

# Britain: The “loans for peerages” scandal and the terminal decline of New Labour

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21 March 2006

The ability of British Prime Minister Tony Blair to remain in office is in doubt due to claims that Labour’s wealthy backers were given seats in the House of Lords, Britain’s second chamber, in return for millions of pounds in loans.

In the run-up to the 2005 general election, Labour secured around £14 million from rich benefactors—the bulk of the £18 million it spent to fund its campaign. Securing the money as loans bypassed the requirement that political donations of £5,000 or more be officially declared. Parties are allowed to spend a maximum of £20 million on campaigning.

All party leaders can nominate a number of new peers for seats in the Lords. But Blair has created a record number since pledging to reform the Lords by replacing the hereditary principle with a supposedly non-political system of appointments.

The loans came to light after the committee responsible for vetting the nominees queried three of those recommended by Labour. Dr. Chai Patel, head of a chain of psychiatric clinics which has contracts with the state-run National Health Service, gave Labour a loan of £1.5 million, but he was blocked by the committee. Stockbroker Barry Townsley and Sir David Garrard, a property developer, subsequently requested their names be removed from the peers’ list, amidst complaints that the status and prestige of the titles they were promised has been undermined by Blair’s readiness to grant so many of them.

It emerged subsequently that at least two other wealthy businessmen, Andrew Rosenfeld and Gulam Noon, had also lent Labour money before being nominated for peerages.

Until Patel’s nomination fell under scrutiny, only a few confidantes of the prime minister were aware of the loans. Even Labour Party Treasurer Jack Dromey was not told. Blair also failed to inform the committee vetting peerages that several of those Labour had nominated for seats in the Lords had advanced large credits to the party.

Blair was forced to admit that he had authorised the loans drive only after Dromey had gone public on Channel 4 news to denounce the arrangements. Dromey, who is also deputy leader of the Transport and General Workers Union, accused the prime minister of running a “parallel party.” A report to Labour’s National Executive on the loans is due today. Dromey has also asked the Electoral Commission to investigate, saying it was necessary in order to “defend the democratic integrity of the Labour Party.”

Such a public attack from within Labour’s ranks is indicative of

the political storm that is now gathering around the prime minister. The cash for peerages row came just days after the financial scandal involving Culture Secretary Tessa Jowell and her husband David Mills, a multimillionaire who specialises in aiding corporate tax avoidance. Mills faces prosecution in Italy relating to an alleged £350,000 bribe from Italian Prime Minister Silvio Berlusconi in return for giving favourable testimony on his behalf in criminal investigations during the late 1990s. Blair had defended Jowell and ruled out any investigation into the financial arrangements of government ministers and their spouses.

The allegations of sleaze have been highly damaging for Labour, as its pledge to “clean up” government was a central plank of Blair’s 1997 election victory over the Conservative Party (Tories).

The pro-Conservative press and the opposition parties have sought to exploit Blair’s difficulties, while the continuing financial scandals surrounding Labour have also prompted broader concerns in ruling circles that Blair is so badly compromised he might wreck the entire government. Britain’s business magazine, the *Economist*, led its March 16 edition with the headline, “The Final Days of Tony Blair.” Its editorial of the same date cautioned, “If Britain’s prime minister is not thinking about stepping down, he should be.”

Nevertheless, the Tories have had difficulties of their own. In 2004, the latest figure available, the Conservatives were lent £9,021,000 at commercial rates, plus £4,316,000 interest-free from constituency associations. The figures for 2005 will be published in July, but the Tories spent the maximum £20 million allowed on their election campaign that year.

This has meant that the attack on Blair has come from within the Labour Party, led in the main, though by no means exclusively, by forces close to Chancellor Gordon Brown. Blair has announced that he will stand down before the next election, due 2009, but so far has made no moves to pass over leadership to Brown.

Dromey is married to Constitutional Affairs Minister Harriet Harman, who is regarded as a Brown ally and someone tipped as his possible deputy should he finally assume leadership. One Blairite ally told the press that “Brown put Dromey up to it” and that “There seems to be an operation on to destabilise him [Blair].”

