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AN OPEN LETTER TO GORDON BROWN

"Après le déluge…moi"?

Dear Gordon,

A word of congratulations about the way you have brought the banks into public ownership. In the crisis they have dragged us into, no other lifeline was worth entertaining. Congratulations too in calling for an international conference to rewrite the financial architecture regulating how banks will have to work in a more sustainable approach to global economics.

It must feel strange to find yourself heralded as 'Saviour of the Universe' in the international press at the same time as knowing it still leaves Labour trailing the Tories by 9% in the opinion polls at home. Some of this reflects the gap between the speculative and over-indulgent world of finance, and the real world in which people struggle to pay their energy bills, their mortgages and feed their kids.

Bridging this gap requires a serious leap from the present to the future. Doing so won't be easy, but having rediscovered the virtues of public intervention in markets you are probably better placed than any other leader to make this leap. President de Gaulle was famous for his pessimistic prediction that: "Après moi, le deluge". You could reverse this with a vision of where we might place ourselves after the global collapse subsides. What we can't do is pretend that this is going to be a brief collapse or hold out the prospect of a return to 'business as usual'.

In the aftermath of an earlier collapse, Japan is now in its thirteenth consecutive year of falling house prices. After the Great Depression, it took stock markets almost a quarter of a century to recover the value of their 1929 position. The current crisis will be no less severe or short-lived. It must be frustrating for you that the Tories clearly don't even grasp this. They may bang on about 'boom and bust' or the breaking of 'golden rules', but what they fail to understand is that the game itself is bust.

If anything reinforced the urgency of your call for a new international financial architecture, it was the speculative tsunami that has just hit Volkswagen share values. Their sudden rise from around 200 euros per share to over 1000 euros, and then back to 500 euros a day later, was driven entirely by speculators. Hedge funds, gambling on a fall in VW shares had 'sold short' in the hope of making an instant killing.

We now know that the hedge funds screwed up. A number of the would-be killers will be now be killed off by their gambling losses. There will be few mourners. But it is the speculative rollercoaster that the world has to address.

Short selling involves hedge funds in borrowing a company's shares in the hope that prices will fall. They make their money on buying the shares back at a lower price and then returning the original quantity to the owners. Those who lend out the shares are paid a fee. The amount that hedge funds can trouser depends on how successful they have been in creating a market panic that sinks the value of the shares. This is disaster capitalism, in which everyone loses out apart from the speculators.

There are two ways of tackling this. The first is to impose a 50% tax on the fees of companies loaning out shares in the first place. The second is to do what Professor James Tobin suggested back in the 1970s. The idea of a Tobin Tax was to place a 0.5% tax on all speculative transactions within the financial markets. He explained how this would make very little difference to serious, long-term investment planning, but would have a more profound effect on money that moved back and forwards several times in a day.

The only coherent argument ever raised against the Tobin Tax was that it would be almost impossible for a single country to introduce it unilaterally. The chaos that is still only partly revealed in today's financial system, provides an opportunity for this to be placed at the heart of a new global financial architecture.

You have made several appeals to individual countries to be more forthcoming in their contributions to financial rescue packages around the world. As the financial collapse bites ever harder, the response to such appeals will become negligible. The real opportunity to be found in the introduction of a Tobin Tax is to give the responsibility for its implementation and collection to the World Bank.

Such a move could underpin a completely new 'Bretton Woods' settlement for the World Bank itself. A Tobin Tax may be the first of a number of taxes that can only be levied at an international scale. The World Bank could make these taxes preconditions to membership of any legitimate banking system. The tax revenues could replace the current contributions of individual nation states (many of whom are deeply in arrears with payments, or who promise far more than they ever contribute).

This would turn the funding of global institutions completely upside down. Instead of the real economy being asked to bail out the speculative economy, the reverse would happen. Tobin calculated that the revenues raised by such a tax would be enough to fund the entirety of the activities of the World Bank, the IMF and the whole of the United Nations programmes. In doing so, it could also free these institutions to become more democratically restructured and accountable. No longer would they be held hostage by the richest of nations.

You may want to argue that a similar approach should be taken to the levying of carbon impact duties on aviation and shipping, as part of a similarly internationalised framework. The key point is that the idea itself needs an advocate. And it needs such a voice to be at the centre of the international conference you will be addressing in December. This could be your 'Après le deluge' moment.

