

LSE British Politics and Policy

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Corporate state capture: the degree to which the British state is porous to business interests is exceptional among established democracies

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Abby Innes writes that while UK governments have refrained from intervening in the private sector, they enable ever greater business access to public authority and revenue. She argues that successive policies have led to corporate state capture.

British Ministers and MPs operate with uniquely close ties to business. These ties are an essential feature of the neoliberal transformation of the state. Their vulnerability to conflicts of interest and corruption are a feature, not a bug. Under the New Public Management agenda of the last forty years, agenda-setting and policy design have increasingly been outsourced to professional consultancies, third-sector agencies, law and accountancy firms and corporate sponsored think tanks. The administrative, policy-making and agenda-revising throughputs of the state have seen greater business involvement via senior civil service recruitment and special advisors. Departmental non-executive directors have significant powers but are routinely recruited through an opaque process from businesses with a direct interest in the terrain under a department's control. Finally, the state's core outputs in terms of welfare and regulation have been ever more outsourced to the private sector. The machinery of state is now porous to private business interests to a degree that is exceptional among the established democracies. A third of today's central government spending goes on outsourcing.

Britain's neoliberal state has become a semi-permeable membrane in which governments refrain from intervening in the private sector but enable ever greater business access to public authority and revenue. **'Corporate state capture'** refers to the high point of corruption whereby private interests subvert legitimate channels of political influence and shape the rules of the legislative and

institutional game through private payments to public officials. In Britain that influence has largely been gifted as a matter of public policy.

Britain's corporate state capture by design has happened because neoliberalism is a materialist utopia. It is, in fact, the exact counterpart to its Soviet communist opponent albeit even less tethered to social reality in its theoretical foundations. Where Leninism was based on a deterministic reading of Marx's analysis of capitalist change, British neoliberal policy has been rooted in the most market-fundamentalist wing of neoclassical economics that depends on deductive-theoretic mathematical reasoning and tends to disregard market failures. The result is an agenda of beguiling simplicity. In this scheme, it is axiomatic that when you remove state intervention you improve competitiveness and allow the economy to move closer towards a general equilibrium in which demand and supply are matched with a perfect, frictionless efficiency. This is the mirror of the Soviet belief in perfectly efficient central planning.

For Britain's neoliberal governments, it has followed as a matter of logic that the more the state can be 'got out of the way' or made more 'business-like' where it remains, the better. As a society we have moved from ethical debates about the effective government of people in a complex and uncertain world to an era in which parties have competed over the management of a pseudo-science about the allocation of things in a closed-system world of apparently little meaningful complexity at all. The seeds of state capture are sown in materialist utopias because as an article of faith they privilege the interests of one social group as the virtuous, transformative vanguard that will lead us to the Promised Land of seamless allocative efficiency. In neoliberalism it is business

rather than the industrial proletariat taken to exemplify the idealised rational economic agent and business is duly endowed with the 'leading role' in society.

In Britain, this idealisation has led successive governments to a deep lack of curiosity about the diversity and complexity of actual businesses. It has also created a profound political complacency about what drives innovation and improves productivity. The history of economic development, as distinct from the neoclassical thought experiment, tells us it is not just 'competition'. Despite the fact that the investment culture of Britain's traded companies has been hollowed out by norms of short term profit-maximisation, governments have proved resiliently indifferent to the pathologies of corporate financialisation: the extraction of profit **even unto the cannibalisation of the firm itself**.

John McDonnell ended this complacency in Labour, but it persists across the aisle. In the meantime, Britain's public sector industry firms are among the most financialised of all. Carillion and Interserve went bust because of it. Serco and the rest continue to **leverage their accounts**, minimise their investment and training and to sweat their public contracts and employment conditions to maximise profits. The result is a new systemic risk in which the state's structural dependency upon these archetypes of **rent-seeking** makes them 'too big to fail'.

The neoliberal argument for state failure that helped bring it to power in the late 1970s was built on an argument by theoretical analogy: that the state is a monopoly firm and hence the presumptively 'rational' economic actors who run it will tend to exploit their position until the state expands into a totalitarian, socialist Leviathan. There is no concept of public service here. The neoliberal 'solution' proceeds to build in corporate state capture via an analytical ratchet effect in which even chronic failures of neoliberal policy are assumed *a priori* to be the fault of public servants and their lingering

attachments to the privileges of monopoly. It follows as a matter of logic that the answer is to bring in further corporate 'expertise' to bear.

In the meantime, privileged corporate access skews ministerial interactions with other interest groups and unbalances the playing field between them. The extension of public services markets to encompass as many state functions as possible encourages escalating corporate donations to parties in search of favouritism within that dynamic. Contrary to the neoliberal and indeed Leninist fantasy in which the state will wither away to its 'nightwatchman' minimum, the centralising neoliberal state has become a giant of procurement. Government departments are tied into a complex web of relationships with large enterprises scarcely less than in Soviet central planning, only now in super-fragmented form. Those relationships shift whole bodies of public spending from statutory to contract law and under the cloak of commercial confidentiality.

