INTERVIEW: Hope amidst despair?

Stuart Holland on Brexit, Europe and Labour's new economics, in conversation with Martin O'Neill

Few living figures can match Stuart Holland's range of experience and insight into both British and continental European politics. As an advisor to Harold Wilson, Willy Brandt, Jacques Delors and António Guterres, Labour MP for Vauxhall 1979-89, and as a leading light behind Labour's economic programmes in the 1970s and early 1980s, he has profoundly shaped the political economy of the Labour left and the case for a 'Social Europe'. With the left now ascendant within Labour, the EU locked in permanent crisis, and the UK struggling to come to terms with Brexit, Renewal caught up with Stuart Holland in Coimbra, Portugal.

Martin O'Neill (MO'N): We're now at a moment where Labour is re-engaging with a lot of the ideas you put forward as part of 'Labour's Economic Strategy' in the 1970s and 1980s, particularly around regional planning and public ownership. What do you think Labour needs to do to advance a left economic strategy under current conditions? What could it learn from what's gone before, or what would have to be different?

Stuart Holland: What is vital is what you do with banks. We argued in the drafting of Labour's 1981 Green Paper on financial institutions that there should be a public shareholding of each of the then major financial institutions: the banks, insurance companies, mortgage companies. There's a current proposal that Labour should create an investment bank. It could have a key role in issuing bonds to finance investments, but that's not enough. A bank lends to people who want money. What you need is state entrepreneurship at the regional, local level – public entrepreneurship which does things that the private sector isn't doing. That isn't the job of a bank.

MO'N: The current thinking in the Labour Party is that you'd have a network of regional development banks that would precisely be looking to fund projects that the private sector wasn't funding. Would that be closer to what you had in mind?

SH: Similar. But not enough. There's a fundamental difference. A bank evaluates an application for funds from somebody who decides what they want to do. In the present situation, there are many, many local communities who have got brilliant ideas for what to do. But they are unlikely to put them together into a proposal for a bank. The task for regional development agencies should be to identify a range of feasible innovation frontiers in entirely new technologies and new processes. Schumpeter was right in saying that it's not just cost reduction, it's process and product innovation that raises societies to higher levels of income and wellbeing.

I'm very glad that Mariana Mazzucato has been apparently quite close to Jeremy about this, and she's simply excellent because she's done work on the United States, along with Block and Keller. The Federal Government under President Carter's Small Firms Innovation Act, and then with Reagan who clearly didn't know what he was signing at the time, enabled synergies between research departments, companies, universities and entrepreneurs. Now, this certainly is needed. But it's not a job just for a bank. This is entrepreneurship. So you need regional development agencies and again, going back to enterprise boards. For example, when I made the case for a National Enterprise Board and it had gone through the National Executive Committee of the Labour Party, Mike Ward of the Greater London Council approached me and said 'Stuart, can we have an Enterprise Board for London?' I said yes, and I drafted it with others, and we got Robin Murray to be the Director of Employment inside the GLC for that. We got Mike Cooley to do some Lucas-Aerospace inspired practice. For example, Mike is very strong on tacit knowledge, which is identifying the tacit knowledge, latent abilities and implicit skills of workers who have no formal qualifications but know what could be done to turn a company around or to make it viable under worker ownership. Normally, the problem with worker ownership, as in the 1970s or 1980s, is that it only comes on the agenda when an enterprise is failing. You've got to be able to act *ex ante*. You need to be able to anticipate how to reinforce potential success. And that is entirely feasible, and it's been done, for example, in the United States in dramatic fashion as well as, on a smaller scale, in the EU through the ADAPT programme that I designed for Delors.

When I first met Marianna Mazzucato at a conference in Rome, she was full of apologies – 'Stuart I'm so sorry, I'm told that I've stolen a title of yours.' [Mazzucato, *The Entrepreneurial State*, 2011] And I said, 'no, don't worry you haven't,' because mine was *The State as Entrepreneur* (1972). And the two concepts are complementary, but actually different.

MO'N: Can you say a bit more about those two ideas – 'the entrepreneurial state' in Mazzucato and 'the state as entrepreneur' in your work – what do you see as the difference between those two ideas?

