

# BRITAIN

## Parasitic and decaying capitalism

Britain is a major imperialist power. Over the last 150 years, the very structure of British capital and, therefore, the nature of the working class movement have been determined by this obvious, but, until recently, seldom acknowledged reality. The imperialist character of Britain has been decisive in determining all the major economic and political developments in this country. Yet it has taken the brutal and barbaric US and British occupation of Iraq and Afghanistan and the growing resistance to that occupation to force the term 'imperialism' back into the political vocabulary of the left. DAVID YAFFE analyses the nature of British imperialism.<sup>1</sup>

**A**cknowledgment of the existence of imperialism is a step forward and is to be welcomed.<sup>2</sup> But, as will be shown, the British left acknowledges the existence of imperialism only to deny imperialism's central characteristics. This is inevitably reflected in practical political activity and presents a serious obstacle to the development of a revolutionary working class movement in Britain. That is why it has to be exposed. It is, therefore, necessary to briefly outline the central characteristics of imperialism before analysing the particular concrete features of British imperialism today.

Imperialism is fundamentally monopoly capitalism. It is the historical period of the decay of capitalism and is characterised by parasitism. Imperialism is the era of finance capital in which enormously concentrated banking capital has fused with industrial and commercial capital. The export of capital – that is global investment – as opposed to export of commodities becomes the distinguishing feature of imperialism.

As a result capitalism has grown into a global system of national oppression and of financial strangulation of the overwhelming majority of the population of the world by a handful of advanced countries. Imperialism divides the world between oppressed and oppressor nations; at the same time it brings about class differentiation within both the bourgeoisie and the proletariat – the existence of purely parasitic financiers [rentier class] and the labour aristocracy bribed out of the superprofits of imperialism. Finally, after the territorial division of the world by a small number of rich capitalist countries at the beginning of the 20th century, the different pace of development of monopoly capitalism in different countries drives nations into conflicts that can only be resolved by force – that is by war.<sup>3</sup>

Lenin was concerned to show how imperialism splits the working class movement and creates opportunist currents in the working class movement internationally, arguing that the 'fight against imperialism is a sham and humbug unless it is inseparably bound up with the fight against opportunism.'<sup>4</sup> That is why he attacks Kautsky<sup>4</sup> who attempted to contain irreconcilable trends of the left and right within the same socialist movement, to justify

'unity' with the apologists of imperialism, refused to fight opportunism, and found himself and his followers united with the extreme (right) opportunists supporting imperialist war. Kautsky detached the politics of imperialism from its economics. Kautskyism, Lenin argued, is not an independent trend, because it has no roots either in the masses or in the privileged stratum of the working class which had gone over to the side of the bourgeoisie. It attempts to reconcile the working class with the 'bourgeois labour party' to preserve the unity of the working class with that party. It is, Lenin argued, the 'inevitable fruit of the ideology of the petty bourgeoisie, whose entire way of life holds them captive to bourgeois and petty bourgeois prejudices'. Such tendencies have to be combated by the party of the proletariat.<sup>5</sup>

Although Britain does not yet have a mass socialist movement, Kautskyism began to emerge as an ideological trend within the anti-war, anti-capitalist movement when it had the potential to develop into a mass movement against imperialism. The Labour Party's role in aligning Britain with US imperialism in the renewed wars in Afghanistan and Iraq altered the political parameters. It was no longer credible for those claiming socialist credentials to maintain political links with the openly imperialist Labour Party and attempt to build a mass socialist movement with significant forces within the official Labour movement. A new mass 'socialist' movement could only be built outside the Labour Party and official Labour movement.

Hence the turn of the largest left organisation in Britain, the Socialist Workers Party (SWP), towards the anti-capitalist and anti-war movement with few links to the traditional Labour movement. Likewise the SWP played a central and crucial role in building Respect and, in Scotland, aligned its organisation with the Scottish Socialist Party in its efforts to build a new social democratic party, a more credible 'bourgeois labour party'. So in the rapidly growing anti-war movement, which peaked just before the invasion and occupation of Iraq, the SWP leadership successfully fought to contain the inevitable right and left trends in that movement within one 'mass' opportunist organisation, preventing a deci-

sive break with the 'bourgeois labour party', with the right opportunists, and blocking the emergence of a mass anti-imperialist anti-war movement. This is the form Kautskyism has taken in Britain and to combat it we need to understand the nature of British imperialism in the present period.

### A parasitic and decaying capitalism

*'Capitalism which began its development with petty usury capital is ending its development with gigantic usury capital.'* (Lenin *Imperialism, the Highest Stage of Capitalism* CW 22 p233)

Lenin was describing French imperialism at the beginning of the 20th century but it is even more applicable to British imperialism today. Britain's relative industrial decline has been combined with a dynamic, aggressive imperialist expansion of commerce and finance overseas. This development has now reached unprecedented levels.

Britain's overseas assets in 2005 were £4,837.1bn, nearly four times Britain's GDP. 56.4% of these assets, £2,727bn, more than double Britain's GDP, were 'other investments', mainly loans and deposits abroad by UK banks – a 'gigantic usury capital'. Only 15.6% of the overseas assets, £753.2bn, were direct investments (an investment in an enterprise abroad with 10% or more shares or voting stock), and 27.5%, £1,332.1bn, were portfolio investments (investments in shares, bonds and money market instruments).