In the media, long-time Brown supporters such as the *Guardian*’s Polly Toynbee have urged a “gracious handover” of power to Brown some time in the next months. The newspaper itself editorialised that Blair “should go this year.” It continued:

“Brown’s last budget speech as chancellor this week should be followed this autumn by his first conference speech as prime minister.”

The claims by Dromey and others to have suddenly discovered the prime minister’s reliance on big business patronage and his bypassing of the Labour Party do not withstand scrutiny. It is a matter of record that every donor that has given £1 million to Labour or one of its government projects has received a peerage or knighthood, and 16 out of 22 who donated £100,000 and above have been similarly honoured.

Moreover, political responsibility for the “cash for peerages” scandal is shared by many of the prime minister’s latter-day critics, for it is rooted in the transformation of Labour into a political vehicle of the financial oligarchy, a process in which Brown and his allies all played a central role.

The flouting of democratic norms is ultimately made necessary by the huge growth of social inequality that has been championed by the entire political establishment.

Labour’s dependence on a wealthy elite for its funds is the inevitable by-product of the party’s drive to divorce itself from its traditional social base amongst working people. Indeed, securing the support of the City was achieved not only by Blair ditching Labour’s commitment to social ownership, but by proving that he did not rely on funding from trade union political subscriptions that might be used to exert an influence over party policy.

In the end, the unions kept funding Labour alongside its business backers, even though the union block vote at conference has been reduced from 90 percent to 50 percent. The trade union bureaucracy supported Blair’s insistence that the globalisation of production and the power of the transnational corporations and international financial markets meant that a break with reformist policies based on national economic regulation was required. They insisted that it was necessary for the working class to accede to the dictates of the major corporations if Britain was to be internationally competitive.

Labour Party and trade union branches became moribund organisations, as the bureaucracy sought to remove itself from any form of democratic control. Labour Party conferences became stage-managed pep rallies, with policy drawn up behind closed doors at the behest of Labour’s new-found sponsors in big business and the super-rich.

The so-called Blair/Brown “dream ticket” was itself the product of such machinations. Neither have any substantial constituency amongst working people, much less any ideological commitment to the party that supposedly gave them political life. But it was precisely these factors that made them an attractive choice for the likes of Rupert Murdoch and others to head a government that would do their bidding.

Over the last eight years, Labour has carried out a major redistribution of wealth away from workers to the super-rich, with the result that social inequality has hit historic levels. But what was hailed by the media as Blair’s greatest achievement—the hollowing out of the Labour Party and the trade unions, and their replacement by a bureaucratic, media-driven electoral machine—has turned out to be its Achilles’ heel.

Blair is telling the truth when he states that without the loans of

wealthy benefactors, Labour would not have been able to mount the necessary type of campaign in the last election. In 2005, the Labour Party’s indebtedness had risen to £23 million and it borrowed £11 million from individuals, with suggestions that a further £6.7 million in secret loans were also secured.

The more that Labour has been exposed as an instrument for enriching a narrow, privileged elite at the expense of the broad mass of the population, the more its political base has shrunk. Labour’s membership has collapsed by more than half since 1997 to just over 200,000, most of which exist only on paper. Labour’s active membership is estimated at less than 15 percent, and it was barely able to raise volunteers to campaign in the last election.

Donations from business have proved insufficient in meeting the spiralling cost of keeping a deeply unpopular government afloat. With little difference between the main parties, Labour has been forced to rely on glitzy and ever more costly advertising campaigns and photo opportunities in order to win the support of an ever smaller segment of the electorate.

Labour is not alone. Membership of all three main parties is less than one-quarter of their 1964 levels, and both the Conservatives and Liberals have admitted that they have taken loans to help finance their election campaigns and party activities.

The consequences of the atrophy of any popular basis for official politics were spelt out bluntly in a report issued last month on the state of Britain’s parliamentary democracy by the Human Rights lawyer Helena Kennedy QC.

“Most worryingly, there is a well grounded popular view across the country that our political institutions and their politicians are failing, untrustworthy and disconnected from the great mass of the British people. This last point cannot be stressed too strongly. We have been struck by just how wide and deep is the contempt felt for formal politics in Britain,” the report stated.



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