The Conservatives' political economy: 'State rentier capitalism' or old wine in new bottles?

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The Conservatives' approach to the economy is defined by contradictions. While an era of more state intervention now looks inevitable, the deeper question is whose interests this intervention will serve. So far, the Johnson government has deployed the state to preserve existing power relations rather than challenge them. However, the fallout from the cost of living crisis may stretch this approach to its limits.

'Johnsonism' has always been a difficult beast to pin down – not least because Boris Johnson's defining characteristic as a politician is shape-shifting opportunism, driven both by a ruthless instinct for power and (by all accounts) a desperate desire to be liked.[1] In this essay, we ask whether a coherent approach to the economy can be discerned in the Conservatives' current incarnation – and conclude that, like Johnson himself, it is defined by contradictions. The Conservatives are attempting to 'face both ways', catering to their new voters in the so-called 'Red Wall' with promises of a more activist state, whilst also seeking to reassure and protect their core constituency – rentier capital. This is mirrored by faultlines within the party itself, caught between the demands of holding together Johnson's electoral coalition and the power of fiscal conservatives like Rishi Sunak or libertarian backbenchers like Steve Baker.

These tensions mean that Johnson's 'Rooseveltian' rhetoric has often not translated into policy reality. And yet, in our age of ongoing crisis, the genie of a more interventionist state seems unlikely to be put back in the bottle. The question then becomes what *kind* of state intervention we are seeing, and – crucially – to whose benefit. Johnson's interventionism appears more focused on preserving existing inequalities of wealth and power – in particular, those relating to asset ownership – than challenging them. It is therefore highly unlikely to achieve its own stated objectives, notably commitments to 'levelling up' and 'net zero'. This creates political space for a progressive response which accepts the activist state as the new centre-ground, but refocuses debate on questions of economic power: who has it, and how it can be spread more widely.

A new interventionism?

A key debate about 'Johnsonism' has been whether there is anything to see besides rhetoric. In particular, do Johnson's attempts to 'steal the left's clothes' regarding state intervention amount to a genuine shift in the economic consensus, or are they little more than smoke and mirrors? It is not hard to find evidence for the second point of view. In summer 2020, Johnson promised to be 'Rooseveltian' in his approach to post-Covid recovery. But the accompanying spending plans amounted to just £5 billion, most of which was repackaged announcements – just 0.2 per cent of UK GDP, and 200 times smaller than Roosevelt's New Deal. Rishi Sunak's instincts are resolutely Thatcherite, and his determination to act as a brake on public spending has meant that Johnson routinely over-promises and under-delivers. The 2022 Spring Statement was dominated by Sunak's fiscal hawkishness and desire to build his brand with Tory backbenchers, promising 'lower taxes, stronger communities and a smaller state'. There was no more talk of Roosevelt: instead, he declined to do even the bare minimum to protect households from the rising cost of living. Tellingly, George Osborne praised the plan for its commitment to 'controlling spending, reducing deficit and debt and cutting taxes'.[2] With Johnson and Sunak now both badly – perhaps fatally – weakened, it is difficult to predict where this tug of war between the party's laissez-faire and interventionist tendencies will lurch next.

But we live in unprecedented times, and the Conservatives are governing in conditions very much not of their choosing. The furious reaction to the Spring Statement demonstrated that this is not 2010, however much Sunak might wish it were. For one thing, the pandemic has profoundly shifted the elite consensus on fiscal and monetary policy. Both the *Financial Times* and the IMF have been moved to publish obituaries to austerity, the former declaring that its death 'should not be mourned'.[3] Matt Hancock wrote in the *Telegraph* that 'the huge injection of taxpayers' money was vital to keep the economy afloat', and that 'for almost two years the Bank [of England] rightly printed all the money the Government needed to finance the pandemic'.[4] If this fiscal-monetary activism was the right response to a health emergency, it is difficult to sustain the argument that it is the wrong response to the cost of living crisis or the climate emergency.

Far from a post-pandemic return to 'normality', our era of rolling crisis is opening new frontiers in the debate about the state's role in the economy. The advent of war in Ukraine normalised the state seizure of assets owned by Russian oligarchs. The outcome of a free market for ownership of football clubs shifted suddenly from acceptable to unacceptable. As energy price rises bite, and energy security becomes a major political issue, the notion that our energy system should be left to a market-place of private entities is coming under increasing pressure. The return to a larger, more active state looks as though it is here to stay.

