

## REVIEWS

Will Hutton, *The World We're In*  
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### SYMPTOMS OF EURO-DENIAL

A former broker, scourge of Thatcherism in the *Guardian's* business pages and, later, editor of the *Observer*, Will Hutton has carved out a distinctive niche for himself in Britain as a defender of the social-market model. His 1995 best-seller *The State We're In* caught the public mood in the dying years of Conservative rule. It not only lambasted the sleaze and social failure of the government but linked this to Britain's oligarchic and antiquated political system, with its House of Lords, royal prerogative, unelected quangos and parliamentary majorities based on a minority of the popular vote. Hutton's critique was not inspired by any socialist animosity to capitalism, however. Instead, he called for a democratized Britain to make good the ravages of Thatcherism by adopting the ethos and institutions of European 'stakeholder' capitalism.

The term itself comes not from the lexicon of political movements, whether Christian or Social Democratic, but from management philosophy: rather than placing shareholder interest above all others, the stakeholder approach claimed to give due weight to the interests of the workforce and community. In Hutton's view, the model not only promoted the negotiation of progressive social benefits but fostered world-beating enterprises, based on a highly skilled workforce—unlike Anglo-Saxon stock-exchange

capitalism, which gave free rein to the short-termism and herd instinct of bankers and money managers.

When Blair adopted the phrase in a 'vision' speech in the run-up to the 1997 election, Hutton naturally had hopes that his ideas would be put into effect. From the *Observer*, which he edited from 1996 to 1998, he offered loyal criticism of the new government's course. But stakeholding was construed by business leaders to be code for government intervention, and the longed-for invitation to join the administration as a New Labour advisor never arrived. Hutton became bogged down in the attempt to restore the *Observer's* flagging fortunes, the edge of his editorials blunted by the hope that Blair and Brown would see the light. There were, of course, many elements of the government's programme that met with his approval: the Scottish parliament, attempts to remove most of the hereditary peers, support for US intervention in the Balkans, promises of more money for public services. Tactful criticism and dialogue with Anthony Giddens seemed the appropriate response. (Another editor, equally sympathetic to New Labour, took a more dynamic approach. First at the *Independent* and then at the *Daily Express*, Rosie Boycott's vigorous campaigns against drug laws and the miserly treatment of old-age pensioners appeared to have far greater success in shifting public opinion and, to a lesser extent, government policy, than did muted appeals or telephone chats with Downing Street.)

In *The World We're In*, Hutton now dispenses with most of his lingering inhibitions and identifies Blair and Brown as politicians who have succumbed to the 'bear-hug' of neoliberalism—or 'American conservatism', as he rather confusingly calls it. For Hutton, the project 'at the heart of [New Labour's] third way is the attempt to marry incompatible value systems—American conservatism and a modernized European social democracy. It is an exercise doomed to failure'.

It should be pointed out that the 'world' under consideration here is mainly that of the advanced countries, minus Japan—there are no index entries at all for China, India or Russia. The polemical axis of the book is Europe versus America; an interesting enough topic in its own right. Hutton argues that the United States and Europe represent starkly contrasting civilizations. The US offers the sad spectacle of a society sharply polarized by wealth—three million millionaires and members of gated communities—and deprivation, with over fifty million living at or below the poverty line. In between are middle and working-class Americans whose incomes have stagnated for nearly three decades. Hutton checks off the most evident signs of social regression: the two million, mainly black, prison inmates; the 50,000 who die of gun-related deaths every two years; big-money politics, and so forth. He detects a dangerous growth of selfishness

and introversion—Americans spend an average of 72 minutes each day alone in their cars, and four hours watching television.

He unkindly reports that, according to the Surgeon General, 61 per cent of the population are either overweight or obese (he might have explained that, whether at home or in school, American children are subjected to insistent ads recommending sweets for breakfast, liquid candy and assorted fast foods). For the richest society in the world, US health statistics are very spotty. Even in areas of excellence, like higher education, it is, in the main, the offspring of the upper and upper-middle-class who reap the benefit. While Hutton's portrait of the United States has its own conventional features, echoing standard European tropes, he also cites evidence to undermine the cherished American myth that it is a land of high social mobility, with opportunities open to everyone.