Transferring this vision to a domestic agenda is not much more complicated. There is already a groundswell of public support for the notion that if we can intervene to rescue the speculative economy, then rescuing the real economy should be a given. If the Tories wanted to make this their battleground, it is one they would die on. This, however, is where the transformation comes in.

Most of the market-based mechanisms we have relied on for the last 20 years should be abandoned. Some are too slow and leaden for the transformational times we live in. Others are dishonest or dysfunctional. And some have turned out be little more than vehicles for shovelling huge amounts of cash into the pockets of the corporately rich and powerful. The touchstones for a new interventionism need to focus around democracy, accountability and (environmental) sustainability. It's through these that we will produce a genuine 'security' agenda for Britain in the 21st century.

It's relatively easy to run through a shopping list of measures you could take to turn the 'superhero' status into domestic popularity. Put a freeze on housing repossessions, require banks to extend mortgage payback periods. To retain a house building agenda, the compelling case is for this to be done through local authorities; a national programme of council house building.

The Private Finance Initiative (PFI) programme may have been attractive as an 'off-balance sheet' way of delivering a public building programme, but it has cost the taxpayer an arm and a leg. Rates of interest are exorbitant. Lines of accountability are non-existent. The risks remain with the public sector and the assets frequently go to the private sector. If there is to be a big programme of public investment, then let it be publicly owned, managed and accountable.

When train operators come asking for a renegotiation of their rail franchises, allow them to surrender the franchises rather than give them more cash. Last year, the Government handed rail companies £6.3bn in taxpayer subsidies. The record of the privatised rail industry has shown far greater concern with dividends arriving on time rather than trains. There has always been a compelling case for national ownership of the railways. Accepting the return of franchises would be a fine and clean way of doing so.

In energy security, the really transformational agenda is a shift into 'feed-in tariff' (FIT) legislation, to drive Britain into a renewable energy era. Some of your Ministers are trying to drive this change, but are doing so against tooth-and-claw resistance from energy companies and civil servants. Some of the civil servants operate inside government as Taliban for the free-market ideologies that have taken us into the mess we're in today. They live by the mantra of 'we can't intervene in the market'. In doing so, they symbolise much that disconnects us from the British public.

The relationship between energy companies and the civil service is a reflection of this. Our leap into renewable energy was supposed to have been driven by the government's Renewables Obligation (RO). In five years, this has delivered only 1.8% of the nation's energy needs but supplied large profits to the energy industry. Companies can walk away with a 40% rate of return on Government subsidies given to them under the RO. No wonder, they are screaming blue murder against the introduction of feed-in tariffs that would open up the energy market.

Feed-in tariffs are as much about democratic power as renewable energy. They require energy companies to pay citizens for 'clean' energy generated from the home, the community, the farm, the factory or the city. Some 80% of Denmark's renewable energy industry is in the ownership of local communities and local authorities. It is immensely popular. Energy in the UK is in the hands of the big six energy companies, who are immensely unpopular.

More than 40 countries have already signed up to FITs as a way of transforming their energy system. The effect on energy prices has been to drive down bills rather than push them up. Have the courage to do this in Britain. Give our towns and cities the same powers to be the drivers of transformational change and you will find the electorate as supportive in Britain as they are everywhere else.

This takes us to one of the biggest potential win-win scenarios now within our grasp. The process of turning our homes, communities and cities into their own localised power stations requires huge amounts of work and skill. The employment prospects are vast. Jobs and investment cannot be banked offshore or relocated to an 'exploitation' economy. This is the Green New Deal that Labour has to reach out for. What Roosevelt did in the 1930s has to be replicated, but entirely on sustainable terms.

Britain needs to train and recruit a 'carbon army' of young people, it would be the modern equivalent of the Peace Corps, equipped with skills that can see us through today's financial crisis and tomorrow's climate crises. Run this past young people yourself. You will find that the prospect of moving from a low wage economy to a real wage economy excites and engages them in a way that few of our existing policies ever do. This is our route march through the recession.

It is in the depth of a crisis that societies discover the courage and vision needed to break from what no longer works and shift into what must replace it. In the depth of such a crisis, I hope you can find this in yourself.

In comradeship,

Alan

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