Britain's overseas assets are now increasing every year by around 60% of Britain's GDP. Since 1997 when the Labour government came to power they have increased nearly two and a half times. In 2005 at the current exchange rate they were 92% of the size of US foreign assets – \$9,190.5bn to \$10,008.7bn.<sup>6</sup> However the foreign assets of the US were only equivalent to around 80% of the US GDP. (See Table 1.)

Britain's foreign assets are matched by even greater foreign liabilities of £5,006.0bn leaving a net external debt



'The government has to fight the City's corner not just in Brussels but in New York, India and China and other centres around the world.'

of £168.9bn, 13.8% of GDP. This has increased more than three times since 1997. Yet despite this external debt, the flow of income into Britain from its foreign assets is considerably greater than the payments flowing out of Britain to foreign residents holding British assets. Britain generates investment income surpluses from increasing net debt. This is a recent and unprecedented development which Britain currently shares with the United States.

Net earnings on Britain's international investment account in 2005 were a very significant £29.8bn. This is because Britain has earned a higher rate of return on its total external assets than it paid out on its total external liabilities. In 2004 the rates of return were 3.8% and 3.0% respectively, a signifi-

cant difference given the enormous size of foreign assets and liabilities. This statistic, however, conceals the rates of return on foreign assets and foreign liabilities in different parts of the world. Britain earned a 3.4% rate of return on foreign assets in the EU and paid out a 3.2% rate of return on its liabilities to the EU. In the case of the US the rates of return were 3.7% and 3.5% respectively. However in areas which include

**Table 1**  
Britain's external assets £bn

	1997	% of Total	% of GDP	2005	% of Total	% of GDP	% increase 1997-2005
Direct investment	232.4	11.8	28.7	753.2	15.6	59.4	214.1
Portfolio investment	651.0	32.9	80.3	1,332.1	27.5	108.8	104.6
Other investment	1,070.4	54.2	132.0	2,727.1	56.4	222.7	154.8
Reserve assets	22.8			24.7			
<b>Total</b>	<b>1,976.5</b>	<b>244.0</b>	<b>4,837.1</b>	<b>395.0</b>	<b>144.7</b>		

1 This is an edited and extended version of a talk David Yaffe gave to the RCG conference on 29 October 2006.  
2 Only last year Tony Benn, a regular speaker on Stop the War platforms and darling of much of the British left, repeated his long held view that Britain is a colony of the United States. See *Socialist Register 2005* p328, Merlin Press 2004.  
3 These characteristic features of imperialism were outlined by Lenin in his writings at the time of World War I – the first imperialist war – in particular in *Imperialism, the Highest Stage of Capitalism* in CW Vol 23 pp185-304.  
4 Karl Kautsky (1854-1938) was a leading theoretician of German Social Democracy and the Second International. Lenin called him a renegade for betraying the working class movement during the first imperialist war.  
5 See *Imperialism and the Split in Socialism* CW Vol 23 p119 and *Imperialism, the highest stage of capitalism*, CW Vol 23 p192 and p302.  
6 All statistics, unless stated otherwise, are taken from the relevant UK Official National Statistics at [www.statistics.gov.uk](http://www.statistics.gov.uk).



# FIGHT IMPERIALISM!



Oil: 'Can anyone today really deny the existence of monopoly profits or the domination of the 'Third World' by the rich imperialist nations?'

**Table 2**  
FDI Inflows 1992-2005, FDI stock 2005  
\$ billion and % of total

Country group	1992-1997	%	2000	%	2004	%	2005 (stock)	%
Imperialist	180.8	58.1	1,108.0	79.8	396.1	55.7	7,117.1	70.3
Underdeveloped	118.6	38.2	252.5	18.2	275.0	38.7	2,757.0	27.2
Ex-socialist nations	11.5	3.7	27.5	2.0	39.6	5.6	255.7	2.5
World	310.9		1,388.0		710.7		10,129.7	

most of the oppressed and less developed capitalist nations, the differences on the rates of return were far greater. So for Asia the rates of return were 3.8% and 2.2% respectively (if Japan is excluded the difference in rates of return for Asia rises to around 3.5%)<sup>7</sup> and for the Rest of the World 5.0% and 2.6% respectively, an enormous differential. So Britain borrows cheaply to invest in assets that earn a higher rate of return. In particular it has been accumulating mainly low risk, and low yield net banking liabilities and has been increasing net assets in higher yielding foreign direct investment (FDI). These dramatic statistics illustrate the parasitic nature of British capitalism.

In 2005, Britain had a balance of payments deficit of £26.6bn. The country spent around 2.2% of GDP more than it earned. The deficit on trade in goods was a massive £67.3bn, a record cash amount, and 5.5% of GDP. It will almost certainly deteriorate further as the trade balance in oil has now gone into deficit (£1.2bn in 2005) for the first time since 1979. Without the surplus on services trade of £23.1bn<sup>8</sup> and the net income flow on the international investment account of £29.8bn sucked in from surplus-value produced in every corner of the world, the standard of living of the British people would have significantly fallen. Labour's justification for 'humanitarian wars', its support for military intervention in Iraq and Afghanistan alongside the US, is explicable in terms of the need to protect these vital global investments.

