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THE SHAPE OF THINGS TO COME

**LABOUR'S NEW
THINKING**

EDITED BY
JOHN DENHAM

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Labour's new thinking

Edited by John Denham

Shadow cabinet ministers, MPs and policy experts explore where Ed Miliband is leading Labour

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FOREWORD

Ernst Stetter

It takes courage to change opinion. The contemporary global crisis makes it even more difficult, especially for social democrats. On the one hand, they find themselves in a defensive position as protectors of the 20th century settlement between capital and labour. On the other, they are aware that this order has been exposed by neo-liberal practices, creating an opportunity to argue for radical change worldwide. This is a particular dilemma which social democrats must find their way out of if they wish to remain political protagonists for the future.

The way seems to be to learn from the past, find inspiration in traditional values, and shape answers that adequately match the challenges of modernity. This is what this volume is about – and this is what brings together the British debate and the FEPS Next Left Research Programme. Both aspire to frame a new narrative that could restore the credibility of progressive politics and win the big arguments of our time.

From a European perspective, it is a great pleasure for FEPS to be able to bridge the debates on the renewal of social democracy taking place in general in Europe and in particular in the UK. After the last general election and the defeat of the Labour party, the subsequent election of a new young leadership has drawn the attention of the entire continent. Many were curious towards which

direction the Labour party would turn – and these queries were reasonable, looking at the range of ideas, encompassing all colours of the rainbow, that have been born in the aftermath of the 2010 defeat. So what makes this publication particularly recommendable is that it illustrates the hard political choices that Ed Milliband and his team have been facing, showing in detail the ideological and strategic reasoning behind their respective decisions. Additionally, the contributions abide by a clear Fabian principle: to stimulate debate. Hence they are embedded in a profound ideological review, exposing multiple dilemmas that are to be resolved before the ultimate tests of the European and national elections, respectively in 2014 and 2015.

The collection shows a great variety of fields in which social democracy must clarify its standpoint. The first, and one could say leading question, is on how it is to approach contemporary capitalism. Within the European dimension, as well as transatlantic, FEPS's experience shows that despite rich progressive literature devoted to the analysis of the crisis, an overall story of the predicament of financial capitalism is still missing. The notion of *responsible capitalism*, as proposed by Ed Milliband and deliberated upon by respective authors within this book, provides an interesting formula. It is indeed the case that there are two elements which in many ways annulled the traditional settlement between capital and labour: that both have evolved and hence changed significantly, and that they drifted away from one another. The proposal for a new deal is therefore needed, and it should be embedded in the traditional progressive values that put the economy, and hence markets, at the service of people.

Secondly, the crisis exposed just how much modern societies became disintegrated. Growing inequalities induce further polarisation. This finds no counter-action, as the mechanisms of an active state have been crippled by the crisis, which simultaneously also hit harshly and

vanquished many social security policies. The welfare state, which was a proud achievement of Europe, has shown itself incapable of dealing with both traditional and new social risks. As mirrored in this book, there is also a fierce debate going on in the EU on austerity and its consequences. I do believe that this is a crucial point to emphasise, which FEPS also does elsewhere, that *austerity is not the answer*. It may only bring about further stagnation, and hence also increase unemployment and poverty. These will further undermine the credibility of states and the EU. What we need instead is an alternative growth and good jobs agenda; in the age of knowledge and technology, when so much societal awareness has been raised to show new horizons and new civic behavioural patterns (as in towards climate change), there is a clear opportunity to make the case.

Recent months have offered optimism for continental social democracy. Across various elections in Europe, there has been an improvement in both results for the left and the overall turnout. Encouraging as this is, it should not be misread. The profound ideological questions we face are historical ones, going beyond the electoral cycle. They are about the nature of the world and the Europe we wish our societies to thrive in – and this book points out that we will need a strong ideological spine and much courage in order to provide bold, convincing answers.

INTRODUCTION

John Denham

After the 1970s it was inevitable that the Conservative party would move away from the tight relationship between business, state and unions of the postwar consensus, but it was Margaret Thatcher who made it Thatcherite. In the 1990s Labour was bound to be centrist; but Blair and Brown gave New Labour its distinctive shape.

After the banking crisis Labour was bound to reflect a public mood more critical of neo-liberal economics, and less confident about big state spending, but Labour in 2012 will also be shaped by the particular politics and personality of Ed Miliband.

Since becoming Labour leader Ed Miliband has successfully opened several new national political debates. Initially derided, 'squeezed middle' became the OED's word of the year. Equally scorned at first, all parties now claim to support 'responsible capitalism'. Ed has articulated widespread concerns about diminishing opportunities for the rising generation.

Some of his key aims and values are clear. He wants to be a 'reformer of markets and a reformer of the state' and to build a society with 'responsibility at the top and the bottom'. He believes that social mobility is harder in an unequal country where 'the rungs are too far apart', but he also knows that the popular idea of fairness demands

responsibilities as well as rights. He's an instinctive liberal who nonetheless worries about communities that are being forced to change too fast and beyond their own control. He's the first modern Labour leader to advocate an English identity within the union.

As Labour re-launches its policy review, our authors explore where this politics could take the party. None claims to speak for the Labour leader; the 'shape of things to come' outlined here is a possibility, not a prediction. There is, though, a striking coherence, radicalism and optimism about the future they see.

At its heart is the recognition that our economy must and can be reshaped to deliver the responsible capitalism Ed Miliband has advocated. In place of neo-liberal pessimism is the confidence that an active state can create the best conditions for business success. A more dynamic, competitive and fairer economy can reduce the public costs of failing markets and help deliver public spending discipline. There will, however, be no avoiding the need to restructure social security to support the needs of this stronger economy.

Tight money is already showing that neither marketisation nor centralisation can deliver the best public services. Further improvements will only come if individual choice is complemented by the public's ability to hold services directly and democratically to account. New forms of mutual ownership will transform the relationship between providers and users.

In part Labour is now drawing on its older traditions and values. Labour has not always left markets to themselves, or identified the state with the public good. The good society we seek is shaped ultimately by the way that people live their lives, work together and the values they share. Many of the policies outlined here reflect popular values of fairness and responsibility, the attachment people hold to institutions and local communities, and the importance of their identities and cultures.

But, with Britain mired in recession, the starting point is the economy. The essays by Chuka Umunna, Rachel Reeves and Will Hutton make it clear that a genuinely responsible capitalism means a lot more than a bit of corporate social responsibility and top pay restraint.

For the past few decades ‘pro-market’ policies have delivered neither the competitive economy we need nor the social benefits we want. *“Growth was concentrated in too few sectors, too few regions and was too vulnerable; too few rewards from rising productivity found their way into the wage packets of average earners”* (Umunna). Too often it was failing market policies that forced up Labour’s spending. A poor private rental market drove up the cost of housing benefits; it took spiralling tax credits to protect families from their low skilled and unproductive jobs; pensions credits were needed because long-term savings were low.

Long term control of public spending can’t be delivered without economic reform. *“The shape of our economy and the path of our public finances are intimately intertwined; deep reforms to our economic model must be the key element in our programme for long-term fiscal sustainability”* (Reeves).

Ed Miliband *“is clear on the active role that government must play, setting the rules of the game to encourage businesses that build for the long term”* (Umunna).

Active government policies can support a more dynamic, innovative and competitive private sector with strengths across the different parts of the economy. Government should work with business to agree the strategic direction for the economy, to fund early stage fundamental research, to shape and create new markets through policy and regulation, and to create the institutions for co-ordination, applied research and state-backed finance seen in more successful economics.

The new responsible capitalism is also needed to meet the challenge of the squeezed middle. *“There are good grounds for questioning whether our established pattern of economic growth...can deliver steadily rising living standards*

for low to middle income households” (Pennycook). Business growth and infrastructure investment can create more and better jobs, but fair incomes may need more radical reforms to the minimum wage, support for ‘living wage’ campaigns and longer term shifts in taxation from income to green and wealth taxes.

Markets that are failing to deliver have to be shaken up, hence Labour’s recent focus on vested interests that push up gas, water, electricity transport bills.

This is an avowedly pro-business approach. *“Good capitalism rests on two inter-related building blocks: fairness understood as receiving one’s proportional deserts for the contribution that has been made; and the co-dependence of public and private, individual and society. A truly competitive market is one where entrepreneurs, capitalists, businesses and workers win rewards that are proportional to their contribution – no more, no less”* (Hutton).

Rebuilding Britain’s economy around long-term investment, a more productive workforce and competition on quality goods and services is a project which fits the austerity of our time. As government creates the conditions for business success, so business can reduce the need for public spending. *“If markets are generating more rewarding well paying jobs, government has to involve itself less in remedial action ...Our welfare policy must begin with business policy”* (Umunna). Welfare is indeed a toxic issue for Labour. Beneath the hostility, voters’ basic values still seem to reflect the mantra *‘work for those who can, security for those who can’t’* New Labour championed. But can Labour persuade them we can deliver?

Trying to outbid the punitive (and ultimately fatally flawed) harshness of the Tory-Lib Dem welfare reforms won’t work. A different, no less tough approach would put the need of a changing economy at its centre and make the best use of public money. *“We can only support an ageing population if we maximise labour market participation, especially those who’ve been failed by policy in the past. Women, young people, disabled people, BME, older people all*

are likely to be working below capacity, sometimes with low skill levels, fewer hours than they'd like, with poor pay and insecure employment" (Green).

There will be no avoiding the tough spending choices needed to deliver the universal affordable childcare that will enable more parents to work, raise family incomes, and make the economy more productive. Equally far reaching changes will shift investment into housing construction, limit rent increases in the private sector and so restrain the cost of housing benefit.

No one should be able to turn down a job they can do, but a better welfare bargain would bring rights to training and fair pay and ask claimants to plan their own route back to work. Those who work and contribute should get more support than the long-term unemployed so the contributory principle needs to be reinvigorated in new ways. *"Nationalised state-based pension models will not – at least in the 21st century – be sufficiently flexible either for an individual to feel they truly 'own' it or for it to deliver high enough financial returns."* (Ussher). In the short term, 'flexicurity' would give time-limited income related benefit. Over time more people would be supported to build up real assets, including pensions for the self-employed and new approaches to social care.

Looking at the longer term, no one here thinks the public spending tap will open wide again once 'austerity is over'. A declining tax base, the need to restrain tax pressures on the 'squeezed middle', the rising costs of an ageing society and the need to prioritise investment in research and infrastructure will all restrict many other areas of spending. *"If Labour wants to improve standards and invest in new priorities it will have to spend less in some areas or...find ways of raising productivity in the big mainstream services"* (Muir). On policing, for example *"it will be in the party's interests to detach people's idea of success from levels of spending"* (Harrop).

An Ed Miliband government will inherit fragmented services. The top down measures Labour used to drive

change will have been dismantled and, in any case, while these made poor services good, they more rarely made good services excellent.

With free schools and more private providers we are seeing a greater diversity of organisations running education and health. There is little appetite for simply bringing them back under state control. But while people should of course enjoy choice, and also control through personal budgets, markets and choice don't bring citizens real improvement, accountability or address social inequalities. "*Choice and managed competition can...make systems more responsible to the individual citizen, they are less convincing as a way to drive big system change*" (Muir).

Public accountability and new forms of ownership can drive cost-effective improvements in standards that neither markets nor centralised states have delivered. With tight resources, value for money depends on local flexibility and partnership between different services and this will drive a radical devolution and pooling of public spending in England.

Services depend on the relationship between users and the people who run them. So more children's centres, social care organisations and leisure centres will be mutually-owned by users and employees. If things go wrong or standards slip, local people have a right to turn to locally elected councillors or commissioners to intervene in any local public service, including health or policing.

It's Labour's democratic and social, co-operative traditions that are shaping the new approach. New markets and old states can both feel like "*human institutions which do not seem to be under the control of people*" (Goodman). The good society depends not just on either markets or the state, but how people with shared values live their lives and work together. The dominant theme here, as in many of Ed Miliband's speeches, is a desire to build a state that "*goes with the grain of human behaviour*" (Goodman) and,

indeed, to reinforce the personal and social responsibility that strengthens communities.

It's reflected in his interest in, if not total endorsement of, Blue Labour thinking. Rowenna Davis argues that real conservatism, not Cameron's "*marriage of old money, new markets, pragmatism and power*" has a meaning for Labour. "*Labour needs to understand what it wants to preserve as well as what it wants to transform*" (Davis). This is not nostalgia for an old order but a respect for the community institutions people have always built – including trade unions, community organisations, living wage campaigns, and their familiar streets and surroundings – to make our society stronger and fairer.

"Ed's self confidence in speaking about morality and culture sets him apart from the 'left liberal' social democrat norm of the past fifty years. He is comfortable talking about real communities and the need for ... shared values and mutual obligations" (Harrop).

Crime and migration trigger the greatest insecurities and the most political distrust. On migration "*Ed can argue (in a way that New Labour globalisers never could) that if migration is not working for the bottom and the middle then it is beside the point whether it is good for GDP*" (Harrop).

Labour should tackle employers and agencies who recruit migrants above local unemployed and use equality legislation to tackle 'all foreign' workforces. More generally "*Ed can counter any impression he is soft touch on home affairs by robustly placing himself on the side of struggling low and middle income families*" (Harrop).

In the same way that welfare contracts for job seekers should be designed to encourage and reinforce personal responsibility to work, young offenders should be subject to responsibility contracts. Our desire for migrants to understand and share the core values of our established communities should be reflected the way in which local authorities and local communities deal with new migration.

Recent migration is just one of the problems the EU has put on the desk of British prime ministers. The

international stage is always a challenge for opposition leaders who hold no power at home. Though, until his recent call for European action on austerity, Ed Miliband has focused largely on domestic issues, David Clark anticipates a foreign policy that will be values-based, multilaterally engaged, positive and reformist on the EU, and strong on the defence of human rights. It's surely true that *"a more productive, equitable and responsible form of capitalism won't be possible in isolation. It depends on efforts to reform and manage the global economy"* (Clark).

Europe should remain an important part of Labour's vision, because of *"its potential to enhance the strength, prosperity and wellbeing of its member states ... Britain will stand little chance of remaining influential at a global level if it cannot be strong and influential in its own neighbourhood"* (Clark). The renewal of social democracy is a joint project and is ongoing across the continent, so close co-operation with those who share our values will be key.

Our authors were asked what an Ed Miliband government might look like. But it first has to get elected. Pollster Nick Pecorelli concludes that the politics and policies outlined here have the potential to reach all parts of the electoral coalition Labour needs, but warns that, as yet, the message is being heard more clearly in progressive, social liberal audiences than amongst the insecure, worried and socially conservative voters.

One of Ed's longest-standing friends, Marc Stears, says this is just what Ed Miliband can do: *"Labour needs a politics more openly committed to its core values but also focused on building unlikely alliances ... the kind of energised, democratic, open-minded and engaging politics that Labour needs now more than ever is the politics that Ed Miliband does best."*

Ed Miliband has made a good start. The next three years will determine whether he and Labour can convey the optimism about Britain, and what the British people can achieve, that runs through his politics.

1 | MEETING THE FISCAL CHALLENGE

Rachel Reeves

The centre left will always see a role for public spending measures such as tax credits to secure public goods and ensure a fair distribution of wealth, power and opportunity. But a Labour government could achieve far greater leverage over social and economic outcomes at much lower cost to the taxpayer if it found ways of addressing the 'predistribution' of economic outcomes and opportunities.

Increasing the availability of high quality jobs offering decent pay and pensions, access to training and a proper work-life balance, could have a deep and far-reaching effect on household finances, as well as people's personal wellbeing and the strength of family and community life. Even when money is tight, there's much a Labour government could do to make Britain's economy fairer and stronger, and deliver 'fairness in tough times' by helping squeezed households without spending more money.

Ed Miliband has come to the leadership of the Labour party at a time of enormous challenges and extraordinary opportunities.

The global financial crisis, and resulting global recession, raised fundamental questions about inequality, irresponsibility and Britain's future economic prospects. These questions have been sharpened by the government's failure to deliver the change that they promised,

and their imposition of unfair tax rises and spending cuts which have choked off the recovery and pushed us back into recession. For the Labour party, this represents a rare opportunity to advance an alternative to austerity and an agenda for reform that answers popular aspirations for a fairer, stronger economy which works in the public interest. At the same time, however, Labour needs to be able to answer hard questions about its ability to deliver deeper social and economic progress in a post-crash era in which the deficit and debt bequeathed by the financial crisis, and now exacerbated by the coalition's economic failures, has to be dealt with.

Against this backdrop of hard economic constraints and new political opportunities, Ed Miliband has been leading a renewal of Labour's mission and its methods in a way that is re-energising our movement, both morally and intellectually, and increasingly resonating with the anxieties and aspirations of the British people.

This new agenda for Labour combines a strict focus on economic and fiscal credibility with a powerful argument for the growth and reform our economy needs if we are to raise living standards and expand opportunities for the majority. We are demonstrating that Labour is ready to take the tough decisions on tax, spending and pay that we need to get the deficit down, but also has an alternative plan to the coalition's self-defeating austerity policies; a plan that could secure the jobs and growth that are also essential to getting the public finances onto a sustainable footing. And we are showing that even when money is tight, there's much a Labour government could do to make Britain's economy fairer and stronger – with different choices on taxation and spending which ensure the broadest shoulders bear the biggest burdens; and economic reforms that can help hard-pressed families and business now, and build an economy for the future based on high quality jobs and sustainable long-term wealth creation.

The challenge we face

There are three major reasons why the Labour party must take the task of repairing and rebalancing our public finances seriously.

First: the global financial crisis and resulting recession imposed significant costs on our public finances, along with those of governments around the world. Second: additional costs are now mounting as a result of the austerity and stagnation inflicted on our economy by the coalition government. Third: beyond and beneath these immediate pressures, there are deeper, slower, but equally powerful forces that have the potential to put our public finances under strain. These range from the erosion and narrowing of our tax base to the rising demands placed on public services arising from population ageing and medical advances, and the need for sustained investment in human and physical capital if we are to succeed in the global economy.¹

So the fiscal challenge is real. But under Ed Miliband's leadership, Labour has been developing a compelling answer. Reforming and reprioritising how public money is spent will be a central part of our answer to the fiscal challenge we face. But Labour's agenda for growth and reform is just as integral to our commitment to deficit reduction and fiscal responsibility. A growing economy that works in the interests of the majority isn't only the best offer we can make to the British people at the next general election, it's also the best way of getting our public finances onto a sustainable footing. This is because the state's tax revenues and spending requirements are dependent on both the state of our economy and the health of our society.

