

FABIAN

SOCIETY

The Economic Alternative

The politics and policy
of a fair economy

Edited by Andrew Harrop

With chapters by Patrick Diamond,
Stephany Griffith-Jones, Sunny Hundal,
Owen Jones, Tessa Jowell, Peter Kellner,
Neal Lawson, Ruth Lister, Seema Malhotra,
Vicky Pryce, Hopi Sen and Will Straw

The Fabian Society

The Fabian Society is Britain's oldest political think tank. Since 1884 the society has played a central role in developing political ideas and public policy on the left. It aims to promote: greater equality of power, wealth and opportunity; the value of collective action and public service; an accountable, tolerant and active democracy; citizenship, liberty and human rights; sustainable development; and multilateral international cooperation.

Through a wide range of publications and events the society influences political and public thinking, but also provides a space for broad and open-minded debate, drawing on an unrivalled external network and its own expert research and analysis. Its programme offers a unique breadth, encompassing national conferences and policy seminars; periodicals, books, reports and digital communications; and commissioned and in-house research and comment.

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The Economic Alternative

The Fabian Society's 2012 New Year Conference, 'The Economic Alternative' was one of the biggest gatherings of Labour thinkers in recent times with over 1,000 people coming through the doors. This collection of essays brings together some of the 50 speakers from the conference to develop their arguments and extend the debate.

Labour's 'economic alternative' remains a work in progress, and from identifying new sources of growth and reforming the financial sector, to the role of government intervention and how Labour can win back voters' trust on the economy, these essays map the territory for a credible left wing political economy to counter the coalition government's failing programme of austerity.

The Fabian Society will be playing its part in filling the gaps, through its ongoing 'Next Economy' programme, asking how our approach to the economy can deliver not only growth but also achieve broader social democratic aims.

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Introduction: The economic alternative

Andrew Harrop

Ed Balls started the political year with the declaration that “we are going to have to keep all these cuts”. This has been much debated; the conversation has mainly turned on rival views as to whether the route to electability lies via centrist fiscal ‘credibility’ or setting out a distinct left alternative. This is a false dichotomy: we can be fiscal realists whilst at the same time setting out radical plans for the economic alternative.

Leaf through the Office for Budget Responsibility’s (OBR) November 2011 forecast and it is plain that any post-2015 government which wants to bring public debt under control will need to take hard fiscal decisions. So Labour’s announcement that the party would not reverse coalition tax rises or spending cuts should it return to power in 2015 may have been controversial, but it shouldn’t have come as a surprise. If anything Ed Balls is being too optimistic. The chances are that as chancellor he will have to do more than accept the status quo he inherits and actually cut spending or raise taxes for himself.

That’s because George Osborne has stealthily pencilled in around £20 billion of cuts for after the next election to complete his deficit reduction plan. This number is itself based on GDP projections that could be far too optimistic, as the effects of austerity and the eurocrisis combine. The detail is impossible to call this far from an election, but Labour’s shadow treasury team need to reckon on a fiscal squeeze of at least the scale Osborne has in mind, even if they choose to close the gap more slowly.

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Labour will need to make a stand, however, on the question of *how* to close the post-2015 fiscal gap. George Osborne says that after the next election he will act only through tax cuts. On the OBR's figures, that would leave the share of economic activity in the public sector below its post-war average. In other words, the chancellor is covertly planning to 'overshoot' his commitment to bring public spending back under control. This confirms the left's suspicions that his real agenda is to reduce the state's share of the economic pie for good.

If Labour wants to stop this structural shrinking of the state, it will need to set out an alternative, where tax rises, not spending cuts, are the main post-2015 route to deficit reduction. Since the debacle of the 1992 shadow budget this has been dangerous terrain for the left. But Labour needs to get used to the idea that 'tax rises' v 'spending cuts' might have to be a defining issue of the 2015 election. Better to prepare the ground now than pretend the choice will go away.

That dividing-line is some way off, however. What about the here-and-now? For the time being Labour needs to do much more to set out the 'economic alternative': what it would do if it were in power today.

Stimulus and short-term growth

Where I quarrel with Ed Balls is not over his realistic stance on the public finances post-2015. It is that he is not balancing this message with a radical short-term programme proportionate to the scale of the economic troubles we face. Had Balls set out a truly ambitious growth plan alongside his fiscal realism, he might be having much less trouble explaining his alternative both to the public at large and to allies within the left.

So what should be the key ingredients of an immediate plan for growth? First, Labour should champion a state investment bank: sell tens of billions of pounds of long-term bonds at today's astonishingly low interest rates and use the proceeds to capitalise an arms-length investment bank which can then lend for spending on infrastructure, business growth and house-building.

Second, Labour should make the running on short-term tax cuts to show that stimulus does not just mean public spending. The priorities for cuts should be employers' national insurance (to create jobs) and highly visible tax cuts or cash-back for low and middle income groups (to get the tills ringing).

Third, a significant job-creation scheme is now essential – say a guaranteed job for everyone unemployed for 12 months. But this must be funded, be it through taxes on the rich or spending cuts elsewhere. That's because arguing for fewer or slower cuts overall (as opposed to different spending priorities) is now counter-productive. The reason for saying this is partly political: Labour needs to convince people that its support for Keynesian stimulus is not simply motivated by pro-state ideology. There is also little point in putting off cuts when horrific spending decisions are inevitable, sooner or later. Why call for delay only to store up problems if Labour regains power?

But there are other more fundamental reasons; the left might not like it but it has to accept that governments need to retain the confidence of the bond markets. Osborne is now more-or-less following Alistair Darling's original profile for deficit reduction, not through choice but because he has so mishandled the economy. To be credible the timescale for balancing the budget can't be extended very much more or the markets will begin to believe the eventual end-point has been abandoned. For the same reason, they need confidence that any stimulus will be truly temporary and it's easier to turn off the tap on one-off bond sales or time-limited tax cuts than public service spending.

I should say that a big public sector stimulus is necessary but not sufficient to kick-start growth. Many UK companies and households have very healthy balance sheets (corporate cash reserves and expensive homes) but they don't see enough reasons to invest or consume. Others, who would normally be seen as credit-worthy, can't borrow in today's climate or are put off trying. A key element of the state's response to the crisis should be to devise ways to facilitate or incentivise private spending by those households and companies not over-exposed to debt.

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The next economy

What about long-term economic reform? To my mind, the political debate here is much more tentative and piecemeal. So far there has been ambitious rhetoric about a different sort of capitalism, but the substantive proposals are small beer – from shareholder votes on boardroom pay to cheaper energy tariffs for the over-75s.

We need to recognise, however, that a few big election pledges won't fit the bill either. Building a different economy will only be possible through a thousand granular decisions. But collectively our reforms must amount to a shifting of the rules of the game. In other words, the left needs to be thoroughly Fabian in its approach to the future of capitalism: we must set a radical goal of a different economy, and aim to bring it about through small, purposeful steps which are sufficient in scale and number that they together bring about systemic change.

So what might be some of the ingredients for more balanced economic growth, more equal distribution of rewards, and different terms-of-business?

Sources of growth

The UK's long-term economic fortunes will depend on developing a broad mix of business sectors where we can maintain and build comparative advantage – areas like the creative industries, business services, life sciences, higher education, perhaps green industries and, yes, finance. The state should champion and support all these sectors. That means we must avoid knocking finance, just for the sake of it, although we should be much more demanding about the extent to which the City supports the rest of the economy.

We will also need to support UK PLC build strengths in the areas where domestic demand will rise most. UK consumers will want luxuries ('superior goods') and will be ageing, so leisure, health and personal services will all feature strongly. This poses a dilemma because

many of these sectors are characterised by low pay and poor productivity growth.

We will also need to combine these likely sectoral strengths with the twin objectives of de-carbonising the economy and creating good quality jobs. On the green economy, the policy toolkit is more or less in place (although the coalition is showing signs of wobbling). By contrast there has been little discussion on how to steer growth in ways that produces skilled, productive mid-income work and reverses the 'hour-glass' labour market that has emerged over the last 30 years.

The answer will entail inventing whole new careers, like solar panel installation, and upgrading roles we now see as low-skilled, for example early years provision. We should be cautious about placing too much emphasis on manufacturing, however, even though the UK is a strong manufacturer in many high-value fields: innovation in manufacturing destroys jobs far faster than in services, so we would risk creating job-free growth.

The task now is to flesh out the policy solutions for supporting growth sectors. Many promising avenues have been identified: infrastructure spending; education reforms; research and 'seedcorn' investment in start-ups; support for geographic clusters; building collaboration and leadership within business sectors. We need solid answers to questions like: how do we divert more of the best graduates away from the City? What technical training should the state fund? Where are the market failures in business investment? How can this agenda be made to work for regions?