## Denying imperialism

Yet many on the British left deny the parasitic character of imperialism. Typical is Chris Harman of the SWP when he argues:

*'Whatever may have been the case a century ago, it makes no sense to see*

*the advanced countries as "parasitic", living off the former colonial world. Nor does it make sense to see workers in the West gaining from the "super-exploitation" in the Third World. Those who run the system do not miss an opportunity to exploit workers anywhere, however poor they are. But the centres of exploitation, as indicated by the FDI figures, are where industry already exists.'* (*International Socialism* (IS) 99 Summer 2003 p39-40)

This is a slightly different formulation of a position that has always been at the centre of the theoretical principles of the SWP.<sup>9</sup> More recently Harman has gone further and seems to suggest that the imperialists did not benefit at all from colonialism, and indeed flourished economically in the post-war period on losing their overseas possessions. 'So the British, French, Dutch and Belgian economies all boomed after the loss of their colonies', because the most profitable destinations for investment turned out to be the other 'advanced' indus-



Bangladesh: '...the super-exploitation of the underdeveloped nations cannot be in doubt.'

trial countries.<sup>10</sup> So it would appear that the imperialists had no reason to be imperialists at all – a blanket denial of the neo-colonial settlement that emerged out of the Second World War and of the monopoly profits plundered from the underdeveloped nations throughout the post-war period.

All this reactionary bluster from Harman is to deny the existence of high monopoly profits drawn out of the underdeveloped world as the material basis of a privileged layer of the working class in the imperialist countries. His argument for this is unsustainable. For we are not dealing with the 'normal' exploitation of workers 'anywhere' under capitalism but with super-exploitation of the underdeveloped nations under monopoly capitalism, that is, imperialism. We are not speaking of the 'normal' profits from competitive capitalism but of the high monopoly profits of finance capital, when a handful of very rich capitalist nations have a stranglehold on the majority of countries of the world. Can anyone today really deny the existence of monopoly profits or the domination of the 'Third World' by the rich imperialist nations?

Harman attempts to do this by concentrating on one component of capital exports, foreign direct investment (FDI) but he shows little understanding of its composition and significance. FDI figures, he argues, show that the 'centres of exploitation' are where 'industry already exists'. He does this by conveniently disregarding the massive shift away from FDI in production industries towards services in the so-called 'advanced' capitalist countries<sup>11</sup> (that is, imperialist countries – a category Harman is reluctant to use). Further he fails to acknowledge that, over the last decade, an increasingly large proportion of the high FDI between imperialist countries takes the form of cross-border mergers and acquisitions (M&As) – an ever intensifying concentration of existing capital – and not new 'greenfield' investment.<sup>12</sup> The recent upsurge in FDI in 2005 and the first half of 2006 reflects the greater level of M&As (an 88% rise of M&As in 2005 over 2004) especially among the imperialist nations.<sup>13</sup> Five countries (US, UK, Germany, France and Japan) are responsible for more than half the accumulated outward stock of FDI in 2005 and just 10 countries for over 70%. So a small number of imperialist countries control the vast majority of the FDI throughout the world. (See Table 2.<sup>14</sup>)

Finally Harman even ignores the nature and extent of FDI in the underdeveloped nations. The share of global FDI going to the underdeveloped and ex-socialist nations fell from an average 42% in the period 1992-1997 to 20% in 2000, the peak of the mergers and acquisitions boom, rising again to 44.3% in 2004 during the period of low growth in the imperialist countries after 2001. So the share of FDI in the underdeveloped countries has been highest in periods of recession and low growth in the main imperialist countries, as corporations are forced to export surplus capital to areas of potential expansion and growing markets. Even accumulated stock figures for 2005 show that, on average, FDI in the underdeveloped regions is around 30% of the total global stock. Given that even official figures (ignoring other unofficial means of extracting super-profits from the oppressed nations such as transfer pricing, unequal exchange, special tax regimes, fees and commissions etc) show that the rate of return on investment in the underdeveloped countries is often around double that from the imperialist nations<sup>15</sup> – the super-exploitation of the underdeveloped nations cannot be in doubt.

Harman purposely concentrates on FDI in a forlorn attempt to deny the classic Leninist position on imperialism. Yet he contradicts even his extraordinary position in the very same article when he states that 'debt servicing transfers alone \$300 billion a year from

the "developing countries" to the wealthy in the advanced world' (IS 99 p69). Sneaking in the word 'wealthy' should deceive no one.<sup>16</sup> In fact debt servicing is much higher than \$300bn a year, reaching almost double that amount in 2005. Despite this, the external debt of underdeveloped countries continues to grow. It is simply a means to further extortion. (See Table 3.<sup>17</sup>)

The external debt of the underdeveloped countries between 1998 and 2005 increased by 25.1% from \$2,407.5bn to \$3012.3bn, despite these countries having paid back \$3,653.3bn to the imperialist banks, governments and their official international institutions over the same period. This is simply plunder of

<sup>7</sup> *Bank of England Quarterly Bulletin* Autumn 2006 p293.