Securing the tax base

To see the link between economic growth and reform and the stability of our tax revenues, let's look first at why

the UK deficit opened up in the way it did. It wasn't, as some seek to insinuate, because of excessive spending by the Labour government, or even for the most part a result of the fiscal stimulus implemented by Alistair Darling to avert a catastrophic slump. The increase in the deficit was primarily a result of a collapse in tax receipts. A recent IMF analysis shows that "accommodated revenue loss" accounted for by far the largest part of the increase in the UK's public debt between 2007 and 2011 – more than the financial sector bail-outs, the fiscal stimulus, and increased interest payments put together.

George Osborne has since choked off the recovery that had begun in 2009–10, with slowing growth and rising unemployment forcing the Treasury to borrow a £150 billion more than it had planned, largely as a result of drastic write-downs in expected tax revenues. But the devastating impact of weak or negative growth on tax receipts goes beyond these immediate effects. The permanent dent to our productive capacity and future prosperity resulting from firms' missed investment opportunities and the deterioration of the skills, motivation and employability of those struggling to find work, will have a negative impact on the Treasury's revenue streams for decades to come.

But as well as stimulating the growth that our tax revenues depend on, it's also essential to effectively regulate and rebalance our economy to ensure that growth, and those tax revenues, are stable and sustainable. Analysis of the impact of the global financial crisis by the OBR has highlighted the fact that the immediate fall off in tax receipts was particularly sharp for those revenue streams accruing the housing market and financial services sector. The figures dramatise the fact that, especially for an economy like the UK's with high levels of home ownership and a key comparative advantage in financial services, effective financial regulation is essential – not only for maintaining the health of our household and corporate sector, but also

for securing the stability our public finances. The lesson of the crisis is that the valuable tax revenues that the financial and housing sectors generate can't be taken for granted but need to be underpinned by robust rules to manage risk and ensure those revenues are stable and sustainable.

As Ed Miliband has argued when talking about responsible capitalism, we need an economy that is “diverse enough to protect Britain against external and fiscal shocks”. We should be clear that banking and financial services are and should remain a vital strength for the UK economy, employing thousands of people not just in the City but around the country. But it cannot be our only strength. In government Labour did much in areas such as competition policy, skills development, and investment in science and research to develop Britain's productive capacity in areas such as advanced manufacturing, pharmaceuticals and biotechnology, and the creative industries. And, contrary to common assertion, during that period Britain's economy recorded significant gains in productivity and growth potential which were not reducible to the financial services boom or a property price bubble.² But as technology advances and global competition intensifies, the role of government in supporting business growth and job creation across a range of sectors becomes more important. So the active industrial policy discussed by Chuka Umunna in chapter 3 is vital – not only to securing the rising living standards and expanding economic opportunities that can fulfil what Ed Miliband has called “the promise of Britain”, but also to building the diverse and resilient tax base that our public finances depend on.

Cutting the costs of failure

Economic growth and reform is also essential to containing some of the costs that can put our public finances under strain. An economy that isn't offering people a chance to

make a decent living or live healthy and fulfilling lives is one that places extra burdens on the Treasury and taxpayer.

Under the coalition's economic mismanagement, unemployment has soared and wages have stagnated. This means the state has to do more work to support household incomes. The latest figures confirm that, as a result of the deteriorating economic outlook its policies have resulted in, the government is now on course to spend £35 billion more on social security and tax credits between 2011 and 2015 than it had originally planned. But as well as a plan for growth, we need regulation and reform to reduce the need for the state to spend money on correcting or compensating for the outcomes of unfair or unbalanced markets. Research by the Institute for Fiscal Studies commissioned by Ed Miliband as part of his leadership campaign suggests that the government would save between £6.8bn and £7.3bn in reduced spending on benefits and tax credits and increased income from taxation and national insurance if all employees were paid at least a living wage. Meanwhile the UK's historically low saving rate, declining occupational pension coverage and discouragingly complex and costly personal pension provision is a major contributor to the increasing reliance of millions of older men and women on over £8 billion in annual spending on means-tested pension credit.³ And Liam Byrne has highlighted the fact that much of the £22 billion housing benefit bill serves to subsidise private landlords who "make enormous profit on properties often in a very poor state of repair".

Beyond the immediate costs to the taxpayer of unemployment, low or stagnant earnings, under-saving, and inadequate housing provision, the impact on individuals, families and communities of economic and social exclusion creates further knock-on effects for the state in terms of demands on public services and lost economic potential. Analysis by the Joseph Rowntree Foundation suggests that the problems and disadvantages suffered by people growing up in poor households adds, on a cautious estimate, £12

billion a year to spending on education, housing, criminal justice and social services. The impact of unemployment on young people, in particular, has been shown to have a permanent negative impact on their future employability and earnings potential – as well as their wellbeing and happiness.⁴ Meanwhile the work of Richard Wilkinson and Kate Pickett has highlighted the impact of widening income inequalities on health and wellbeing at all levels of society – something that has enormous consequences for public spending. Accumulating research into the ‘social determinants’ of poor physical and mental health suggests that much of the NHS and social care budget is spent on coping with the consequences of detrimental living and working conditions as well as strained or dysfunctional personal and social relationships. Michael Marmot’s review of health inequalities suggested that, in England alone, socially determined inequalities in physical and mental health account for £5.5 billion a year in additional healthcare costs.

The Labour governments of 1997–2010 took important steps towards making our economy work in a way that was fairer and allowed more people to live healthy and fulfilling lives – complementing its investments in public services and tax credits with structural reforms such as the minimum wage and enhanced rights to parental leave. But overall, OECD statistics show that while the state in the UK does as much to reduce inequalities as the state in Germany or Sweden, and less than in Japan, we still end up with more unequal outcomes because initial market inequalities are so high. Work by the Early Action Task-force suggests that as much as 40 per cent of local public expenditure is devoted to “dealing with the consequences of problems rather than preventing them occurring”.

We on the centre left will always see a role for public spending to secure public goods and ensure a fair distribution of wealth, power and opportunity. Tax credits, for example, have been and will continue to be critical in

supporting the living standards of lower income families and ensuring that work pays. But a Labour government could achieve far greater leverage over social and economic outcomes at much lower cost to the taxpayer if it found ways of addressing what Jacob Hacker has called the “*pre-distribution*” of economic outcomes and opportunities, or what Philip Collins has called “*gross inequality*”.

We could have a deep and far-reaching effect on household finances, as well as people’s personal wellbeing and the strength of family and community life, if we succeeded in increasing the availability of high quality jobs offering decent pay and pensions, access to training and a proper work-life balance. There are no magic bullets to achieve this, of course, but a great many levers that a smart, active industrial policy might use to shift more companies out of a low pay, low skill, low productivity cycle. This could involve structuring the tax regime to support investment in physical and human capital; using procurement policy to incentivise innovation and encourage apprenticeships; improving competition in the banking sector so that growing firms can access the finance they need; or supporting pay and remuneration frameworks that enable shareholders and employee representatives to play their part in ensuring rewards are fairly distributed.

Taxpayer funded transfers paid to support the living standards of pensioners, families with children, and those on low or modest incomes, would also go a lot further if we simultaneously took steps to reduce the costs that such households face. Ed Miliband has illustrated his argument about “*fairness in tough times*” – how a Labour government could help squeezed households without spending more money – by pointing out that, for example, even while we cannot promise now to reverse cuts to the winter fuel allowance, we can commit to ensuring energy providers to offer older pensioners the cheapest tariffs. There are numerous other ways a Labour government could help hard-pressed

households by taking on vested interests – such as preventing rail companies from using their monopoly power to impose unlimited above-inflation fare increases; empowering the Finance Services Authority to stop banks imposing unfair charges; or building on the introduction of auto-enrolment to ensure people have access to affordable pension schemes where their savings aren't eaten up by hidden fees.

Conclusion

As the years of austerity stretch further into the future, people will wonder if there is any light at the end of the tunnel. The great danger is that the government's refusal to take responsibility for the state of the economy, and insistence that the demands of deficit reduction mean there's nothing else they can do, will lead people to give up on the idea that active government or democratic politics can answer their problems or address the real challenges of the twenty-first century.

But under Ed Miliband's leadership, the Labour party is beginning to offer people hope – hope that we can take action to turn our economy around, to get it growing and working for ordinary people. And by demonstrating that this will help us deal with the deficit and manage longer term pressures on the public finances, we can show that this is not only consistent with real fiscal responsibility, it's a requirement of it.

Endnotes

- 1 Final Report of the Commission on 2020 Public Services, September 2010.
- 2 Dan Corry, Anna Valero, and John Van Reenen, 'UK economic performance since 1997', Centre for Economic Performance, November 2011.
- 3 National Audit Office, *Means Testing*, September 2011.
- 4 David Bell and David Blanchflower, 'Young people and recession. A lost generation?', June 2010.

2 | ENLIGHTENMENT LABOUR

Will Hutton

Capitalism is a subtle co-existence of apparently inconsistent values. Capitalists are stewards of their assets even while they restlessly pursue profit. They rely on a vigorous public realm that nurtures science, education and infrastructure even while they are go-getting individualists. They need flexible adaptable workforces; but they also need committed, loyal and trained workforces.

Bad capitalism got us into our current economic mess – good capitalism, which recognises social and public values, will get us out. For Labour this means a transition to a party that is the custodian of the Enlightenment tradition, with a model of capitalism founded on two interrelated building blocks: fairness understood as receiving one's proportional deserts for the contribution that has been made; and the co-dependence of public and private, individual and society.

The justification for capitalism is that it is the best way devised so far of organising our economy and society so that most people can live lives they have reason to value. Properly structured and founded on the values of fairness, plurality and openness, good capitalism can unleash great wealth and opportunity. But in 2012 the system, breaking down for the previous thirty years as it became ever more dominated by bad finance,

has begun openly to disintegrate. The particular capitalist model that had developed up to 2008 – overextended banks fuelling a debt financed consumption boom, as inequality rose and companies became ever more short-termist and cynical about their customers, workers and core business purpose – had come to an end. Bad capitalism had reached its nemesis – and unreformed it is proving incapable of sustaining economic recovery. Thus we are living through the longest depression since the nineteenth century.

Even thirty years ago the conventional left response would have been to diagnose the crisis as a crisis of capitalism for which some form of state-led socialisation was the answer. Not today. Ed Miliband has been careful to dub this a crisis of a particular kind of capitalism, and his solution is more subtle: to build an argument – and the beginnings of a coalition – making the case for a different kind of capitalism. It is a much smarter position, even if he has some way to go in fleshing out what it means.

In the run-up to 2008, the social and public values that are paradoxically essential to a strong capitalism, were systematically torched. This does not mean that capitalism is in imminent danger of collapse. But it does mean, as even a growing number of businesspeople and capitalists themselves recognise, that the system needs substantial reform and rediscovery of those values if it is to mount a sustainable recovery. That is not going to come from the right – leaving the field wide open to the left. It also implies a very different conception of what it means to be on the left; not an enemy of capitalism but one of the instruments that holds it to account, reforms it and insists that it embodies public and social values. For Labour this means a transition from an anti-capitalist party to a party that is the custodian of the Enlightenment tradition in whatever economic and social context – a much more promising and potentially majoritarian position.

Capitalism has twin roots – in the individualistic Protestantism of the Reformation but also the assertion of the public realm in the Enlightenment. Over the last thirty years American neo-conservatives in well financed US think tanks have systematically denied the role of the Enlightenment in capitalism and focused solely on individualism. It is individual effort and individual risk taking that have been placed as the alleged heart of western business; short-term profit has become the only yardstick of success. The concept of ‘rational economic man’ evolved out of this intellectual, quasi-ideological approach: it has become the organising dogma of western corporate life. This allows for no recognition of interdependence between business and society, or the role of the social, meaning and purpose within business itself. Yet never forget the first recognisable companies – the East India Company, for example – were afforded the privilege of incorporation as a *quid pro quo* for delivering identifiable public benefit; they were incorporated for a purpose from which they set out to make profits.

Enlightenment philosophers enlarged this tradition by arguing that it is social interconnectedness and communal relations that give our secular lives meaning. For Rousseau for example, this was embodied in a social contract which enabled individuals to express mutuality, achieve solidarity and share the risk of life’s hazards. Adam Smith wrote *The Wealth of Nations*. But he also wrote *The Theory of Moral Sentiments*: the two works were to be read as a whole. Capitalism could not be divorced from meaning or morality.

The Enlightenment was also the creator of the public realm; the arena where ideas and government were held to account. The great branches of government – the executive, legislature and judiciary – were to be separate. Accountability to argument and via the rule of law became the organising principle of nation states; science and reason triumphed over superstition, myth and the

divine right of kings. Public companies reproduced these principles in their organisations; shareholders held managements to account. The company became an Enlightenment institution.

But religion contributed its fuel to the western capitalist fire. Protestantism and Catholicism alike insisted that there were rewards in the afterlife for good behaviour in the present, while Protestantism contained the ingredient, fundamental in early capitalism, that work, saving and investing brought reward in the hereafter. Crucially work conferred meaning, social obligation and was placed in a moral context. When religion declined, the early great sociologists – Weber, Durkheim and even Marx in these terms – all saw that the human condition was profoundly changing: now meaning needed to reside in the rise of capitalist organisations. Catholic social doctrine, drawing on this tradition, also draws a distinction between human labour – unfulfilling and alienating – and work – rewarding, and for Catholics, expressing the Holy Spirit.

The doctrines that have dominated today's corporate discourse do not recognise the importance of such distinctions or values. Instead they stress the rationality of economic individualism as a moral proposition in its own right – but with no wider social context. Everybody, rich and poor, alike must stand on their own two feet, take responsibility for their lives and face the consequence if they do not. Such propositions have enormous moral force because *prima facie* they are true.

Yet this is only half the story. There is the social: economic and social risk cannot only be handled by individuals, individual banks or individual companies. This reliance on individualism has been the route to economic breakdown. Worse, once companies and institutions deny any larger purpose, the vacuum is filled with incantations to efficiency, flexibility and the rationality of economic men and women – so creating alienation, disconnection and anxiety.

It is a moral hollowing out in which the aggressive pursuit of material well-being is all that is left to provide meaning.

Yet the events of the last decade have proven that there is a complex inter-relationship between state, society and business. Business is not above state and society: it is part of it – requiring state and society to share in risk and in reward. It is not a one way track in which profits are privatised and losses socialised. The re-legitimisation of capitalism requires more balanced and long-term decision-making on behalf of all its stakeholders, which in turn implies capping the power of finance and giving employees more voice.

Good capitalism

Good capitalism rests on two interrelated building blocks: fairness understood as receiving one's proportional deserts for the contribution that has been made; and the co-dependence of public and private, individual and society. A truly competitive market is one where entrepreneurs, capitalists, businesses and workers win rewards that are proportional to their contribution – no more, no less.

But there is a crucial second component to a good capitalism. No individual business or worker can shoulder risk alone; there need to be social and public systems of risk sharing and risk mitigation. For a firm this can be the entire ecosystem in which the firm does business – its banks, its investors, the flows of ideas it receives from research laboratories and the quality of those it hires - but it also may need the state to provide upfront grants or create institutional networks to support the uncertainties of innovation at the frontier. For an individual the ecosystem is a well-structured social contract. Good capitalism is founded on an acknowledgement of interdependency and an acceptance of due desert.

It is thus necessarily biased to the productive rather than unproductive. The system must be organised to

permit the maximum amount of insurgency from new business start-ups, be ready to break up monopoly and relentlessly assault price rigging, cartels and market fixes. This necessarily requires tough competition authorities – a crucial role for the public realm and public institutions. It also requires a strong infrastructure supporting the public good of science and technological advance, the underpinning of the business models of the new insurgents. This will necessarily be tax financed and publicly provided.

Good capitalism is indissolubly linked to good ownership – the recognition that owners have obligations along with the right to direct property autonomously. Once again interdependence and mutuality enter the frame. If business assets are to be owned well, owners have to be committed and recognise that they are stewards and trustees of what they own; this has to be written into company law and codes of corporate governance, and stock markets, which trade ownership rights in shares, must be organised to respect this.

This has profound implications for the relationship between finance and business. The good capitalist firm cannot have financial performance as the sole metric that counts. Firms should incorporate to deliver business purpose that finance must serve – and the delivery of that purpose will require a commitment to innovate, to invest, to enlist employee engagement, to confer meaning at work and to be sensitive to consumer wants. If financial targets override those goals then the firm is reduced; it succumbs to commoditisation of relationships to serve finance.

Good capitalism rests on just workplaces. Reward is proportional to contribution. Workers have voice, and their views are respected. There is a commitment to performance and adaptability. Shirking is tackled. Trust is high. Leaders communicate the business purpose then live the values. What matters are outputs not inputs.

None of this will happen spontaneously. An enterprising, enabling state has watchfully to nudge, cajole, regulate, legislate and build the ecosystems in which good capitalism and the social contract can flourish. The state itself cannot be captured by the interests it must superintend; there needs to be careful division of powers, maximum transparency and openness. Democracy and the rule of law are thus indispensable buttresses to good capitalism.

The creation of good capitalism is thus quintessentially an Enlightenment project. It is predicated on a strong public realm, democracy, rationality, science and a commitment to equity. It creates an economy and society where risk is fairly distributed and opportunity maximised. It is a profound challenge to the conservative doctrine is that the market will handle existential risk best alone and unimpaired, and that beyond a minimum safety net there should be no social contract. But markets, individuals and business cannot deal by themselves, for example, with the systemic uncertainty of transformational new technologies, the obsolescence of skills or the aftermaths of credit crunches. They batten down the hatches and don't take risks. Instead they need a smart state to mitigate and socialise the risk. What creates a great and dynamic capitalism is the interplay between risk-taking entrepreneurs and companies, and a smart state creating the structures and processes that relieve them of risks that would otherwise crush them. There are three broad axes on which to proceed.

1. Towards a new fiscal, monetary and financial policy

The unwinding of the excessive private debt – British bank assets are five times our GDP – that has taken a generation to build is obviously going to take at least a decade, perhaps longer. Worse the task is superimposed on another calamitous mistake originating from the same mindset; namely

that markets do not and cannot make mistakes. Britain had vastly over-invested in the business sectors that benefited from rocketing and unsustainable credit growth – retailing, catering, leisure, housing and housing improvements – and not in those that sold goods and services abroad. This had been made worse by the chronic overvaluation of sterling. Britain, with a large international financial sector but committed to allowing its exchange rate to float (rather than being pegged or in a single currency), had created an economic doomsday machine. The banks sucked in money from abroad, buoying up the unmanaged pound and so hollowing out the productive part of the economy while diverting resources to the unproductive.

Thus it has been blindingly obvious since the crisis broke that economic recovery from the deepest recession since the early 1930s was going to be exceptionally difficult. However, fortunately Britain's stock of public debt was modest which would give an intelligent government some valuable room for manoeuvre in timing how it lowered the deficit. Britain had a private debt crisis – but not a public debt crisis.