When evaluating the Conservatives' political economy, then, the question is not just *whether* the state is intervening more, but *why, how* and *for whom*. To begin with, this means looking at the *composition* of state spending as well as its size. From the reversal of the £20 Universal Credit uplift to rows over public sector pay, it has long been clear that austerity is continuing for some. Increased NHS spending has been more than offset by the additional strains of the pandemic. There has been little appetite to reverse the deep cuts to welfare and local government made during the coalition years, and many departments still face real-terms budget cuts. But this frugality stands in stark contrast to the free-handedness with which public money has been channelled to favoured companies, for instance through the much-criticised 'VIP Lane' for Covid-related contracts.[5] Similarly, central government has created an array of new funding pots, from the Towns Fund to the Levelling Up Fund – seemingly more to channel funds to Conservative target seats than to tackle genuine disadvantage.[6] The overall impression is of a clientelist approach to public spending, combining favours for personal friends and business contacts with pork-barrel politics targeting cash at key voters – while continuing the rollback of the state for less-favoured political groups.

The derisking state

To fully understand the Conservatives' political economy, we must examine not just the balance of power between state and market, but also between labour and capital. As we argued with Shreya Nanda in May 2020, the government's interventions during the pandemic were to a large extent an implicit bail-out for private capital – and, in particular, rentier capital.[7] Just as in 2008, the government and central bank stepped in to avert economic collapse and underwrite asset values. This effectively preserved existing power relations, neutralised the risks faced by private investors and asset owners, and set the stage for a 'K-shaped recovery' – whereby asset prices have rebounded to new highs, while living standards face the worst squeeze since records began.

By allowing more people to continue paying their rent and bills, the furlough scheme effectively operated as an indirect bail-out for landlords and private utility firms, who would otherwise have faced a tsunami of bad debts. Meanwhile, the government resisted calls for rent and bill freezes or debt relief for those still unable to make ends meet. Accordingly, the number of UK households struggling with large debts rose by a third last year[8] With the cost of living crisis set to squeeze households even more this year, this flow of wealth from borrowers to lenders is intensifying. The Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) guaranteed lenders against default – a direct subsidy for commercial banks which they are reportedly lobbying to make permanent.[9] The Bank of England's Corporate Covid Financing Facility (CCFF) provided over £37 billion of cheap loans to 107 large corporations using newly created money with few conditions attached.[10] Finally, interventions such as a £6.4bn stamp duty holiday helped fuel an astonishing 21 per cent rise in house prices during the pandemic, further widening the gulf between the housing 'haves' and 'have-nots'.

A similar logic can be observed in the government's economic recovery strategy, the 'Plan for Growth'. Much of its content is familiar supply-side fare, promising to boost skills, infrastructure and private investment. More surprising are proposals to enhance the state's role in directing innovation and investment – for instance, increased R&D spending, the establishment of a UK Infrastructure Bank (UKIB), and an 'Advanced Research & Invention Agency' (ARIA). The UK government also became one of the largest venture capital investors in Europe through the British Business Bank's Future Fund, which took substantial equity stakes in hundreds of 'innovative' companies during the pandemic.[11] However, almost half of the UKIB's £22 billion available resources have been ring-fenced for the provision of guarantees, suggesting that one of its primary roles will be to derisk investments for private investors and underwrite private profits. The identity of the Future Fund's beneficiaries, and the terms attached to the equity holdings, have to date been shrouded in secrecy. Similarly, while the government hopes that ARIA will help turn the UK into a 'science superpower', its activities have been exempted from freedom of information laws, making it impossible to assess what it will do and who it will serve.