Inequality

Within the left, there is now broad agreement on the diagnosis. The script on inequality goes like this: in office Labour presided over strong growth but this was disproportionately siphoned into corporate profits and top pay. From the mid-1990s median pay stopped rising in line with GDP increases for the first time since the war and then in the mid-2000s

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it stopped rising altogether. More positively, on Labour's watch the living standards of poorer families kept up with people in the middle and towards the top because of redistributive policies, particularly tax credits and the minimum wage. But the incomes of the very richest – the top 2 per cent and the top 0.2 per cent even more – raced away from everyone else.

So what about the prescription? What place should the left's traditional egalitarian commitment have within the new economic project? The starting point must be to say on inequality: 'thus far and no further'. If Labour returns to office it must not tolerate any further widening of inequality, over the record highs we see today. There will of course be little or no public money for redistribution. Action on inequality will have to come from reordering the economy and the labour market, what has been termed 'pre-distribution'. The debate on boardroom pay has lit the fuse for what must become a wider conversation on pay and wealth.

We need a top pay revolution. We cannot overestimate how hard it will be to rein in the executive teams who have come to expect that, each and every year, their pay rises should exceed those of their middle-management and shop-floor. Perhaps the shift can be achieved through the twin levers of transparency and organisation. Transparency would mean companies publishing their own top-to-middle pay ratios, as well as the government producing an economy-wide 'top-pay index'. It would then be over to employees to organise. Armed with decent information, it will take a new generation of private sector unionism, of employee representation, participation and ownership, to force boardrooms to share the rewards more fairly. It can be done, but it won't be easy.

Tackling inequality at the top through the tax system is perhaps more promising. A growing body of centrist opinion is falling behind traditional calls from the left for higher taxation of wealth, capital gains, offshore holdings and top-rate pension contributions. The arguments are often technical but it is a moment the left can seize. Labour should set out a comprehensive package of taxes targeting 'the 1 per cent', while perhaps buying political cover by promising a modest reduction in the 50p tax rate.

As for low pay, the left must argue for big increases in modest earnings. Over a parliament, steep increases to the minimum wage should be implemented to bring it into line with the UK living wage. This would end the ridiculous situation where people without dependents can work full-time and still need public subsidies to achieve a decent living standard. It may feel like a leap of faith, but the economic evidence suggests that higher wages do not destroy jobs (except perhaps for young people, who might need to be exempted at first). Denmark and the United States pay vastly different amounts for the same low-skilled service-sector work. We must make a different societal choice about how much we value low paid work and what level of labour market inequality we are prepared to tolerate.

Institutions and norms

So what of ‘responsible capitalism’ – of ‘predators’ and ‘producers’? Achieving the next economy must not depend on a new morality. It would be desperate utopianism to build our plans for a different capitalism on a radical shift in personal ethics across the entire business class.

The idea of ‘responsibility’ should instead be the watchword for how the state designs new institutional frameworks and attempts to nudge the social norms in which individual decisions get made. We must think about a responsible system not responsible people.

I’ve already touched on the first area where new social norms will be needed: top pay. If transparency and employee organisation are to have any lasting impact, boardrooms will need to internalise these pressures, so that executives feel stigma from their own peers if they overstep the mark. There are other areas where different social norms will be just as important – career choices, attitudes to entrepreneurial risk, work-life balance, or corporate short-termism.

Nudging attitudes and behaviours is a hard and uncertain business, however. In office Labour was successful when it gave a big shove to doors that were already opening – take attitudes to homosexuality or

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family-friendly working. But there were plenty of examples of ‘nudge’ actually nudging very little, like the expensive flop of stakeholder pensions. That’s not to say we shouldn’t have a shot at introducing policies to change business norms. But when ‘responsibility’ is non-negotiable it needs to be designed into institutions and rules.

The ‘architecture’ needs to change across huge swathes of economic life. Labour needs to think about new institutional frameworks that champion the interests of the consumer and the market entrant against the incumbent; about how to better embed long-termism and stewardship into the design of accounting, banking and tax regimes; about how to ensure that bottlenecks in the economy are not allowed to fester, be that the supply of credit to small businesses or of new homes for families.

Finally, if government is to practice what it preaches about ‘responsible capitalism’ it must adopt a more prudential approach to its own macro-economic interventions. The state needs to invent new institutional safeguards, learning lessons from the crisis. This could take the form of an independent institution to act as the ‘party-pooper’ by demanding counter-cyclical policy action when asset bubbles grow or when loose credit or fiscal policies stoke-up a boom. After this crash, no government would dare stray far from its prescriptions.

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There is still much flesh to put on the bones of Labour’s ‘next economy’; but the terrain on which policy thinking on the left needs to commence is clear. The essays that follow begin to fill in the gaps, exploring the political challenges for Labour’s new economy and setting out some of the policy specifics around which Labour’s credible and optimistic economic alternative can be built.

Politics

Winning the argument for the
economic alternative

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1 | A six point plan for Labour

Peter Kellner

Rebuilding credibility is a difficult task for a party in opposition. Labour must now carve its way forward with honest words, recognising and articulating a number of important truths: Labour needs to be pro-Keynes, pro-means-testing, pro-capitalism, pro-immigration, pro-Europe and pro-respectful politics.

In the four decades I have spent following politics, one thing I have learned is that, when all else fails, it is worth telling the truth. This is not meant to be a slick or flippant remark; rather it recognises something fundamental about opposition politics in particular. Governments can sway voters through deeds as well as words. Oppositions have only words. If those words are mealy-mouthed or dishonest or insincere, voters will find you out. Tactically and strategically, then, Labour's fight-back must be rooted in courage and honesty. Here are six truths that I believe Labour needs to recognise.

1. Keynes was right. Governments must support the economy and boost demand when growth has stalled. I agree with Ed Balls when he says that the priority must be jobs rather than pay. Labour should be arguing for job-intensive government spending over the next year or two, such as house-building and road-mending, rather than tax cuts. The time to impose sustained cuts is when the economy is growing strongly again. That is how to reduce the deficit without strangling output or forcing up unemployment.

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2. In the longer term, however, social democracy faces a deeper problem. Universal welfare and universal services are becoming unaffordable – that is, it has become impossible to win an election by arguing for the levels of taxes needed to sustain generous universalism. My priority is to build the NHS and state schools into world-class services, and to help pay for this by means-testing more cash and near-cash benefits. It is absurd that I, a well-off man in his sixties, should continue to receive my £200 winter fuel allowance each November and a free Freedom Pass. Benefits should be targeted at those who really need them.
3. The left needs a theory of production. It used to have one. It believed that if we nationalised every industry, we would have a more prosperous and contented nation. We know better now: capitalism is the only show in town. We talk about ‘restraining’ and ‘using’ capitalism, about taxing it and bearing down on undeserved bonuses. But where is the left’s plan for making business more productive? The question that the poet Roy Campbell asked a century ago about moderation needs to be asked about the left’s approach to capitalism: ‘I see the bridle and the bit, but where’s the bloody horse?’ Imagine that today there is, somewhere, a British version of the young Steve Jobs or the young Bill Gates. Every time the shadow cabinet considers a new policy for business, it should ask itself: how would the policy help to develop a British Apple or a British Microsoft?
4. Immigration is overwhelmingly a blessing. It brings to these shores new ideas, new enthusiasm and entrepreneurial talent. Those who say immigration does harm, or imply that there is a problem by setting artificial curbs on the numbers coming to Britain are historically wrong, culturally wrong, economically wrong and morally wrong. I know the polls frighten politicians by showing that immigration is unpopular. But Labour will never win votes by compromising on immigration – the right will always outbid us. We do stand some chance of winning over some votes by being honest and courageous.

5. The European Union is also good for Britain. Again, Labour should not be cowed by the euroscepticism that YouGov and other pollsters repeatedly portray. They should proudly assert what they know to be true: that Britain can do nothing about climate change or tax havens or the global rules for trade except as an active member of the EU; and that were we to leave it, the rules of the single market would evolve, affecting every British exporter or goods and services, but we would have no power to influence those rules. To start edging away, or to stand in a minority of one to 26 on the EU's financial rules, is to put Britain's future prosperity in jeopardy.
6. The Conservatives are NOT stupid, malicious or dishonest. They believe that what they are doing is best for Britain. There are big arguments to be had with them about deficit-reduction, welfare, business, immigration and Europe; but the starting point for engaging with them should be that they are intelligent, well-meaning and honest. To descend to partisan abuse demeans the left without damaging the right.

Asserting those truths is a necessary first step in recovering credibility and the respect of the party – and perhaps the left's self-respect. Labour needs to be pro-Keynes, pro-means-testing, pro-capitalism, pro-immigration, pro-Europe and pro-respectful politics.

Remember that the word 'socialism' was first used in the 1820s. It was designed to attack the power and rural riches of the aristocracy and the landed gentry, and to support the spread of wealth through manufacturing and through financial institutions with diverse owners – a.k.a. banks. Only when Marx came along and distorted our language and our thinking did the meaning of 'socialism' change to the creed of nationalisation and state control. Today we have largely extruded Marxist ideas from our thinking, and thank goodness. The time has come to discard this last linguist relic and reclaim socialism for the type of dynamic but responsible capitalism that we seek to build.