The coalition government's programme to eliminate the public sector deficit in four years is therefore a first order intellectual mistake which compounds the mistakes made that caused the crisis. Instead it should be finding ways to use the public balance sheet to support the stricken banking system and to get business lending rising rather than falling. The Bank of England's quantitative easing programme should be channelled into new bank lending. The mechanism is simple: the Treasury must indemnify part of new business lending, which is then aggregated into securities that the Bank of England buys.

This needs to be buttressed by a recognition that we require a five year period of closely managed but higher inflation to inflate away the real value of debt. The government should replace its target for inflation with targets

for the growth of prices and growth of output combined (money GDP in the jargon).

There also needs to be an increase in demand. This can be done directly – with targeted and time-limited tax cuts or spending increases. And the government can also move indirectly, taxing the rich more aggressively and re-allocating the proceeds in tax cuts to those on middle incomes and lower who tend to spend more. There is also an overwhelming case for a financial transactions tax – both to raise crucial revenue but to cap the growth and frenetic speed of financial transactions.

2. Ownership, investment and innovation

British economic and business structures are palpably not fit for purpose for the evolution of the 21st century economy: an accelerating pace of technological change driven by an avalanche of new general purpose technologies. We are entering a world in which wealth will be more overtly co-created in an ongoing and ever denser process of iteration between firms, universities and financiers. The watchwords will be open innovation, mutuality and co-creation – rather as they were during the British Industrial Revolution which was a product of the Enlightenment. Today the task is similar if in a very different context. Science and technology need to be harnessed and commercialised in a wholly recast British economy and culture – an industrial Enlightenment for today.

Britain has a very weak innovation ecosystem. Banks and firms exist in a stand alone relationship. Risk is too little socialised and mitigated. It is too hard to reach production at scale quickly and easily. Too few owners steward their companies. We need to find better and more effective ways of getting long term equity capital into our small and rapidly growing businesses – and beyond that fit for purpose loan capital. The financial system – from the

way the Bank of England banks to the banking system, risk weightings are assigned to which loan categories, banks concentrate decision making in London, the way infrastructure is financed and so on – needs recasting.

British companies should be more than networks of contracts: they must embrace plural, engaged and stewardship-oriented ownership, founded on trust and a sense of common purpose. The Ownership Commission, which for the past two years I have chaired, has suggested a suite of small interventions that cumulatively could transform business – directors being mandated to pursue a business purpose to which institutional shareholders were more closely connected. Britain needs an ownership revolution; a new wave of employee-owned companies, small and medium sized family businesses, co-operatives, mutuals and more ownership commitment from shareholders.

In *The State We're In* I argued that German companies, with unions represented on supervisory boards and incorporated into business decision-making through 'co-determination', represented a model that Britain should follow – albeit recognising our different starting point. I stand by that argument even more firmly today. Worker buy-in is essential to successful capitalism.

Small businesses need to be incorporated in the open innovation processes of large firms: but to do that large firms need to be more ready to expose themselves to outside ideas and alliances, an agenda which the Big Innovation Centre (an innovation think and do tank that I founded and chair) is working hard to open up.

3. A twenty first century social contract

Individuals must be able to mitigate the risk of unemployment, lack of skills, old age, disability, homelessness and illness in much more fast moving globalised times. Yet the political debate is currently solely about how to minimise

the cost of welfare, not how to make it more effective so that individuals can feel more confident both as workers and consumers – a confidence that will spill over into efficient workplaces and busier shopping centres. I advocate a new bargain: so-called ‘flexicurity’ that combines greater workplace flexibilities with higher unemployment benefit, greater training and job guarantees – a far cry from the government’s Gradgrind ‘work programme’.

All this requires careful design and a smart state – but another casualty of Osborneconomics is the hollowing out and dumbing down of the British state. A Treasury report worriedly observes that turnover in the Treasury is now so high that the average age of an official is 32 with a mere three years experience. It is a similar pattern across the board, with the £142,500 cap on senior pay beginning to limit the capacity of the public sector to attract the best. A smart state requires smart people with a strong performance orientation. I have proposed that all senior executives in the public sector should place a significant part of their pay at risk to be earned back by meeting a broad set of performance targets. The aim is not only to introduce a stronger performance ethic; it is to show to the public at large that the public sector is committed to performance. We need a smart state: but we also need a legitimate state.

Conclusion

These goals – a responsible good capitalism; a twenty first century social contract; the creation of an open innovation ecosystem along with a commitment to science; the reinvention of the state as smart and enabling; and a reconceptualisation of economic policy – must be at the heart of the left’s agenda in power. But this is more than a technocratic shopping list of to-dos. This is putting the Enlightenment back into capitalism. In my view this should always have

been the left's mission, and that its seduction by state-led programmes of socialisation was a false trail. Indeed top-down planning, the creation of state monopolies, the lack of care over ensuring that state ownership contained checks and balances and ill-designing the social contract so that it was full of entitlements but too few obligations was an abrogation of the left's roots in Enlightenment values. The call for a responsible capitalism is a repudiation of twentieth century socialism and a redefinition of what should inspire and mobilise the left. It is a coming back home – and if Labour does this right will make it the natural party of government.

3 | STEPPING UP, NOT STEPPING BACK

Chuka Umunna

To succeed in Labour's political project – of rising and shared wealth – we must rethink the relationship between governments and markets. There must be a greater consistency between the progressive ends that we seek and the means that we choose – between the ways we create our national wealth, and the contribution this makes to the society we want.

The challenge is to combine the best of the market with the best of the state: to shape markets to achieve both social as well as economic objectives. The role of government is not stepping back, but stepping up: developing a modern industrial strategy to help businesses compete on the basis of high-value, not low pay.

As the economy has slid back into recession, economic debate is rightly focused on the short-term: on macroeconomic management, on unemployment and the cost of living crisis, and on the continuing high levels of business failure. But although we desperately need growth, we also need much more than a return to business as usual.

In office, Labour did much to improve the functioning of the economy. Since 1997, output per person in the UK grew faster than all other leading industrialised countries, even as the number of people in employment reached record levels. Real growth in the economy led to real improvements

in standards of living for many, and real improvements in our public services. But the global financial crisis of 2007-08 exposed long-standing problems with the economy that had not been properly acknowledged. Growth had become concentrated in too few sectors, and in too few regions of the economy, making us especially vulnerable to a crisis with its roots in finance. Too few of the rewards from rising productivity found their way into the wage packets of average earners, who saw their wages stagnate from 2003. Even as employment reached record levels, too many people remained distant from the labour market or in insecure employment.

In the longer term we need an economy where growth is more inclusive, balanced and sustainable: inclusive, so that risks are fairly managed and rewards are fairly shared; balanced, so that it is less vulnerable to rapid global shifts; and sustainable, in every sense of the word. We need a more productive, more responsible capitalism to underpin a more inclusive and cohesive society.

This is what Ed Miliband has been calling for, from his 2011 conference speech to today: long-term value creation, not short-term profit extraction; employees in good jobs, engaged as partners in business success; sustainability at the core of the business model. To get there he is clear on the active role that government must play, setting the rule of the game to encourage businesses that build for the long-term. Not stepping back as the Conservative ideologues would have it, but stepping up: developing a modern industrial strategy to help our firms and sectors compete on the basis of high-value, not low pay.

A world of change

We must make these changes at a time of seismic global and technological shifts. These shifts are challenging many of our historic sources of strength as competition intensifies, but also creating new opportunities on a

breadth and scale that is difficult to comprehend. Within the next two decades, the size of the global middle class will almost triple in size to 5 billion people.¹ That's a whole lot of new demand we should be preparing our economy now to meet. As Europe struggles, the global centre of economic gravity is moving south and east.

The challenge is clear. For our businesses to thrive in this new world, and to create a more balanced, sustainable and responsible capitalism, we must do three things. First, we must position our economy to compete, understanding where our sources of comparative advantage lie in markets that are set to grow. Success in this new landscape won't come from being *quite* good at lots of things. There is a premium on being *the* best. We must develop our areas of existing strength where we are already world class, like advanced manufacturing, aerospace and automotive, financial and business services, the creative industries, and higher education. Our focus should not only be on high end, export industries, but also on increasing productivity across the economy; on the diffusion of new technologies, as much as on their initial creation.

Second, we must develop the national capabilities we will need to succeed, from the infrastructure, to the skills, to the finance, to the research base and all the other components of successful national innovation systems. As Ed Miliband laid out in his 'Made in Britain', we should celebrate, take pride in and back the best of British business, products and services. And third, we must manage the process of change, so opportunities are open to all and no one bears an undue burden or is left behind.

Governments and markets

How can we achieve this? For the last generation, economic debate in the UK has been constrained by the primacy of markets, on their inherent efficiency and stability, and on

the rationality of market actors. The role of government was to get out of the way. The only purpose of business was profit.

The financial crisis of 2008/09 has shaken the intellectual foundations of this approach. It has challenged the faith of some of its more reflective disciples, from Alan Greenspan's identification of a "flaw" in the reasoning, to Chicago School economist Richard Posner's post-crash rethinking in *A Failure of Capitalism*.

Even if confidence in free markets had been justified, there remained important roles for government: in addressing pervasive market failures and the unfairness of market outcomes. In government, Labour sought to correct these market failures, as well as address the unfairness of market outcomes. We prioritised developments in human capital, innovation and scientific research. We strengthened the rights of vulnerable workers, and the competition regime. Through tax credits and other redistributive measures, we made work pay and sought to reduce the inequalities in market outcomes.

So Labour's approach sought to improve the quality of inputs to the market; to change power relations *in* the market; and to correct the unfairness of market outcomes. This approach proved to be successful on many important measures. Our GDP per capita growth outstripped our main rivals. We created proportionately more jobs, and our productivity growth measured per hour was second only to the US.

But for all the successes, it also resulted in an uneven and narrow geographical and industrial pattern of economic growth, and large inequalities in market opportunities and outcomes.

It left government with too much to do to correct problems generated by the market. Even as transfers paid to working families increased, they struggled to keep pace with the speed at which market driven inequality was

increasing. My predecessor as shadow business secretary, John Denham, described this phenomenon eloquently when he said that chasing the market in this way became like ‘running up the down escalator’.

A new consistency between means and ends

Where does this leave us now? Healthy, competitive markets reward the innovator, the insurgent and the risk taker. They keep incumbents on their toes, benefitting consumers. Labour must remain as committed as ever to fair markets.

But to succeed in our political project – of rising and shared wealth – we must rethink the relationship between governments and markets. We must set aside the old dogma that markets are the domain of efficiency, and that equity is for governments.

We need to build on the successes of the Labour years, but so that a fairer and more cohesive society results from the way that markets function, not in spite of it. Our welfare policy must begin with our business policy. Our business policy must reinforce our environmental vision. There must be a greater consistency between the progressive ends that we seek, and the means that we choose – between the ways we create our national wealth, and the contribution this makes to the society we seek.

A new partnership between productive business and active government

Achieving this means encouraging more businesses to take the high road to business success – building value for the long term; creating good, well-paying jobs; investing in their people; nurturing their supply chains; participating actively in community life.

Business has always been an important source of social progress. For a while, some businesses became distracted by the idea that their corporate social responsibilities must be distinct from the way they made their money. Although this approach resulted in many social benefits, these were – essentially – costs to the businesses involved.

Increasingly we are seeing companies incorporating wider social and environmental concerns into the heart of their business models, in their own self-interest – not as an additional cost to the business but as integral to their long term success. Marks & Spencer call it ‘Plan A’: working with their customers to reduce the company’s environmental footprint and encourage healthier lifestyles. B&Q focus on what they call their ‘community footprint’: the positive impacts that their stores have on their local communities.

These companies are in the vanguard of a much wider trend, identified by Harvard Professors Michael Porter and Mark Kramer as the “next major transformation in business thinking” and already evident in the approaches of a growing number of ‘hard-nosed’ businesses, including GE, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart. They call the approach ‘shared value’: “creating economic value in a way that also creates value for society by addressing its needs and challenges”. It is not “social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center”.²

Governments can and should take action to support this approach – in how they shape markets, how they tend markets, and how they act as consumers in markets. Like it or not, in a modern economy governments can’t help but influence the shape and functioning of markets, for good or ill. The point is not to deny these influences, or even try to minimise them. It is to foster positive interactions

between governments and markets in the interests of both efficiency and equity.

Governments must frame the rules of the game in such a way that the businesses which are the most socially valuable and sustainable are also the most profitable. If markets are generating more rewarding, well-paying jobs, government has to involve itself less in remedial action: pre-distribution, as Jacob Hacker has called it, not redistribution. Instead of focusing on expensive, corrective action for problems arising from the operation of markets, government can focus on actions to create and maintain the conditions for business led success.

Put crudely, the immediate post-war period emphasised the role of the state in the economy. Through the Thatcher-Major years the role of the state was supplanted by the dominant position ascribed to the market. From 1997, Labour sought to use the state to improve the functioning of markets while limiting their worst excesses. Today the challenge is to combine the best of the market with the best of the state.

Government has many levers that it can use to shape markets and support business success. The challenge is to do it well – consistently, strategically and intelligently. The starting point is establishing a stable macroeconomic foundation upon which active government policies can build. It then means being clear about the purposes – as well as the limits – of active government policies, and having a disciplined framework for action.

The role for active government

The first thing active government can do is to make markets work better on their own terms. Efficient, well-functioning markets are not naturally occurring. Even where policy frameworks can correct market failures,

markets still require active stewardship, with constant vigilance to maintain competition and prevent unhealthy concentrations of power.

Building on that, active government can steer markets towards additional goals that we value as a society. Markets have no particular destination in mind. Markets might lead us towards growth with continuing high unemployment, but we might prefer growth with low unemployment. Determining these societal preferences in aggregate is, of course, the job of politics. Realising them is the task of governments.

Here the argument is not that governments know better than markets. It is that governments make use of different sources of information, and have particular destinations in mind. Part of the challenge for governments is to understand where a different, better trajectory for the economy is possible, and then to create the framework needed to draw it in that direction.

Governments can, in some circumstances, improve on the efficiency of market outcomes by doing things that – left to their own devices – markets cannot or will not do. For example, markets can't set strategic direction. Governments, working with business, can. There are risks in doing so, so caution is necessary. But knowing that government is behind an industry or a technology can reduce uncertainty and promote investment.

Similarly, early stage, fundamental research is often too risky for businesses to undertake. The role the US government played in financing or buying many of the innovations behind the technology and communications revolution is increasingly being recognised. Silicon Valley venture capitalists took the plaudits, but they were standing on the shoulders of federal government investment and support over many years.

Through regulation, governments can also create entirely new markets, as Labour did by requiring all new

homes to be zero-carbon within ten years; or they can help foster clusters and other institutions which enable pre-market coordination and support.

Finally, we need to pursue active policies to keep pace with what our competitors are doing. Countries around the world are already pursuing active government approaches, and much more aggressively than we are. It is not just in the obvious places like South Korea, China and Singapore. It is the international mainstream. Just because the Americans preach a gospel of free markets does not mean that their government has not made huge interventions in markets through vehicles like DARPA (Defense Advanced Research Projects Agency), the Small Business Innovation Research programme, and the National Institutes of Health.³ This raises the costs of inaction, and risks allowing others to capture future markets.

A framework for action

If that is why government should act, how should government operate and what should be the priorities? Traditionally, active government approaches have tended to divide between ‘horizontal’ policies that seek to improve the functioning of the whole economy, and ‘vertical’ policies that focus on the development of particular sectors, technologies and even individual businesses.

The first big lesson is that the further policy moves from the whole economy towards particular sectors or firms, the riskier it gets. The surest foundation for active government must be effective horizontal policies. The most important horizontal policy for active government remains encouraging fair competition in markets. Next must be a suite of other horizontal policies like skills, finance and infrastructure investment, effective corporate governance and incentives that reward long-term value creation over short-term value extraction.

But the second big lesson is that just because the risk increases as the policy becomes more targeted, it doesn't mean that vertical, sectoral policies should be ruled out. Between risk and reward there is a balance to be struck. On this basis, sectoral policies can be extremely successful, sometimes because they are very low cost: for example, government can use its convening power to solve co-ordination problems in a sector without spending much money at all. The Automotive Council is a very good example of this – a Labour innovation that the government have continued. Other times they are low risk because a small amount of initial public investment can leverage in a large amount of private investment, or build on things that government would be doing any way – like using its procurement power to develop UK sectors strategically and to support innovation and jobs here in Britain. And sometimes sectoral policies are successful precisely because it is government taking the biggest risks: like investing in mission-focused fundamental research of the kind that allows for the development of new classes of drugs, not just incremental developments of existing drugs.

Ultimately, the key to good sectoral policies is the quality and independence of the decision-making process concerning what to prioritise, and how.

The third big lesson concerns institutions. Look at Germany with their national investment bank, KfW; their centres of technical and vocational training and research, the Fraunhofer Institutes; their network of 426 local banks providing credit to businesses, the Sparkassen. Look at the US with its Small Business Administration, and its Small Business Investment Companies. Look at Singapore with SPRING, the government agency that promotes growth.

Institutions like these can help both horizontal and vertical approaches. They can support business development

and growth; provide stable finance; allow for information to be shared; foster innovation and encourage its dissemination; and develop the skills base on which business can build. This is why we are looking at plans for a British Investment Bank and why we have said we need to open up schools to let industry in, not have it shut out. We must foster institutions that are right for the UK today, not just copying what happens elsewhere. We must build on our existing institutional strengths – like our universities, our business organisations and our trade unions.

The fourth big lesson is that sometimes establishing the end matters more than dictating the means. Create the dream. Much of the innovation funded by the US government was a by-product of the space race and the cold war. What are our visions of the future? What great challenges must our generation meet? Government can set goals or standards at the product level and let business figure out how to get there.

And finally, the last big lesson. Too often in the past, governments have reached for the levers of industrial policy when everything else has failed, responding to demands for immediate action. To be successful, active government policy must be about shaping the future, not just reacting to events. Just as macro stability is conducive to business investment, so policy induced uncertainty undermines it. If government wants business to think long-term, it should do likewise.

This means it will not be enough to get individual parts right. It is about the system as a whole, across all departments, engaging with business in new ways. It means competition policy being reinforced by procurement policy; taxation and regulation reinforcing each other; ensuring that the finance, the skills, and the infrastructure are there for business. It is about joining up this activity across government, and government engaging with business in new ways.

Conclusion

There is a clear alternative to stalled growth today and national decline tomorrow; to an economy run to serve the interests of the few. It is a choice between the current government stepping back and leaving our national future in the hands of the market, or a Labour government that would step up to support productive business, and shape our economy to serve the needs of our society. It means a new consistency between the goals we seek and the means we choose, with government working through markets.

The growth that we need is private sector growth, but it is Labour that understands the critical role that government has to play in achieving this. The scale of our task is large but so is our ambition: “a new direction for our economy” as Ed has said. But the prize is great: we can look to the future with confidence in our ability to succeed in a fast changing global economy, with a transformed economy, producing better and fairer outcomes for all of people. And we will have a stronger, richer, more dynamic society as a result.