Drawing on Daniel Lazare's *Frozen Republic*, Hutton argues that the deep-rooted flaws of the US political system have conspired to weaken the country's liberal and progressive tradition and to entrench the power of corporations and special interests—thus extending to the US the critical focus on the nature of the state addressed to the UK in his earlier book. The late-eighteenth-century Constitution enshrines a concept of the state that strews obstacles in the path of progressive political forces, while allowing conservatives to invoke the sacred founding document to justify market freedoms. The electoral system protects the two major parties by erecting formidable barriers to any third-party challenge; it allows rich suburbs to opt out of inner city problems. The unleashing of Political Action Committees allowed big money to shape both parties' agenda. (Hutton could have added that the broadcasting industry itself has a huge vested interest in perverting campaign-finance reform, due to the bounteous fees it receives from campaign managers.)

Hutton argues that, since the 1980s, the vices of the political regime have allowed Wall Street to wreak havoc on the country's productive base, as well as on social protection. Institutional investors, controlling about a half of company stock, ratcheted up their expected rate of return just as they shortened their time horizon. The absolute priority of 'shareholder value' was enforced via a wave of mergers and acquisitions and, in the case of companies too large to be targets, by the ouster of CEOs. In the 1990s the institutions would turn over 40 per cent of their portfolios a year, compared with a turnover rate of only 12 per cent for the whole of Wall Street in 1960.

The practices of 'financial engineering' allowed investment bankers, takeover specialists and a new breed of CEO to see corporations as more-or-less accidental bundles of activities that could be split up and recombined, assets that could be spun off and securitized, staff that could be downsized and internal supplies that could be outsourced—all to release value and shed

costs. Economists like Michael Jensen praised the doctrine that, first and foremost, enterprises must deliver returns to their owners, and that the raw pressure of the markets in capital and corporate leadership would promote the only efficiency that mattered: 'Companies . . . combine labour and capital as prices dictate in a network of contracts, for example labour and supply contracts, that can and must be dissolved the instant a better contract is available elsewhere'. Against this, Hutton urges that financial engineering will destroy productive prowess:

If all contracts can be unwound at a moment's notice and reorganized around a better set of prices, this is only another way of saying that organizations have no history. In this conception, companies should be visualized as simply peripatetic, permanently shifting networks of deals between workers, suppliers, creditors and shareholders. Loyalty, trust, the organization's social capabilities and the capacity to learn over time count for nothing.

It is no secret that, over the medium or long term, mergers do not add value to the predator's shareholders: the gainers are the victorious CEO and shareholders in the target company; but—a detail Hutton does not dwell on—fund managers' incentive structures reward momentary out-performance and do not penalize peer-group failure. Though it would have been good to have more detailed examples—where available, these are generally vivid and telling—Hutton's account of the ravages wrought by financial engineering is generally perceptive and convincing. It is rooted in what he sees as the triumph of 'conservatism'—centred, above all, on the teachings of Hayek, Friedman and Strauss at the University of Chicago—and the 'collapse of liberalism', precipitated by the failure of liberal or left economists to come up with practical responses to the threat of hyper-inflation. 'Conservatism' sanctioned both the primacy of shareholder value within the US and a unilateralist assertion of the country's global primacy, as champion of free-market principles everywhere; the amalgam allows for generous state subsidies to US business, via educational and military spending.

The Straussian theme of the self-reliant moral individual and virtuous citizen nourished the view that welfare degraded its recipients. The conservative assault, Hutton points out, was led by one of Strauss's disciples, Newt Gingrich, and has been rammed home by others—Wolfowitz and Ashcroft. Elected by a weak minority coalition, Clinton capitulated to the assault:

The ambitions of the Roosevelt–Kennedy–Johnson tradition to re-shape American capitalism and society around nobler ideals were jettisoned wholesale. As a strategy it might have won Clinton power, but it collapsed under the pressure of governing within a conservative consensus that the Democrats had not challenged and, in the absence of a sufficiently robust coalition to rely on as a counter-weight, could not face down.