Writing for the *Financial Times* in October 2020, Martin Sandbu declared that 'economic planning and the activist state are back', but predicted that – unlike the post-war era – government intervention will 'guide the private sector to perform better', rather than replacing it.[12] Boris Johnson's foreword to the Plan for Growth cites vaccine development as a key example of such a partnership. This is unwittingly revealing. 97 per cent of the funding to develop the Oxford vaccine came from public and charitable sources.[13] Yet, having initially planned to license the technology openly, the university granted exclusive ownership rights to AstraZeneca, whose profits increased by £1.9 billion on pre-pandemic levels, or 122 per cent.[14] Meanwhile, the UK consistently sought to block proposals to waive patent barriers at the World Trade Organisation in order to improve global vaccine access.[15] It is hard to escape the conclusion that the UK deliberately privatised an asset of immense social and financial value that had been developed with public money. Indeed, Johnson explicitly boasted about this: in a speech to the Conservatives' 2020 conference, he proudly proclaimed that 'it isn't the state that will hold the intellectual property of the vaccine'.[16] Six months later, he told Tory MPs that 'the reason we have the vaccine success is because of capitalism, because of greed my friends'.[17]

Talk of missions, innovation and boosting R&D spending might call to mind economist Mariana Mazzucato's 'entrepreneurial state'. But a key plank of Mazzucato's argument is that, since states often take the risks and provide the long-term capital to finance breakthrough innovations, they should reap more of the rewards. By contrast, Johnson consistently ascribes this role to private capital. His foreword to the Plan for Growth insists that 'Above all, we will embrace the instincts and know-how of the wealth creators, those in the private sector who invest money and take risks on new ideas'. Yet, when it came to vaccine development, it was the public sector that invested, took risks, and produced new ideas. In Mazzucato's language, private pharmaceutical companies have not been wealth 'makers' but wealth 'takers' – monopolising the proceeds of this vast public effort via patent rights.[18] Johnson appears content to see state-funded innovation transmuted into privately-owned assets, while the public realm continues to be hollowed out.

What we are left with, then, is not so much Mazzucato's 'entrepreneurial state' as economist Daniela Gabor's 'derisking state' – which acts to 'derisk systemic liabilities during bad times' (say, by underwriting credit and propping up house prices during a pandemic), and to 'enable the creation of new asset classes during good times' (say, in green infrastructure or intellectual property).[19] Instead of using public investment to produce *public* assets, it uses state power to create a favourable environment for owners of *private* assets. In the remainder of this essay, we explore how these dynamics play out in the stated objectives of the government's economic strategy: 'levelling up', net zero, and 'global Britain'.

Ostensibly each of these objectives represent a major departure from the pre-Brexit, pre-pandemic consensus. Promises of a 'Green Industrial Revolution' and reversing 'historic underinvestment in infrastructure, with £600bn of gross public investment over five years' could have come out of Labour's 2019 manifesto – and the likeness is not coincidental. However, the *way* the government proposes to meet these objectives shows substantial continuity from the days of the Northern Powerhouse, Cameron's 'green' Conservatism, and – before that – 'light-touch' banking regulation. The common thread is that state intervention will be used to entrench the power of capital and asset owners, not to challenge it.

Levelling up

In some respects, the government's Levelling Up White Paper is a remarkable sign of the times. It asserts that 'market forces' cannot simply be 'left to their own devices', and admits that the 'wrenching structural changes' of the Thatcher years 'caused large and lasting economic damage to significant parts of the UK'.[20] Similarly, the government's Plan for Growth declares that 'talent and resources have been sucked to the south so that for many people and places in Britain and Northern Ireland our economic model has just stopped working'.[21] In other words, it admits that focusing on the UK's international 'comparative advantage' in financial services has failed. It is hardly novel to point out the prosperity generated by this approach did not 'trickle down' to the people and places that most needed it. But to see these arguments made by a hard-right Conservative government is something new.

This speaks to the electoral co-ordinates of Johnsonism, including his new voters in the so-called 'Red Wall'. His great political achievement was to co-opt a sense of widespread discontent with the status quo, effectively neutralising the appeal of Corbyn's Labour, and hitch it to his particular brand of right-wing nationalist boosterism. However, the picture is more complex than oversimplified claims that Labour has 'lost the working class' in Red Wall areas. In reality, age and home-ownership are now among the strongest predictors of voting behaviour, with Johnson's victory overwhelmingly delivered by the votes of the retired. Working people – particularly those on lower incomes – were more likely to vote Labour, even in 2019.[22] This may help to explain why 'levelling up' has not amounted to a serious agenda for raising living standards: low-income workers, even in Johnson's new Red Wall seats, are not really his core constituency.

