the letter and spirit of all laws whilst securing the long term goal of meeting the needs of society, which will require it to maintain positive cash flows.

Tenth, worker and other representation on boards (I see roles for community representation as well from locations where a business has material impact) will be required to ensure commitments to society are met. This will require appropriate training paid for by the state for those involved: the farce of the 'usual culprits' from big business taking these roles has to end. These representations will be at subsidiary board as well as at main board level.

Eleventh, to ensure that the cost of capital to meet these objectives is kept low a policy of low interest rates will be required of governments.

Twelfth, there will be a need for a National Investment Bank to oversee the management of state interests in companies it controls with a specific mandate to deliver long term stability.

I am sure I have omitted a great deal in that list. It will do for a list written before breakfast. The point I am making is about what is important. Capitalism as we know it is dead, but the role of business with private ownership is not. What is critical is to think what that new form of private business is. Only then can people be taken on the necessary journey to change. Without such a vision we'll stay where we are, and that's untenable. But this requires those from the left to do what many there think unthinkable, and that is to imagine a new role for private sector activity. My suggestion is it is time to get our heads firmly round this. It's an essential path to socialising the economy. That's why I offer these suggestions now