Hutton is contemptuous of this record; he believes that there was, and is, an alternative, albeit one that draws on traditions and values that have been historically weak in the United States. The social market and stakeholder capitalism of the EU's core states represent, for Hutton, a comprehensive and coherent alternative that works well for its citizens—even if this success has been momentarily obscured by the rigours of an ambitious (but necessary) monetary union. Europe's institutions have been shaped by a rich and troubled history, in which Europeans have learnt to tame the naked power of wealth and to assert the permanent needs of society. The feudal and Absolutist periods bequeath, and the Catholic Church transmits, an enduring sense of the obligations of the wealthy and powerful towards those less favourably placed.

While the American Revolution adopted a political federation devoid of a social contract, the tradition of the French Revolution, as articulated by social democracy, sought to give a universal meaning to the paternalist ideology of Absolutism. The European Centre Right held to its own vision of the social contract: a cradle-to-grave welfare regime, with generous health care and unemployment benefits, is complemented and underpinned by the stakeholder corporation. American individualism is contrasted to the European ideal of a public realm, embracing and sustained by 'public parks, public squares, publicly-owned television, public museums, public art, public science and public transport'.

In a central chapter, 'Europe works', Hutton sketches the achievements of three European enterprises—Volkswagen, Michelin and Nokia—whose modus operandi, he argues, challenges all the cherished nostrums of market economics. Despite onerous social charges, short working weeks and high unionization, these companies are out-producing and out-selling their US rivals. Because they have no truck with financial engineering, they can insist on spending more on R&D than do their US counterparts. And because ownership is stable, they do not fear takeover or conform to (let alone fake) short-term performance targets. Volkswagen's largest shareholder is the state of Lower Saxony, with an 18.6 per cent stake and representation on the company's supervisory board. (The unions are also represented, of course; Volkswagen workers work a 28-hour week and earn up to £23 an hour.) Michelin is a family-owned firm. Until recently, Nokia was incorporated under a Finnish law that reserved real voting rights to a minority of shares, under management control.

In this account, the stakeholder structure is the product not only of a peculiar ownership pattern but also of public regulation. Hutton insists:

The notion that [these companies] are in any way socialist is risible. Yet as capitalist enterprises, they conduct themselves very differently from their

American competitors, each embodying the European sensibility that its job is to remain faithful to the organization's fundamental mission—in these three cases, respectively to make the best cars, tyres and mobile phones—and it is prosecuting that mission, by integrating all their stakeholders into the whole, that will enable their organization to grow sustainably and make profits over time . . . They want to make profits and can be as hard as nails; and the organizations they lead are as capable of cutting corners, manipulating markets and lobbying for special favours as any other capitalist enterprise. That is the nature of the Beast. But the structures and cultures in which they operate drive them towards business building, rather than financial engineering.

These 'structures and cultures' are fortified by corporate law and 'a network of supportive financial institutions which permit the interests of the whole organization to come before the sole interests of the shareholders'. In each country, national traditions supply an element of non-market coordination: the social market in Germany, statism in France and social democracy in Finland.

Hutton concludes the chapter with an assault on the view that the 'indifferent performance' and high unemployment of the 1990s have sapped the European model—a 'myth', which 'undermines self-confidence' and 'seems to validate the conservative critique'. European growth was necessarily restrained by the discipline needed to lend credibility to the new currency and Germany was held back by the costs of unification. The contrast with job growth in the US, and even UK, is misleading—European workers value their free time and do not envy their American counterparts, toiling in the low-grade jobs so vividly exposed by Barbara Ehrenreich in *Nickel and Dimed*.

Besides, Hutton argues, the myth is belied by the figures: between 1988 and 1995, unemployment among men aged 25–54 was 11.9 per cent in the US but 11.7 per cent in Germany, Italy and France. To the extent that these figures shifted adversely to Europe after 1995, studies show 'zero correlation between level of social spending and unemployment'. Europe will recover once the rigours of the euro-launch are over—as long as it does not succumb to the ideology of 'conservatism'. Already there are encouraging signs that the formidable engine of European capitalism is recovering momentum and that unemployment is just a 'short-term by-product' of the shocks it has suffered.