2 | A new class politics

Owen Jones

The recession has brought class inequality back into view by exposing the unjust distribution of wealth and power in Britain. Labour must tackle this with a new class politics of stronger trade unions and a more representative parliament.

During the long boom of the nineties and noughties, it was possible to at least pretend class was no more. 'We're all middle-class now' boomed politicians of all stripes; it was a line peddled by most of the mainstream media too. Britain's growing class divisions – as entrenched as ever – were apparently papered over by the promise of ever-growing living standards.

We now know that this was a myth, even before Lehman Brothers collapsed. Real wages stagnated for the bottom half and declined for the bottom third in 2004, four years before the financial collapse began. After 2003, average disposable household income fell in every English region outside London. Cheap credit helped disguise the fact that the income of the working majority was being squeezed even as the economy grew.

But it was the biggest economic crisis since the 1930s that shattered the delusion that class was no more. The current recession has helped re-focus attention on the unjust distribution of wealth and power, because it is self-evident that the impact of crisis is completely different depending on where you stand in the pecking order. The average Briton is currently experiencing the biggest squeeze on real income since the 1920s. Living standards are projected to be no higher in 2016 than they were in 2001. The Child Poverty Action Group has warned that poor families

face a 'triple whammy' of benefit, support and service cuts, adding that the government's "legacy threatens to be the worst poverty record of any government for a generation."

Yet while it is recession for the majority, it remains boom time for those at the top – including those principally responsible for the current economic disaster. Last year, average boardroom pay went up by 49 per cent; in 2010, it soared by a staggering 55 per cent. The *Sunday Times* Rich List – made up of the richest top 1,000 people in Britain – recorded an increase in wealth of nearly a fifth. Back in 2010, the leap was approaching a third – the biggest jump recorded in the history of the Rich List. While the government has hiked VAT – a tax that disproportionately hits those on low or medium incomes – corporation tax is being slashed, meaning the banks that had such a central role in the financial crisis will be enriched to the tune of billions. With such a glaring disparity, pressing the case that 'class no longer matters' appears as nothing more than a naked attempt to shut down scrutiny of the ever-widening divisions in our society.

Now that class is back with a vengeance in the public consciousness, Labour needs to ride the wave. Above all, the case has to be made about representation. Less than one in twenty MPs hail from an unskilled background; more than two-thirds come from a professional background. The issues facing working people as they are made to pay for a crisis not of their own making will not be addressed unless the middle-class closed shop of Westminster is cracked open. For example, there are currently 5 million people languishing on social housing waiting lists. When I asked Hazel Blears shortly before the 2010 general election why Labour had done so little to tackle this growing social crisis, she responded that there was simply no-one in government with enough interest in housing. But – inevitably – if there were MPs who have had the experience of years stuck on a social housing waiting list, the chances of the housing crisis being forced up the agenda would be dramatically increased.

There used to be avenues for working-class people to climb the ranks of politics. Other than Clement Attlee, the three pillars of the post-war

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Labour government were Nye Bevan, Ernie Bevin and Herbert Morrison. All three were working-class, who had experience of doing the sorts of jobs that most people had to do. Bevan's experience of Welsh mining communities helped fuel the passion that culminated in the National Health Service. All three figures entered national politics through the trade union movement or local government, or a combination of the two. But it is precisely these routes which were massively eroded by Thatcherism. That is why the desires of some Blairite ultras to weaken the union link are so wrong-headed. Instead, it should be strengthened to get more supermarket workers, nurses, bin collectors and call centre workers into parliament.

That means the trade union movement has to change, too. While over half of public sector workers are unionised, only 14 per cent of those working in the private sector are members. We need a new model of trade unionism that adapts to the fact that job insecurity has dramatically increased, and work has become increasingly casualised. For example, there are now 1.3 million part-time workers who cannot find full-time work; and there are another 1.5 million temporary workers lacking the same rights as others. Already, Unite – the largest trade union in the country – has introduced a 'community membership', particularly aimed at those without work. It is a step in the right direction. Back in the 1880s, trade unions were concentrated among highly-skilled craft workers; so-called 'New Unionism' aimed to expand it among unskilled workers. Today we need a new 'New Unionism' that particularly aims at service sector workers, giving them a voice both in the workplace and in society as a whole.

When addressing the crisis of representation, it is important to acknowledge that the working-class has changed shape. Back in 1979, over 7 million worked in manufacturing; today, it is around 2.5 million and declining fast. Instead we've seen a shift from a service sector working-class to an industrial working-class. There are now one million call centre workers; as many as there were working down pits at the peak of mining. The number of people working in retail has trebled since 1980; it is now the second biggest employer in the country. It is these workers

that desperately need a collective voice: that is what the Labour Party and the trade unions were founded to do.

Labour has to develop a new class politics, relevant for the needs of crisis-hit 21st century Britain. The Tories, after all, have developed an ingenious form of class politics on behalf of their own base. And has always been the case, if you stand up for the bottom 70 per cent, you are labeled a class warrior; speak for the top 1 per cent, and you are presented as a moderate.



3 | Only Labour Tessa Jowell

Labour needs to think innovatively about public spending, so that the desire for fiscal credibility doesn't come at the cost of public wellbeing. But although Labour has to work hard to win back the public's permission to be heard, there are grounds for optimism: only Labour can deliver fairness in tough times.

In opposition it is easy to be principled, caring and compassionate, but unless you are in power, the truth is that you will have very little influence over people's lives. It's widely said, but not necessarily widely understood, that when political parties become comfortable in opposition, all the rest of our ambitions for greater opportunity and social justice are theoretical. As Michael Heseltine said in 1994 in answer to the question when will Labour win again: "Labour will win when Labour wants to win."

So how can Labour radiate our hunger to be back in power to the electorate? One of the key ways is by making and taking tough choices on the economy.

We must be realistic: the highest levels of public investment under the last Labour government will not be reached again in the next 10 years. But we must be clear that only Labour can really deliver fairness in tough economic times, because only Labour knows that we 'achieve more together than we do alone'. Only Labour seeks to put power, wealth and opportunity in the hands of the many not the few. This is why it's so important that Ed Miliband has started to set out how Labour would make tough decisions on spending and get the deficit down.

To be frank, Labour has always been serious about reducing the deficit, but when we lost the confidence of the public at the last election, we lost our permission to be heard. We need to rebuild that confidence by articulating a compelling vision for growth, but also by setting out plans for public spending that recognise the changed country Britain will be by 2015.

Labour won in 1997 not merely because we had a great leader and a good team behind him, but because people had faith in our plans for the economy. That's why the pledge to stick to the Conservative's spending plans was important. Yes, it might have constrained our ability to get things done in the initial years, but until people wake up one morning and believe that Labour isn't going to simply throw their money away, they won't give us their support at the ballot box.

No matter how much we know that our public spending made Britain a better country in so many ways, the orthodoxy that the Tories have been so brutally successful in establishing is that somehow we wasted people's precious money.

We do know how angry people are when they see the Conservatives in government wrecking the fabric of their communities and vital services with their programme of cuts. But even though oppositions are there to oppose, we won't win back credibility with the public until we can answer the simple question on the doorstep – 'what would you do differently?' Part of the role of a successful opposition is to oppose the things we believe to be heinously against the public interest and in conflict with the values we believe in – equality, justice, help for the poorest. But a successful opposition must also inspire people to believe there's a different route that they could take to the future.

Fiscal responsibility should be Labour's watchwords. But Labour must also be hungry in the pursuit of innovation.

Towards the end of the Labour government, we were starting to look at programmes such as 'total place', which made agencies pool their budgets to solve deep-seated problems such as drug or alcohol addiction. They found that pooling their money and working together saved them money in the long term.

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Let's also look at what we can learn from the pilots of 'social impact bonds', for example in Peterborough prison where social investors are helping to fund an intervention to stop prisoners reoffending – saving the taxpayer huge amounts of money in the long term, but not costing them so much up front. Labour must champion those who extract the most value through public expenditure.

We need to set out the case for a three way partnership between a stronger civil society, a citizen-engaged business sector and individuals taking more responsibility for themselves and their families. In difficult times like these, people are turning to those they trust most. They need to feel it is worth taking on more responsibility for their families and their local communities. Not in a shameless ploy to hive public services off to volunteers, but to try and rebuild those all important bonds and relationships which used to exist in society, but through economic, demographic and social change, have eroded over the decades.

Labour must also think about public services. We mustn't just value a swift waiting time procedure, but a reassuring hand held by the bedside nurse. We mustn't just value great GCSE results, but also a young person who's been given self-confidence to get through a job interview. We mustn't just value councils' 'meals on wheels' services, but the fact that they're served on china plates.