<sup>8</sup> Britain with 7.6% of the world's total export trade in commercial services is second only to the US with 14.6%. Germany is third with 5.9%.

<sup>9</sup> See for example *Socialist Worker* 28 April 1979 and our discussion in *Revolutionary Communist* 9 p3.

<sup>10</sup> Harman, *Socialist Review* November 2006.

<sup>11</sup> See *World Investment Report* (WIR) 2004 *The shift towards services* UN 2004. The share of services in the outward FDI stock from developed countries was 67% in 2004 and that of manufacturing 28%. There has also been a steep rise in FDI into the primary sector, especially in petroleum. See WIR 2006, p xviii and p116.

<sup>12</sup> See 'Globalisation: parasitic and decaying capitalism' in FRFI 158 December 2000/January 2001. Between 80% and 90% of cross-border M&As take place in the imperialist countries with some 50-65% of it destroying shareholder value. They are defensive in character, a barrier against takeover rather than a means to enhance productivity and accumulation, a further expression of the parasitic and decaying character of imperialism. 'Greenfield' FDI adds to production capacity in the host country.

<sup>13</sup> A new feature of M&As is increasing investment by private equity funds – \$135bn in 2005. Such financial service institutions tend to have a relatively short term horizon and are often seen as 'asset strippers' out for a rapid and high rate of return. They are included in FDI statistics if the 'investment' is more than 10% of equity – another feature of the parasitic character of a growing proportion of FDI in the main imperialist nations.

<sup>14</sup> Figures from WIR 2004 and 2006. These statistics understate the amount of FDI in the underdeveloped world due to nations from the ex-socialist countries and other small capitalist nations having joined the EU and now included in the imperialist countries category. Wages in the new EU member states in 2005 were about 70% lower than those in the EU-15. High monopoly profits are being made by multinational corporations and banks investing in those countries.

<sup>15</sup> In only three of the 14 years 1980-1993 were rates of return on US FDI marginally higher in the developed countries overall. For the other 11 years they were much higher in the underdeveloped countries and in some years more than double that in the imperialist countries. In Africa the rates of return were three or four times greater than for the imperialist countries. See WIR 1995 p94. More recently income on FDI in the top six FDI recipient countries in Latin America and the Caribbean increased by 177% to \$42bn between 2002 and 2005. WIR 2006 p68.

<sup>16</sup> He also seeks to lay the blame on the local ruling classes of the Third World for the super-exploitation of their population for acting as debt collectors for the Western banks, multinationals and investors and even their domestic capitalists (IS 99 *ibid*). Needing to pass responsibility on to the local ruling classes in the Third World for the exploitation of their population appears to have become the SWP's opportunist justification for rejecting the division of the world between oppressor and oppressed nations (between 'core and periphery') under imperialism. See Megan Trudell SR September 2006 p23.

<sup>17</sup> These figures from the IMF's *World Economic Outlook* September 2006 exclude Hong Kong, Korea, Singapore, and Taiwan. Such countries are seen as part of the 'developed' capitalist world in IMF statistics.



**Table 3**  
**Underdeveloped countries' external debt and debt servicing payments**  
**1998-2005**  
\$ billion

	1998	1999	2000	2001	2002	2003	2004	2005
External debt	2,407.5	2,447.6	2,366.9	2,380.6	2,450.7	2,674.6	2,918.8	3,012.3
Debt-servicing	370.8	403.7	455.4	435.0	422.4	478.1	490.1	597.8

the resources of the oppressed nations by imperialism. This debt can never be paid back and will continue to grow.

The plunder of the underdeveloped countries does not end here. To this must be added portfolio investment by imperialist investors in shares and bonds in underdeveloped countries' stock and bond markets. Harman acknowledges this when he says there 'can be no end to the squeezing' (IS 99 p69), but he argues 'the economies of the Third World are too small' for these new forms of exploitation to solve the problems of capitalism of the advanced countries as the old forms did in Hobson's, and presumably Lenin's, time (IS 99 p70). This attempts to shift the focus of the argument yet again 'to solving the problems of capitalism of the advanced countries' and shows little comprehension of Lenin's standpoint on imperialism. Harman is clutching at straws because he is determined to deny the reality, that is, the parasitic nature of imperialism and secondly, the super-profits sucked out of the underdeveloped nations as the materialist basis of a labour aristocracy in the imperialist countries.

There is one additional special feature of imperialism which again demonstrates its parasitic character and shows how it helps to sustain a labour aristocracy in the imperialist countries. That is the role of immigration into the imperialist countries from those countries that imperialism has dominated and plundered. Lenin thought this point important enough to be inserted into the Bolshevik party programme. In speaking of the unskilled labour imported from underdeveloped countries he says:

*'The exploitation of worse paid labour from backward countries is particularly characteristic of imperialism. On this exploitation rests, to a certain degree, the parasitism of rich imperialist countries which bribe a part of their workers with higher wages while shamelessly and unrestrainedly exploiting the labour of "cheap" foreign workers.'*<sup>18</sup>

Harman and the SWP cannot brush aside this critical point. It has been a constant feature of British capitalism's history. Nor can their position be sustained in the face of overwhelming evidence produced above that imperialism is parasitic and decaying capitalism. For socialists from the oldest imperialist nation, living in an imperialist country that sustains the standard of living of its citizens through the income generated by a 'gigantic usury capital', their position is inexcusable.