The combination of state failures and corporate state capture is tailor made to undermine public trust because it breaks the democratic fiscal contract in which tax is paid on a fair basis and revenues never confiscated. This corporate penetration of the state has occurred even as the dogmatic principle of 'self-regulation' has been applied by politicians and there remains a **near total lack of legal regulation around some of the most serious risks.**

UK anti-corruption legislative summary

Types of corruption	Covered by the Bribery Act	Covered by other UK legislation
Abuse of function	No	Partial
Money Laundering	No	Partial
Trading in influence	No	Partial
Prohibited political contributions	No	Partial
Lobbying abuse	No	Partial
Cronyism and nepotism	No	No
Revolving door abuse	No	No

'Regulatory drift' occurs when formal rules are deliberately held constant in the face of major shifts in context, so that outcomes change. The UK's cross-party Committee on Standards in Public Life, the Public Administration and Constitutional Affairs Committee, and the Public Accounts Select Committee have repeatedly called on governments to tighten the rules around conflicts of interest, second jobs, party finance, consultancy, lobbying and revolving doors. All of them have been rebuffed. To regulate political-corporate ties would have violated many of the core assumptions of the neoliberal project: that business actors are only ever honourable wealth-builders, that self-regulation is always superior to state action, that rational self-interest confers no unacceptable social losses.

The public reaction has been one of rising public distrust in political elites, the oxygen in which populism thrives. The most recent (2013) Transparency International *Global Government Barometer*

showed the following attitudes for the UK:

- 65% of people believe corruption has increased in the last 2 years
- 67% of people believe political parties to be corrupt or extremely corrupt;
- 55% believe the UK's political system to be corrupt or extremely corrupt;
- 90% believe that the UK Government is run by a few big entities acting in their own interests

These numbers might seem conspiratorial but what other terms should we use? We might have called it idealistic zeal in the early years of Thatcherite 'enterprise' and New Labour 'modernisation', the utopianism of the project notwithstanding. At what point does it stop being 'good faith', however, when governments persist in the marketization of the state even in the face of systemic failures of neoliberal policy, strategy, and **increasing costs**? How high has the capacity for governmental self-delusion become when corporate actors are parachuted into the senior civil service and allowed to direct hard-earned public monies into even the most dubious of private hands? What else is it but corruption in its classic form when as 'consultants' or on retirement ministers and even prime ministers charge rates of remuneration beyond the wildest dreams of the average voter in return for their knowledge and influence, from the very businesses they were supposed to govern in the public interest? Since even small 'side-payments' are toxic to public trust, the current dispensation is surely mortal. Already by 2015 there were some **4,000 people working professionally in the UK's £2 billion lobbying industry**, which made it the third largest lobby in the world. Everything, including the climate

transition, is at stake unless we reverse the dynamics at hand before they reach their full, kleptocratic, 'Trumpian' potential.

The political culture of public service inherited from the post-war era has been weakening with each new intake of Conservative MPs, though many persist with it against the odds. However, **a fifth of the Conservative's 2019 new MPs** had a background in lobbying or public relations. By 2020, the economic values of the party's MPs **were far to the right of even their own councillors and party members**, let alone the wider electorate. Johnson's second Cabinet is comprised of the parliamentary party's most committed economic libertarians and since coming to power they have sought to shatter this culture from the top. The Prime Minister himself has shown an overt nihilism around standards in public life, as indicated by the resignation of his Advisor on those standards and the failure to replace him. Even as tens of thousands of people died needlessly of Covid-19 because of late intervention, a VIP lane for procurement was organised so that suppliers with government contacts were **ten times more likely** to be awarded a procurement contract than those who applied to the Department of Health and Social Care.

What comparative history teaches us is that once the dynamics of corporate state capture take hold the risk is that political parties themselves become targets for those who choose politics for primarily private gain. If they rise to the top, the risk is that elections cease to be about representation and become the point of market entry and exit. **Political parties become corporate brokers** who oversee the continuous distribution of public revenue and rents into private hands. A populist, authoritarian politics becomes the effective way to corner this market.

Even in the context of a public health crisis, the Johnson Government exhibited an ideological allergy to engaging with public sector expertise and capacity until absolutely forced to by events. For economic libertarians, it is really not clear that there is any intrinsic moral injunction against their own private enterprise *en route*. Just as Leninism and Stalinism had **stripped out the radical democratic republicanism of Karl Marx**, so too neoliberalism in its purest form picks liberalism clean of its nineteenth and early-twentieth century ethical debates about the nature of republican virtues.

For economic libertarians, in principle the marketplace is designated as the sphere of true freedom: the only republic. The history of late stage materialist utopias in practice, however, is that in the absence of a viable social contract, the nexus between the governing regime and its society becomes that of a protection racket. Insofar as Rishi Sunak has proved keen on public spending, it is directed far more obviously at political self-perpetuation than the public interest: in the new £1 billion Town's Fund justified as a way to 'level up' deprived communities, 40 of the 45 chosen areas had a Conservative MP. An additional £4.6 billion fund was likewise found to include wealthy Conservative constituencies, even as some of the poorest cities in the country, such as Salford, which voted Labour, were relegated to a lower funding tier. As the sociologist Ken Jowitt **concluded** of the USSR: 'Brezhnev's novelty seems to have been to take the Party's organizational corruption and elevate it to the status of an organizational principle.' The serious question for Conservative backbench MPs is whether, on reflection, they are willing to participate in their party's final ruin as a democratic entity, and to see the concepts of liberty and love of country deployed as their alibi.

About the Author



Abby Innes is an Assistant Professor at the European Institute of the LSE. She has written extensively on the political economy of corruption in Central Europe and is part of a UN/NYU transnational working group on corporate state capture. She is completing a manuscript on the systematic affinities between Neoliberal and Soviet economics. Its working title is *Late Soviet Britain: The Political Economy of State Failure in Materialist Utopias*.

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