SH: The concept of the state as entrepreneur is that the state should take shareholdings in companies and it should do so because an ownership stake is important in giving you access to all kinds of information, and also influencing decision-making. When we were shaping Labour's Programme in the early 1970s, and I was asked to give an example, I gave Ferranti [a British computing and aerospace firm that ceased operation in 1993]. Ferranti was brilliant. It was innovating so well that it was registering about 108 patents per year, but could only implement 8 of them. It didn't have the finance for the investment. And lo and behold, when the National Enterprise Board (NEB) was formed in 1975 Ferranti applied to be brought into the NEB. It then applied for government finance in return for shareholdings. In a confrontation that I had with the General Electric Company (GEC) boss Arnold Weinstock on one of the last broadcasts before the 1974 election, I pointed out that he was sitting on a billion pounds, which at that time was a lot of money, as a cash reserve to hold off hostile bids. Whereas in the case of the Industrial Reconstruction Institute *(Istituto per la Ricostruzione Industriale – IRI)* with government shareholdings in companies in Italy, no one makes a hostile bid because they're going to get their fingers burnt. They'll get badly burned. So, 'the State as Entrepreneur' is ownership-based. It's *not* nationalisation, since minority holding can give you *de facto* control, especially when you have a good, entrepreneurial, innovating company like Ferranti, that knows that you want to reinforce and promote success, not subsidise and under-write failure.

The 'Entrepreneurial State' is not ownership based. It's about sharing knowledge and promoting links between concepts and practice. And it's been brilliant because if you're an academic or research physicist you publish in a refereed journal. You publish and that's that. You don't necessarily aim to produce something in manufacturing terms, which could embody what you've invented or created. For example, nanotechnology in the US was created by this synergic process of linking pure research and production. It was Federal advisors who generated these synergies – and these were temporary staff, people on short term contracts, not classic civil servants – who even had to invent the term nanotechnology. Look at nanotechnology now, it wouldn't be there had it not been for this synergy.

MO'N: Mazzucato points to the number of components in an iPhone that wouldn't exist but for public investment in R&D.

SH: Yes, Google's algorithm was federally funded. As were touch screen displays vital for all apps, not least in the case of the iPhone as well as 'orphan' pharmaceutical companies developing drugs for minority conditions that the major companies would not develop since the initial market was relatively small. But which in turn enabled now major companies such as Genentech. So the 'Entrepreneurial State' is synergic. The 'State as Entrepreneur' is more focused on ownership. But what is needed in Britain is both synergies between pure research and innovation and social, mutual and municipal ownership. Not least since, in the States, Google and Apple benefitted from federal funding but now are avoiding taxation through transfer pricing and returning nothing for future investment in the public or social domain.

MO'N: Yes, I think that that has had a big influence on John McDonnell and people around him. But I wonder if you might have seen this document – the Alternative Models of Ownership report commissioned by Labour's Shadow Treasury and Shadow Industrial Strategy teams. What they're looking at there, is what the state can do to produce a much broader ecosystem of kinds of ownership within the economy. So, whether that's local cooperatives, whether that's providing investment for worker-owned firms or for employee buyouts of firms where there's an owner who's retiring .

SH: Yes, this is good, and the last point is very important. Because quite often either there is no heir to the existing owner, or the heir doesn't want to run the firm.

There is another important challenge to be made – ideologically. Ideological mystification – which has been a Marxist case for a long time – is absolutely classic in the case of belief in the necessity of private ownership in a market economy. For example, Leon Walras, an early twentieth century French economist, is claimed to be the apostle of a pure market and a neoclassical. He wasn't. Too few people know that he *lamented* that he'd been interpreted in this way. He believed in public ownership of all land, public ownership of all utilities – gas, electricity, water supply – and of transport and railways; he believed in cooperative or municipal ownership of all finance. He believed that if you have private banks they will speculate with people's savings, go bankrupt and then demand support from the state. It would be worth getting this into the current ideological debate challenging neoliberalism.

Especially following the sub-prime lending crisis. After the Thatcher 1986 privatisation of mutual building societies – ironically, but presciently named 'the Big Bang' – Cheltenham & Gloucester was closed down by Lloyds TSB, and Bradford & Bingley went bust. That's because previously they'd been financing housing. They hadn't been speculating on stock markets. So, there is a strong case here to recover mutual and social ownership.