Hutton is generally much happier with business than economics. Neither he nor his researchers have sought to analyse the primary data on the comparative performance of the leading OECD economies—still less to compose the sort of commanding narrative of their evolutions that Robert Brenner has produced. *The World We're In* leaves readers unaware of decisive features of the (capitalist) world: the constraints of competition are often represented

as consequences of conservative ideology; a purblind Eurodenial is maintained in the face of overwhelming evidence of social failure. But while governments love massaging unemployment data, this is no task for independent observers.

The critical faculties evident in the account of US capitalism desert the author once the gaze turns to Europe. We learn nothing about current trends of economic or social inequality in the EU—Hutton is apparently unaware of the outstanding work of Thomas Piketty, who reports on the recent growth of inequality in both France and the United States. The familiar statistics for the tens of thousands of victims of US gun violence are not matched by similar figures for those suffering racial attacks in Germany, Italy, France and Britain. Bad as US homicide figures undoubtedly are—around 15,000 fatalities a year—they are far outstripped by the 40,000 annual road deaths. European road-death figures are the same—considerably higher, if new member states are included. And while the US Surgeon General's findings on obesity are scrutinized, no such research effort has gone into the discovery of unattractive features that might predominate in Europe.

Only in a throwaway remark in his conclusion does Hutton acknowledge that the European unemployment rate is, in fact, a problem; one that he attributes solely to inadequate demand. In September 2002, official unemployment in the Eurozone was 8.3 per cent, with 9.8 per cent in Germany and 9.0 per cent in France—compared to 5.6 per cent in the United States. If we look at *employment*, rather than unemployment, a sharper contrast emerges. In the US, the UK, Netherlands and Norway, employment levels for those aged 15–64 was between 70 and 80 per cent; in Italy, France, Spain and Germany it ranged between 55 and 65 per cent. Hutton's figures on unemployment, cited above, found equivalence between the US and Germany only by excluding women, men under 25 and men over 54; precisely the categories where unemployment is most pronounced. The US employment rate is roughly fifteen points above the European average, despite a considerably higher student and prison population. While employees in the US are frequently subjected to long hours and poor conditions, the Eurozone is excluding tens of millions from work; something in the region of forty million people are condemned to unemployment or early retirement.

It is true that unemployment and retirement benefits are generally more generous than in the United States, though these can be subject to means tests and cut-off points. But large numbers of those excluded from employment feel bitter and frustrated: as they lose touch with the world of work, they become vulnerable to the demagogues of the right and far right—half of France's three million unemployed voted for Le Pen in the first round of the presidential elections. The failure of continental Europe's Centre

Left governments to bring down unemployment has been the single most important source of their recent electoral setbacks.

Hutton concedes that Euro-enterprises have been ruthless in shedding labour but sees no intrinsic feature of the European social regime as being responsible—notwithstanding the fact, unmentioned by him, that the ‘tax wedge’ added to labour costs is between 45 and 55 per cent of salaries. In Germany and France, pension contributions alone absorb over 19 per cent of salary. These social charges raise costs to employers and set up strong disincentives to some of the unemployed. In Germany an unemployed person with an unemployed partner, moving from unemployment to a part-time job, faces taxes and loss of benefit amounting to 115 per cent of what they earn. If they move to full-time employment, they face an 80 per cent tax. (These and other data cited are from Economic Paper 170, May 2002, prepared by the European Commission’s Directorate General for Economic and Financial Affairs.)

The most disappointing feature of *The World We’re In* is that it asks us to accept the European social model as the only alternative to ‘Anglo-Saxon capitalism’. In his account of stakeholder capitalism, not only high labour exclusion but the paternalist rule of banking oligarchs and large family firms is deemed acceptable. Hutton’s forte, one had thought, was a flow of more or less ingenious and plausible suggestions for the structural improvement of today’s capitalism; but his latest book is largely bereft of proposals for institutional reform or innovation. So far as Britain is concerned, the imperative is adoption of the euro; as for the Eurozone, it simply requires measures to restore demand.