### Inter-imperialist rivalry

The British left's position on inter-imperialist rivalry shows another move towards a Kautskyst<sup>19</sup> standpoint. Typical again is the SWP when it rules out any serious prospects of a European imperialism challenging US dominance of the world economy. So the SWP's Callinicos says that 'there is no chance that the inter-capitalist economic rivalries among countries in the transatlantic zone will break out into military confrontations' (IS 108 Autumn 2005). Harman concurs, denying the likelihood of wars which would ravage the heartlands of the advanced capitalist countries. One reason, he says, is the deterrent effect of nuclear weapons. The other is that 'the very interpenetration of the advanced capitalist economies

puts pressure on states to exercise power outside their own boundaries'. Few capitalists, he argues, 'want their national state to destroy huge chunks of their property in other states – and most of their property will be in the other advanced capitalist countries'. For Harman the result of all this is that the major capitalist nations will conveniently 'settle their differences in the less industrialised parts of the world' (IS 99 p65), while Callinicos, ruling out any European military challenge to the US, sees China as the great power with which the US is most likely to go to war.<sup>20</sup> This is not only spurious but wishful thinking.

Lenin dealt with this kind of thinking when he pointed out these 'little' wars, so-called because few from the imperialist countries died in contrast to the hundreds of thousands belonging to the nations they were subjugating, were the prelude to a 'big' war between the contesting imperialist powers.<sup>21</sup> What differences are the 'major capitalist nations (settling) in less industrialised parts of the world'? They are fighting for spheres of influence, for domination of the less developed parts of the world and for the right to plunder and extract super-profits from the greatest number of countries. Harman agrees that the US no longer has 'overwhelming economic supremacy compared to the other industrially advanced countries' and particularly the European Union. If US imperialism invaded Iraq and Afghanistan 'to strengthen its hand massively in economic and military standoffs with the other big powers'<sup>22</sup> is not an eventual showdown between the two dominant world economic forces, the EU and US, inevitable?

Elsewhere FRFI has shown how, over the last 25 years, there has been a changing balance of power between the US, EU and Japan.<sup>23</sup> The relative economic decline of the US began in the 1970s and continues. The EU, which expanded to 25 countries on 1 May 2004, is economically stronger than the US and its overseas interests are rapidly growing in relation to the US, whether of the export of capital or commodities. The EU now has a larger GDP than the US. (See Table 4.)

Real demand in the US economy is rising much faster than real output. The US is spending some 6.4% of GDP, \$805bn more than it is earning. This has led to a progressive rise of US net external debt to the rest of the world, estimated at \$2.55 trillion at the end of 2005. This is not sustainable. Sooner or later this will be reflected in a major fall in the value of the dollar relative to the euro.

These changes in economic strength must eventually lead to a redivision of the world according to economic power. Lenin was very precise about this:

**Table 4**  
**Inter-imperialist rivalry, EU and US**  
\$ trillion (% are of global total)

	EU		US	
GDP (2005)	13.450	(30.3%)	12.490	(28.2%)
Exports (2005) <sup>24</sup>	1.330	(17.2%)	0.904	(11.7%)
FDI outward stock (2005)	5.475	(51.3%)	2.051	(19.2%)

*'The capitalists divide the world, not out of any particular malice, but because the degree of concentration which has been reached forces them to adopt this method in order to obtain profits. And they divide it "in proportion to capital", "in proportion to strength", because there cannot be any other method of division under commodity production and capitalism. But strength varies with the degree of economic and political development. In order to understand what is taking place, it is necessary to know what questions are settled by the changes in strength. The question as to whether these changes are "purely" economic or non-economic (eg, military) is a secondary one, which cannot in the least affect fundamental views on the latest epoch of capitalism. To substitute the question of the form of the struggle and agreements (today peaceful, tomorrow warlike, the next day warlike again) for the question of the substance of the struggle and agreements between capitalist associations is to sink to the role of a sophist'. (Imperialism, the highest stage of capitalism, CW 22 p252-3)*

The issue of a European challenge to US domination, of the euro replacing the dollar as the dominant world currency, and the possibility of military conflict between the EU and US, cannot be simply dismissed in the cavalier way of many on the left. It is important to remember that after the US replaced Britain as the strongest economic power, it took two world wars, the great depression and fascism before the US became the dominant global imperialist power – 45 years from the turn of the 20th century. And it took quite a few more years before the dollar pushed

aside sterling as one of the world's key currencies.