Endnotes

- 1 19 Oct 2011 McKinsey report www.bit.ly/HVuTsO quoted in Independent www.ind.pn/wT9ihP.
- 2 Porter, M. E., and Kramer, M. R., *Creating shared value: how to reinvent capitalism – and unleash a wave of innovation and growth*, Harvard Business Review, January–February 2011.
- 3 Mariana Mazzucato *The Entrepreneurial State* www.bit.ly/r0ehf4.

4 | EASING THE SQUEEZE

Matthew Pennycook

Ed Miliband has made the “cost of living crisis” faced by those in the squeezed middle a major theme of his Labour leadership. There remain deep questions for all party leaders to address that will need an account of what austerity means for the role of the state; clarity about who will be the distributional winners and losers from future fiscal decisions in a world of constrained public spending; and an idea of how public consent to buttress these choices can be built.

Labour must construct a coherent and detailed policy agenda of sufficient ambition, focused on the gritty steps needed to improve household finances whilst doing everything possible to generate growth and minimise the chances of prolonged stagnation.

In the aftermath of the 2010 general election, the thinking of most politicians was dominated by taxes and public spending. That focus was not misplaced. Deficit reduction and economic recovery will dominate the political agenda for the life of this parliament and beyond. Yet for all the fury witnessed during their implementation, by 2015 the clamour over cuts will have faded. Any party seeking electoral success at the next election will be forced to confront a much bigger challenge: what can be done to improve the faltering living standards of those on low to middle incomes.

In their different ways each party leader has sought to put their stamp on this agenda. David Cameron recently set out a 'fairness' agenda aimed at making sure that if people work hard and do the right thing, they get rewarded. Nick Clegg has spoken up for what he describes as "alarm clock Britain," those that rise early, work long hours for relatively little money, play by the rules and yet who are still feeling the strain.

Ed Miliband has made the "cost of living crisis" faced by those in the squeezed middle a major theme of his Labour leadership. He has spoken of the eroding nature of "the promise that if you're in work, you will do better each year"; highlighted that "[for the] first time for more than a century, the next generation will struggle to do better than the last". And he has been at pains to prove that his party is coming to terms with a world in which one cannot reach for the sake of steadily rising public expenditure.

Yet beyond the rhetoric there remain deeper questions for all party leaders to address: questions that will require an account of what austerity means for the role of the state; clarity about who will be the distributional winners and losers from future fiscal decisions; and an idea of how to build public consent for these choices. A prerequisite to answering these questions is a convincing and focused understanding of the causes of faltering living standards and a better idea of how future economic growth can be shaped to better serve the interests of the whole population, including the 10 million adults in households on low to middle incomes (broadly those who work and are in the bottom half of the income distribution).

The nature of the challenge

Expressions of sympathy from party leaders for a category of people – often vaguely presented as an all-encompassing group that includes everyone who works and is not on a

six-figure salary – that huge numbers of voters will instinctively identify with is, of course, to be expected. Political expediency demands no less. Yet beneath the signalling it is unclear whether any political party has embarked on the mental shift required to address the challenge posed by the stagnating living standards.

The onward march of living standards in the late twentieth century was driven by a series of social and economic ‘waves’ which ensured that national economic performance fed through into general prosperity. In the immediate post-war period this took the form of new technologies and widening educational opportunities, which had positive effects on skill and pay levels. In the 1970s and 1980s, female economic participation rose rapidly. From the late 1980s, financial deregulation resulted in the wider availability of credit. Into the 2000s, tax credits boosted the incomes of those in work and on modest pay. For a variety of reasons, the potency of each of these waves has diminished. As a result it has become clear that while economic growth is a prerequisite to rising living standards, it may not be enough for large swathes of the population.

Even if Office for Budget Responsibility (OBR) assumptions for GDP growth until 2016 (2.7 per cent in 2014, and 3 per cent in 2015 and 2016) are met, the immediate prospects for low to middle income households are not looking good. Disposable household income for this group is set to fall 8 per cent by 2015 (from just under £22,000 in 2007–08 to just over £20,000).¹ Strong growth in household income would see low to middle income households regain the living standards they reached in 2007–08 by 2020 – and of course unexpected factors may further improve this scenario – but policymakers cannot pin their hopes on this. A worst case scenario, in which the wage and income stagnation that occurred between 2003 and 2008 persists, would see disposable household income for this group at much the same levels in 2020 as it was in 2001.

The simple truth is that for any given household there are only a limited number of ways to achieve higher living standards: real wages (and productivity) can rise, people can work longer hours, employment levels can increase or the state can do more of the lifting. For low to middle income households each of these four potential drivers of improved living standards is under threat or in retreat. Real wage increases are not expected until 2013/14, and earnings growth will almost certainly be restrained at the lower end of the pay spectrum. Low growth and the resulting slack demand for labour makes an expansion of hours on offer unlikely, particularly in vulnerable parts of the labour market. The short-term outlook for employment remains bleak and changes to the tax and benefit system – which played such a vital role in propping up living standards over recent years as wages fell or flat-lined – are causing real pain.

Underpinning these trends in wages and employment are deeper structural shifts in the UK labour market. Along with other advanced economies, the UK is witnessing a steady polarisation of the labour market between high-skilled, white-collar and low-skilled, low-wage jobs – with little in between. The leading explanation for this phenomenon is the role of new technology in replacing repetitive ‘routine’ tasks that were previously fulfilled by middle wage labour but other factors including declining worker bargaining power have almost certainly played a strong role. UK employment forecasts to 2020 suggest that this trend will continue; add to this the potential for trends in global trade to amplify technological change and further impact on the UK jobs market, and the outlook is bleak.

With the key motors of progress for those on low to middle incomes stalled and deeper trends in wages and employment pointing the way to a more polarised UK labour market, there are good grounds for questioning

whether our established pattern of economic growth can really deliver steadily rising living standards for low to middle income households.

Mapping out a course to meet the challenge

For all the intellectual interest in the problems of the squeezed middle, there remains a glaring absence of a coherent and detailed policy agenda of sufficient ambition to address the scale of the challenge. There will be rich electoral dividends for the party that fills this void. But beginning that journey requires a move away from vague hopes of economic rebalancing toward a sharpened focus on the gritty steps needed to improve household finances; and all without neglecting the obvious need to do everything possible, particularly in terms of active macro-economic policy, to generate growth and minimise the chances of prolonged stagnation.

Fair Pay

One area that must be addressed is the growth in precarious low paid work. The success of the minimum wage has belied the apocalyptic predications of opponents prior to its introduction. Yet despite the protection afforded by the minimum wage (set at £6.08 since 1 October 2011), around 21 per cent of employees in the UK (5 million in total) still earn less than a living wage (currently set at £8.30 in London and £7.20 in the rest of the country) that would guarantee a minimum acceptable standard of living.

While there is little doubt that imposition of a mandatory living wage rate across the economy would adversely affect employment and any party leader must be cautious in viewing a living wage as a panacea for low wage work (or as some on the left have suggested, a replacement for

tax credits and welfare), living wage campaigns do have a crucial role to play in putting upward pressure on wage levels. Yet consideration will also have to be given to less cautious, but more targeted, means of increasing low pay. This should include confronting ideas hitherto seen as problematic, such as increasing the national minimum wage by means of varying rates by age, sector or region as a way of boosting pay whilst minimising employment risks.

In wider terms, sustained attention must be given to ways of tipping the balance away from the overreliance of too many UK firms on low value business strategies which rely on low paid, low productivity, poor quality jobs and in which the workforce is viewed principally as a cost driver rather than a driver of sales.²

Boosting employment

Another area requiring more thought is how employment can be boosted among low to middle income households – particularly among women and older people. This might entail prioritising available resources (funded by deeper cuts elsewhere if needs be) and reform on those public services that can serve to increase our productive potential. Childcare is an obvious case and urgent consideration should be given to a large scale expansion in, and reform of, childcare provision, starting with childcare for primary school-age children. This would help address the fact that for all the progress we've made over decades, female employment in the UK ranked just 15th in the OECD, just behind Slovenia, and second earners in the UK face some of the highest effective tax rates in the world. Solving this will involve many things, including a change in corporate culture towards greater support for quality part-time jobs, but childcare reform is one key to rapid progress.

Heading off pitfalls in housing

If stagnation, and with it our fiscal problems, persist, any party that seeks to address faltering living standards will need to provide urgent solutions to some of the structural faults in areas of Britain's housing market.

Even with interest rates as low as they are, mortgage payments still consume more than 25 per cent of the monthly incomes of more than a quarter of low to middle income families. If and when interest rates begin to rise, monthly payments will start to climb. Households with falling or stagnating incomes who stretched themselves to get on the housing ladder will find themselves in an extremely precarious financial position as a result. Thinking needs to begin immediately about what contingencies can be put in place to ensure that, if such a scenario arises, debt and mortgage distress can be managed in an orderly way that avoids triggering a rash of repossessions.

Sustained thought also needs to be devoted to the issues thrown up by a rapidly expanding, yet unreformed, private rented sector. In 1991, it would have taken a couple on a low to middle income around four years to save for a deposit on their first home. By 2011 that figure had rocketed to 22 years. Despite the recession, prices remain high and 100 per cent mortgages have disappeared from the market. These additional barriers to home ownership, coupled with the diminishing prospects of accessing social housing, have seen soaring numbers of those stuck renting privately. The vast majority of those relying on the private rented sector for shelter face a buy-to-let market characterised by steadily rising rents, insecure tenancies, and amateur management.

Surprisingly, given the insecurity that all too often accompanies private renting and the proportion of disposable income that low to middle income households in this tenure allocate to rent, there is a noticeable lack of

thinking about the social and political problems that flow from it. Those problems are particularly acute for the more than one million families with children that now rent privately, almost double the number of five years ago. While it remains crucial to increase housing supply for owner-occupation, more thought needs to be given to increasing supply in the private rented sector to ease rent pressure – including measures to attract private capital as a means of getting rental schemes off the ground – along with fresh thinking on how more certainty and security can be given to households, particularly those with children, who face the prospect of long periods in private rental accommodation.

Sharing out the pain of adjustment

If stagnation persists, any party seeking to address the challenge of faltering living standards will need to provide greater clarity about who will be the distributional winners and losers of future fiscal policy. Sustained thought needs to be given to whether the current burden of taxation is appropriate in a world of faltering living standards or whether, over time, that burden needs to be shifted away from income toward green taxes and levies on wealth. It will also require a readiness to confront more bravely the issue of generational politics which, as the furore over this year's Budget showed, is only likely to increase in prominence. At a time when younger generations are shouldering a disproportionate share of the fiscal burden, the failure to address the issue of what constitutes a fairer generational settlement (and there are obvious electoral reasons for this given the power of the 'grey vote') is only likely to aggravate underlying macroeconomic and fiscal problems.

Political parties will therefore need to think creatively about what trade-offs the older generation might accept

as the price of reform. Consideration might be given, for example, to the introduction of a proper Dilnot-esque system of social care if paid for mainly by the ageing generation itself and implemented alongside withdrawal of certain universal benefits. And of course any grand generational settlement of this nature will also require sustained strategic thought about what type of state would be required to deliver it.

Conclusion

The recent past has shown that improvements in living standards for low to middle income Britain didn't happen by accident: they required concerted policy action. In different ways each party leader has sought to capture the agenda surrounding the squeezed middle. The result has been the necessary forging of a consensus as to the existence of a problem. Yet there remains a gulf between grasping the scale of the challenge ahead and devising the concrete and unfamiliar solutions that are required to address it.

Endnotes

- 1 Using the OBR projections for average earnings (and tweaking them to reflect the historic relationship between average and lower earnings), and factoring in the Coalition Government's planned cuts to tax credits.
- 2 Zeynep Ton, *Why "Good Jobs" are Good for Retailers*, see www.hbr.org/2012/01/why-good-jobs-are-good-for-retailers/ar/1.

5 | A NEW WELFARE BARGAIN

Kate Green

The public don't trust Labour to be 'tough' on welfare. But trying to respond to those perceptions must not become a race to the bottom; Labour instead needs an alternative narrative that understands public opinion but stays true to Labour values.

Making clear that the barriers to achieving employment are as much about the nature of our economy as the nature of our benefit system will be key to changing the record on welfare. As part of its responsible capitalism agenda, Labour needs a strategy to embed decent gains from work, especially for those who currently fare least well in employment, and places greater expectations not just on individuals, but on employers and the state.

Welfare is Labour's toxic issue, and the politics remain exceptionally difficult. Recent evidence comes from a YouGov poll for *Prospect*, with Peter Kellner finding that 74 per cent agree that: 'Government pays out too much in benefits; welfare levels overall should be reduced'.

Ed Miliband has recognised that Labour must be "a party that rewards contribution, not worklessness ... We must be once again the party of the grafters." But the answer must not and cannot simply be to retreat to a

reactive and populist stance. Under the last three Labour governments, the conditionality of benefits was significantly tightened, fraud fell sharply, and, until the 2008 financial crash, unemployment and worklessness reduced. Those who argue that Labour must re-establish a reputation for toughness miss the essential point. If 13 years of toughening rhetoric, and the policies to match it, haven't persuaded public opinion, it's unlikely more of the same will produce a different result.

And although the politics are challenging, we shouldn't assume outright public hostility. The picture's much more nuanced. There is public concern that the social security system apparently allows people to claim benefits when they ought to be in work. The YouGov polling found that around two thirds of people believe that a substantial minority of benefit claimants 'lie about their circumstances in order to obtain higher welfare benefits or deliberately refuse to take work where suitable jobs are available.' These estimates are clearly inaccurate – for example, only 1.3 per cent of calls to the Benefit Fraud Hotline result in a prosecution.¹ But perceptions about the level of 'scrounging' may lead to the high levels of support found for cutting benefits to unemployed people or to 'unmarried single mothers' (of course the benefit system makes no distinction as to whether single parents have been married or not).

Yet when it comes to other groups, support for cutting benefits is weak. Only 11 per cent think that disability living allowance should be cut, and there are "minorities ranging from 9 per cent to 23 per cent in favour of cutting pensioners' benefits, benefits to the low paid, and child benefit for families paying standard rate income tax."²

Public attitudes look remarkably in line with the mantra 'work for those who can, security for those who can't', which proved a winning combination in 1997. There's no reason to think that if the public actually believed Labour would deliver it, it would be any different today. The

question is how we can convince them that we can do this while maintaining core values of fairness and autonomy.

1. Good work for those who can

The problem of 'worklessness'

Developing convincing policy to ensure 'work for those who can' requires us first to understand why people aren't working. The benefit system is at best only part of the story. The number of people claiming both 'inactive' benefits (for people who are sick and disabled, or caring) and those going to unemployed people fell steadily from 1996–7, with the rise in worklessness after the recession coming from the increase in unemployment, not increases in 'inactivity'.

Current levels of worklessness are primarily an economic problem – not one caused by benefits that are too high, or 'a culture of benefit dependency'. Recent research has exposed as a myth the idea of households where 'three generations have never worked'.³ Employers themselves may of course be unwilling to employ those who've experienced long periods of absence from the labour market. But while public perception may be that a 'culture of worklessness' lies at the root of the problem, local labour market conditions and structural barriers to employment are of far greater importance: with 5.8 people currently available for every vacancy, according to the TUC, it's clear that a major problem stopping people working is lack of jobs.

Creating jobs and facilitating employment must lie at the heart of our welfare reforms. This was understood by Beveridge, who took it as a fundamental assumption of the social security system that government would aim for full employment, and is increasingly understood across Europe. Such an approach is important not just for reasons of social justice, but also crucial economically. Changing demographics make the problem all the more significant: We can

only support an ageing population if we maximise labour market participation, especially those who've been failed by policy in the past. Women, young people, disabled people, BME, older people all are likely to be working below capacity, sometimes with low skill levels, fewer hours than they'd like, with poor pay and insecure employment.

Work activation

This means that the key test for welfare-to-work policies has to be whether they actually deliver increases in employment. There has been considerable continuity in this area, with Labour's new deals succeeded by the present government's 'work programme' – supply-side measures which build on a payment by results, contractual model, increasingly aimed at getting people into jobs and ensuring they stay in work.

While the intentions are undoubtedly right, and some of the early new deals were successful, these programmes have limited effectiveness in leading to sustained employment for the long-term unemployed: as the National Audit Office put it "welfare-to-work programmes in the UK have a history of inherent risk and limited success." Supply-side solutions can therefore only be part of the story of successful welfare reform; we need an effective industrial policy that creates the jobs for people to go to, as Chuka Umunna sets out in chapter 3.

A new 'welfare bargain'

Even when jobs were plentiful, and Labour was on track to achieve its goal of 'full employment', the gains from work were not sufficient: more than half of children growing up in poverty, for example, were in households where at least one adult worked.⁴ So the priority for the 'welfare bargain' must be a guarantee of reward for work.

Employment that fails to deliver fairness at work and which doesn't offer adequate rewards is unlikely to prove sustainable. As Ed has argued, models of responsible capitalism place social justice and economic efficiency hand in hand. So we need a strategy to embed decent gains from work, especially for those who currently fare least well in employment. This in turn could deliver improved business performance.

There's a huge agenda here, including better linking the education and skills systems with employment, tackling segregation in the labour market, redressing the under-utilisation of the skills of many women and people from minority ethnic groups, rebalancing the amount of money spent on in-work training in favour of the least qualified workers, and redesigning jobs and hours to facilitate changing working patterns over the life-course. While such policies may fall outside the scope of welfare reform directly, the politics require us explicitly to link the two. A new form of 'welfare bargain' could therefore encompass the requirement to take up suitable employment with minimum guarantees of a job, plus wider support and entitlement, both for those looking for work and those in work.

Such a guarantee could balance guarantees on pay, hours, access to skills and training, universal childcare (including a flexible offer to meet emergencies) and affordable housing on the one hand, with an obligation to take suitable employment on the other. To be sure, this places greater expectations not just on individuals but also on employers as well as the state. But it accords with progressive values, makes a reality of responsible capitalism in the context of welfare reform, rebalances public and private investment towards the structural drivers of sustainable employment, and ultimately contributes to improved business and economic performance. As Ed has said "the most important responsibility is not to government, it is

to each other. Whether it is not abusing the trust of your neighbour by claiming benefits when you work ... Or not paying yourself an inflated salary to the detriment of your company, your shareholders or your staff.”

2. Real security for those who cannot

Social protection

There is a second element of the welfare bargain: adequate social protection for those temporarily out of work, or unlikely to be able to work in the near or long-term future.

The problem at present is double edged. On the one hand, there's a perception that people are getting 'something for nothing.' Yet for too many people at present the system offers very nearly 'nothing for something', with very low levels of out of work benefits, even for those who have paid contributions.