After its narrow squeak in the September 2002 elections, the German government is at last toying with the idea of raising resources not by new charges on employment but by levying a wealth tax. No hint of such an approach is given here. Nor is attention given to the EU’s failure to adopt more adequate and imaginative programmes of development and redistribution at continental level. The CAP and the convergence funds have achieved results in some of the smaller, peripheral states, especially Ireland; but these are very small programmes compared with US Social Security and other Federal programmes, which, among other things, redistribute wealth from rich to poor regions on a far larger scale. Notwithstanding the impoverished US conception of the public realm, American universities are in receipt of more generous public funding than their European counterparts.

Hutton’s indictment of the US pattern remains a strength of the book; but it is accompanied by a tendency to downplay the remorseless advance of ‘Anglo-Saxon’ practices and models within Europe itself. The exchanges in Paris and Frankfurt used to have a capital value equivalent to only 50 per cent of GNP; this has now risen close to 100 per cent, and Centre Left



governments in Germany and France have fed the process with privatizations and reforms to company law. Hutton believes that European values will triumph over these substantial concessions to the stock-exchange model. While he insists that the large European concerns are fundamentally oriented to (long-term) profit, he portrays the threat to 'stakeholder' features as coming mainly from the ideology and value system of 'American conservatism' rather than the working out of inter-capitalist competition. Hutton does concede that Volkswagen has recently announced that its goal will be 'shareholder value' and that Nokia has reverted to a more conventional corporate structure. But he doubts that this will change much.

The Eurozone is, of course, more than large enough to defend and extend the social gains of its peoples; but this would require new measures and institutions, very different from those now in contention. The social model has been financed almost exclusively by heavy charges on labour, with the literally counter-productive result of mass unemployment and demoralization. Levies on capital, far more sweeping than anything envisaged by Germany's new labour minister, could begin to address the looming deficits of European social funds, especially those linked to pensions and the ageing society. Instead of nearly doubling the payroll taxes, which already absorb a fifth of wages, the Commission could establish a Euro-pension funded by a continent-wide share levy, assessed at 10 per cent of annual profits. The resulting shares could be held for future income and their voting power used to buttress stakeholder institutions in every region. (This is, of course, another version of the Meidner-type levy I recommended in NLR 14.) Hutton may be deterred from proposing new taxes because of the looming danger of deflation; but unlike most other taxes, a share levy would not subtract from demand.

One would expect a stakeholder visionary like Hutton to be a fount of practical ideas for rescuing capitalism from its current malaise. Instead we have faith in a Maginot line that has already been breached in a score of places. Whereas one might have imagined that Hutton would be delighted to advance the case for democratizing the giant pension funds, and to see a shareholding proletariat as the new social champion needed by his stakeholder regime, Europe is merely invited to get back to business-as-usual.

The root failure of Hutton's book is the absence of any keen sense that we are living through a crisis of capitalism. Part of this lies in the difficulty of making the figures add up—and a willingness to resort to fraud to ensure they do. But every capitalist crisis is also a crisis of the market institutions; today's is gripping both sides of the Atlantic and affecting the nature and functioning of banking, accounting, corporate governance, risk assessment, public regulation, the tax system and much else beside. As the troubles of Vivendi, ABB and the German banks show, this crisis afflicts Europe no less

profoundly than the United States. Given the present discredit of many crucial institutions of Anglo-Saxon capitalism, it is unlikely that the end result will simply be the Americanization of the European economy. But even those whose ambition is no more than to keep everything as it is—or was—will have to recognize that Europe's corporate and banking elite are more committed to capitalism than to paternalism. That, as Hutton might say, is the nature of the Beast. And the imperative of survival will lead the continent's key enterprises and corporations to re-invent the European model, shorn if necessary of its social protections, with the help of a savage capitalism in the new territories to the East. There are alternatives; but they are not explored by the Hutton of *The World We're In*.