Until Europe is not only able to replace the dollar standard with the euro but is willing to run the risk of a trade and investment war, with whatever consequences that entails, the US will continue to expand its current account deficit and the US economy will continue to live beyond its means. Europe is clearly biding its time watching as US imperialism continues to exhaust its resources on wars against the underdeveloped world. At some stage in the near future it will be forced to act and the world will again be redivided 'according to economic power'. As one economics writer recently put it: 'The idea that the US will give up global financial hegemony without a fight seems fanciful in the extreme'.<sup>25</sup>

This is the context in which Britain's role as ally of the US in the brutal war and occupation of Iraq and Afghanistan has led to an increasingly strained relationship with the EU. How long the British economy can sustain itself outside Europe, with Britain becoming more and more dependent on the parasitic dealings of the City of London, remains to be seen. The British ruling class knows that sooner or later it will have to make a choice between Europe and the United States. Whatever choice is forced on the ruling class, it is certain that any independent role of the City of London will be severely curtailed.

### Economic and social consequences in Britain

All the conditions of economic and political life are being governed by the parasitic characteristics of British capitalism. The vast majority of workers are now employed in the services sector with financial and business services becoming more prominent. While not



**'With such vital imperialist interests to protect, Labour's justification for "humanitarian wars" is explicable.'**

**Table 5**  
**Workforce jobs in Britain, 1979-2005**  
thousands

	Manufacturing	Distribution, Hotels & Restaurants	Finance & Business Services	Education, Health & Public Admin	Total Services	Total Jobs
1979	7,094	5,497	2,889	5,693	16,911	27,220
1990	5,203	6,463	4,442	6,470	20,501	29,100
1997	4,514	6,587	4,993	6,662	21,499	28,566
2005	3,383	7,078	6,097	7,790	24,711	30,810

all service sector jobs are unproductive, it is undeniable that there has been a massive redistribution of labour from the productive to unproductive sectors. (See Table 5.)

Between 1979 and 2005 the total number of workforce jobs has increased 13.2%, while public service jobs have risen by 36.8%, total service jobs by 46.1%, and finance and business services by a massive 111%. Manufacturing jobs have over the same period declined by more than half – 52.3%. Workforce jobs in the manufacturing sector in September 2006 at 3.03m are at the lowest level since records began in 1841. Manufacturing output at the end of 2005 was no higher than it was when Labour came into power in 1997. Over the same period Britain's industrial base fell to less than 16% of the British economy. In 2005 financial services alone accounted for 8.5% of GDP, up from 5.5% five years ago, while the share of manufacturing has fallen by over one third in 10 years to 13.6% of GDP.

Britain's share of total world exports has fallen to 3.6%, putting Britain in seventh place internationally, well behind Germany (9.8%), US (8.7%), and China (7.36%). Britain's share of the world's manufacturing output fell from 3.8% to 3% in the last 10 years, while China's share rose from 4.2% to 8% over the same period. Even South Korea's share has overtaken Britain's, rising from 2.2% to 3.4%.

Gross value added figures from 1997 to 2004 (latest information) show the rapidly growing importance of financial and business services to the British economy. In 1997 gross value added at basic prices by the manufacturing sector was £150.8bn (20.9%) and that of finance and business services sector £189.9bn (26.4%) out of a total value added of £720.6bn. In 2004 the value added by the manufacturing sector had fallen to £147.5bn (14.1%), while that from finance and business services had increased to £344.5bn (33%) out of a total of £1,044.2bn. That is, more than 2.3 times the contribution of gross value added to the British economy by manufacturing. Distribution, hotels and catering at £160.6bn (15.4%) also added a higher gross value than manufacturing. Landlords buying rental properties were the biggest contributors to economic growth from 1992 to 2004 with income

<sup>18</sup> Lenin *Revision of the Party Programme* CW 26 p168.

<sup>19</sup> Kautsky argued just before the first imperialist war that international cartels, an expression of the internationalisation of capital, gave hope of peace among the major capitalist nations.

<sup>20</sup> China may be an emerging capitalist power but it is in no position to take on the US, EU or Japan. See 'China Myths and Realities' in FRFI 193 October/November 2006 for a discussion of the relative economic power of China.

<sup>21</sup> *War and Revolution* CW 24 p406.

<sup>22</sup> In Harman's article it is not clear whether the conquest of Iraq was a policy of a section of the US ruling class – the neocons – or a necessity for a relatively declining imperialist power. See Harman SR November 2006

<sup>23</sup> See FRFI 158 *op cit* and 'The world economy facing war and recession' in FRFI 171 February/March 2003.

<sup>24</sup> These figures treat the EU as an entity and exclude intra-EU trade. So shares of global exports differ from those of all country exports as a percentage of total world exports below. They are taken from the WTO: 2006 Press Releases. This is not true for FDI outward stock which includes intra-EU FDI. Extra EU outward FDI stock will be about half the intra-EU amount.

<sup>25</sup> Larry Elliot *The Guardian* 2 October 2006. However like the SWP he appears to dismiss the possibility of the euro replacing the dollar as reserve currency, looking to the renminbi or rupee to play such a role. Like the SWP, he conveniently appears to rule out military conflict and therefore revolutionary developments taking place in Europe.





FRFI and supporters of the Anti-Imperialist Bloc on the march against Labour's drive for war in Iraq

from letting private homes rising by £45bn. Income from banking and finance came next with a rise of £36bn or 139% over the 12-year period.