MO'N: In your chapter in *Reassessing 1970s Britain* (2013), you said that Gordon Brown's response to the financial crisis was a catastrophically more negative outcome than the so-called Winter of Discontent in 1978-79. There's Brown with this extraordinary opportunity to really change the ownership and control of the banking system in the UK, and he decided not to take it.

SH: For next to nothing. And look what Heath did with Rolls Royce. He nationalised it in a one clause bill without compensation when it was bust because of the initial design for the RB-211 fan engines. Brown could have brought the banks into public ownership on the same basis.

One of the main claims about my proposals in the 1970s was the allegation that I wanted civil servants to run industry. I didn't and I don't. They're not qualified, not up to it. You need professional managers in holding companies with a strategic remit from the government. I made that argument in shaping the case for the National Enterprise Board, submitting that the NEB should have such a remit for six main roles, including regional development, gaining direct information on the cost and profit structures of big business, using this to counter transfer pricing by multinational companies, locating more R&D in the UK, as well as long-term innovating investment not influenced by the short termism of stock markets. The NEB's sister state holding – the British National Oil Corporation, modelled on the Italian ENI – learned the real costs of drilling and extracting oil in the North Sea from its own operations and revealed how the oil majors were masking profits through transfer pricing. We pointed this out to Denis Healey, who could have taxed them substantially from 1975. But, misguidedly, as in running to the IMF for £4 billion when this proved to be an accounting error by the Treasury, and imposing cuts, he declined to act, leaving Thatcher to reap the oil revenues as the basis of cutting income tax rather than investing in industry.

MO'N: So, would I be right in saying that while you're definitely sympathetic to the kind of thinking that's going in Labour now, would it be fair to say that one thing you'd emphasise is that this has to be done in a way that really does embody long-term strategic thinking and planning?

SH: Exactly. It must not just be reactive. Your main concern should be to unlock the ideas from research departments, and synergise them with entrepreneurship. And although much of Britain's bigger business has failed, this still is entirely feasible, partly because small and medium firms are much more fleet footed, they can react more quickly to market conditions. A firm with an inspired entrepreneur and thirty employees could have an absolutely brilliant idea, but it won't get anywhere with the banks. But it could with a regional development agency funded by a National Investment Bank.

MO'N: As a bridge to talking about Europe, let me ask you a bit about Brexit. In some ways your proposals – particularly the use of state holding companies and 'golden shares' in firms – would have aligned British economic management with the best practice in other European states. And you hoped for coordination between planning at the national level and planning at the European level.

SH: Yes, there could have been such coordination from the 1960s. Because Robert Marjolin, who was Secretary General of the Organisation for European Economic Co-operation, which managed the Marshall Plan – a big figure – was the first Deputy Commissioner in the European Commission. He had set up a medium-term economic policy framework for European planning, mainly indicative but very useful. Six of them sat down, including the heads of the Belgian, French and Italian plans, and discovered they were all planning to export more to each other than they were going to import from each other. If you look at the European crisis now, a committee such as that, very high level, and not Commission but national officials, could actually spell out in reports that could have resonance that it's impossible to enact this German vision of a hyper-competitive, export-driven Eurozone.

MO'N: Let me ask you about the prospects now for the UK economy outside the European Union. Given that so much of your thinking was about what a radical socialist economic programme for Britain *within* Europe would look like, how should we think about what a successful socialist economic programme would look like *outside* Europe?

SH: I want to take one step back before I answer that question. The case for Brexit was stronger than most people recognised, and for reasons which never surfaced. I was unwilling to articulate them because I didn't want to stand alongside Nigel Farage.

MO'N: Or your successor in Vauxhall!

SH: Yes, Kate Hoey!

The reason is that the EU now is a disaster. It's an anti-democratic disaster, and that's not just the case with Greece. What we have is a new German hegemony and an ideological dominance of neoliberal austerity, which everybody knows. But they don't realise that this is what Europe is now *about*. It has become very deeply embedded.

Very few people are persuaded that there can be a reform of this European Union as it now is. Philippe Legrain was number two in the forward-planning unit of the Barroso Commission. He resigned. And he published statements in a book at the time saying why he resigned: because the 'community method' was dead.

Now, what is the 'community method'? It's supposed to be that the Commission makes a proposal to all governments. But under Barroso, the Commission was making its proposals first to Berlin. And if Berlin agreed it went forward, and if Berlin did not agree it didn't. This is a German hegemony.