This analysis is driving new interest in models of contribution, which could offer the prospect of more generous out of work benefits and reinvigorate the concept of social insurance, while reflecting the public desire that what you get out reflects what you put in. This is fertile territory for Labour. Further work is needed on affordability, but effective contribution models both promote and have as a prerequisite for their success improved labour market participation and higher rewards from work.

Meeting need

Social security also has to offer protection for those who experience long-term or permanent problems accessing employment, and those who incur additional costs. The structures for this exist within the system – for example disability living allowance (DLA) or universal child benefit. These are important benefits, and an integral part

of our system of social security, but now under attack by the present government.

Labour's response cannot be to abandon the policy of meeting need. That's proved a one-way trail so far, leading to DLA cuts, means-testing child benefit, and an unfair benefits cap. Instead we must address the underlying problems of demand (high levels of worklessness) and managing scarce supply (housing for example).

And at the same time, we need to disentangle the arguments about the function of benefits that help to meet additional costs, and to highlight the social justice case and the benefits to society as a whole. These are participatory benefits, conditional on life events, experienced to a greater or lesser degree by us all (we have all been children after all). They enable independence, and provide protection at times of transition or crisis. And as we saw from the polling data, these are the benefits that it seems there is strong support for protecting.

The legacy of coalition cuts is likely to result in high levels of poverty for those who can't work. A commitment on uprating benefits to support the achievement of poverty reduction goals, and widening entitlement to participatory benefits to maximise social inclusion, should be early priorities for Labour, alongside distributing benefits payments more equitably among different members of a household.

3. Embedding our values: fairness and autonomy

Building popular support for welfare reform policies requires fair treatment both for those who are currently receiving benefits AND those who are not.

Convincing the public that the system is fair is a tough ask. Hostile messages, combined with policies that appear to address perceived unfairnesses but which don't address the true drivers of worklessness, will prove ineffective and

unsustainable, and deepen public scepticism. Instead, it's possible that gains could be made by promoting a message of good work for those who can, and real security for those who cannot, alongside shifting the emphasis to the obligations that rest not just on individuals alone, but also on the wider economic actors who play a part in delivering this.

We also need to ensure fair treatment for people looking for a job. There's clear and striking evidence for example of employment discrimination against those from a minority ethnic background, with research finding that when identical CVs were sent out from people with a 'white' and 'non white' name, "*74 per cent more applications from ethnic minority candidates needed to be sent for the same level of success.*"⁵ Fairness needs to be a value embraced by (and enforced on) employers as well as individuals.

One way to make the case about fairness would be to shape the rhetoric around a welfare state – and employment system – that promotes independence and autonomy, providing a positive challenge to the government's preferred language of 'dependency'.

Autonomy at work is a key indicator of how people feel about their job, and debates about welfare could be combined with a renewed focus on workplace democracy. An 'enabling' agenda for employment would also need to address the barriers that prevent people making real choices about how and when to work: a lack of affordable childcare for example.

Rowenna Davis rightly suggests in chapter 9 that individual responsibility also confers dignity, but individuals can only be held responsible for things over which they can actually control. It's a paradox of welfare reform that we complain about 'dependency culture' yet treat people as if they are incapable of taking decisions for themselves. One suggestion to achieve a fairer balance would be to make sure that the 'claimant commitment' that jobseekers have to sign, sets out not just clear responsibilities on claimants,

but also the jobcentre's or work programme provider's responsibilities, and a clear complaint route, allowing jobseekers to have a sense that they can demand a better service in return for the obligations placed on them.

More radical might be to examine the Dutch system that allows claimants to design their own 'reintegration plans', with a choice of employment service providers, and the ability to specify the type of back to work provision that will meet their needs. Despite challenges of complexity and integration, this offers the potential for a 'co-production' approach that obligates both claimants and providers.

Conclusion

Progressives who hope for a silver bullet of welfare reform that conforms to our values, brings public opinion onside, and comes without effort, may be disappointed by this prescription. But these are complex issues that require complex solutions. While this doesn't easily translate to soundbite politics, the tone of debate and political rhetoric are important. The Labour narrative needs to move away from any attempt to out-tough the Tories to one that speaks of the dignity of work and participation.

Nor can the narrative come from only from politics. If our argument is that industrial policy and welfare reform are inextricably linked, employers are important allies.

Labour's priority now is to take charge of the story, recognising the time it will take to embed. But the prize – a thriving economy, social solidarity, and economic justice – is the right one for us to aim for.

Endnotes

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- 5 Martin Wood, Jon Hales, Susan Purdon, Tanja Sejersen and Oliver Hayllar (2009) *A test for racial discrimination in recruitment practice in British Cities* DWP www.research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep607.pdf.

6 | TAKING THE LONG VIEW ON WELFARE POLICY

Kitty Ussher

Labour's welfare policy has been more concerned with addressing the injustices of now rather than taking a longer-term view. But the missing link in the current discourse over welfare policy is how it can be made to work by using the power of time.

The child trust fund, children's centres and the pension system show that by harnessing the market to build assets over people's lifetimes, we can make even greater progress, particularly when government resources are constrained. The lessons learnt from these experiences have great potential to be applied to other public policy questions in order to create an economy that works for our children and grandchildren.

If old Labour was over-suspicious of markets, and New Labour – let's face it – was in awe of them, then the next Labour government needs to have the confidence to harness the power of markets to achieve the social ends we desire.

Ed Miliband reaches towards this when he said that "our family policy needs a better economic policy" and talks of rebalancing the economy in the national interest. What we need now to explore is how these concepts work over time, how our actions will not only meet today's problems, but also tomorrow's. People are rightly interested in

making provision for their children and grandchildren; Ed Miliband said it was our “national mission” to meet these hopes head-on. The missing link in the current discourse over welfare policy is how it can be made to work by using the power of time.

Labour’s record in office on welfare reform was good. The main success was the redistribution achieved through the tax credit system to low earners, particularly those with families, and pensioners. In the debate about what happened to the richest, this often gets ignored.

In chapter 5, Kate Green shows how we can build on this success and reform working-age benefits further to create greater prosperity – for individuals and families and also for the country as a whole. But by taking a longer-term perspective and harnessing the power of the market to build assets over people’s lifetimes, we can make even greater progress, particularly when government resources are constrained.

As a historical movement concerned with social justice, we understand the role of the state to change the life-paths of those that were denied opportunity by accident of birth; but in our welfare policy we have been more concerned, understandably, with addressing the injustices of now – particularly regarding child and pensioner poverty – rather than taking a longer-term view.

There were three main exceptions to this. First, was the child trust fund, where new parents were given a voucher worth £250 for their child (or £500 for the poorest) to be invested in a fund that could grow over time until the child reached maturity. When this broke through as an issue during the 2001 election campaign, an old friend of mine who now lives in the US felt compelled to get in touch to say it was the most progressive and innovative policy idea he had ever heard.

As it happened, the market leader for the provision of child trust funds in the UK ended up being a mutual

company. But the exciting thing about the policy was not the ownership structure of the firms in the market it created, but its use of the power of the wholesale markets to build assets for everyone, regardless of the circumstances of their birth. The policy also gave a glimpse of a deeper understanding of the role of the state – one that is more akin to Rowenna Davis’ championing of the positive power of small-c conservatism in chapter 9, where families are strengthened, futures are safeguarded, responsibility cherished and trust placed in institutions that can help you achieve these things. A voucher to kick-start a habit of hopeful saving for a new person’s life was worth more to society than its mere cash value today, for its acknowledgement of the love it was supporting and its ability to build something of greater worth tomorrow. At least, it was. The voucher has now been scrapped.

Similar foresight was shown in the establishment of children’s centres which, coupled with ensuring free part-time nursery places, gave children from less affluent and/or non-English speaking backgrounds a fighting chance to start school on a level pegging with their peers, and their parents the chance to return sooner to the labour market. The social outcomes from that investment could not be scored on a government balance sheet, neither could the children who benefitted from it ever vote for the politicians who introduced it, yet the common sense of such early investment was clear. And, again, it demonstrated the wider role for the state by creating new trusted institutions that acted as beacons of hope and empowerment for the individuals who flocked to them.

The third example was the action to deal with the effects of ageing on our pension system. This had become more urgent because of the numbers involved, but nevertheless it was a Labour government that led a cross-party consensus, aided by the Turner Commission, not only to raise the retirement age but also to require employers to contribute to

their employee schemes. Labour also created the National Employment Savings Trust (NEST) to provide simplified and portable private pension products for all employers to offer that will grow in time on the financial markets. With NEST created by an order of parliament and unable to turn down potential members, the parallels with the local mutual savings societies of 100 years ago are clear.

Asset-based welfare

The lessons learnt from these experiences – building financial cash assets through child trust funds and private pensions, and human capital through children’s centres – have great potential to be applied to other public policy questions. These are the concepts we should be exploring in the run-up to the next election in order to meet Ed Miliband’s desire to create an economy that works for our children and grandchildren.

Pensions

The well-off are already working hard to build the assets they need for retirement. Thanks to the recent changes, far more employees, regardless of income, will now do the same. The challenge is to increase the incentives to save for people whose current economic circumstances make even more insecure.

First, more attention should be paid to those who are working but not employees. I once rang HMRC to ask why self-employed people could not earn credits towards an ‘additional’ state pension, when employed people could. I was told that if you are self-employed you have made a decision to go it alone, rather than be part of the system of support that exists for employees. This attitude is wrong. While it might have seemed logical when the great injustice was the mistreatment of the mass of ‘workers’ in an

earlier phase of industrialisation, it is patently wrong when we consider that in today's economy the most vulnerable are the increasing numbers of people who do not have permanent contracts.

The under-pensioned of the future are those who are not protected now. They are more likely to be low-skilled, and work flexibly and insecurely. They may run their own businesses, or be contractors and freelancers, all of whom are heavily dependent on the economic situation. Or they may be unwell or juggling work with family responsibilities and so change jobs frequently to fit in with the other pressures in their lives.

For low-income casual, short-term and self-employed workers, as defined by their tax returns, credits should be provided by the government into NEST schemes, equivalent to the employer contributions for employees, so that these individuals can build their own private pension pot through the markets and so save the state money through top-up pension credits when they come to retirement age. A truly radical government would also consider how the savings habit could be encouraged for those on benefits. We introduced the Savings Gateway to match tiny contributions into savings accounts from those on benefits with government funding. It was abolished in 2010 but the core idea remains valid.

To the extent that this costs money in the short term, it can be addressed through reform of the tax treatment of pension contributions. At present it is deeply regressive. Not only is state pension eligibility dependent on national insurance contributions, which take up a higher proportion of the salaries of the less well off, but the private pensions of higher-rate taxpayers are subsidised by the average. A higher-rate taxpayer only needs to contribute £600 to get £1000 into their pension pot when a basic-rate taxpayer needs to contribute £800. So we are paying to incentivise the rich when we should be incentivising the poor.

While we are at it, there is no reason why the national insurance system should continue as it is into the medium-term. The reason why national insurance is a fantastic idea is because insurance in general is a fantastic idea. Beveridge's insight was to provide for the masses what the markets had previously only applied to a few. But the system is not funded, and now needs modernising for a changed demographics and different working environment. The Mirrlees Review into the UK taxation system for the Institute of Fiscal Studies suggests, over time, integrating the income tax and national insurance systems. This can be done without anyone who has paid into the system losing their entitlement, and without the state relinquishing its responsibility to provide dignity to all in retirement. At present, those who have not made sufficient contributions over their life are topped up in retirement via pension credits. We should move to a system where a basic state pension is simply guaranteed at a certain age, just as income support is guaranteed in working life. But our wider aim should be to broaden and deepen the ability of individuals to build their own assets over time.

Insurance in general is the great unexplored area for benefit reform. As a recent Demos pamphlet argued, statutory sick pay kicks in for just long enough for someone to become long-term unemployed.¹ Greater use of the independent insurance sector – be it private, employee-owned or mutual – can lead to faster, targeted rehabilitation when people fall ill that is not only better for the individual but also their employer and the taxpayer, as well as expanding the ability of the insurance sector to create more jobs.

Our political forefathers in the mutual and co-operative movements sought to bring dignity to their members through greater control over their financial futures, as the Blue Labour thesis reminds us. The irony is that collectivising that insight to a national state-based pension model will not – at least in the 21st century – be sufficiently

flexible either for an individual to feel that they truly 'own' it, or for it to deliver high enough financial returns. This was implicit in the Turner Commission report on pensions when they recommended extending a funded model of saving to more people. Our responsibility, while ensuring that a backstop always exists for those who need it, is to extend the funded model still further to as many people as possible.

Childcare, education and old age

Similar principles can be applied to other financial stresspoints in a person's life. Take the costs of childcare. Provision is made for childcare vouchers, but there is no financial mechanism to increase their value over time even though they are a valued commodity. Perhaps we need tax-exempt childcare saving schemes, which can be contributed to from birth by family, friends and government, where the deposits grow on the financial markets, but where the value can only be realised in the form of childcare vouchers. That would help make it clear in all young people's minds that society sees the value of keeping incomes up in families with young children. Unused vouchers in later life could be passed around the family or donated to those who need them.

A similar principle – allowing the value of a voucher to grow over time – can be applied in other areas. The child trust fund could be reinvented as an education and training account. This could be a retail saving product that starts at birth and lasts for life, where deposits could be made by the government, family, the individual and their employer (including bequests made through wills). The value could only be extracted in the form of training credits for higher or further education from accredited providers. On death, any unused credits could be bequeathed to family members or transferred to a collective central

pot to distribute to the training accounts of young people in underachieving schools. This central pot could also be topped up by charities, companies, and indeed government if it saw fit. There might be a similar case to create a market in nursing home vouchers.

Housing

For many people in Britain, their home is their greatest financial asset. Whether it is wise in economic terms or not, it is fundamental to British culture that home ownership is a desirable thing. The problem is that it has become far more expensive, leading to greater asset inequality between the generations and poverty traps that create disincentives to work for those who rely on housing benefit. As Ed Miliband said in his 'promise of Britain' speech: we need to "stop the inexorable rise in the average age for home ownership".

So where Thatcher gave people the right to buy their council homes, Thatcher's children need now to ensure smoother and fairer transitions from housing dependency into asset ownership. It should be normal for every public sector housing tenant to be able to acquire as much of their property as they are able to as their circumstances improve. Similarly it should be far more common for lower-paid workers to be able to move into a house that they only partly own, albeit mortgaged, with the balance being owned by some kind of public body or social enterprise until such time as they can purchase more.

Housing benefit costs the taxpayer too much and benefits the landlords more than the tenants. As a first step, all landlords should be licensed and required to raise the quality of their homes to the 'decent homes standard' required by the Department for Communities and Local Government. If they are unable to do so, they should hand over long-term management of their property to a social

letting agency in return for a fixed, lower rate of return. The social letting agency could raise funds on the open market, allocate on the basis of need and have a more supportive community-based relationship with their tenants. Ken Livingstone was right to raise the possibility of rent-capping for other landlords; this could also be an option in other high-rent areas outside London: a sure-fire way to bring prices down.

In the medium-term, the only real solution to the inequalities that come from disparity in housing prices across the country – again drawing on the Mirrlees conclusions – is a property taxation system that is genuinely progressive. This would be a political minefield and a consensual case would need to be built for it – and the effects on social tenants would need to be clearly thought through (perhaps council and social letting agency tenants could be exempt). But ultimately it is the only way to shift economic activity from the south-east to other regions, which in itself is a requirement for a more diverse – and so more resilient – economy.

Conclusion

In a speech to the Resolution Foundation, Ed Miliband made it clear that his vision of Britain was one where the aspirations of families “beyond the bottom line” were clearly recognised. People are rightly concerned about making ends meet today, but the role of government is to look to the future. We can do that by making time work for policy and by going with the grain of human nature. The state can shape markets to help build assets and resources for us and our families over our lives, so they are there when we need them, and build emotional and financial resilience regardless of the circumstances of birth. The institutions that will do this do not need necessarily to be private, although they might be, but what they will

share is the desire to use the power of markets to distribute assets more widely. That is the territory that Ed Miliband should be in.

Endnotes

- 1 *Of Mutual Benefit*, by Max Wind-Cowie, Demos 2011.

7 | SOCIAL DEMOCRATIC PUBLIC SERVICES

Rick Muir

An incoming Labour administration will face a public service landscape that will have changed radically following the coalition's reforms: as well as having no money, Labour will have few immediate levers for improving quality and meet a fragmented delivery system at the local level.

While the public may not be interested in the detail of public service reform, they do want to know that a party is enthusiastic about service improvement, intellectually creative about how to bring it about and energetic about delivery. Ed Miliband should dig deeper into Labour's own intellectual traditions for sources of inspiration and put Labour clearly on the side of giving citizens greater power.

While Labour has been right to oppose misguided and ideologically driven reforms by the coalition, it has so far said little about what it would do differently. Since becoming Labour leader, Ed Miliband has focused largely on the economy and has yet to develop a clear narrative on public services. This will need to change in the next eighteen months. While the current focus of public debate remains on the economy and the deficit, by the 2015 election most of the big economic and fiscal decisions will already have been made. Attention

will shift to other areas, such as who will do most to improve the health service, raise standards in our schools and reduce crime.

As it crafts a new agenda on public services, Labour will have to wrestle with three big challenges.

First, it will need to find ways of improving services without being able to spend more money. Even after the current deficit has been eliminated, the Office for Budget Responsibility (OBR) projects that there will continue to be major constraints on public spending. As the large baby boom cohort reaches retirement and as longevity increases, we will live in a country with proportionately fewer workers paying tax and proportionately more retired people with significant health, pension and long term social care needs.

It is worth reflecting on the scale of this financial challenge. The OBR projects that between 2015–16 and 2060–61 health spending will have to rise as a proportion of GDP from 7.4 per cent to 9.8 per cent, long term care spending from 1.2 per cent to 2 per cent and spending on state pensions from 5.5 per cent to 7.9 per cent. Overall these age-related costs add up to an extra 5.4 per cent of GDP that needs to be found by 2060 – or an extra £80 billion a year in today's money. Given that the OBR also projects tax revenues to increase by just £13 billion a year, that leaves a fiscal gap of £67 billion a year to find by 2060. This will heavily constrain spending across public services and means that if Labour wants to improve standards and invest in new priorities, it will have to spend less in some areas or at least find ways of raising productivity in the big mainstream services such as the NHS, schools and the police service.

Second, Labour will have to adjust to a public service landscape that will have changed radically by 2015. Services will have been through five years of big spending cuts, with some – such as local authorities and probation services – almost 25 per cent smaller in financial terms

than in 2010. Forms of top down performance management such as the plethora of targets introduced by Labour will have largely been cut back. Instead there will be a more diverse range of autonomous service providers held accountable largely through the mechanisms of competition and user choice. There will be many more private and third sector providers in areas like health, policing and criminal justice. The vast majority of secondary schools will be academies, as will a growing minority of primary schools, and there will be hundreds of free schools. The police will be held to account by directly elected police and crime commissioners.

