Funding the Future

# The state needs defence from neoliberals as well as fas...

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I note, with interest, that Martin Wolf at the Financial Times is descending into a state of panic as a consequence of what Trump and Musk are doing in the USA.

He has already written one article about the need to fund opposition parties to create effective democracy, which has given rise to quite useful debate at Naked Capitalism, to which Colonel Smithers, who will be familiar to commentators here, has contributed.

Now, he has written an article entitled “In Defence of the State". My suggestion is that he is a little late in realising that the state might have merit after all when he and his newspaper have for so long ignored all the benefits a well-functioning state can provide.

I have always believed in the state. That was, maybe, the consequence of having a mother who was a nurse who only ever worked for the NHS and a father who essentially worked for the nationalised electricity industry throughout its existence. Those facts must help, but so too does the fact that all the obvious benefits provided by the state were drawn to my attention during my upbringing, from the provision of my education to the supply of free healthcare to the support my family’s numerous elder relatives enjoyed in the form of pensions and other benefits. That meant that absolutely no one needed to convince me of the benefits that the state supplied. That was my lived experience throughout the time that I became politically aware.

Then, I saw an alternative worldview. I prepared my first set of accounts at the age of 17, working in holidays for a local firm of accountants who provided me with invaluable experience from then until I went on, after university, to work for what is now KPMG. I saw and met self-employed people and the so-called entrepreneurs (although I use the term with care because most of the people whose accounts I prepared were, in fact, jobbing artisans of various sorts) who did not share my worldview.

Although I think that they realised that government was essential, and all of them did in various ways rely on the services it provided, they all appeared to be quite casual about their duty to disclose their financial affairs. In addition, it seems that these people seemed to hold almost all people who worked in regular employment in contempt but were most aggrieved by those who worked for the state even if, very often, those same people were the customers to whom they sold their goods or services. The foundations of the support for what became Thatcherism were to be found amongst these people, but I never understood their position.

For the sake of the record, it is very likely that I have been more entrepreneurial during the course of my career than the vast majority of people in the UK. I cannot recall with certainty how many companies I have created, been a director of, or helped grow. My accountancy practice was at the core of this activity, but there were at least five other companies or groups to which I made a major contribution in very senior management roles before I reached the age of 40.

Since then, I have been what many might describe as a social entrepreneur, creating a number of quite influential campaigning organisations that, without exception, I think, still exist.

I know what is involved in entrepreneurial activity, unlike the majority of right-wing politicians, think-tankers and policy wonks who proclaim their belief in the so-called free market activity whilst having always worked in situations where their pay cheque was guaranteed at the end of the month, and not a penny of their own money has ever been at risk. I find the irony of that almost amusing.

At the same time, I also know that my entrepreneurial activity was utterly dependent upon the state to succeed. It often occurred to me that employees who took the risk to work in the businesses and organisations that I created could only afford to do so if they knew that the state would provide them with assistance if everything went wrong (although it never did). The implicit guarantee of the social safety net was absolutely fundamental to the well-being of those who took the risk of working in the small business sector at the time. The erosion of that safety net has, in my opinion, been deeply detrimental to employment prospects in smaller businesses precisely because that element of security has been removed.

Put all this another way, and what I am saying is that for well over 40 years now, I have understood that we need a symbiotic relationship between business and the state. There has never been a case of one being inherently or absolutely better than the other. Each has always been dependent upon the capacity of the other to deliver. Without the other, each cannot make sense, in my opinion.

That is why I was never a believer in Clause 4 of the Labour Party, as it was.

Saying so, that did not mean I agreed with Blair. The reason is that he, like Martin Wolf, seems to have never understood that the neoliberal approach to this issue has always been fundamentally wrong.

As I suggested in my 2011 book, The Courageous State, whenever a neoliberal politician sees an issue needing to be addressed, their first and only reaction is to presume that whatever solution the state might come up with to the problem that has been identified will be inferior to one that the market might create and that they should, as a result, do nothing about it. Instead, they either leave it alone or seek to contract it out. What they never want to do is address it.

So pervasive and pernicious has this belief been that the reason why the state no longer works is the straightforward consequence of this single, disabling ideological position. It is taken as read that the state cannot work, in which case politicians do not try to make it work.

There is no basis for this hypothesis. As I argue in today's video, the fundamental management logic of the state has, by necessity, to be completely different to that of the private sector. Private companies can fail. By definition, that risk is acceptable in their case, meaning they can cut corners in a way the state cannot. The state cannot fail, meaning it must have resilience way beyond anything that the private sector requires. And yet, despite this obvious fact, the neoliberal claims that the same criteria for appraisal must be used for both, including with regard to the quest for productivity, which is meaningless in the context of the state.