None of these things cost much money, they simply require a change in mindset from what Geoff Mulgan calls the 'delivery state' to the 'relational state'. The Tories started to talk some of this language in opposition. Cameron said he was interested in General Wellbeing (GWB) as well as GDP. But just as they are trying to steal our territory on responsible capitalism, that's all it is – a steal. Because in practice what do they do? Let the bankers get richer, fail to act on high energy prices, and cut benefits to the most vulnerable.

Our job is to pursue a vision which sets out how we would increase the nation's wellbeing. Happiness is dangerous territory for a politician, but we know that those who are happiest have stable relationships, strong links with family, good health, and decent income. This is Labour territory and we must seize it.



4 | Moral capitalism also needs to be practical capitalism

Hopi Sen

A hunger for a more moral, ethical capitalism is not exclusively the political preserve of the left. To lay claim to this increasingly contested territory, the left needs to focus less on rhetoric and more on delivery.

Ethical capitalism may have returned to British political debate, but the demand for it is neither new nor, historically, a uniquely left-of-centre concern. More than a hundred years ago, Teddy Roosevelt was denouncing “malefactors of great wealth”, and in his 1902 State of the Union speech he told Congress that:

“Great corporations exist only because they are created and safeguarded by our institutions; and it is therefore our right and our duty to see that they work in harmony with these institutions.”

Forty years ago, Ted Heath was denouncing Tiny Rowland’s company Lonrho and its attempts to minimise its tax liabilities as “the unpleasant and unacceptable face of capitalism”. You can draw a direct line from this moral rhetoric to the debates Ed Miliband feels he has led on the regulation of banks, the need to secure taxes, and the importance of tying rootless corporations to the societies they prosper in.

Moral capitalism has appealed to Ted’s and Ed’s through the ages, but doesn’t lead to the conclusion it is the preserve of the left alone. It is equally plausible that the right or centre’s belief in the power of the invisible hand does not blind them to the possibility that those participating in the market need to be watched over. Even the most hardened monetarist will agree with Adam Smith that “people of the same trade seldom meet

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together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”.

If I am right that the urge for a more moral capitalism is more ‘pan-political’ than partisan, what does this mean for our current situation?

First, realise that while David Cameron may not be serious about delivering a more moral capitalism, he will certainly be able to *sound* serious about it. He will have a political and cultural heritage to draw on, even as he struggles to overcome his own career history, ideology and policy commitments.

Equally, if the Tories’ perpetual challenge is convincing people they *mean* what they say, the left must convince people that we can *deliver* what we wish for. If the Tories have a tendency to sound like they won’t reform the abuses of the markets, then we sometimes sound like we’d like to do more, but don’t really know how. So we want to reform banking, but essentially we endorse the Vickers Report, and just want it implemented more quickly. We want a fairer market, but say we’ll deliver it by some a minor change to shareholder rights.

This implies we should mind the gap between rhetoric and effect. We sometimes talk about ending the neo-liberal consensus, but propose tighter regulation of train fares and putting a union rep on pay committees. These are worthy suggestions, but we should not bring them to market under grandiose language. They will not end neo-liberalism (whatever that is). As a former Procter and Gamble adman, I can tell you a washing powder that promises to remove ground in stains but only removes fresh gravy splashes is in big trouble.

We should also grasp that many people have good reasons to be sceptical about progressive schemes to reform capitalism. After all, a lot of apparently brilliant ideas don’t work that well in practice, or turn out to have unintended consequences; for every Glass-Steagall, there is a Smoot-Hawley, for every minimum wage, a selective employment tax.

This mixed record of reform places a big emphasis on proving that you know what you’re talking about. It puts a premium on thudding practicality (and perhaps putting businesswomen from the midlands above tweed-jacketed principals of Oxford colleges).

Second, we should think carefully about our choice to use the language of morality over, or entwined with, the plainer language of structural reform. There is a slight tendency to conflate a more ethical capitalism with a more even balance between different segments of the economy. There is nothing more fundamentally moral about a manufacturer than a financier; regulation should be sector blind. There are moral steel manufacturers and immoral ones, moral accountants and immoral ones. Now, there are real, solid reasons to want a differently structured UK economy. There's a wider tax base, stronger regional development, the need to secure a better trade in goods, a desire to find long term competitive edges through innovation, and of course employment (though this latter can be exaggerated). All of these really matter, but they are not simply moral issues.

Thirdly, we should always remember what the purpose of a more moral economy is. On the left, we seek an economy where the rewards for business success are shared broadly between shareholder, manager and worker, in the form of share-price, salary, wages and employment, and where this success is also used to fund social goods essential to the success of both individual companies (infrastructure, research, skills, and so on) and a society that supports such companies (health services, education, safety nets, police forces).

All of this is reliant, not on the immorality of capitalism, but on its morality: while we should carefully regulate potential malefactors of great (and little) wealth, and while we should certainly not be subservient to them, we should also recognise that they are essential to us, and we need them, and we want them to succeed. It's a lot easier to be ethical when you're profitable.

None of this is to say that reforming capitalism is a pointless endeavour, or that the state should not play a major role in doing it. Rather, it is a central part of the mission of the left. I'd just suggest that to make it work, the left should approach the challenge somewhat differently.

The left should speak less of morality and more of practicality. Focus on the specifics, the credible, the nuts and bolts, rather than the grand sweep. The strongest charge against us is that we don't know what we're doing and are simply fiddling with a machine we barely comprehend.

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Win over business leaders, and engineers, and innovators who know whereof they speak before attempting to win over the public.

We should also remember why we seek to reform capitalism. Not because we want nicer capitalists, but because we want more jobs, higher wages, and less exposure to complete collapse. Everything we do should revolve around that mission. Every policy, every reform should be measured against those aims.

Finally, remember that a successfully reformed capitalism requires a successful capitalism. We know this, of course, but sometimes allow ourselves to sound as if we take it for granted, or that we'd rather not dirty ourselves with the business of success and profit.

Just occasionally, we might sound like we really believe that capitalism, watched over by the public interest, is a wonderful, successful thing.

We just know that it can be better yet.



5 | How Labour moves on Neal Lawson

Labour's contortions over credibility are leaving everyone confused. The party needs to admit its mistakes and win the argument that it's Labour that understands capitalism and so it's Labour that's best placed to tame it.

The annual Fabian Society conference was this year the crucible in which Labour's new deficit line was launched and first tested. It didn't go down well in every quarter; some on the traditional left and in the unions were very upset, many were disappointed. Others just plain confused. However it was not surprising – Labour is trying to get itself out of an unholy mess as it seeks to be 'economically credible'.

I would suggest that the route to credibility has to start with an honest assessment of Labour's record in government. Those that say Labour should just move on rather than apologise are playing fast and loose with the British public. Labour did get some things right, but it got many wrong. The party can hide from that fact but the public won't.

Investing well in schools, hospitals and Sure Start, and establishing the minimum wage were all significant achievements by Labour. But, crucially, it broke the state by redistributing. Though redistribution itself is good, it was done badly – through tax credits – instead of ensuring companies paid a living wage. And it did so by stealth rather than with public consent. Labour MPs cheered when Gordon Brown lowered taxes and undermined the state still further. Then, when the banks collapsed and caused the crash – because of Labour's light-touch regulation

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–Brown used the state to save the day. But by then it was too late; it was the last gasp of a failed model.

It was all so inefficient and wasteful – not just PFI and the mindless national IT schemes but using the state to mop up the mess created by free markets. This just dealt with endless symptoms of inequality while never addressing the causes. Labour was always running up the down escalator, letting those at the top do what they wanted while using the state to clear up behind them and never demanding a penny.

Labour must accept that economic efficiency and social justice do not always go hand in hand. Indeed, capitalism without a strong state will destroy itself, as we are now seeing. The political challenge is not just developing the right political economy, but developing a state that can credibly regulate markets to meet society's needs and save capitalism from itself. It is a productive and entrepreneurial state, a democratic state, our state.

So where does that leave us? Confused, that's where. The good news is Ed Miliband's brave attempt to define a new capitalism. Whether it is crony, feral or predatory the people know when capitalism has gone bad, and Miliband is on entirely the right ground in identifying this. The problem is that Miliband needs the courage of his convictions. He must set out the parameters of what constitutes a better capitalism clearly and boldly. Then, when Cameron swaggers into the territory, as he did recently with his own speech on re-moralising the economy, he can be tested on it.

However, Ed Miliband is in danger of getting it wrong on the fiscal deficit. Of course, given the mess being made of the economy, Labour cannot rule out cuts in over three years time. But what we could say is where the priorities are: not on the poorest, or areas that will stimulate growth and jobs. As Stewart Lansley's seminal book *The Cost of Inequality* has set out, we are suffering from a historic demand deficit. The cuts aren't working.

Labour is also in the wrong place on a financial transaction tax. It's not surprising because it's the same place as the coalition – waiting for a global deal that will never come unless Britain and Europe take the lead. On the banking reform, too, Labour appears to be backing the

government – a government which expects hospitals to reorganise in months but let the banks take as long as they like. Labour seems to have nothing to say about the eurozone crisis or Europe in general and nothing to say either about building a new economy in an era of runaway climate change. None of this is credible.