This new landscape will raise a number of issues for an incoming Labour administration. As well as having no money, a Labour government will have few immediate levers for improving quality. The coalition was right to curtail the use of centrally-set targets that outlived their use and started to stifle innovation and reduce responsiveness. However some targets worked (most markedly in the NHS) and they were especially appropriate in taking very weak services from 'poor to good' The coalition has instead relied on the naïve assumption that market competition will drive big improvements in quality. While choice and managed competition can, in appropriate areas, make systems more responsive to the individual citizen, it is less convincing as a way to drive big system change. Under the last Labour government, the big things that drove improvements in quality were: money, targets (though there were too many of them), workforce innovation (such as Teach First) and institutional reforms (academy schools, for example). A future Labour government will have to find ways of reintroducing strategic public management of services without returning to a regime of excessive targets.

Added to this, there will be an even more fragmented delivery landscape at the local level. The price for greater

autonomy and diversity will be more disconnected local systems and as a result fewer opportunities for partnership and pooling budgets. Labour will want to think hard about how it can achieve more integrated service delivery in this context.

A Labour government would also have to be clear which reforms introduced by the coalition it would reverse and which it would retain. For instance, it is unlikely to want to reverse schools' academy status or abolish elected police and crime commissioners. It will want to put limits around the role of competition in the NHS, but is unlikely to want to go through further organisational upheaval by radically changing the commissioning framework.

The third major challenge for Labour is to craft a reform agenda that not only makes sense in policy terms, but that also works politically. While it is true that the public are not really interested in the detail of reform, they do want to know that a party is enthusiastic about service improvement, intellectually creative about how to bring it about and energetic about delivery. This is why a reformist agenda is so important, particularly for a party that has (unfairly) been labelled as careless with public money.

But any reform strategy must also speak to the party. Under Tony Blair 'reform' became far too synonymous with markets and introducing private providers, which many in the party opposed. Ed should dig deeper into Labour's own intellectual traditions for sources of inspiration. Labour's collectivism does not always have to be equated with a faith in the power of the central state to cure all social ills. There is a long tradition of bottom-up democratic collectivism in Britain, embodied in the work of the early trade unions, the co-operative movement and self-help organisations such as the Workers Educational Association. Labour should look to its own traditions to develop an alternative to *dirigiste* statecraft.

New directions

1. Strategic choices

The coalition has failed to think strategically about what mix of public services Britain will need in the 21st century. As a country we need to ask: which services best support full employment and an affordable welfare state? What challenges does an ageing society pose for reform of the NHS and social care? How can real innovation and productivity be secured in universal services that face enormous cost pressures and depend on skilled labour?

Labour should make strategic choices about which services to prioritise. If we want to secure full employment, prepare for an ageing society, and help raise family living standards, then universal, affordable childcare must come centre stage. Children's centres are also popular institutions that help build community life and, once established, are hard for future governments to cut, unlike income transfers. The universal services provided at children's centres, like 'stay and play' clubs and breastfeeding classes, mix social groups and bond communities together. And the evidence that high-quality early years services boost children's life chances and strengthen their school-readiness is overwhelming. They are a win-win for investment.

IPPR has demonstrated that in the long term universal childcare pays for itself, generating a return to the government of £20,050 (over four years) in terms of tax revenue minus the cost of childcare for every woman who returns to full-time employment after one year of maternity leave. The initial up front cost could at least be partially met by removing some benefits from wealthier pensioners, such as by restricting winter fuel allowances and free bus passes to pensioners in receipt of pension credit.

This switch to universal childcare, plus the necessary growth in spending on long-term social care and the NHS,

means we will also need to focus on ways of making public services more productive and efficient. This is hard: public services are labour intensive and require a skilled workforce. Despite big increases in spending between 1997 and 2010, there was little improvement in productivity. We will have to find a way of making the big mainstream public services – the NHS, education and the police – more efficient.

2. Empowerment

In his 2011 party conference speech, Ed said: “You know what it’s like. You stand in the queue. You hang on the phone. You fill in the form. And then all you get? Computer says no. We need to change that. To give power to the public ... So I will take on the vested interests wherever they are because that is how we defend the public interest.”

Here Ed recognises that the public interest is not the same thing as the interests of the state, or indeed those who work for it. We know that too often public bureaucracies can become ossified, unresponsive and depersonalised. In order to counter this, he argues, power needs to be handed to the citizen in order that they can hold providers to account and shape the kind of services they want.

In part this involves empowering citizens as individuals. It is right that patients should be able to choose their GP, that parents should be able to choose their children’s school or nursery and that disabled people should be able to design their own care package by using a personal budget. Indeed I would advocate a major extension of the use of personal budgets in the health service.

However, there are limits to individual choice as a means of empowerment. This is sometimes for resource reasons. For example, there are financial limits on providing the surplus number of good school places that would

really give parents a reasonable choice of where to send their kids. Similarly a social housing tenant has limited choice over a new home because of the chronic shortage of affordable housing.

There are also inequalities in terms of who exercises choices, with many studies showing that choice can privilege those with a higher level of education and a higher income. Because of this citizen empowerment requires more than just the ability to exit, it must also equip citizens with other ways of holding local services to account for their performance. This can include minimum service guarantees, forms of democratic local control and direct citizen participation.

Social democrats should also want to build collective institutions in which local networks, social capital, community cohesion and a sense of shared agency can develop. This is the case for local community institutions such as schools, pensioner's lunch clubs and children's centres. An excessively consumerist approach to public service reform is insensitive to the importance of people mixing and working together to promote common ends. This requires a very different way of looking at public services: not just in terms of inputs delivering outputs, but in terms of the quality of human relationships and sense of shared purpose that they engender.

What might this mean in practical terms? Labour should look at how new forms of community-owned public services can be promoted. One area that is ripe for this is adult social care: we rightly worry about the quality of relationships in private care homes or in meagrely funded home care, and we also know that people are willing to help and look out for elderly neighbours and relatives. Could community-owned care trusts be established to provide home care for example, mobilising local people to offer some voluntary time to help older people with day-to-day problems, like doing their shopping or cutting their grass?

3. Democratic accountability

The coalition government believes that the best way to drive improvement across services is to open services up to competition. It is true that in some cases *managed* competition in public services can improve outcomes, as with Tony Blair's 'choose and book' reforms in the NHS which did help to reduce mortality rates in NHS hospitals.

And yet competition has a mixed record in public services. For example, the OECD has shown unequivocally that across the developed world competition does not systematically improve outcomes in schools systems. National case studies on the impact of introducing voucher reforms to increase school competition show very mixed results.

In the health service it was not competition that reduced hospital waiting times, but rather additional resource plus a 'reign of terror' in terms of top-down waiting times targets for which managers were held accountable. This conclusion is reinforced by the fact that waiting times did not fall anyway near as fast in Wales and Scotland where there were similar increases in resource but where targets were not imposed. Given this strong evidence that raising standards requires the direct exercise of public authority, Labour will have to find ways of strengthening the democratic accountability of an ever more diverse range of different service providers. Where Labour went wrong in office was to try to do things almost exclusively from Whitehall.

The introduction of police and crime commissioners shows the way and Labour should now embrace this important constitutional reform. Labour should also explore the creation of local schools commissioners and devolving more powers to local government to hold service providers to account. There is evidence from the Total Place pilots that devolving more budgets to local authorities can allow for the pooling of funding streams,

which could help generate significant savings. In particular, housing benefit could be devolved locally, schools budgets no longer ring-fenced and local authorities or police and crime commissioners could be given a share of the savings from the prison budget in return for taking responsibility for reducing re-offending. In the long run, putting some local prisons under the control of the police and crime commissioner would help clarify responsibility for offender management and free up resource to develop innovative local solutions.

Conclusion

Ed Miliband should grasp the opportunity of the next eighteen months to recapture the agenda on public services. He should set out what mix of services the country will need in the decades to come, put Labour clearly on the side of giving citizens much greater power and strengthen forms of strategic democratic management. Labour now has the opportunity to develop a reform agenda that both protects universal services in the face of the tough fiscal realities of the next decade, while making those services more responsive and accountable to the public.

8 | A MODERN, HUMANISED STATE

Helen Goodman

The problems with a politics dominated by either the state or the market are remarkably similar: they are both human institutions which do not seem to be under the control of people, but instead unleash huge, impersonal forces, alienating people from their communities and environments, unable to respond to the individual.

The state may never be able to create good people or perfect the good society, but the state can make spaces in which people do this themselves. That requires a people's state, which is open and flexible rather than rigid and coercive.

Forty years ago it was common ground amongst the left and the right that the state was the dominant political actor. Ralph Miliband began *The State in Capitalist Society* with the words: "more than ever before men now live in the shadow of the state". Today, with his son as leader of the Labour party, it seems more true to say "more than ever before, people now live in the shadow of the market". The reasons for this are familiar: massive privatisation, the liberalisation of international trade, and the triumph of neo-liberal ideology. These things have wrought huge social and cultural changes, instability and the loss of a sense of community.

Yet the problems with the old state and the new market-driven politics are remarkably similar, reflected in Ed Miliband's desire to be a "reformer of the state as well as the market" – they are both human institutions which do not seem to be under the control of people, but instead unleash huge, impersonal forces, alienating people from their communities and environments, unable to respond to the individual.

Yet just at the moment we were moving decisively from the era of the state to the era of the market, there emerged a vision of a modern state, able to act for the common good, to see off powerful vested interests, yet also responsive and accountable to individuals and acting on a human scale. The greatest author of this vision was, of course, Vaclav Havel, the last president of Czechoslovakia and the first president of the Czech Republic, who said in 1990: "I dream of a state, independent, free and democratic; of a state economically prosperous yet socially just; in short of a humane state which serves the individual and which therefore holds the hope that individual will serve it in turn".

This provides a model for Ed in his desire to be a reformer for our times: a state that has the strength it requires to act on our behalf without creating an oppressive, lumbering bureaucracy.

New Labour

From 1997 to 2010, the New Labour governments did a great deal to modernise the formal arrangements of the British constitution and to recapitalise the welfare state, frequently using markets and the private sector.

In order to achieve the political objectives of the next Labour government – greater equality and security, environmental responsibility, stable communities and industrial activism – state action will be needed. This fact

has become evident to many people since the crisis of 2008. But we cannot continue either with an unmodified 1945 model of the state or with the New Labour approach. We will need to address widespread alienation from current political structures; be more effective in countering powerful vested interests; and take greater account of people's attachment to groups, communities and their social roles.

We must therefore remake the state so that it goes with the grain of human nature. We now understand that man is not simply competitive, but that we also need to take into account our capacity to co-operate and our desire to play social roles in groups, be they personal, like parenting, or professional and work related. One very negative aspect of modern capitalism is the way it is destructive of these social roles – levelling down all actions and motivations to that of economic agency, focusing too much on our competitiveness.

So a modern, humanised state needs expression in institutions which support and control different aspects of human life for a healthy society – to promote the common good. We cannot create good people, we may not ever be able to perfect the good society, but the state can make spaces in which people do this themselves and that requires a state that is open and flexible rather than rigid and coercive.

Civil liberties and the individual

As Ed Miliband noted in his leadership campaign, people perceived New Labour as too casual with civil liberties. Bossiness got the better of us – sometimes fed by a genuine desire to improve outcomes, sometimes by a failure of imagination over what it's like to be an outsider, a small business or running a voluntary group. We need to make sure in future that we place individual civil liberties before state convenience.

We also need to strengthen and defend our democracy. This has both an institutional and behavioural dimension.

We must defend parliament and resist the coalition agenda of undermining our democratic structures and replacing them with a politics based on money – the Berlusconi-isation of politics – creating 120 unelected legislators in the Lords while shrinking the Commons.

A related issue is the loss of accountability when public services are privatised. We (MPs, the National Audit Office, the press) cannot explore how taxpayers' money is being used in contracted out services because of commercial confidentiality. This is wrong in itself, but also leaves us struggling to ensure our services provide value for money.

Under New Labour, a lot of appointments and boards were depoliticised – this, it was argued, would raise transparency and earn trust. There was one key occasion when it was successful: the establishment of an independent Monetary Policy Committee at the Bank of England. The idea was promulgated that any politician was incapable of taking 'hard' decisions. However turning decisions into technocratic issues is not always in the best interests of ordinary people, as it has taken power further away from them. The professionalisation of appointments on public services has increased the stranglehold of the middle classes and further excluded working class people from positions on local NHS boards amongst others. This is deeply problematic because the voice of working class service users, whose experience is very different, is then not at the table at key points. It is dividing society in new ways.

Professionalising and depoliticising has led to a greater alienation of the public from decisions about service delivery. Democracy is one way to tackle this, by putting local councillors onto boards or introducing direct elections for appointments.

Decentralisation and local democratic control

New Labour also continued the centralising agenda of Mrs Thatcher. Targets drove up standards – often in the short term – and led to new ways of doing things, but at the expense of taking much power away from local democratic institutions. Local authorities would be given money one year for Sure Start and money the next year for Decent Homes schemes, all excellent initiatives but which did not always allow areas to set their own priorities for spending.

Only towards the end did Labour begin to develop a compelling case for a more radical devolution of resources and powers (within England), particularly around the Total Place concept of pooling public service spending, so that councils could experiment with different and more efficient ways of using resources across public sector institutions which could be calibrated to local need and local priorities.

The localism agenda of this government purports to give more local accountability, but the various arms of policy are pulling in too many opposing directions for this to work. Labour needs to develop its own more collective approach, building on local democratic institutions and expanding and strengthening accountability. Even on a practical level, extracting maximum efficiency from funds will mean trusting local politicians to know their own areas and deliver on priorities in the most efficient way possible. The response to huge cuts in local government spending has meant some boroughs and police authorities sharing resources for instance.

This means giving power away. But in the long term it may be the only way to retain it and actually spread wealth throughout the country.

Communities will be better at finding solutions to local problems than civil servants in London. And the more power that is retained locally, the greater the calibre of the people who will be encouraged to stay and work at local and regional level.

Modernising the welfare state and managing the public sector

Reciprocity and responsibility were at the heart of the Beveridge settlement, but along the way things have gone awry: for example we ended up paying £1,000 a week in housing benefit, but only £55 a week to carers who save the taxpayer billions. This is clearly wrong both morally and economically.

The idea of the welfare state was established as fact by the 1945 Labour government. It was agreed that the state must:

- provide those things which society needs to function, or in some cases ensure that they are provided by others
- defend people against risks they cannot manage individually
- provide and protect those things that are necessarily shared, such as environmental goods and public health
- provide the entitlements of social citizenship: those rights a person can expect to be guaranteed and provided by the state (education, a minimum level of income, health etc) and which enable them to participate fully in society
- deliver certain goods and services which are natural monopolies and which function best as unified systems, like the London underground
- manage and regulate markets to ensure they deliver socially optimal outcomes, whether this means Keynesian demand management, support for strategic industries or the correction of specific market failures.

This still forms the foundations for most people's experience of the state and it has played an enormous role in improving the lives of millions. There is a good international evidence base that strong welfare systems lead to better lives across the population as a whole. But the risk aversion, hierarchy, insensitivity and bureaucracy of parts of the public sector remain to be addressed. More public participation, on both an individual and collective basis, is needed to tackle this.

Where we are: the New Labour record on public services and some widely recognised problems

Alongside the very significant investment in public services, New Labour made considerable changes to their management. Indeed, this was one of the major projects of the post-2001 governments.

This had a number of themes: the use of targets and standards to improve services and reduce the postcode lottery; the use of individual choice in quasi markets to increase personalisation and drive up standards; increased transparency; and the involvement of the voluntary sector and continued privatisation to drive innovation and efficiency, especially the notion of contestability.

Up to a point this worked. For example, GCSE results improved and NHS waiting lists fell.

But there is still criticism that the public sector is over-centralised, inflexible and does not respond adequately to individual circumstances, that concerns about process override outcomes and that there has been a loss of responsibility and professional standards. The running of Haringey social services during the Baby P scandal is a case in point.

The use of the private sector and internal markets also brought a new set of difficulties with maintaining a motivated work force, genuinely transferring risk, and ensuring transparency and accountability. Moreover, the projected

savings for the taxpayer have not always materialised as countless Public Accounts Committee reports testify.

Democratic control is important, but it is not the same as management accountability within the public services. We need to re-inject public service with an ethos of pride, and see this as an opportunity to foster the shared sense of responsibility that is the uniting theme of Ed Miliband's leadership. Public servants need to be accountable, but they also need to be free to take the initiative and innovate and not be so burdened with centrally driven bureaucratic chores that they lack time to deal with clients.

In a world of austerity we cannot of course ignore the resource constraints we face. The recent Treasury Select Committee report on the private finance initiative demonstrates the long-term costs of adopting unusual financing: for example, short-term injections of private capital can lead to high long-term costs for the state. The currently fashionable payment by results carries similar risks and we should resist its extension and any more such wheezes – because complex financial arrangements often obscure the fact that there has not been a transfer of risk (for example, Southern Cross). What we might look at instead is greater use of hypothecation, whereby the public can clearly see a link between the tax they pay and the services they get, which seems to reduce public resistance to paying for public services.

Conclusion

It is crucial that things are done in the right spirit. Returning to Havel, he said:

“Let us make no mistake: the best government in the world, the best parliament in the world and the best president in the world cannot achieve much on their own. Freedom and democracy require participation and therefore responsible action from us all”.

This is where Labour's statecraft is heading, with Ed Miliband saying "the job of making our state more democratic was incomplete ... there is much left to do to engage people in changing their own lives". Maintaining our commitment to the positive power of the state whilst opening up its structures to public participation is the way to promote the common good – and give the state not just a human face, but a human spirit.

9 | SHADES OF BLUE

Rowenna Davis

The word 'conservative' is not one that Labour likes. But the left has always been better at knowing what it wants to reform rather than what it wants to protect. If Labour wants to win the next election, it needs to understand what it wants to preserve as well as what it wants to transform.

Blue Labour offers a reminder that Labour's history is at once more radical and more conservative than many dare to imagine. Small-c conservatism is not about blocking all change, but honouring civic institutions, localities, stories and relationships. Ed Miliband may not sign up to all of Blue Labour's agenda, but some of his most distinctive contributions – on the economy and on the state – continue to be inspired by it.

Our country is conservative, and that is beautiful. Beyond Westminster and Victoria Street, the British people have a desire for order, strength, stability and community. People feel shaken by the downturn, and they are silently haunted by the perceived inevitability of national decline. They feel let down by the state, and humiliated by unemployment. Rows of terraced houses and tower blocks crave meaning, and fear a loss of identity. Managerialism doesn't speak to them. Human rights legislation doesn't feel like it belongs to them. People crave the

products of the market, but hate the debt, doubt and disappointment that it breeds. As a country we've confused aspiration with consumerism and we loathe ourselves for it. We don't just regret that we could be better; we suffer a burning anger that we should be.