In 2011, the Green former Foreign Minister Joschka Fischer said it would be a tragedy if for the third time in a century Germany were to destroy Europe without this time even firing a shot. And then you get the election of Syriza in January and Schaüble simply says – the degree of arrogance – says on the record, that the election alters nothing. And Fischer wrote again – are Schaüble and Merkel aware of what they're saying? i.e. that *democracy* alters nothing? This is an appalling disaster.

I wouldn't actually vote for Brexit, but I didn't vote.

MO'N: And you think it's beyond the point of reform? There's no chance now of resurrecting some version of a Social Europe?

SH: No. I need to qualify that. There is in institutional and policy terms, on the lines of *The Modest Proposal* by Yanis Varoufakis and myself (2013), which was based in large part on the US New Deal in a European context. And was the basis of Syriza's case in government on the ground that Greece could not recover unless Europe did. Which then was dismissed in the Eurogroup. But it still could be mobilised by other member states less easy to deride and dismiss, such as France under Macron.

MO'N: Back to the original question if we may. In the era of Brexit, what does a socialist economic strategy look like for the British economy, both in terms of international agreements and in terms of domestic reform?

SH: The debate on Brexit should be in a European context, not just a UK context, because things are so fundamentally wrong with the EU that they have to be changed. There is increasing recognition of the case that Europe should have a variable geometry. Now, that tends to come out in two speeds in Europe. Some should go ahead with ever-closer union and others should not. But that needs to be spelled out in terms of what it would actually mean.

The variable geometry would need to be based on a single market. But the single market has to be social, i.e. not a market in which capital does what it wishes where, when, how, and why. But a market in which capital is accountable. For example, the provisions at the moment for a European Banking Union are only concerned with the security of banks, not the role of banks in serving or disserving society. And that ranges wider than either the rest of the EU and the UK; it ranges right through the Western financial system. The Labour Party should be joining with other parties which are concerned to achieve this, and to get a more socially accountable role for banks.

MO'N: What kind of Brexit would be most helpful to pushing Europe in the more social and 'multispeed' direction you favour?

SH: A realistic Brexit – both for the UK and the rest of Europe – would be building on the variable geometry that has already typified the EU. For example, some member states are in the euro, some are not. Some agree to quotas for migrants and asylum seekers, while some do not. But there are also areas in which the EU itself would need cooperation from the UK if it is to achieve some of its main current objectives, such as a Banking Union in which there will be more transparency for banks which otherwise are deemed 'too big to fail'.

There are around 130 multinational banks among the EU's 6,000 plus financial institutions. The European Central Bank has recognised the need to focus on the big banks in its regulatory efforts. But it cannot do this without information on the leading UK based banks. That is a far more important issue of common interest than whether some London based banks also set up offices in Paris or Frankfurt. While, if banking regulation in the UK is more lax than in a Banking Union, more EU banks may be locating to London than the reverse.

In this context the Bruegel Institute's 'continental partnership' proposal, where Britain is the outlier in producing an eventual multi-speed Europe, has merits. But so does a European Union in which some member states explicitly reject 'ever closer union' – at whatever speed – and institutionally and politically are capable of doing so. Which is already the case.

Before the Brexit referendum Cameron gained explicit agreement from the European Council on enhanced cooperation by which some member states can adopt a policy without this binding others. Thus Britain does not have to go for 'ever closer union'. Any new policy proposed in the EU can first be put to Westminster for approval and, in this regard, preserve the sovereignty of parliament. He failed to exploit this. He also failed to exploit the fact that that borrowing from the European Investment Bank for investments in health, education, urban regeneration and protection of the environment does not count on the UK national debt, and therefore is not subject to the draconian borrowing limits of the so-called Stability and Growth Pact. These were catastrophic failures but also issues that still, in both cases, are relevant to the Brexit debate.

MO'N: So if member states do not have to go for 'ever closer Union' are you optimistic that there will be a path towards creating that variable geometry? Or do you think Brexit could usher in a further unproductive, destabilising era for the EU?

SH: It could, if other countries follow suit, but the present line from Barnier and Juncker is to make it so difficult and so penal that other countries will not want to follow suit. Yet this depends also on what happens inside the Union. What will happen with Macron? Macron has said that there is a case for an 'inner Europe' which will go for an ever-closer union. On the other hand, he's recognised that this doesn't suit every other member state.