The state is a singular activity. It has no competitor because if the boundaries between the state and private sector are correctly drawn (and they need to be and must exist) then what the state does cannot be replicated by another entity. It exists for public purpose and will do so at the lowest cost if a single entity is tasked to undertake an activity. By definition, however, that entity cannot then fail. If it does, the public good does not just cease to exist, but harm will be caused.

For this reason, the state entity cannot be 'efficient' because its chance of survival cannot be prejudiced, which is the risk that the quest for efficiency and productivity creates. The quest for what is called efficiency threatens the over-arching necessity of state activity, which is that it be there. The denial of resources that supposed efficiency demands exists necessarily prejudices the achievement of that goal.

More than that, if the public entity tasked with the delivery of a service seeks to be efficient, it simply creates an externality that then imposes a cost on the public, which in turn then creates the perception of failure, cost and inconvenience, and so of inefficiency. This is obvious and is now widespread with regard to the NHS, HM Revenue & Customs, education, the DWP, the judicial system, and so much else. The quest for neoliberal efficiency in these entities, beloved of politicians like Wes Streeting, who seem to know no better, has sought to reduce their cost whilst massively increasing the cost of those using other services. So great has the imbalance become that the disquiet with regard to it now dominated the political narrative of the UK, and yet it is wholly unnecessary. All that is happening is that the self-fulfilling belief propagated by a few neoliberal economists that the state cannot work is now so pervasive amongst neoliberal politicians that they are delivering policies that ensure that the state cannot work.

What is the answer? It is at least threefold.

First, the fallacy that neoliberalism promotes has to be exposed.

Second, it has to be accepted that state organisations exist for quite different purposes to private sector organisations and so require their own appraisal criteria that embrace the externalities that they create. In accounting terms, I would suggest that this means that they are accepted as the macroeconomic entities that they are, meaning that their performance should be appraised using both dual and dynamic materiality instead of the singular materiality that is used for the appraisal of microeconomic entities. (See the footnote for an explanation of these terms).

Third, we need to recognise that if proper funding of the state reduces the externalities it creates, this is a welfare as well as an economic bonus. Why those tasked with macroeconomic management cannot see this, I do not know.

I suspect I will need to return to this issue. For now, let me conclude that without changing his neoliberal spots, Martin Wolf cannot defend the state. By definition, that ideology is an aggressor of the state. If you believe in the state, you cannot be a neoliberal. To claim otherwise is to promote a tautology. He needs to get his head around that, as do a lot of other people.

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***Footnote***

***Single and double materiality***

***The concept of materiality suggests that:***

***"information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."***

***What is material is determined by the reporting entity.***

***Materiality can be appraised by a single reasonableness test i.e. a matter is material if there is a substantial likelihood that a reasonable person would consider it important.***

***The concept of double materiality expands the concept of materiality to include both climate-related impacts on the company as well as the impacts of a company on the climate. As a consequence, the reporting entity is required to consider the impact of its behaviour on the users of its financial statements, making explicit that there exists a relationship with them that extends beyond contractual obligation.***

***Double materiality uses a double reasonableness test. A 'double reasonableness' test sets a high threshold by asking whether a reasonable person might hold the view that disclosure was reasonably required.***

***The consequence of using the concept of double materiality is that the reporting entity cannot presume that it is preparing financial statements solely for the benefit of those considered the primary users of financial statements. It does, instead, have obligations to all users of financial statements.***

***In the context noted above, the duty of the state entity is not just to the Treasury to minimise cost. It is also to the person using its services and the person potentially using its services. A singular perception of value cannot exist.***

***Dynamic materiality***

***As EFRAG notes:***

***‘the determination of financially material effects on the reporting entity can rely on non-monetary quantitative, monetary quantitative, or qualitative data, while recognising the dynamic relationship between them. Many impacts on people and the environment may be considered ‘pre-financial’ in the sense that they may become material for financial reporting purposes over time (so-called ‘dynamic materiality’). Financial materiality for sustainability reporting cannot be extrapolated from financial materiality for financial reporting.’***

***Dynamic materiality recognises the disconnect between financial and non-financial aspects of materiality and requires that anticipation be made of financial consequences of non-financial impacts on the reporting entity.***

***In the context noted above, if the state imposes a cost on other dynamic materials requires that the state take those costs into account.***