Ed Miliband is beginning to get this: he told the Fabians in 2011 "our communities came to see us as the people who put markets and commerce before the common good. And many citizens came to see us also as the people who did not understand that the state could be intrusive as well as empowering."

But 'conservative' is not a word that our party likes. The word of the opposition, it makes us feel threatened. It is an unsettling word for a party that profited from a socially and economically liberal sense of progress in the heady 1990s. Tradition has become associated with a lack of reason, with an oppression that holds back rather than a source of radicalism that inspires new direction. We fear conservatism as a roadblock against women, diversity, liberty and internationalism. It pricks our anxieties about immigration and crime. It is associated with 'triangulation' and selling out to voters' basest instincts.

It would be complacent to deny that liberalism has given this country huge benefits. It has helped us challenge domestic violence, homophobia and racism. As a feminist, I have personally gained from liberalism and I'm under no illusion that our battles are far from done. But the left has always been better at knowing what it wants to reform rather than what it wants to protect. If Labour wants to win the next election, it needs to understand what it wants to preserve as well as what it wants to transform. To tell a story about where we're going, we need to know who we are and where we've been. The challenge is to harmonise them both. To find way of being conservative that is true to Labour.

If what we mean by ‘conservative’ is a politics that wants to safeguard the values and institutions that this country can be proud of, then this is perfectly possible. Family, neighbourliness, hard work and place are part of it. Dedication, honesty and compassion speak to it. This agenda is consistent with the central theme of Ed’s leadership: responsibility. It chimes with Rachel Reeves’ call for fiscal discipline in chapter 1, Kitty Ussher’s call for a more empowering form of welfare in chapter 6, and a renewed emphasis on localism. David Cameron might be Conservative by name, but he doesn’t offer anything like this agenda. He is old money with new markets, pragmatism and power. He is tearing up honoured institutions and the fabric of civil society without regard. We have to offer people something genuine, a better way of being conservative. This isn’t just consistent with what people tell us in polls, pubs and high streets, it is also true to our values, and our tradition as one of the greatest grassroots organisations in this country.

Blue Labour reminds us that our history is at once more radical and more conservative than anything many of us dare to imagine. The official Labour party website says we started as a “parliamentary pressure group” whose chief achievement was to establish the welfare state. The truth is so much richer than that. Forged by workers who came together in representation committees, our earliest advocates were united by a desire to improve themselves and their families through collective action like the famous Dockers Strike of 1889. This tradition of self-organisation weaves its way through our history of co-operatives, mutuals, civic groups and unions, enriching our actions, building our leaders and strengthening our friendships. We saw it in the work of George Lansbury in the East End, in Bermondsey through Alfred Salter and the work of the great Keir Hardie. It continues to this day through organisations like Hope Not Hate and London Citizens.

Small-c conservatism is not about blocking all change, but honouring the civic institutions, the localities, stories and relationships that allow us to build a better Britain together.

In recent times this tradition and has been uprooted, and it's been painful. The Labour party that lost power in 2010 sounded hollow and technocratic. In its eagerness to help, it forgot that the market can leave us vulnerable as well as rich, that the state can leave us dependent as well as protected. Nick Pecorelli's contribution to this collection reminds us that the British people are now more than aware of these dangers; Ed Miliband knows he cannot ignore the poll data. He does not sign up to all of Blue Labour's agenda, but he drew from it throughout his leadership campaign, and some of his most distinctive contributions – on the economy and on the state – continue to be inspired by it.

The economy

When Lehman Brothers came crashing down in 2008, it brought the party's political economy down with it. For years Labour had let the City grow with the best of intentions – to fund our high ideals delivered through public services – but we didn't stop to think enough about how dependent this left us on the banks. We let the financial bubble grow unregulated, and used the profits to hand out benefits and public services. Now we are bankrupt, and the ugly asymmetries in our economy have been exposed. We know that our financial sector benefitted at the expense of manufacturing, that our southern tip grew rich at the expense of the midlands and the north, and that academic education benefitted at the expense of vocation. We spent too much and it disempowered us because we became dependent. The people grew needy, and Labour politicians became beholden.

Failing to challenge the market was one reason why the last Labour government put so much emphasis on the state, as other contributors have already pointed out. When you can't challenge free market orthodoxy, the state becomes your only lever for change, so you overuse it. In the wake of the crash of 2008, markets have rightly lost their untouchable status. We now want to talk about reforming the economy so that the state has to do less work. If you can build an economy that offers good jobs, decent pay and a sense of meaning, the argument goes, then you need to offer fewer tax credits and benefits via the state. It means you achieve social aims by reforming the supply side of the economy rather than just spending on the demand side. Whether we call this 'predistribution' or see it as part of 'responsible capitalism', we should get behind it, as Ed Miliband appears to be doing.

So yes, small-c conservatism does call for fiscal prudence, it does get angry at waste and it does believe that Labour thinks too much about public sector workers at the expense of their brothers and sisters in the private sector. But it also wants an alternative that the Conservative party cannot understand. It wants a living wage, an end to corporate monopolies and growth that delivers increased wages as well as increased profits. Putting in a hard day's work is a conservative value, but the Conservative party doesn't honour that. You do not respect work when you threaten to cut back on the minimum wage, make it easier to fire people and refuse to give labour any say over capital. This cannot be the only supply side policy that the country is left with. Blue Labour calls for something better.

Germany offers living, breathing examples that we can learn from. A deep emphasis on vocational education and apprenticeships combined with a refusal to cut down wages meant that the country has become an industrial powerhouse whilst Britain has become a home for call centres. Regional balance is another important part of the

German story. It is simply not affordable to have talent wasting in huge parts of the country that are abandoned by a free market or propped up only by public sector employment. One way of delivering sustainable growth might be regional banks, which again have helped develop more balanced growth in Germany by forcing capital to look for local opportunities. What is lost in flexibility is gained through balance, decreased risk and self-sufficiency. Finally, Germany also teaches us something about worker representation. Even if you work in a low skilled role, you should be given a genuine stake in the bigger picture. There must be investment in you, and mentoring, and the chance to move up the ladder. Ed Miliband has repeatedly said “there is more to life than the bottom line”. These policies are fitting examples of what he means.

The state

Ed Miliband’s recent speeches have acknowledged the politics of austerity, making it an inevitable part of Labour’s future vision, saying Labour “must rethink how we achieve fairness for Britain in a time when there is less money to spend”. But we should be honest and admit that the problem with Labour’s state went beyond its price tag. A purely economic explanation cannot explain why people receiving the highest benefits often hate the system most. A meagre transfer of financial resources cannot transform lives. At best it can carve out a space against material poverty, but in that space we were guilty of leaving people terrifyingly lonely. We have to fill the black hole of unemployment with relationships and experiences that give back power. Signing on once a week doesn’t count. Too often people are treated like a number to be processed rather than a fellow human being to be empowered.

This is not to say that Labour didn’t try to get people off benefits. But we didn’t do enough. The right understood

that it was criminal to leave people financially better off staying at home rather than putting in a hard day's work. It understood that a level of conditionality was essential not just for economic sustainability or a populist headline, but for a claimant's self-respect. It's true that some people are too vulnerable to contribute, and of course we must honour our obligations to them, but we shouldn't be afraid to acknowledge that many people out there can offer more than we ask from them, and it's depressing for all sides not to make the most of that potential.

James Purnell has already offered one suggestion. The former work and pensions secretary has outlined a guaranteed job scheme through his work at IPPR. This would offer anyone capable of working a job after one year on benefits, but if they refused to take it, their welfare would be withdrawn. Ed Miliband recently took up this idea with his proposal for a guaranteed job for young people, paid by a bankers bonus tax, after one year out of work. Refusal to take the job would result in the withdrawal of benefits. Ed Miliband has taken some flack from the left for talking about responsibility at the bottom as well as the top, but he is right. Responsibility is a human need. To give someone responsibility presumes dignity. Offering benefits without conditionality implies dependence.

London Citizens offers another example of good practice. An alliance of faith, community, union and civic groups, they managed to place over one thousand people in jobs at the Olympic site in Stratford at a fraction of the cost of most corporate workfare giants. Job vacancies were advertised through their member institutions, allowing job seekers to receive interviews and training in their local schools and churches with people they already knew. These relationships were built on pre-existing trust and confidence, and in the end some 1,280 people got jobs out of 1,747 who participated. Many were in the 'hard to reach' category and London Citizens said it cost them an average

of just £60 to place each claimant. More welfare should be conducted this way. The job centre employee who spends all day in front of a computer should go out and meet every nearby businessperson, church, school, union and university to bring people together. They should be paid to match up local skills with local needs.

This shift in the way that the state is conducted must also be accompanied by a wider cultural shift in our party, called for by MPs like Jon Cruddas who acknowledge that many of our politicians have become too abstract and professional. Even our local branch meetings are dominated by bureaucracy and procedure. In his Bradford West victory, George Galloway has shown us what is possible when you have a genuinely emotive vision for a local area and some meaningful relationships with faith and community groups. This is true, traditional Labour party politics, and it's why Ed Miliband has backed the Movement for Change, London Citizens, and the reforms proposed by Refounding Labour.

Of course we must also realise that there is a responsibility on the public to meet us half way. Some of their cynicism might be justified, but we shouldn't pander to the voter or indulge in an introverted self-hatred. We shouldn't be afraid to say that it is wrong to give up on voting or shrug off politics. We should frown on those who do not vote. If there aren't enough choices for people, they should join a party and change it or stand themselves. The obligation is on us all, the voter as well as the candidate, the cynic as well as the optimist, the reader as well as the writer.

All of these arguments are being heard in Ed Miliband's office in Portcullis House. Throughout his leadership campaign he repeatedly said he wanted to be both a reformer of the market and a reformer of the state. The shift to a vocational economy and a more relational system of welfare should be a central part of that change. Let us be

under no illusion that this is also what the public wants. It's the parliamentary party that is less convinced. It might help to point out that when we call on the party to become more conservative, we are not submitting to a right wing present, but reclaiming the celebrated traditions of our past. We are reinvigorating our future not through cynical poll data and the empty coldness of the swing voter, but with the warmth and soul of our experience. That is conservative, it is radical and it is Labour.

10 | HOME AFFAIRS: TOO HOT TO HANDLE?

Andrew Harrop

Crime and migration trigger greater insecurities and more distrust than perhaps any other issue, and so are where the political stakes are highest. Ed Miliband's approach to these issues will be firmly grounded in his social liberalism and economic egalitarianism, but it is his self-confidence in speaking about morality and culture which sets him apart from the 'left liberal' social democrat norm of the last fifty years.

This means robustly placing Labour on the side of struggling low and mid income families, saying that only with radical economic reform is it possible to combine continuing migration with security and prosperity for all. But Ed's themes of community and culture are important because they offer 'social' solutions to what people perceive as social problems. Ideas like responsibility 'contracts' – between communities and newcomers or young offenders – could animate Ed Miliband's agenda of a more responsible, moral society.

Ed Miliband talks fairly infrequently on home affairs and when he does he is more softly spoken than the tough, no-nonsense home secretaries of the mid New Labour years (David Blunkett, Charles Clarke and John Reid). But Ed's views on crime and immigration should not be mistaken for permissive liberalism. His generation of Labour leaders may not take pleasure in appearing to

stigmatise ex-offenders or migrants, but they have no appetite for a 1980s-style cult of victimhood either.

Instead Ed is reaching towards a policy for the Home Office that may include a dose of social liberalism, but also views crime and migration through two other lenses – both of which are key to his worldview more widely. First there is Ed’s Croslandite prioritisation of economic and social inequality above all else; and second Blue Labour’s emphasis on strong communities as vehicles for morality, culture and connection.

Two of Ed’s best speeches illustrate this attempt to blend liberal, egalitarian and communitarian perspectives. First, in May 2010 in the Fabian speech in which he announced his leadership bid, he singled out immigration to demonstrate the limits of New Labour’s technocratic, globalising outlook. True, he affirmed his own liberal values, but he also emphasised the legitimacy of people worrying about immigration (just weeks after the Gillian Duffy affair) and explicitly made this case through the social democratic prism of inequality and class:

“Britain’s diversity is an enormous strength: economically, culturally, socially and we should never cease saying it... But the truth is that immigration is a class issue. If you want to employ a builder it’s good to have people you can take on at lower cost, but if you are a builder it feels like a threat to your livelihood.”

Fifteen months later, in the wake of the August 2011 riots, Ed’s thoughtful response re-affirmed the classic New Labour formula of tough liberalism: ‘tough on crime, tough on the causes of crime’. But it also touched on traditional social democratic concerns with economic opportunity and a Blue Labour emphasis on culture and ethics. He explained the criminal choices of the looters with reference to two dislocations affecting society at large: first, the rise

of 'me-first, take what you can' values and culture; and, second, growing economic inequality leading to parallel lives, diminished opportunity and lost hope:

"We have to state the most inconvenient truth of all: yes, people are responsible for their actions. But we all bear a share of responsibility for the society we create... those on the left who dismiss arguments about culture are wrong, so are those on the right who dismiss the importance of opportunity and hope."

This focus on inequality and community when talking about home affairs is part of a wider attempt to re-position Labour in the minds of the lower half of the income distribution. So far Labour's offer to this broad constituency has been mainly economic, focused on jobs and standards of living. But a 'social' message is needed as well, since issues like immigration did so much to turn people in these groups away from Labour in the first place.

In the lead-up to the 2010 general election, immigration was not just symbolic of Labour's perceived failings, it became what Deborah Mattinson has termed a "vortex issue". In other words it was the frame through which people comprehended and linked together a whole range of disparate concerns, be they economic and social anxieties, the sense that public services were prioritising undeserving groups, or antipathy towards out-of-touch politicians.

Ipsos MORI's regular tracker polls indicate that anxiety about immigration has subsided since 2010 (presumably in part because the Conservatives are more trusted on the issue). But people still invariably mention migration when asked about government or politics, as the Fabian Society discovered in recent focus groups on the future of the state.

Labour is never going to win a head-to-head contest that focuses narrowly on the volume of migration. Before

the last election, Ipsos MORI found that just six per cent of people who were worried about immigration thought Labour were the best party on the issue – and this number has been fairly stable over time. The challenge for the left is instead to create the conditions in which concerns can subside or broaden, so that people do not translate wide social and economic concerns into a narrow obsession with immigration numbers. A straight competition on crime policy should be more winnable although it is still tough territory. Crime was an issue New Labour embraced much more whole-heartedly and successfully; according to Ipsos MORI, the Conservatives have been stronger on crime amongst people worried about the issue throughout the 2000s, but Labour was able to establish a lead in the 1990s.

Labour learnt in office, however, that concern about immigration – or other tricky issues – will not subside if you ignore the problem and hope it will go away. Before 2010 the public were angry with the political establishment because they felt they were being told that complaining about immigration was taboo, bordering on racism. Labour politicians need to talk about immigration precisely because people sensed that migration was ‘off-limits’ and this helped stoke the toxicity of the issue. Voters need to feel they have ‘permission’ to raise their concerns about migration and that politicians are prepared to listen.

Talking about migration may also help to moderate opinion, since silence will leave the terrain open to wild assertion from the right. We can be pretty sure, for example, that UKIP or Migration Watch UK will try to stoke up anxieties before the UK fully opens its borders to Bulgarian and Romanian workers in 2014, even though in reality most academics expect little new immigration from south eastern Europe.¹ It’s a good example of where Labour needs to be open and receptive to people’s anxieties, and make calls for sensible contingencies, but also explain why there is little to fear.

Ed has already been upfront about immigration in two important ways. First he has loudly and publicly accepted Labour's failure to anticipate the huge influx of central and eastern European migrants, as part of a wider strategy of 'distance and contrition' which has been essential to re-earn permission for a hearing. Second he has been confident in criticising the coalition government for failing on in its own terms, both in relation to policing the UK border and achieving its cap on net migration. Challenging the government's competence and sewing the notion that the Tories were disingenuous in the promises they made in 2010 helps to reduce the Conservative's general credibility and also makes it harder for them to draw discussion onto topics where they would normally expect to be at an advantage.

On crime and policing Labour has been more ambivalent in speaking up. This is firstly because the party does not wish to disown its record of reducing crime by over 40 per cent or increasing police numbers by a fifth. Here Ed and Yvette Cooper do not want to publically concede to past errors or omissions, even though the police service remains in many ways an unreformed and monolithic institution. Second, the most obvious line of attack on crime is to criticise falling police numbers, as part of the general 'too far, too fast' narrative. But it is harder to attack the government on 'cuts' than on 'competence' since Labour has accepted most of the coalition's overall spending plans.

Looking ahead, the party needs to develop proposals for how it would improve outcomes after 2012 with no extra money. Over time it will therefore be in the party's interests to detach people's idea of success from levels of spending. For example it may be tempting to link the slight rise in acquisitive crime to falling police numbers, but the academic evidence suggests the relationship is pretty weak and it will not serve Labour's long-term

interests to emphasise it unduly.² For now however Labour has parked the issue by establishing Lord Stevens' Independent Commission on the Future of Policing which will consider whether we can achieve 'more for less' through fundamental reform of police techniques and organisation.

Talking about immigration and crime of course needs to be handled with care, to avoid stoking up the issues. Labour should never again try to out-flank the Conservatives to the right. Indeed for a leader like Ed, this would be a disaster. Trying to out-tough the Tories on home affairs would simply lack authenticity and plausibility, and so further alienate people from politics. But he must also side-step a trap the Tories would like to set, where he gets positioned as a soft, metropolitan liberal on a binary axis between permissiveness and authoritarianism.

The solution is for Ed to talk about people's concerns but also quickly widen-out the conversation, to take it into terrain where he is comfortable and can push home an advantage. And it is his egalitarian and communitarian convictions that will help him achieve this delicate task.

No one is in any doubt of Ed's egalitarian credentials. This means he can counter any impression that he is a soft-touch on home affairs by robustly placing himself on the side of struggling low and mid income families. This reflects the findings of the Searchlight project *Fear and Hope: the new politics of identity* which found that the key population segment which is both Labour-inclined and concerned about immigration is primarily motivated by economic and social insecurities rather than cultural conservatism.

Ed can argue (in a way that New Labour globalisers never could) that if migration is not working for the bottom and middle then it is beside the point whether it is good for GDP. After strongly standing up for anxious families Ed will be in a position to say that only with radical economic reform is it possible to combine continuing migration with

security and prosperity for all. A similar argument goes for reducing crime and disorder. In his riots speech Ed argued that reordering the economy to create greater equality, opportunity and hope would be critical in turning young people away from crime and irresponsibility.