Credibility will come from saying: we understand capitalism and we know when and how it needs to be regulated. Credibility comes from saying: we know and understand the proper role of the state, making it work efficiently through co-production and moving to stop social and economic crises happening in the first place. Credibility comes from saying: we shouldn't cut until the economy is growing again – and then we might not have to. On this the shadow chancellor has been proved right. But why did he tell the nation only last September that "I would always rather reduce any tax if you possibly can"? This is not a credible place to be.

The vast bulk of Labour's millions of lost voters spotted the credibility gap years ago. They are with the Tories not because they are right but because at least they are consistent. As Labour praised the City, deregulated labour markets, piled up personal debt and hoped that house prices would go on rising forever after claiming to have ended boom and bust, it lost the people. The public are right: Labour messed up. That record now needs to be untangled so that Labour is free to move on as its values demand and the nation needs.



6 | Winning back women

Seema Malhotra

In spite of the disproportionate impact of the coalition's deficit reduction plan on women, polls show their votes are beginning to swing back to the Conservatives. Labour must offer women a society in which gender justice is a guiding principle.

Would the economic crisis have happened if women had had a greater share of boardroom power? There is a growing consensus that we would make better economic and political decisions as a nation if women and men made a more equal contribution. There is a longstanding power imbalance between genders in the access to and accountability for resources, the consequence of which affects all of us. So, in the debate about how we bring about a fairer capitalism, the question of gender justice needs to be paramount.

Women's position in the economy is becoming a renewed cause for concern. Unemployment amongst women has soared to 1.09 million under this government – the highest level since 1988. Men and women make up similar proportions of businesses as a whole, but women fall behind when it comes to positions in management. The proportion of women in managerial and senior positions rose by 4.5 per cent between 2001 and 2010 to reach 35.5 per cent. This steady but unspectacular rise masks differences between industries. For example, women remain poorly represented in production industries (12.3 per cent), whereas female corporate managers fare better (31.4 per cent).

This debate is also now taking a greater political dimension, but there is a paradox we must address: although women are suffering hardest under this government, there are signs that the women's vote, having moved over to Labour after the 2010 election, is beginning to slide back to the Conservatives.

This seems counter-intuitive given the clear negative impact of the first 18 months of this government on women and families. A recent Institute for Fiscal Studies report stated that "not only do families face a challenging 2012, but looking further ahead we see evidence of more financial strain to come. This research confirms that families with children are shouldering a disproportionate burden." The report shows that the government's decisions, on average, weaken the incentive for those with children to undertake paid work. A report by Gingerbread in October 2011 found that parents on low incomes are now paying 50 per cent more towards childcare. The government's cut in tax credit support – from 80 per cent to 70 per cent of eligible childcare costs – has made it harder to access affordable childcare. And a recent IPPR report stated that the 'maternal penalty' – the gap between the female employment rate and the maternal employment rate – is higher in UK than in any other OECD country.

In which case, how do we explain the tentative move back to the Conservatives by women? It seems likely that it's a response to the government having recently – belatedly – started to focus on women's votes, after Labour won the argument that women were bearing the brunt of policies to reduce the deficit. Labour voices (notably Vera Baird and the Women's Parliamentary Labour Party) are continuing their critique of the coalition, highlighting the impact on women's safety and other areas of the coalition's cuts strategy. The government is weakening support for women's services at the same time as we are seeing increasing incidences of rape and violence against women in the UK – leading to waiting lists for rape counselling services and other support as local organisations seek to gain clarity on funding.

But in order to regain the substantial lead amongst women's votes it once had, Labour now has to go further. Labour's record on supporting women's progress is second to none: Labour market expert David Coats

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recently pointed out the minimum wage closed the pay gap at the lower end of pay; flexibility of working life has made it easier to balance work and family; and maternity and paternity leave helped extend women's job tenures.

However what Labour needs is a new offer for women, which must have its roots in a new and thorough analysis of how men and women's lives are changing. We need to understand how this might vary within different communities and by class. On this I think there is some common ground with 'Blue Labour' thinkers which has emerged from a series of joint Fabian Women's Network and Blue Labour seminars looking at changing gender roles, including how men's lives have changed to generate a fresh perspective on improving the lives of women.

A new offer for women also needs a new view of how we deliver services that help enhance women's political, social and economic lives and access to power in the workplace, community and boardroom. A new analysis of how we support childcare needs to be part of that offer. This is not only about social justice but economic progress. We will not get greater economic growth without the contribution of women's labour.

Ivana Bartoletti wrote recently for LabourList that the Labour party ought to shape a new deal with women by setting out how gender justice can be achieved in tough economic times. Gender justice is not an appendix to the broad agenda of fairness, but the needs to be a guiding principle for change – including reforming the welfare state and making choices in public spending.



7 | To be stronger, unions need to change

Sunny Hundal

The unions need to reform and modernise. Making them more relevant to workers across all sectors will strengthen the campaign for better living standards and wages, and convince people that there is an economic alternative to austerity.

Most people on the left are instinctively supportive of unions – collective bargaining and employee representation are the bedrock of left-wing politics after all.

But support for the union movement should not mean shying away from openly discussing the challenges they face. It's arguable that the case for stronger unions isn't being made firmly and clearly enough, and the unions themselves are sometimes failing to adapt to changing circumstances.

Union reform isn't just necessary due to changing working conditions, but is central to winning support for an alternative agenda to Conservative austerity.

A case for stronger unions

The case for unions isn't just about working class solidarity – it is very much about better living standards and wages for working people.

Hourly average earnings of union members were 16.7 per cent more than that of non-members, according to the Labour Force Survey in 2010. While average hourly earnings have steadily grown in public and

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private sectors over the past decade, the 'trade union wage premium' was higher in the public sector at 21.1 per cent compared to 6.7 per cent in the private sector.

Some of this is clearly due to different kinds of jobs and different industries. Skilled doctors are much harder to replace and fire than managerial workers in private companies. Nevertheless, the evidence unambiguously points to the fact that belonging to a union leads to better wage growth.

This fact is even more salient in our current economic climate. Real wages for ordinary workers have slowed in growth since the 1980s and even stagnated over the last decade – while the highest earners have rewarded themselves a greater share of the pie.

Without union support, ordinary workers across the UK are even more likely to watch their living standards get squeezed and inequality rise drastically.

Three challenges

There are three key challenges that unions face, that hinder their growth.

1. The end of 'jobs for life'. It is now a given that people move from job to job during their lifetimes. The younger generation is even more comfortable with this state of affairs. An increasingly globalised world means more uncertainty and more change.

Of course, it is the job of unions to cushion and protect workers from uncertainty and job losses, but the entire culture of work has changed. And yet it's no easy task for workers who move jobs to transfer their accrued benefits with them. It's staggering that even though 'jobs for life' ended over a generation ago, unions are still mostly orientated towards firms and workplaces rather than workers directly.

2. The rise of the self-employed. An increasing number of people want to work for themselves and be their own boss. What support

and benefits can unions offer them? In some industries, such as journalism, there is support by the National Union of Journalists. But when I worked in the technology sector, the industry was full of contractors who did not bother affiliating with unions.

Worse still, because the perception of unions is that they are focused towards bigger workplaces, many self-employed workers may not even consider joining a union. As more people become self-employed, the unions cannot ignore this sector.

3. Unions are too public sector orientated. Here are some uncomfortable statistics:
 - In 2010, public sector employees accounted for 62.4 per cent of union members but only 17.6 per cent of non members.
 - Middle income earners are now a larger percentage of union members than lower-income workers earning less than £250 a week.
 - Union density was highest in professional occupations at 43.7 per cent, while lowest in sales and customer service occupations at 12.9 per cent.

A union movement perceived as being mostly for public sector workers can be easily painted as ‘out of touch’ and being for additional government spending when most people’s budgets are being squeezed.

If more private sector workers were unionised, it is likely they would have been much more sympathetic to union arguments.

How this hinders an ‘economic alternative’

Polls show that unions are more trusted than politicians. They have also been campaigning vociferously against the cuts. They mobilised the largest demonstration on London’s streets after the Iraq war and have been proven right that the cuts are hurting economic growth and jobs.

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But 18 months of campaigning as the economy slumped in the background has led to only marginal shifts of opinion in their favour. The public still largely buys the notion that while cuts are hurting, they are still necessary.

Unavoidably, this is partly because they think the union 'alternative' to Tory cuts is simply an attempt to protect public sector jobs. If unions were perceived as being for jobs in the private sector as much as the public sector, this would be less of an issue.

The case for stronger unions is a case for unions to diversify, modernise and become more relevant to the lives of Britons across all sectors. Without that the movement and its aims will be hindered.