The policy prescription for areas that are 'lagging behind' is not so different from a decade ago, when George Osborne struck devolution deals with city-regions like Greater Manchester. Instead of new large-scale public investment (the Office for Budget Responsibility forecasts that in 2021/22 public sector net investment will fall to its lowest level in eighteen years[23]), the government is relying on inward investment by private capital to generate high-skill jobs and upgrade infrastructure, assuming that this will drive growth and productivity. The 'vicious circle' of decline for 'left-behind' places will thus be transformed into a 'virtuous circle' of agglomeration.[24] According to the Plan for Growth, 'our cities will be the engines for this growth … driving the prosperity of the surrounding region'.[25] For all its 300 pages, the White Paper does not seriously engage with the shortcomings of this model, which are increasingly being recognised even by the cities that pioneered and prospered from it. For instance, there is little evidence that Manchester's growth has 'trickled out' to surrounding boroughs, or even to most people in Manchester itself, which still contains some of the most deprived neighbourhoods in the country. Instead, property-led regeneration has recreated many of the same spatial inequalities examined in the White Paper on a smaller scale, as well as London-style problems of housing affordability.

Recent work on inequalities by the Greater Manchester Combined Authority has highlighted the need to drive up wages in 'everyday' sectors like retail, care and hospitality, which employ far more of the workforce than frontier sectors like tech and life sciences; and to improve affordable provision of essentials like housing and public transport.[26] The government's agenda for levelling up largely overlooks such issues. Instead, it assumes higher productivity is the route to higher wages – despite evidence that this association has weakened in recent decades, and is particularly weak in regions like the North.[27] This allows it to ignore questions about who captures the gains of rising productivity, and indeed whether the easy availability of cheap labour is one reason productivity growth is so weak in the first place. In other words, it ignores the balance of power between capital and labour. This is the contradiction at the heart of 'levelling up': it pledges to reduce geographical inequalities, but disregards the structural power inequalities that help to produce them.

Neither does it seriously grapple with the fact that the UK's flawed economic model is not based on productive investment at all, but on rentiership – underpinned by an oversized financial system and over-heated land and property values. Its only solution to weak business investment is ineffective tax breaks. The White Paper treats the housing crisis as an inevitable result of economic activity concentrating in big cities, rather than an asset price bubble fuelled by mortgage lending and speculative demand. The solutions offered – such as the extension of Help To Buy and a new guarantee scheme to underwrite high loan-to-value mortgages – thus continue a long-standing pattern of adding fuel to the fire. The settlement inaugurated by Right To Buy has sown the seeds of its own destruction: levels of home ownership have fallen from 71 per cent in 2003 to 65 per cent today, and from 59 per cent to 47 per cent among young adults.[28] This is severely testing the Conservatives' claim to be the party of home-ownership; today they are more accurately seen as the party of *existing* rather than aspiring home-owners. The problem with this, electorally speaking, is that those locked out of home ownership represent a large and ever-growing constituency.

Perhaps more even than this, Johnson's is the party of property developers. The Levelling Up White Paper promises 'transformational developments' of housing, shops and businesses in twenty towns and cities, but is silent on who will own these or how they will be financed. This suggests that they will replicate the same speculative private development model that has come under such criticism in Manchester and London. Because such developments rely substantially on the expectation of rising land values, they actively contribute to problems of gentrification, displacement and unaffordable housing. They are also vulnerable to a sudden loss of market confidence (which, for city-centre commercial property, could easily be triggered if trends towards working from home and online shopping prove 'sticky'). Johnson's failure to challenge this model is hardly surprising: property developers are responsible for £1 in every £5 donated to the Conservative party, and the scandal of Robert Jenrick's relationship with Richard Desmond suggests that ministers are not shy of using their position to protect these donors' interests.[29] In this respect, the Johnson government's approach to urban development – no less than its procurement of PPE – can be seen as part of a pattern of crony capitalism, or what we term 'state rentier capitalism'.

