

TOMORROW'S CHILDREN



When a relationship breaks down there are two things you can say about it with a degree of certainty. The first is that the most ferocious arguments will take place around the most marginal issues; how someone eats their cornflakes, who gets the CDs, the custody of the cat... The second certainty is that, when people fall out everyone loses the plot.

So it is in the falling out over the Government's Pre-Budget Report and the current economic crisis. There are huge, seismic issues at stake. Whatever else history records, it is unlikely to suggest that today's fractious exchanges around 2.5% reduction in VAT are at the centre of anything. VAT will find itself ranked in amongst the CDs, and a long way behind the question of the cat. We have little choice but to accept a dramatic increase in public debt to get through the crisis. It is what we do with the debt that is the critical issue. We may be able to invest

and spend our way through the crisis, but we certainly can't shop our way out of it.

Today's crisis is not just about cycles of boom and bust. It is about the implosion of international financial institutions, at a time when the economics of tomorrow are being profoundly reshaped by climate change and an end to the Age of Oil. The immediate problem is about holding the fabric of people's lives together. The challenge is to do so in a way that moves society into a different future rather than deluding ourselves that there will soon be a return to 'business as usual'.

The central issue is not the spat between Labour and Tory front benches. What has been broken is the relationship between Government and deregulated, short-term neo-liberal markets. The world is stuck with an estimated £12 trillion of toxic debt run up by banks that have done more damage than al-Qaeda could have dreamt of. Forget the Tora Bora mountains, Osama bin 'Lootin' was holed up in a banking system near you. We should have been following the trail of bonuses more than looking for weapons shipments.

For the UK banking system, the estimate is that we are saddled with about £2 trillion of these toxic debts. Half of these have been underwritten or written off by Government guarantees. The other half has yet to surface. What we do know is that for all the 'liquidity' that the Government funding has pumped into the banking system, next to nothing has been coming out of the other end to support families, businesses and local authorities who have also been caught up in the crash.

Housing repossessions have spiralled to over 30,000 in the first 9 months of 2008. The rate of repossessions itself is rising rapidly and is currently approaching 1,000 properties a week. Much of this is driven by banks pocketing the Government's cash rather than passing it on in reduced mortgage costs. The picture is no better for business. Banks are clawing back overdraft facilities to restock their own coffers, indifferent to the wider economic mayhem they create. So why presume that any answer has to begin with throwing even more money at the banks?

In 1965, a Government circular gave local authorities the right to lend mortgages to those households who might not qualify for a building society mortgage. Today, this would apply to almost everyone. We could begin by giving local authorities the power to take over ownership in mortgage default situations, so that families could remain in their own home rather than face eviction. The shift from buying to renting could be done on a temporary or permanent basis, but it would halt the haemorrhage of home losses.

Putting money back into the housing market through local authorities would also be much better value than pumping the money through the banks. It would also allow local authorities to buy up surplus properties in the housing market in order to address their current and expected housing needs. Decisions about what to buy would be driven by strategic assessments about local housing need rather than in response to the bleatings of speculative developers, stuck with assets that they can no longer sell.

We easily forget the role that local authorities used to play within the mortgage market. By 1974, local authority mortgages accounted for 15.4% of mortgage lending. Moreover, they were incredibly effective at opening mortgage channels to lower income households, interested in older properties in inner city areas. A £10bn injection of such entitlements for local authorities today would throw out housing lifelines that the banks are never likely to do. Cancelling Trident would, on its own, give the government a £100bn peace dividend through which to pay for this.

All the Government has to do is restore this mortgage lending power to local authorities and remove the millstone that currently requires them to lend only at grossly uncompetitive rates. In fact, the Government should allow local authorities to lend at the rate they want the rest of the banking sector to follow.

Anyone complaining that this imposes unreasonable debts and risks on the taxpayer, just needs to be reminded that these debts also take the form of real long-term assets. Local authorities never turned their mortgages into derivatives, exotic financial instruments or parked them in offshore tax havens. It was a process through which we invested in our own long-term security at the same time as meeting our own immediate housing needs.

Today's housing needs, however, also include the twin challenge of spiralling energy costs and the legacy of fuel poverty. It is where the country has to be mobilised by putting Britain on a peace footing rather than a war footing. Across the land we have to transform huge sections of our housing stock into warm zones rather than war zones.

The collapse of new building by the private sector needs a public programme to harness the workforce with construction skills into a national plan that will keep the fuel poor alive through this winter. It is desperately overdue. There is a crisis of under-funding and fragmented organisation in the Government's Warm Front programme. We now know that any new applicant seeking the energy uprating of their house, and replacement of their heating system, will now have to wait until this winter is over before the work gets done.

We're in this mess because private interests were allowed to destroy local lines of accountability that

effectively identify the fuel poor, drive the Warm Front programme and make sure there is sufficient of a skill base to deliver the work itself. Responsibility was devolved to energy companies, who admit they can only identify 1 in 5 of the fuel poor households known to exist in the UK. Accountability for the Warm Front scheme was devolved to EAGA, a national agency that holds itself accountable only to DEFRA.

MPs receive sackloads of complaints about the fragmentation of the scheme (and its overpricing) yet lack any permanent local agency that holds the scheme to account. Local authorities – the one permanent body with diverse, ongoing links with the fuel poor – were excluded from being the drivers of fuel poverty targets because of absurd ideological presumptions that the private sector could do it better. Today, we need to make local authorities the key bodies charged with keeping the fuel poor alive. This means not only coordinating the housing renewal programmes but also the skill training needed to deliver the transformation.

This takes us into the question of transforming our future. Barack Obama has promised a \$150bn investment programme and 5 million new jobs to deliver a sustainable energy future for the USA. Britain has to do the same but on a smaller scale. It means retro-fitting our existing houses and communities rather than bulldozing everything to the ground and starting again. It requires intervention on a scale much bolder than the Pre-Budget Report. If the Tories want to whinge about this, then let them.

In 1947 Britain's national debt stood at £25.6bn. In today's prices, it would amount to a debt level of £760bn. This is no different from the indebtedness we now have just for rescuing the banks. It was the legacy of war debt inherited by the 1945 Labour Government. It was also the time when – with nothing left in the cupboard – Labour took the revolutionary steps of founding the NHS, establishing universal rights to pensions and education, and launching a housing programme that would build its way out of the post-war crisis. Today's equivalent would take the form of an ethical army of green-collar jobs that would take us from a serious crisis to a sustainable future.

The real criticism of the Pre-Budget Statement is not that it goes too far, but that it does too little. Throwing money either at shoppers or speculators will soon leave us in precisely the same mess we are now in. Only a greening of the 1945 vision will meet the challenge. Only a framework of common ownership will make it possible. And only a recognition of how little time we have to act, will give us the chance of delivering something that can salvage the most important relationship under threat; it is the one between ourselves and the generations who must follow.