At the core of these developments is the City of London, which was a major, if not the leading, financial centre for a great deal of the post-WWII period. Even today out of seven categories of international financial business, Britain is ahead on four, the US on three and other countries are nowhere. Britain leads in international banking with a share of 20% (US 9%); in foreign exchange – a trade of some \$1,900bn a day – with a share of 31% (US 19%); in foreign equity trading with a share of 42% (US 31%) and in over-the-counter derivatives with a share of 42% (US 22%). The banking sector is responsible for 70% of the massive 'other investments' assets of Britain. This results from Britain's role as the leading international banking centre. The parasitism of British capitalism is most adequately reflected by the fact that the London international centre is dominated by foreign banks, which are responsible for just under 80% of Britain's external 'other investment' assets. Britain is increasingly playing the role of an offshore haven for international banking. The main British banks made record profits of £33bn in 2005 and expect to make even higher profits this year. HSBC, Britain's largest bank, operates in 76 countries and, through a recent take-over, has become the largest banking group in Central America.

Alongside these developments there has been a growth in very highly paid workers at one extreme and millions of poorly paid ones at the other. A million people work in the money management business in Britain, and a record 335,700 now work in London's international financial and professional services centre. 42% of Britain's financial sector's income is generated in London. This work is very lucrative. City bonuses this year reached a record £19bn, equivalent to Britain's entire annual transport budget. Modern fortunes are more likely to be made from financial wheeler-dealing, speculation and asset stripping than any productive, wealth-creating activity.

The share of Britain's wealth owned

by the top 1% of the population rose from 17% in 1989 to 23% in 2002. The share going to the bottom half of the population has fallen from 10% to 6% over the same period. In 2000 chief executives of FTSE companies earned around 25 times the pay of average workers. It is now close to 120 times. Record salaries are being paid to newly-qualified accountants and IT contractors working in the City as new layers of privileged workers seek to share in the gains of the burgeoning financial and business sectors. Management consultancy grew by 266% over a 12-year period to 2004 spurred on by, among other developments, the growing privatisation of public assets under the Labour government. Whitehall consultants advising government departments are now costing more than £2.2bn a year, leading to lucrative employment for another group of highly-privileged workers.

Despite more than 13 years of economic growth the Labour government has barely begun to reverse the massive increase in poverty of the Tory years and inequality has continued to grow. Labour has reduced the percentage of people living in poverty (below 60% of the median income after housing costs) from 25% in 1996/7 to 20% in 2004/5 and the number of children living in poverty from 33% to 27% in the same period. Yet in 1979 around 13% of people lived in poverty and 14% of children, so no real progress has been made, despite the fact that during Labour's period of office real median family incomes rose by 26%. Under Labour inequality increased with the top 10% increasing their share of income from 27.7% to 29.1%, while the bottom 10% saw their share fall from 2.0% to 1.7%. Inequality between the bottom 20% and top 20% also grew but by a smaller amount and for those in between there was only a very slight reduction.

Real problems are on the horizon. Business investment in 2005 was at the lowest level in relation to the rest of the economy since 1967. Unemployment has hit the highest level for three and a half years. Insolvencies are at record levels – 23,351 insolvency filings in the first quarter of 2006, a 73% rise on a year earlier. Mortgage repossessions are

at a 13-year high – 22,997 in the first quarter of 2006, a 57% rise on the previous year. These developments are not surprising as consumer debt at £1,160bn is almost the size of Britain's GDP and three times the level of the 1990s. Mortgage debt increased three times to £967bn, unsecured borrowing four times to reach £135bn, credit card debt seven times since the 1990s to reach £58bn. The average British household owes £83,772 if mortgage debt is included and the average British person £3,175 if it is excluded. Britain is responsible for a third of all unsecured debt in Europe.

This reality creates difficulties for the left in Britain for it is an unmistakable expression of the parasitic character of British capitalism and of the related changes in the structure of the working class in Britain. The left must underplay this development. So the SWP's Jane Hardy tells us that while 'British capitalism has faced a more rapid fall in manufacturing than other advanced countries...the picture of the collapse of manufacturing is simply a nonsense. Britain is still a significant exporter of [merchandise] goods being ranked sixth in the global economy, with almost the same world share of exports as China'. The fall in manufacturing has, she says, been 'long in the making' and is attributed to the complacency bred by monopolistic domination over captive colonial markets in the 19th century and

**'The lessons learned from a Leninist understanding of imperialism make it clear that an anti-war anti-imperialist movement can be built only on the basis of a political movement that breaks completely and unequivocally with the British Labour Party.'**

the British ruling classes continuing inflated sense of importance and delusions of grandeur.<sup>26</sup> This entire contradictory fluster is necessary for her to reach her dishonest and opportunist conclusion: 'The working class is not disappearing. It is working in different places. Neither is it turning into a privileged layer with better working conditions and wages...Although some people in the City earn exorbitant salaries, many jobs in finance are repetitive, hard and badly paid.' (IS 106 Spring 2005 pp48, 51, 64)

It is a diversion to suggest that anyone is arguing that the working class is disappearing. What the argument is about is the nature of and divisions within the working class under imperialism. And for the left in Britain to deny the parasitic nature of imperialism, with the existence of a privileged layer of the working class based on the super-exploitation of the oppressed nations of the world, is the 'inevitable fruit of the ideology of the petty bourgeoisie, whose entire way of life holds them captive to bourgeois and petty bourgeois prejudices' (Lenin).