Net zero

While previous governments have toyed with 'green Conservatism', positioning the low-carbon transition specifically at the heart of *economic* policy is something new. This too has been the subject of tensions within the Conservative Party – with Sunak refusing to commit the necessary spending, and backbench factions like Steve Baker's 'Net Zero Scrutiny Group' explicitly opposing the agenda. The war in Ukraine, and the renewed focus on energy security, will further politicise these questions in unpredictable ways. The cabinet has been deeply split on the revival of onshore wind – another issue where Johnson sometimes appears at the mercy of his parliamentary party. Meanwhile, Conservative backbenchers are working with the fracking industry to demand a revival of shale gas production;[30] while Nigel Farage's Reform UK seeks to shift the dial of public opinion against 'net zero' commitments.

These tensions were evident in the government's new Energy Security Strategy, published in April 2022. The strategy bets heavily on securing the UK's future energy needs from nuclear power and offshore wind, while largely ignoring investment in onshore wind and green retrofitting. It is worth remembering that the latter was a centrepiece of Johnson's short-lived 'Rooseveltian' commitment to green job creation, and ended in ignominious failure. The 2019 Conservative manifesto promised to invest £9.2 billion in energy efficiency, but its 2020 Green Homes Grant scheme was backed by just £1.5 billion and beset by claims of poor administration by US contractors.[31] It closed to new applicants six months after launch, having reached less than 10 per cent of the 600,000 homes the government had promised would benefit. The Public Accounts Committee deemed the scheme 'a slam dunk fail'.[32] Further job-creating fiscal stimulus now appears to be blocked by influential Cabinet voices who consider it inflationary. There is thus little indication that the government has the appetite for expanding public investment and state capacity on the scale required to meet its 'net zero' aims.

The strategy proposes the creation of a new public body, 'Great British Nuclear', to help scale up nuclear energy. However, it carefully avoided making large public investment commitments, reportedly at the insistence of the Treasury, pledging only £120 million for a 'future nuclear enabling fund'. It therefore seems unlikely that the

UK's new suite of nuclear reactors will be publicly financed, owned and operated, as is the case in France. Instead, it is once again likely to expand the scope of the 'derisking state', facilitating the creation of new nuclear power reactors and other 'green' asset classes, and offering incentives for private capital to invest in them. This is likely to be a highly expensive way of delivering energy infrastructure. Like its predecessor, PFI, it may in practice represent a huge transfer of wealth from the public purse to private asset managers, who will likely demand returns much higher than the rate at which government itself could borrow, while expecting the state to shoulder much of the risk. It will also be expensive for underlying savers: the government wants to allow pension funds to charge higher fees so they can invest in infrastructure via high-cost private equity firms. Gabor argues that this approach 'preserves the political order of financial capitalism, including its ideological aversion to green public investment under a Green New Deal framework', and 'creates the conditions for systemic and subsidised greenwashing'.[33] An example might be the booming market for carbon offsets, currently translating into a 'green land grab' by institutional investors that is driving up rural land values and pricing out local communities.

Global Britain

One of the things that makes the UK an attractive destination for green asset-grabbing is its lax rules on inward investment. Here, too, Johnson's political economy has been wildly inconsistent, as he struggles to balance his liberal instincts with post-Brexit economic nationalism. Under the banner of 'global Britain', he has pledged to make the UK 'the most attractive destination in the world to invest', including in green infrastructure. In practice, this has principally meant expanding opportunities for rentiership rather than innovative or productive investment. Johnson celebrated Australian investors taking stakes worth £28.5 billion in wind farms, property development and privatised utilities.[34] Sunak described a wave of acquisitions of UK companies such as Morrisons by overseas private equity as 'a sign of confidence in the UK' and 'good news for our economy' – ignoring concerns about asset-stripping and national food security.[35] Yet the government has also promised to clamp down on foreign ownership of strategically important infrastructure, notably by China, and intervened to prevent the sale of ARM Holdings to US firm Nvidia on security grounds. Its inconsistent attitude to Huawei offers a vivid illustration of this tension in action.