Policy

The economic alternative in
practice



8 | A fairer capitalism for the next generation

Patrick Diamond

More must be done to tackle the marginalisation of young people in Britain, and the inequality of opportunities and rewards they face. In an era of social democracy with no money, Labour must articulate the hard choices and trade-offs needed to create a fairer society as well as a fairer capitalism.

What should today's young people want from a fairer capitalism? The most direct answer is jobs. The UK is facing a youth unemployment crisis, with the level now standing at 21.9 per cent, higher than for a generation. What is so serious about youth unemployment is not only the damage it causes in the here and now, but the long-term 'scarring effects' of unemployment in early adulthood. The evidence from the recession of the early 1980s is that young adults who become unemployed during that downturn subsequently endured a lifetime of higher employment insecurity and lower earnings. Many were placed on a carousel between casual work and the benefits system throughout their working lives. So Labour is right to highlight the imperative of government action to tackle youth unemployment.

However, the challenge of forging a fairer capitalism goes even deeper than youth unemployment, predating the global financial crisis of 2008-9. It relates to the vast inequality in opportunities and rewards across our society. This has been driven by structural trends, then exacerbated by policy failure.

The last two decades have witnessed a stark polarisation in the labour market and the emergence of two extremes: on the one hand,

highly qualified graduates with significant earning power and relatively high employment security; on the other hand, young people without degrees and significant post-16 qualifications who face the prospect of lower lifetime earnings and greater job insecurity. The distribution of rewards in the economy has then become more extreme in the face of the 'hollowing-out' of skilled jobs in the middle of the occupational hierarchy, fuelling the enormous rise in income and wealth inequality.

Particular groups of young people have been badly hit by these structural trends. The prospects for 16-24 year olds without good educational qualifications in the north-east and north-west of England, for example, are relatively poor. There are also young people from particular BME groups who face higher levels of educational disadvantage, lower employment prospects, and who are more likely to be subject to alienating and intrusive stop and search practices. This can increase their sense of marginalisation and exclusion from the mainstream of society.

These trends have been exacerbated by subsequent policy failures. New Labour strongly advocated a flexible labour market, making it relatively easy to hire and fire workers. This impacted particularly negatively on many already disadvantaged groups, amplifying the effects of systemic discrimination. At the same time, there was a wider failure to generate compelling policies for 'the other 50 per cent', leading to a general lack of opportunities through apprenticeships and further education (FE) for those not progressing to university. At the same time, too few skilled jobs were being created outside London and the south east.

All of these trends have been amplified in their impact and severity by the recent recession. So what is to be done now? This is an era of social democracy with no money, a climate of austerity that is now widely accepted throughout the Labour party. This will inevitably entail a more focused and deliberate approach to government intervention. Labour's policy goals beyond 2015 must articulate the hard choices and trade-offs that convey where the priorities for social democracy truly lie:

- Education Maintenance Allowances (EMAs) have proven to be absolutely essential as a tool to narrow the gaps in post-16 educational disadvantage. Labour should reinstate EMAs immediately,

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and pay for this by means-testing concessionary travel for the over-65s. This is a difficult choice but it protects the most vulnerable older people, while investing in the prospects of the next generation.

- Apprenticeships are another crucial opportunity for young people not going onto higher education, and are more needed than ever in a climate of rising youth unemployment. However, apprenticeships need to be expanded while their quality is sustained: additional investment should come from reversing the cut in corporation tax made in George Osborne's last budget – an irrelevant and costly measure.
- Finally, more investment is desperately needed in statutory youth provision and youth centres. This ought to be paid for by diverting money out of the criminal justice system from policing and prisons. Yes, we need to sustain police numbers, but high quality youth provision is among the best crime prevention strategies available. They can help to tackle the root causes of alienation and disaffection which impose large-scale costs on the rest of society.

These measures will make a difference to the balance of rewards and opportunities in an era of fiscal constraint. However, no single measure will be sufficient unless more is done to create a fairer society, alongside a fairer economy in Britain. Many young people are alienated not just because of what happens in schools and the labour market, but because they perceive themselves as facing a lifetime of discrimination and systemic disadvantage. More than a decade after the Macpherson report first identified the reality of institutional discrimination, Labour needs an agenda to reform stop and search practices, dramatically narrow the educational and employment gap, and invest in institutions that create a sense of belonging and identity. Only then can we create a fairer, more equal society worthy of the name.



9 | Britain's strengths and the role of government

Vicky Pryce

The creative industries, life sciences and, yes, the financial services sector are major economic assets to Britain. The government has a serious role in ensuring these markets operate efficiently, but policy must encourage world class firms in any sector.

Four years ago, the answer to the question 'what is Britain good at?' would have, for many, been obvious: financial services and everything coming out of the City of London. In more recent times, more often the argument has been the opposite: financial services and the City are the cause of our current economic woes. 'Re-balancing the economy' in this context, is cutting the City down to size. As a consequence, manufacturing will prosper again and disadvantaged parts of the UK will flourish.

If only it was that simple. Parts of the financial services sector undoubtedly took excessive risks and became over-extended. And the taxpayer has had to shoulder a big burden when the government stepped in to help some banks, ensure the economy continued to operate and that finance was not completely cut off from firms and individuals. However, financial services are still a sector where the UK possesses a comparative advantage; it is difficult to envisage how the economy can easily rebalance to make up for any serious decline in a sector which is still one of the UK's economic assets. However unfashionable it may seem to be saying this given the concerns we all have in relation to excessive rewards and too much risk taking in the past, the City of London

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is still the only financial centre within the European Union that sits at the top table, competing with New York and east Asian centres such as Hong Kong and Tokyo. In addition London, and the UK in general, has great strength in complementary professional services – its professional services firms, law firms, market traders, designers and scientists.

Another strength paradoxically is the manufacturing sector which has in fact, despite all predictions, regained momentum overall since the financial crisis. Right now we are also enjoying a boom in car production which has gone back to the levels enjoyed in the boom years of a few decades ago, even though most of the firms involved are now foreign. The share of advanced manufacturing has also increased and exports have stayed strong, only partly helped by a weaker exchange rate.

This leads into the next area where the UK is still a very strong draw for internationally mobile capital and people – as an environment for research and innovation.

Our best universities are on a par with world leaders. Oxford, Cambridge and Imperial are in the Top 10 of the *Times Higher Education* university rankings. We have a solid tranche below that with 12 institutions in the top 100 – more than any country except the USA.

We punch above our weight scientifically. For every pound spent on research and development, our scientific research attracts more scientific citations than research funded in any other country. Now, citations do not guarantee commercial success – but this does show that the UK science is at least as good as any other country, and that we have an efficient system for targeting public money towards the best scientists.

In addition, the UK has great design capability. Just before Christmas, the Parliamentary Design Commission published its first inquiry on design education, which I co-chaired. The evidence presented in that study confirmed that British design and British designers remain in demand throughout the world. There will be world class UK firms in all industries. I remain sceptical of calls for policy makers to choose a small number of industries and single them out for special or preferential treatment. In my view, policy will be more effective if it encourages the growth and expansion of world class firms whatever industry they belong to – whether they are a hotel or a biotech start-up.

Clearly there are some areas where the UK seems to have a concentration of such firms, sometimes benefitting from the geographical synergies of clusters, and these push up our average performance: professional business services; much of the creative industries; advanced manufacturing and life science based industries. As part of the government's Growth Review, these are all areas where task groups of industry, government and other stakeholders have been working to understand the barriers to growth facing the industry and trying to identify practical steps that government and industry can take to remove them. This is a sensible way of developing policy – especially at a time when big, expensive and headline-grabbing measures are ruled out because of the state of the public finances.

Having said that, there is of course still a role for government, and never more so than when money is scarce. The role of government is as a procurer, regulator, revenue-collector and competition promoter; ensuring that businesses are allowed to start and operate in an environment where there is certainty and encouragement for risk taking, and where there is a safe, stable macro environment in which they can flourish, is a government responsibility and requires with it continuous vigilance and intervention. Most large companies listed in the Stock Exchange at present in fact come under some sort of government control or influence. This can be because they supply goods to the public sector and depend on it for a large part of their revenues – such as pharmaceutical companies and defence. It can be that they are strictly regulated by government, such as the financial sector and utilities, or come under strict competition rules such as retailers, mobile companies and the media. There is therefore a serious role for government as a facilitator to ensure that markets operate efficiently and transparently, and benefit all areas of the economy and not only some geographical locations or groups of individuals. Government must also ensure sufficient investment is generated to improve and develop the country's productive capacity and ensure enough competition in the economy to encourage innovation and growth. This is a far cry for having policies that favour one sector over another.



10 | The financial sector: bad master to good servant? Stephany Griffith-Jones

In the last few decades deregulation of the financial sector has made crisis the norm. But this is not inevitable. The financial sector must be reformed to ensure it contributes to fair and long-term growth.

The financial sector, both national and international, should have two main functions. Firstly, it should serve the needs of the real economy. Secondly, it should help manage and mitigate risk. In the last three decades the private financial sector has done neither, especially since it was liberalised.