### The political outcome

The parasitic character of British capitalism, its dependence on the earnings from its vast overseas assets and particularly those of its parasitic banking sector to sustain the British economy, show its vulnerability to any external shocks. With such vital imperialist interests to protect, Labour's justification for 'humanitarian wars' is explicable. Britain's relationship to Europe and the impasse the British ruling class finds itself in over this question, whose resolution will have dramatic consequences for the rivalry between European and US imperialism and for the future role of the City of London, again can only be understood in this context. These facts underlie the Labour Party's commitment to the war on Iraq and its efforts to draw in the other European imperialist countries, and also the divisions in the British ruling class on the war. It finally makes clear the foundation of Labour's hostility to the growing resistance to imperialism in the oppressed nations.

The need to defend the interests of Britain's financial sector and the City of London's vast international interests and connections has been a central feature of Labour's policies, whether giving independence to the Bank of England, ensuring a 'strong' pound, or wining and dining with international bankers at the Mansion House. Hywell Williams calls the City the 'true governor of Britain, with a world view of global markets...that has turned political elites into its supine agents' (*The Guardian* 11 April 2006). This is a valid characterisation of a Labour Party whose leaders personify parasitic capitalism. Ed Balls, advisor to Gordon Brown, and a possible cabinet member in a future Brown Labour government, tells us that 'Labour had done a lot to help shore up the City's success, it kept the UK out of the euro', and he says that the government has to fight the City's corner not just in Brussels but in New York, India and China and other centres around the world. (*Financial Times* 23 May 2006) Gordon Brown is chairing a campaign led by a 'high level group of key stakeholders from business and government' to promote the interests of London as the world's leading financial centre. Ken Livingstone, mayor of London, is a member of this group. (*Financial Times* 20 July 2006)

The ruling class understands the centrality of British imperialism and in particular the need to sustain that 'gigantic usury capital' with all the consequences outlined. Any Labour government elected to run British capitalism has to defend the interests of British imperialism and, in particular, take measures to promote the financial interests of the City. This creates massive problems for the British petty bourgeois left, which has always seen its political relationship

to the official Labour movement as a crucial component in the development of a mass movement opposed to capitalism. But how is it possible to maintain links with a Labour Party that has openly aligned Britain with US imperialism in the brutal war against Afghanistan and Iraq? The SWP as the leading and dominant force in the anti-war movement has sought to provide an answer.

All the SWP's forlorn efforts to dismiss the parasitic character of imperialism, to exaggerate the role of manufacturing in the British economy, and to deny the existence of privileged layers of the working class and the split in the working class movement have the same class basis as their opportunist politics in the anti-war, anti-capitalist movement. They have to find some way to retain their links with the imperialist Labour Party while leading a mass movement against British imperialism's war in the Middle East directed by the self-same Labour Party.

They have done this by ensuring that the anti-war movement did not turn into an anti-imperialist anti-war movement, for that would have necessitated breaking all links with the British Labour Party. This explains their opportunist politics in the anti-war movement. So the SWP's John Rees smugly affirms of the Stop the War movement that:

*'Attempts to narrow the campaign, so that it adopted specifically anti-imperialist objectives, thus potentially excluding pacifists or those simply opposed to this war for particular reasons or, most importantly, those just coming into the movement, who had not had the opportunity to become anti-imperialists on principle, were rejected.'* (John Rees *Imperialism and Resistance* 2006 p225).

And fellow SWP leader Lindsey German tells us to welcome new supporters of the Stop the War coalition who have learnt they were wrong through bitter experience, and especially 'our elected representatives'. Every MP, no matter if they supported the wars in Afghanistan and Iraq, and whose opinions have changed with the blockade and bombing of Lebanon, should be welcome.

*'Every MP who speaks out publicly against government policy, who is quoted in a newspaper, who comes on a Stop the War platform, brings a new voice to the anti-war movement which is likely to influence a wider range of people'* (SR September 2006)

It is by such crass opportunism that the left attempted to oppose the war and yet keep links with the party which is conducting the war. This is the form Kautskyism has taken in Britain and the reason why no mass movement against imperialism has been built.

The lessons learned from a Leninist understanding of imperialism make it clear that an anti-war anti-imperialist movement can be built only on the basis of a political movement that breaks completely and unequivocally with the British Labour Party.

<sup>26</sup> Events have rapidly overtaken Jane Hardy. In 2005 China's share of global exports of goods was more than double Britain's share. For a materialist explanation of the relative decline of British manufacturing since the last decades of the 19th century which avoids the pitfalls of Jane Hardy's subjective and psychological mind-set see part 1 of 'The Labour Aristocracy and Imperialism' in FRFI 161 June/July 2001.