Funding the Future

The age of discontent

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Something is happening in the world economy and in politics that I think we need to take very seriously indeed.

This week, I asked whether neoliberalism might be approaching a tipping point. Today, I think there is considerably more reason to ask that question.

Consider what has happened in just one day.

In France, hundreds of thousands of people have taken to the streets to protest against economic policies that they believe are failing them.

In Greece, students and teachers have been demonstrating against the erosion of public education and the continuing consequences of austerity.

In the United States, the Nasdaq has fallen by more than five per cent in a single day, with some of the companies associated with the artificial intelligence boom suffering much larger losses.

Meanwhile, in Britain, Andy Burnham has admitted that his government does not yet have the ten-year plan that is supposed to explain how it will transform the economy.

These events might appear unrelated, but I suggest otherwise. They might all be evidence of the growing inability of neoliberalism to sustain the economic, social and political settlement on which it has depended for more than forty years.

The crisis of political consent

The demonstrations in France and Greece are not simply about individual government decisions. They reflect a much deeper dissatisfaction with an economic system that has repeatedly demanded restraint from working people whilst appearing to offer very little restraint to those who own wealth. People are told that public services must be constrained, that wages cannot rise sufficiently to maintain living standards, and that governments lack the money required to address the problems that people experience

every day.

Meanwhile, wealth remains extraordinarily concentrated, financial markets are celebrated as the measure of economic success, and the interests of capital repeatedly take precedence over those of labour. The state is supposedly powerless to act in the public interest but is always expected to intervene when financial markets require support. That contradiction is becoming increasingly obvious, and people are questioning why they should continue to accept it.

This is what a crisis of political consent looks like. People are losing confidence that the economic system can deliver the lives they reasonably expect, whilst governments appear increasingly unable to respond to their demands. Without that consent, no economic system can survive indefinitely.

The crisis of financial confidence

Now consider Wall Street. For decades, the apparent success of neoliberalism has depended heavily on financial markets. Rising share prices have been confused with economic prosperity, the accumulation of financial wealth has been treated as equivalent to the creation of real value, and shareholder interests have been prioritised over those of employees, communities and the environment.

Artificial intelligence has become the latest expression of this supposed financial optimism. Vast sums have been invested in companies whose technologies might have considerable value, but whose ability to generate profits sufficient to justify their extraordinary valuations remains uncertain. However, a fundamental difference exists between a technology's usefulness and the financial value investors attach to the companies developing it. We saw that distinction ignored during the dot-com boom, and there are reasons to question whether something similar has been happening again.

The Nasdaq’s sharp fall does not prove that another financial crisis is inevitable. Markets can recover. But if investors are beginning to question the assumptions underlying recent valuations, the consequences could extend far beyond Wall Street. Pension funds, banks, corporate investment and employment are all potentially exposed. A financial system that has depended on continually rising asset prices could prove considerably less resilient than its advocates have suggested.

The crisis of political imagination

There is a third dimension to this developing crisis, which is the inability of the political establishment to explain what should replace the economic model that is now being challenged.

Andy Burnham’s admission that his government has yet to produce its promised

ten-year economic plan is extraordinary. Britain faces inadequate investment, failing public services, a housing crisis, unacceptable inequality and an urgent need to address climate change. None of these problems is new, yet Andy Burnham's government apparently still lacks a comprehensive strategy for addressing them. Worse, the man they have asked to write this new plan previously undertook the same role for Keir Starmer. The evidence that Labour has no ideas, or people with the ability to create them, could not be clearer.

I suggest that this reflects the continuing intellectual dominance of neoliberalism, even as it is falling. Politicians have become so accustomed to its assumptions that they struggle to imagine governing without them. They still talk as though governments must find money before they can spend, treat financial markets as the ultimate judges of economic credibility, and regard fiscal rules as more important than the needs of the people they supposedly represent.

This is not simply a failure of policy. It is a failure of political imagination, and that becomes particularly dangerous when the economic assumptions on which it depends are themselves being challenged.

Has the tipping point arrived?

There are, then, three crises developing simultaneously, as I have suggested.

The first is a crisis of legitimacy, as people lose confidence in the economic system.

The second is a crisis of financial confidence, as investors question the valuations on which so much apparent prosperity depends.

The third is a crisis of political imagination, as governments struggle to offer convincing alternatives.

Any one of these would be significant. The possibility that all three might reinforce each other is much more serious. Falling financial markets could undermine investment, employment and pensions, whilst governments continue to insist that fiscal rules prevent them from responding. If that happens alongside growing public anger about inequality and deteriorating public services, the consequences could be profound.

The collapse of confidence in an economic system does not, however, guarantee that something better will replace it. Political discontent can produce authoritarianism and division just as readily as demands for greater democracy and social justice. That is why developing a coherent alternative matters so much.

We need an economy organised around the needs of people rather than the demands of wealth, with governments willing to use their power to deliver full employment, decent public services, secure housing and environmental sustainability.

We also need to recognise that money is not the ultimate constraint on what government can achieve. The real constraints are the people, skills, technology, energy and natural resources available to us.

That is the case for the Courageous State. I cannot say neoliberalism’s tipping point has arrived as yet, but today's events suggest it may be approaching faster than many have imagined. If so, the greatest danger is not that neoliberalism might fail. It is that it might fail before we have created the political will or ability to replace it with something better.