The financial sector has not provided sufficient sustained finance for key sectors like the green economy, small and medium enterprises (SMEs) and infrastructure. It has often not financed housing in a way which permanently benefits poorer people as shown in the US subprime crisis.

Furthermore, instead of mitigating and managing risk, it has created risk through its attempt to maximise short-term profits. In the last few decades numerous and costly crises started after financial markets were liberalised and many regulations stripped away. This was seen first with the 1980s debt crisis in Latin America which led to its lost decade of development. These crises continued in East Asia in 1997/8 as well as in numerous other countries. Since 2007 there has been a major crisis in the North Atlantic region. Financial crisis has become the new normal, rather than the exception.

This is not inevitable. When the financial sector has been well regulated and controlled – and when well-run public banks have played an important role – the financial sector has played a positive role to support and *not* undermined the real economy. Examples of this include post-World War II USA and Europe – and more recently India – where major crises were avoided and growth was strong.

Currently a lot of the focus of the financial sector is on making exorbitant profits and salaries for its employees. Instead countries need a far smaller, simpler, transparent and accountable financial sector focussed on lending to the real economy. If this transformation does not happen it will make it very difficult to finance sustained and equitable growth. A weakened and crisis-prone real economy will continue to serve the interests of the financial sector and not the reverse as it needs to be!

So what should be done? Firstly, the financial sector needs to be regulated in a way which would have prevented the current crisis – and future ones – from occurring. This includes comprehensive equivalent regulation of the entire financial sector, including the shadow unregulated banking sector, which in the US and Europe is larger than the existing regulated banking sector.

Secondly, regulation of capital adequacy, leverage and liquidity must be rigorous and counter-cyclical. It must be counter-cyclical to compensate for the natural boom-bust pattern of financial markets and banks, so damaging to the real economy. For example, regulators could require banks to make sufficient provisions to insure against potential future losses based on the current level of loans.

Thirdly, speculative activity should be limited – and ideally eliminated – where the risks created outweigh any possible benefits to the real economy. Banks should also be divided. The more important part of banking, so called utility banking, should be separated completely from more risky activity, as was done in the 1930s with the Glass-Steagall Act.

Fourthly, remunerations for bankers should be reformed to significantly reduce their level of income. Bonuses could be eliminated – or be linked to long term performance – instead of rewarding short-term gains. If the profits and remunerations in the financial sector were reduced this would also limit the unhealthy power and influence that the

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financial sector has over regulators and politicians. Together with the reform of funding for political parties, this would give greater autonomy for politicians to serve their electorate and not the interests of the financial sector.

As a complement to regulating tightly and comprehensively the private financial system, the time has come for a significant expansion of efficient public banks. They can finance investment in sectors poorly served by the private financial sector, such as SMEs and the green economy. Where markets fail, governments need to act effectively. There are many positive examples of this within institutions in Europe, such as the European Investment Bank (EIB) at a regional level and by the German public bank KfW at a national level. There are also many positive examples of public banks around the world, such as BNDES in Brazil.

Where banks have been nationalised due to the crisis, often at high cost to the taxpayer, they should be used to serve the public interest. Where public banks already exist – like the EIB – their capital and lending could be considerably expanded to support growth and job creation. Where public banks do not exist, they need to be created.

Finally, if the private financial sector continues to resist or evade strong regulation, then larger parts of the financial sector should become publicly owned. The financial sector must be a means to fair and sustained growth and not an end for its own exclusive benefit and that of a small elite.



11 | Inequality, class and the crisis

Ruth Lister

Redistributive policies need to be part of the answer to income inequality, and politicians should lead the way in building public support for them. Labour must convince the public that extreme inequality is not an inevitable product of a capitalist society.

One positive by-product of the economic crisis is that public awareness and concern about inequality is greater than at any time in living memory. The damaging economic and social impact of inequality has been widely recognised, from the leader columns of the *Financial Times* to the tents of those identifying as part of the 99 per cent. In particular this resentment has been directed against the City and the undeserving rich. The recent Fabian/TUC poll suggests inequality is now an issue that the UK's 'squeezed middle' are concerned about.

For egalitarians, this potentially offers a great opportunity. But, as we saw with the economic crisis, the right can be adept at re-framing to their advantage what should rebound on them. We must acknowledge the increasingly punitive and demonising attitudes towards those at the bottom, who are seen by many as even more undeserving than those in the City. Class is a social relation as well as an economic distributive category that shapes life chances. The 'hidden injuries of class', as Richard Sennett put it, are one of the themes of Owen Jones's book *Chavs: The Demonization of the Working Class*. In my own work, I have called this the 'othering' of people in poverty. This 'othering' diminishes the

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sympathy and solidarity necessary to build public support for effective action against poverty.

The potential problem with the notion of the 'squeezed middle' is that it runs the danger of encouraging resentment against those at the bottom as well as the top, particularly when reinforced by constant references to the merits of 'hard-working families'.

We also need to take on board that, in spite of the consistent public belief that the income gap is too wide, enthusiasm for egalitarian policies is diminishing, with particular regard to redistribution via the tax and benefits system. Some will respond that we should give up on further redistribution. But public attitudes are not fixed; politicians should lead, not simply follow public opinion. While certainly redistribution is not the only answer to inequality, it has to be part of the answer. Even the OECD acknowledged the importance of redistributive tax-benefit policies in its recent report on growing inequality. The report recognised the potential for top earners to pay more of their fair share of tax, given their greater share of overall income. It also noted that the tax and benefits system had become less redistributive in the UK since 1975.

A number of analysts have suggested that the shift in public attitudes against redistribution reflects, in part at least, New Labour's antipathy to the idea (even if in practice it was redistributing by stealth). I agree. Nevertheless, as Karen Rowlingson and colleagues pointed out in the 2010 British Social Attitudes Survey, a significant proportion of people "are sitting on the fence" when it comes to redistribution. They argue that, by making a stronger case for redistribution, politicians and lobby groups could play an important role in getting them off the fence.

However there are other ways, aside from income redistribution, that we should be tackling inequality. We also need to challenge the distribution of original income, asking fundamental questions about the value we attach to different kinds of work. This must be done in relation to both high and low pay, which is a highly gendered question. The importance of what has been called the 'pre-distribution' of income is the central theme of a new Smith Institute report by David Coats, *From the Poor Law to Welfare to Work*. And inequalities of wealth are even greater than those of income: we must also address these and the role of inheritance.

Whatever the specific policy agenda, the left needs to challenge the idea that such extreme inequality is inevitable in a capitalist society. The task is to persuade people that a more equal society would mean both a stronger economy and a society in which the great majority can live better lives and be free to pursue their dreams.



12 | Britain's place in the global economy

Will Straw

The pressure Britain is facing from a transforming global economy brings many tough challenges but also clear opportunities. By playing to its strengths in the financial sector, aerospace and pharmaceuticals, and developing expertise in new areas such as tourism and biotechnology, Britain can benefit hugely from 'the rise of the rest'.

Britain's growth performance has been sluggish for a year at best. In November the independent Office for Budget Responsibility reported that growth would be just 0.9 per cent in 2011 and an even lower 0.7 per cent in 2012. Consistent with that, the latest figures showing the UK economy shrank by 0.2 per cent in the final quarter of 2011.

While there is a huge debate about the pace and depth of cuts, everyone agrees that part of the solution to Britain's growth problem is increasing our exports. At first glance this strategy seems fanciful given that the European Union, our biggest market, is expected to have an even worse time of it in 2012. But the world economy is changing rapidly and so too must Britain's international growth strategy.

With a combined GDP of \$8.7 trillion in 2010, Brazil, Russia, India and China – the so-called BRIC economies – accounted for 45 per cent of global growth since the beginning of the financial crisis. China alone creates new economic activity every four months equivalent to the size of Greece. By 2020, the growth of eight countries, which include the BRICs plus Korea, Turkey, Indonesia and Mexico, will make up 35 per cent

of world GDP, according to Goldman Sachs. And although projections this far out are notoriously tricky, Goldman Sachs believe that by 2050 the United States will be the only one of the current G7 in the world's top five economies. The timings may prove wrong but the direction of travel is absolutely clear. The next 40 years will see huge changes in the composition of the global economy.

Against this backdrop, it is unsurprising that people wonder whether, as economies in the east and south emerge, those in the west will become 'submerged'. New academic evidence tells us that although increases in global trade help bring down consumer prices and improve the productivity and ingenuity of our firms, it can also lead to job losses and pressure on wages. Workers in Britain have rarely felt so insecure about their economic prospects.

But Britons have much to feel positive about too. Despite the huge advances in the BRIC countries and elsewhere, just 31 per cent of people in Central and South America earn between \$10 and \$100 per day (the OECD's definition of middle class). In Asia, the figure is just 13 per cent while in Sub-Saharan Africa it's only four per cent. As these countries become richer overall, it is likely that millions more will be lifted out of poverty and, in time, into the middle classes. As this happens they will come to demand more and more goods and services. Much of this, like food, oil and household appliances will not come from the UK. But there are many other areas where Britain is world-class.