This contradiction between economic nationalism and orthodox liberalism is also evident in the government's trade policy. It promises on the one hand to use independence from EU state aid rules to redirect procurement spending to British businesses; and on the other to 'model openness to free and fair trade' – something that key figures like Dominic Raab and Liz Truss have long evangelised for.[36] This vision of the UK as a great trading nation is itself at odds with the reality that UK exports have collapsed as Brexit bites. Attempts to square this circle are likely to create a 'race to the bottom' on tax and regulation. Jacob Rees-Mogg has promised a bonfire of domestic regulation as 'Brexit Opportunities Minister'. Meanwhile, a proposed duty for regulators to promote the 'competitiveness' of the UK financial sector seeks to revive the 1990s consensus of 'light-touch regulation', where systemic risks and social harms were neglected in favour of boosting the sector's role as our main export.

This contradictory confluence of policy positions is revealing. Promises on procurement spending nod towards the growing popularity of 'community wealth building' – but, where the latter looks to ensure that wealth recirculates within communities rather than being extracted to distant corporate headquarters, Johnson has reduced it to a sort of performative nationalism. This transmutes concerns about flows of power and wealth in the economy into questions of patriotism, pride and national identity; identifying the enemy not as extractive financialised capital, but *foreigners*. Like Donald Trump, Johnson is caught between his desire to appeal to ordinary voters who feel shafted by globalised capitalism, and his deep-seated instinct to protect the interests of globalised capital. And, like Trump, he often squares the circle by deflecting these concerns with xenophobic rhetoric. Indeed, compared with Trump's aggressively protectionist attitude to Chinese imports, Johnson arguably represents even less of a break with the pre-crisis neoliberal policy consensus.

Conclusion

If we look solely at the 'state vs market' axis, Johnsonism is meaningfully different from Cameronism – although perhaps less so in execution than in rhetoric. Various factors have pushed the government in this direction, from the shape of its new electoral coalition to the exigencies of the pandemic. Simultaneously, other factors restrain its ability to embrace an era of greater state activism, most obviously the continued influence of the party's libertarian wing. But if our concern is power relations in the economy, particularly the balance between labour and capital, Johnsonism does not represent a 'move left' in any meaningful sense. Economically speaking, his core base *is* capital; not necessarily productive capital (a constituency he proved himself surprisingly willing to alienate during the Brexit campaign, when he famously declared 'f*** business'), but rather rentier capital. The extent to which this is balanced by his new 'working-class' base in the Red Wall is limited by the fact that most of these voters are retired (or soon-to-be retired) home-owners. We should therefore not be surprised if Johnsonism shows little interest in improving the lot of labour or the living standards of working-age people.

The government's response to the cost of living crisis reinforces this. Where help is offered at all, it takes the form of tax cuts or targeted loans (such as the energy rebate, which effectively adds to the already unsustainable debts owed by low-income households). Meanwhile, the government resists calls to clamp down on the rent extraction that is inflating bills (such as the 40 per cent profit margins of energy grid operators), or to fund additional support through windfall taxes on companies benefitting from the crisis (such as BP and Shell, whose combined profits have soared to $15.3 billion in the first quarter of 2022 alone).[37] Raising National Insurance while cutting income tax shifts the burden of tax even further towards income from work rather than wealth: it is landlords and pensioners, not working people, who benefit most from these changes. NI rises have been justified as necessary to pay for health and social care – but, since the government is doing nothing about the £1.5 billion that leaks out of the system annually via highly financialised care home chains, this amounts to asking working people to further subsidise a deeply extractive private business model.

As the cost-of-living crisis bites, those without assets will experience ever greater financial insecurity. Private renters have already seen average rents rise 8.6 per cent year-on-year, yet London Mayor Sadiq Khan's calls for rent control have fallen on deaf ears.[38] Meanwhile, the government's half-hearted response to P&O's sacking of 800 crew members – and its decision to shelve a bill on employment rights – suggest that its appetite to assume financial risks on behalf of asset owners is not matched by an appetite to protect workers from the risks of an insecure labour market. The pain of inflation and economic disruption is thrust disproportionately onto those least able to bear it. The real question is how long this approach can be sustained – politically or economically. The UK's dramatic and growing inequalities of wealth and asset ownership, coupled with a decade of stagnant or falling living standards, are stretching this settlement to its limits. The return of high inflation and the end of ultra-low interest rates may yet prove to be its breaking point.

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Notes

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