Macron may be very neoliberal on labour relations, but he also understands the case that Yanis Varoufakis and I have made in our *Modest Proposal* for resolving the crisis, i.e. that there should not only be the European Investment Bank (EIB) but also a European Investment Fund. Why two institutions? Because the EIB, with only rare exceptions, has only funded half of an investment project. It has a project-based psychology. If you present it with a plan for a high-speed rail link, it will fund it, but it has no macro-economic role. I argued to Delors that Europe needs such a financial role to fund full employment and recommended setting up the European Investment Fund to issue Eurobonds to recycle under-invested global surpluses, which it can do within its existing statutes.

A whole generation of EU officials has neglected the fact that one of the key things about the European Investment Bank is that its borrowing doesn't count on national debt. The case I made in my Spokesman book *Beyond Austerity* (2016) is that the European Investment Fund – also now part of the EIB group – can issue bonds that also need not count on national debt. So, you thereby have instruments similar to US Treasury bonds, which don't count on the debt of California or Delaware, without needing fiscal federalism.

There is still a role for the UK in all of this. For example, with Brexit it might not remain a member of the European Investment Bank Group, but the EIB can and does fund investments in non-EU countries. And there is self-interest for the rest of Europe in the UK drawing on Eurobonds issued by the European Investment Fund both to finance its own long-term recovery and contribute to that of the rest of Europe – mutual advantage, rather than the mutual recrimination currently dominating UK-EU relations.

MO'N: I pick up that there's a both a pessimistic and optimistic strand in your thinking about Europe. There's one thought that there is a German hegemony that is going to be very hard to break, and the aim for a Europe that is a Social Europe, that has a New Deal that really does invest in its future, is going to be very hard to get to. And hence, there was a case for Brexit that was maybe stronger than many of us thought at the time. But on the other hand, you have some confidence that Macron might have the political capital and political imagination to push through a more optimistic project.

SH: Macron has known and supported the case for joint EIB-EIF bonds since he was an adviser to François Hollande and even before Hollande became President.

Macron also knew of the proposals of Yanis Varoufakis and myself in the early statements of *A Modest Proposal*, from 2010, for joint EIB-EIF bonds. Mutualising debt could have been simple, putting it into an EU deposit account which, like a personal deposit equivalent, could not be used for credit creation, but need not be reduced other than in the long term, and whose interest would be serviced by the member state concerned. Which in fact was what Germany did with the debt of the former DDR, and which made it manageable.

When Macron moved from being an adviser to Hollande and became French industry minister he focused on the case for joint EIB-EIF bonds for recovery, with the EIF recycling global surpluses. At that time he was opposed by Schäuble. What is relevant now is that as President of France he could make the case directly to Merkel, who so far wrongly has assumed that Eurobonds would need to be guaranteed by Germany and funded by German taxpayers. I don't think that Merkel knows that this is not the case.

And there is a precedent here for her potentially 'learning up'. When Antonio Guterres proposed to the European Council in 1996 that the EIB should have a specific cohesion and convergence remit to invest in health, education, urban regeneration and environmental protection Helmut Kohl initially said no, on the grounds that 'the German taxpayer has paid enough'. But when he was briefed directly that EIB bonds are not financed by taxpayers, do not count on Germany's debt nor need German guarantees, he changed his mind, and agreed to this extension of the EIB's remit in the Amsterdam Special Action Programme of 1997.

Which also has interesting political potential. For Kohl did not need to put this issue to the Bundestag. It was a political decision open to him as a head of government within the already existing statutes of the EIB, which allowed for general bond issues. And it could be the same for Merkel in agreeing Eurobonds for recovery issued by the European Investment Fund, since its statutes allowing this were agreed by the European Council in 1994. All it would need is her consent to a policy already agreed, in an existing institution, ready to go. Whether or not she were also prepared to admit that earlier she had been wrong, and now had 'learned up', doing so could reverse her image as the Iron Maiden of Europe. It would win her a reputation as a key figure in a lineage dating from Adenauer and Brandt to Kohl: until now, she has been the missing link.

With additional input from Joe Guinan and James Stafford, and editorial and transcription assistance from James Stafford and Kirsty Capes.

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