Britain has long known of its comparative advantages in financial services, aerospace and pharmaceuticals. But added to these industries are a growing list of sectors where there is potential for future growth. As countries improve their educational attainment, demand for our higher education institutions and educational services will become ever greater. The clusters of courses associated with our best universities mean that we have become world-class in medical devices and biotechnology – essential to meet the rising demand for healthcare in developing countries. As people become richer, they will become more likely to travel abroad, thus presenting opportunities for our tourism sector. If we can crack problems with piracy and intellectual property

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theft, our fashion, music and film industries will expand. Meanwhile new businesses in these countries will demand better legal and business advice and architectural services, all areas where we excel. Looking to the future, our emerging comparative advantage in offshore wind and car batteries for electric and hybrid cars could be a real boon too.

As this transformation takes place it will be essential to ensure that as many people as possible benefit. We already know that there is a premium on educational attainment and this is likely to increase. But we must also ensure that the skills already in the economy are being properly utilised by businesses and that those in lower skilled sectors have 'good' jobs with opportunities for progression and development. Here we should encourage a deal with business where public funding for training is tied to a commitment to continuous workforce development for employees. We must also recognise the important role that high skilled migration can play in plugging short-term skills gaps in the economy. The political debate has skewed policy by making it harder for the most economically valuable migrants and overseas students to enter the country, rather than recognising the reality that migration patterns are becoming increasingly temporary.

Finally, we must be honest that some people will lose out as a result of globalisation and do everything we can to support them. In conditions of fiscal constraint, there are no easy options for welfare reform. For those who can return to work quickly, one way to solve the problem of low unemployment benefits would be to introduce a national salary insurance scheme. This system would provide people with higher levels of benefits than they are currently entitled to if they lose their job, but would also require this support to be repaid when they return to employment. There is also a strong case for ensuring that anyone facing long-term unemployment of more than 12 months is guaranteed a job. In these circumstances, the third sector and local government can act as 'employers of last resort' by providing jobs of social value with a requirement for jobseekers to take up work or lose their benefits.

Given the blizzard caused by the government's austerity programme and the headwinds from the eurozone, it will take some time yet for

Britain to weather the current economic storm. The changes in the global economy need to be carefully managed but if done wisely the 'rise of the rest' will present enormous opportunities for Britain's economy in the future.

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4719 NUMBER OF MEN ELECTED TO THE HOUSE OF COMMONS SINCE 1918

355 NUMBER OF WOMEN ELECTED TO THE HOUSE OF COMMONS SINCE 1918

3% OF MEN IN THE UK'S CHILDREAN WORKFORCE

267 NUMBER OF CONSTITUENCIES IN 2010 WHERE ALL THREE MAJOR PARTY CANDIDATES WERE MEN

11 OF LOCAL AUTHORITY LEADERS ARE WOMEN

90% PROPORTION OF SINGLE PARENTS WHO ARE WOMEN, THE GROUP MOST AFFECTED BY CUTS

14% OF LOCAL AUTHORITY LEADERS ARE WOMEN

86% OF LOCAL AUTHORITY LEADERS ARE MEN

£4.20 AMOUNT MEN STAND TO LOSE A WEEK AFTER THE CUTS

£8.80 AMOUNT WOMEN STAND TO LOSE A WEEK AFTER THE CUTS

39 OF MSPS THAT ARE MEN

16 OF MSPS THAT ARE WOMEN

17 OF MSPS THAT ARE OTHER

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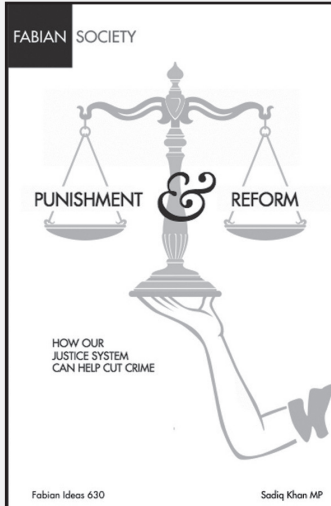
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OCCUPY MIDDLE ENGLAND

Our new polling shows how some radical views on the economy suddenly became mainstream

INSIDE: Ideas for a better capitalism from David Coats, Patrick Diamond, Stewart Lansley, Vicky Pryor, Kirby Walker and others
AND: Mary Kaldell interviews Ed Balls

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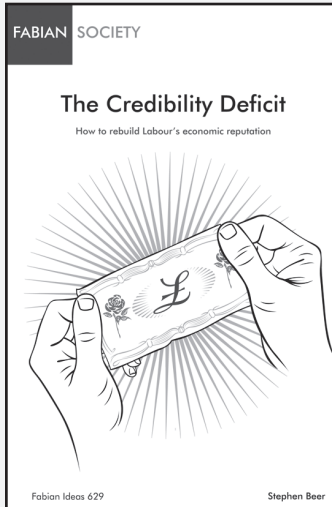


Punishment and Reform

How our justice system can help cut crime

‘Tough on crime, tough on the causes of crime’ was more than a clever soundbite, it was a successful approach to criminal justice policy that left crime 43 per cent lower when Labour departed office than when it entered. ‘Punishment and Reform: How our justice system can help cut crime’ addresses the challenge of how Labour is to build on this legacy and further reduce crime, but within the tough spending constraints imposed by straitened times.

Edited by Sadiq Khan MP, Shadow Secretary of State for Justice, the pamphlet is a collection of essays by members of the Justice Policy Working Group and other commissioned experts, brought together to inform the conclusions of the Labour Party’s policy review. It includes a chapter by Barry Mizen who, along with his wife Margaret and the rest of their family, set up the Jimmy Mizen Foundation following the murder of their son in May 2008. Other authors include Lord Victor Adebowale, Baroness Jean Corston, Dame Helen Reeves, Professor Julian V Roberts and Matthew Ryder QC.



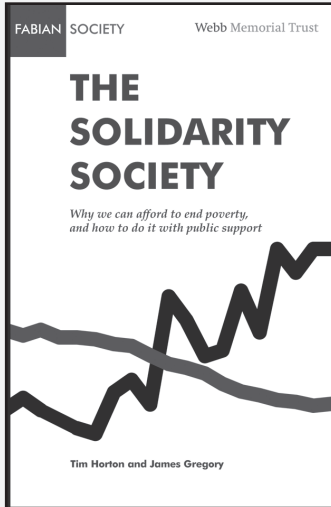
The Credibility Deficit

How to rebuild Labour's economic reputation

In this Fabian Ideas pamphlet, Stephen Beer argues that Labour's economic credibility gap is wide but it can be closed.

The party entered the 2010 General Election campaign unable to explain its approach to the economy. It lost credibility on fiscal policy with financial markets and it lost credibility with the electorate because it did not answer the concerns of people faced with declining living standards and little decline in inequality. To restore credibility, Labour should revisit its values: everyone should be able to participate in our economic life and inequality works against this. Applying these values will require Labour to take some tough decisions.

In 'The Credibility Deficit', Beer argues that Labour also needs to understand economic realities, including the power of the bond markets. Stimulus measures should focus on investment to raise the productive potential of the economy and, at the heart of what we are about, on employment. Labour must support – and learn to love – a reformed City with a refreshed reputation and understanding of the common good.



The Solidarity Society

Why we can afford to end poverty, and how to do it with public support

This report sets out a strategy for how to reduce, eliminate and prevent poverty in Britain.

'The Solidarity Society' is the final report of a project to commemorate the centenary of Beatrice Webb's 1909 Minority Report of the Royal Commission on the Poor Law. It addresses how the values and insights of the Minority Report can animate and inspire a radical contemporary vision to fight and prevent poverty in modern Britain.

The report makes immediate proposals to help build momentum for deeper change. It also seeks to learn lessons from the successes and failures of post-war welfare history, as well as from international evidence on poverty prevention.

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The Economic Alternative

The politics and policy of a fair economy

Edited by Andrew Harrop

The Fabians' agenda-setting 2012 New Year Conference saw 50 key politicians, thinkers, policy makers and journalists speak to an audience of more than 1,000. The conference sought to develop the existing conceptual and political framework for a new economy of the left, asking fundamental questions about inequality, the financial sector, corporate ethics, and Britain's place within the global economy.

To continue the debate and further explore what the 'economic alternative' to the coalition's failing programme of austerity should look like, the Fabian Society has brought together a collection of essays from some of the conference's key speakers.

In this pamphlet, 'The Economic Alternative', Patrick Diamond, Professor Stephany Griffith-Jones, Andrew Harrop, Sunny Hundal, Owen Jones, Tessa Jowell, Peter Kellner, Neal Lawson, Baroness Ruth Lister, Seema Malhotra, Vicky Pryce, Hopi Sen and Will Straw explore Britain's strengths and weaknesses, the structure of its economy and the politics of economic policy.

Fabian Special

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