In other words, debates on home affairs can be shifted sideways to focus on the labour market and economy. Indeed, the best way of arguing that Labour is sticking up for low income communities is by being truly ambitious on pay and working conditions. Ed should return to the radicalism of his leadership campaign and embrace a national living wage and also push for sector-wide pay rates in migrant-heavy industries. His pitch should be that better pay will attract British workers into jobs that immigrants do now, bringing opportunity, responsibility and security to struggling low income communities. Higher pay will allow the lowest earners to work a little less and care for their children a little more, and it will give that extra incentive for young people on job seekers' allowance to find their first job.

Alongside decent pay Labour needs a tough message that there will be a zero-tolerance on under-cutting by unscrupulous employers – a message that will appeal also to the metropolitan liberal constituency who worry about migrant exploitation. For example the party could consider placing new requirements on big business to take more responsibility for their supply chains.

There also needs to be a positive message that every job in Britain must be good enough for British people to want. Labour should set out to lead a social movement on the quality of work. Once a living wage is promised, groups like Citizens UK could turn their attention to working hours, flexibility and control in low paid work. Meanwhile the unions need to spread their tentacles far further into unorganised workplaces and make themselves relevant and affordable for people in casual and self-employed work.

Labour should also be ready to pick fights with employers and agencies who recruit migrants first, over and above the registered unemployed. Employers with all-foreign workforces might be challenged using equality legislation and agencies could be required to recruit through jobcentres. This would all tie-in well with a 'tough-love' message for people who are long-term unemployed; that Labour will guarantee the availability of jobs, but that everyone has a responsibility to accept them.

This economic package would show that Labour's beef is not with migrants but with the firms which employ them unnecessarily and that the party's first priority is to help people who already have ties to Britain into well-paid, good quality work. This could be a powerful message for poorer, struggling families who need to feel that the party of labour is serious about creating good jobs and tackling youth unemployment, alienation and sometimes anti-social behaviour.

After saying that the problem is not migration *per se* but fairness at the bottom of the labour market, Ed will then be able to be robustly pro-employer when it comes to the migration of highly-skilled migrants and legitimate students. This will be important within the 'opinion-former' classes who have liberal views on migration the rest of the country does not share. It could also help counter the impression that Labour is being anti-business with its talk of raising pay and ending exploitation.

Ed's message on home affairs is not merely economic, however. Ed's themes of community and culture are important because they offer 'social' solutions to what people perceive as social problems. In 2010 Gillian Duffy was not complaining about a race to the bottom on wages but the changing character of her community. When talking about looting and disorder Ed was brave to widen his condemnation of individual families to the broader context of a culture and values that promote 'greed, selfishness, immorality'.

Ed now needs to extend his argument about culture and values to cover new migrants as well. He can avoid any talk of imposed assimilation – which the *Hope and Fear* analysis suggests is not a key dimension of immigration concerns for Labour sympathisers (and can actively alienate established ethnic minority families) – but he can still emphasise responsibilities and shared values, with respect to personal behaviour and to how people establish themselves in broader communities. In office Labour pursued this agenda with English language requirements and the beefed up citizenship process. The current government is doing something similar by strengthening the regime that prevents family migrants becoming dependent on the state. But these national rules alone are too abstract and transactional.

Labour needs to think through how to bring to life its instincts about migrants' rights and responsibilities locally, in the context of place and communities. So Ed should explore the scope for 'contracts' – real and implied – between newcomers and the communities they are settling in. This would start with a much more hands-on role for local authorities, who should feel empowered to develop detailed plans in areas of high migration, be that because of temporary workers or family reunions. Ideas might range from placing pressure on parents with poor English to take part in family education programmes through to mandatory stipulations that newcomers must make (achievable) community contributions before being eligible for social housing.

Ed's self-confidence in speaking about morality and culture sets him apart from the 'left liberal' social democrat norm of the last fifty years. It is to his credit that he is comfortable talking about real communities and the need for values and norms that are embedded within the contexts of shared lives and mutual obligations. Culture and community are also the areas where the solutions are hardest

to specify however. It is easy to say that you believe in responsible communities but harder to bring it about, as David Cameron has found to his cost with the 'big society'.

But issues of crime and migration trigger the greatest insecurities and the most political distrust, so are where the stakes are highest. Vagueness and good intentions will not do. But if Ed embraces four or five substantial ideas that embody the idea of responsibility 'contracts' – with newcomers and young offenders – it could animate the agenda of a more responsible, moral society.

Endnotes

- 1 'EU Accession of Bulgaria and Romania: migration issues: briefing document', Centre on Migration, Policy and Society, University of Oxford; Review of the transitional restrictions on access of Bulgarian and Romanian nationals to the UK labour market, Migration Advisory Committee, 2011.
- 2 Ben Bradford, Police numbers and crime rates – a rapid evidence review, HM Inspectorate of Constabulary, 2011.

11 | LABOUR'S NEXT FOREIGN POLICY

David Clark

Nothing is more central to Ed Miliband's political mission than his ambition to create a more productive, equitable and responsible form of capitalism. But creating the conditions for this is not something a future Labour government would find easy to achieve in isolation. It would depend to a considerable extent on efforts to reform and manage the global economy.

Ed Miliband has said relatively little about foreign affairs since taking over as Labour leader and has chosen, quite properly, to focus on issues like the economy, public services and living standards. But we can already tell that the foreign policy of an Ed Miliband government would be values-based, multilaterally engaged, positive and reformist on the EU and strong on the defence of human rights.

It was an axiom of Alastair Campbell's unsentimental approach to political communication that there are 'no votes in foreign policy'. He may have had cause to revise that judgement as Tony Blair prospered through his friendship with Bill Clinton and then faltered through his closeness to George W Bush. But in opposition he was certainly right. The foreign policies of opposition parties barely register in the minds of voters except when issues of national security are directly at stake, as with Labour's support for unilateral nuclear disarmament in the 1980s.

Barring a major turn in world events, foreign policy is unlikely to be a decisive factor in the outcome of the next election. Yet it remains important for the party to develop a clear vision of how it intends to handle the international agenda: first, to re-assure voters that it is a credible government in waiting, and second, to prepare for the rigours of office.

Ed Miliband has said relatively little about foreign affairs since taking over as leader and has chosen, quite properly, to focus on the issues that move votes, like the economy, public services and living standards. But we can already tell quite a lot about the style of foreign policy he is likely to pursue from things he has done, both as a minister and as leader of the opposition. A couple of things in particular stand out.

The first is that having sat in the EU Council of Ministers, and having handled international negotiations on the complex and difficult issue of climate change, Miliband would enter Downing Street with far more diplomatic experience than either Tony Blair or David Cameron enjoyed as incoming prime ministers. What he has taken from that experience is a clear understanding of how important multilateral diplomacy will be in delivering major parts of his domestic policy agenda. What is self-evidently true in relation to the environment is equally so when it comes to Miliband's 'responsible capitalism' agenda. Success is linked to change at a global level.

The second thing to note is that Miliband has demonstrated very strong instincts on international issues around which the outline of his foreign policy can already be discerned. In declaring that the decision to go to war in Iraq was "wrong", supporting recognition of a Palestinian state and making an ambitious humanitarian case for intervention in Libya, Miliband has been willing to take strong and controversial positions on grounds of principle. On all of these issues he could easily have chosen to keep his

head down, as some colleagues would doubtless have preferred him to do. The fact that he didn't tells us something important about his approach to leadership in general and foreign policy in particular. It is a policy area over which he intends to assert personal authority by confronting difficult issues and longstanding taboos.

The world faced by an incoming Miliband government would, of course, be very different from the one that confronted Labour in 1997. The west, in its own estimation, had just won the cold war, leaving America as the lone superpower. Theorists posited the 'end of history' and convergence around what George W Bush hubristically called the "single sustainable model" of American-style democratic capitalism.

All of that came to an end with the global financial crisis of 2007–8. Anglo-American capitalism today looks tired and crisis-prone, while the countries that have weathered the storm most successfully are the ones that have adopted the tenets of the Washington consensus most selectively. This has left them not only economically stronger, but more self-confident and ideologically assertive. The result is that we are now entering a post-western world in which the material, technological and intellectual gap western countries opened up over Asia from the 17th century onwards is in the process of being closed.

The shift to a multipolar world order holds out the prospect of a more equitable division of global wealth and power, and should be welcomed as such. But the process is also full of uncertainties and risks that need to be managed through active international co-operation. World orders based on unipolar domination at least have the merit of limiting the scope for rivalry and competition. World orders based on multiple power centres require balance or restraint to maintain the peace, both of which can easily break down. The last thing we should want is a world resembling Europe of the 19th and early 20th centuries.

So the foreign policy challenges of the next parliament are likely to be formidable. The most pressing will be to reshape the international community in a way that reflects the emerging reality of a multipolar world, with institutions and decision-making processes broadened and deepened. A second crucial challenge will involve navigating a world in which there is going to be much greater competition in the realm of ideas, with emerging centres of power often embodying different views about the appropriate role of states, markets, individual rights, faith and national sovereignty in the modern world. These challenges are in obvious tension: one demands co-operation with autocratic regimes to achieve objectives of common global interest, the other requires a closer relationship with countries and movements that share our basic values and outlook. Managing this will require skill, judgement and imagination.

A detailed account of how Labour intends to respond to these and other international challenges will no doubt emerge as we get closer to the next election. But we can infer some of the key guiding principles from things that Ed Miliband has said publicly, the decisions he has already taken on foreign affairs and his choice of domestic priorities, insofar as they have an international dimension. The following seven principles give a broad outline of the kind of foreign policy we might expect from a Miliband-led administration.

1. Realism isn't a realistic basis for Britain's foreign policy

Ed Miliband's approach to foreign policy is values-based. This came across very clearly in his speech to the House of Commons in which he made an unashamedly moral case for intervention in Libya: "we have to make a judgment about our role in the world and our duty to others. Where there is just cause, where there is reasonable action that

can be taken, where there is international consent – are we really saying we should be a country that stands by and does nothing?”

That is not to say that he regards the national interest as being of secondary importance. The point is that he dismisses the distinction between interests and values as artificial and false to our instincts as a country. The idea of Britain as a force for good in the world is an essential part of our identity as a nation. We see it every time there is a major humanitarian crisis. The British people want to help, partly because they understand the reality of interdependence, but mostly because they are generous in their desire to support those who need it.

2. Our foreign alliances should be shaped by our values, not the other way round

This was one of the main pitches of Ed Miliband’s leadership campaign and sought to address perhaps the greatest source of concern about Labour’s foreign policy in the Blair era – the nature of our relationship with the United States. Miliband is the last person who could reasonably be accused of reflexive anti-Americanism. He has spent a lot of time in the country and talks passionately in private about its politics, sport, culture and ideas. But he refuses to allow his admiration for the United States to cloud his judgement about what is right and wrong.

What Miliband wants is a close and constructive partnership with the United States based on mutual respect and give and take, not one based on blind loyalty. No alliance should become an end in itself. His willingness to support recognition of a Palestinian state, while the government baulked at the idea of breaking ranks with American policy, was a declaration of intent. This may be an easier thing to do in opposition, but don’t expect it to change if Miliband becomes prime minister.

3. Government should be judicious and principled in the use of military power

Ed Miliband has been firm in his view that Labour took Britain into an unnecessary and costly war in Iraq. But he also knows there are times when the use of military power is necessary and legitimate. That was the position he took on Libya. All military interventions cost lives and involve risk, so the threshold for action must necessarily be high. A Miliband-led government would therefore be clear about the principles that ought to guide the responsible use of military force. It should not be used unilaterally, as first resort or to impose a preferred system of government. It should only be used under multilateral authority, as a last resort and for a just cause, such as self-defence or overwhelming humanitarian need.

4. National strength depends as much on soft power as on hard power

In describing how Britain should respond to the Arab Spring, Ed Miliband wrote that: “the neocons were wrong to think we could impose democracy at the point of a gun. In this new era, soft power will often be a better way to achieve hard results.” What he was alluding to is the emerging global battle of ideas described above and what Britain must do to remain competitive in it.

Miliband recognises that our strength as a country will depend increasingly on business innovation, cultural creativity, educational prowess and the attractiveness of our ideas. Our great universities, our world class companies, the BBC and institutions like the British Council are national assets and should be valued and promoted as such.

The World Service does more for Britain than Trident ever will. This doesn't mean that a Miliband government would unilaterally renounce Britain's status as a nuclear power.

It does mean that options for Trident replacement would be considered alongside other, more pressing demands on national expenditure. The argument that we need the same level of weaponry used to deter a fully armed Soviet Union will be viewed with justified scepticism.

5. Multilateralism matters more than ever

Ed Miliband is a multilateralist by instinct, conviction and experience. He certainly recognises the importance of strong bilateral relationships, but only if they are anchored to a broader framework of multilateral institutions that can generate agreement and action at an international level. He rejects the idea that the narrow bilateralism of the current government will ever be enough for a country with Britain's global vocation. The shift in relative wealth and power to the east and south means that an active multilateralism is becoming more important than ever. We need to work more closely with the countries that share our interests and values, to maintain diplomatic influence in a world in which countries of continental scale, like India, China, and Brazil, will join the top rank of world power.

6. Britain should be at the heart of Europe

Having sat in the Council of Ministers, Ed Miliband is more aware of the EU's deficiencies than most people. But he is also convinced of its potential to enhance the strength, prosperity and wellbeing of its member states and believes that engagement in Europe must remain a central pillar of our foreign policy. Britain will stand little chance of remaining influential at a global level if it cannot be strong and influential in its own neighbourhood. He therefore takes the view that disengagement from Europe, whole or partial, would be an act of national defeatism.

British membership of the euro is off the agenda for the foreseeable future, and that will not change under a Miliband-led government. But remaining outside the eurozone makes it all the more important to have a government prepared to work hard to maintain British influence in the European debates that affect our interests. Miliband's Europe policy will be aimed at building the alliances and securing the reforms needed to make the EU work better, not undermining it and retreating into self-imposed isolation.

7. Globalisation isn't always good for you

Nothing is more central to Ed Miliband's political mission than his ambition to create a more productive, equitable and responsible form of capitalism. But creating the conditions for long-term investment, a bigger role for manufacturing, a fairer distribution of the national product, more skilled and rewarding job opportunities and a responsible financial sector is not something a future Labour government would find it easy to achieve in isolation. It would depend to a considerable extent on efforts to reform and manage the global economy.

The market-led globalisation of the Washington consensus proved to be unstable and unsustainable. The division of the global economy into a west that consumes and an east that produces has fuelled the growth of crippling imbalances in trade and finance, changed the character of western societies by redistributing wealth and opportunity from the many to the few and hampered the fight against climate change. Private financial power has been able to exploit the advantage of mobility to gain the upper hand over public power at local and national levels with deleterious consequences for the quality of our democracy.

If we have learned anything as a result of the crash it is that global markets are not self-correcting. Resolving

these imbalances in our economy, society and politics calls for agreement and action at an international level. So a major plank of the next Labour government's foreign policy ought to be an active economic diplomacy through the G20 and other international institutions to alter the terms of globalisation and create the conditions for balanced and sustainable global growth. Priority should be given to measures designed to correct trade imbalances, restrain speculative capital flows, stamp out tax havens and establish minimum social and environmental standards. Whatever the precise policy mix, a Miliband-led government would reject protectionism and laissez-faire and embrace the kind of managed openness that would enable it to achieve progressive domestic goals.

Conclusion

So, the foreign policy of an Ed Miliband government would be values-based, multilaterally engaged, positive and reformist on the EU and strong on the defence of human rights. In its tone and approach, it would therefore look quite a lot like the foreign policy of Tony Blair's first term when Labour signed the EU Social Chapter, rejoined UNESCO, stopped ethnic cleansing in Kosovo, banned landmines and established the International Criminal Court. But the difference with Blair's second and third terms would be equally clear. The relationship with Washington would be based on partnership not subservience, military intervention would be a last resort not the default setting and, in the fight against extremism, our values would be seen as an asset not an inconvenience. Finally, there would be new challenges to face: the historic shift in wealth and power to the east and south, the search for a peaceful and collaborative world order that accommodates rising powers, more

intense competition in the ideas that are going to shape the future of the planet and the need to alter the terms of globalisation to meet Labour's social and democratic priorities.

12 | AN AGE OF REASSURANCE TO MATCH OUR AGE OF AUSTERITY

Nick Pecorelli

The belief that it's 'the economy, stupid' and that Labour should chase the aspirant voter, which has imbued recent Labour thinking, is much less true than before the Lehman Brothers collapse. The voter that Labour must really focus on now is the socially conservative voter. It was among these voters that Labour's vote collapsed at the last election. And it is these voters whose numbers have grown as previously aspirant voters have become too anxious about today to dream of a better tomorrow.

The move to a more credible fiscal position demonstrates Labour understands the logic of austere times; now the party must find the language. That language should aim to engender a sense of belonging, to remind us all that social order is the foundation stone on which strong communities are built, and to rekindle our love of country. Solidarity and reciprocity make for the best communities and these are Labour values. To foster both requires an 'age of reassurance' to match our 'age of austerity.'

In opposition you must use the long campaign to address your real weaknesses. Only if you are successful will you have the luxury of playing to your strengths in the short campaign. Governments may lose elections, but only to oppositions that have built up thought-through, credible, and cogent positions on the key issues; positions

that are consistent with values. The ideas set out in this book take Labour a further step in this direction.

But to win next time we must understand how the electorate is shifting; and it is shifting, often in ways that turn much of Labour's ingrained logic on its head. A recent YouGov poll asked whether low interest rates were good or bad for your finances. 36 per cent said bad, just 23 per cent good. In the 2005 general election campaign Labour posters boasted of 'the lowest interest rates since the 1960s.' In 2015, one of the loudest questions for Labour may well be 'what will you do for savers?'

Extensive polling based on the British Values Survey¹ – which uses social psychology to identify dominant motivations – demonstrates a dramatic shift in values that has changed the rules of the game. Today Britain's electorate is more polarised, less aspirant, and, overall, more socially conservative, than it has been for decades. It is the last of these shifts – the growth in socially conservative values – that Labour underestimates at its peril.

As part of the polarisation of voters, there has been a hardening of attitudes amongst many of those that Ronald Inglehart once termed 'post-materialists'. This group of voters simply puts creating a fairer society above all else. The post-materialist voter is typically the most socially liberal. They are not so much loyal to tribe as to the notion of egalitarianism, and see politics as a choice between progressive parties: Labour, Liberal Democrat or Green. Many had – over time – coalesced around the Liberal Democrats. Some deserted Labour in the belief it had lost its soul, others over integrity on Iraq.

But many of those from this values group, who chose the Liberal Democrats at the last election, recoiled at the very idea of the party they supported going into coalition with 'the party of unfairness.' Already, to these voters the integrity and soul of the Liberal Democrats is more battered than Labour's after 13 years in government. They

are compromised by their acquiescence to Conservative principles and, however hard they try to differentiate themselves within the coalition, at the next election Labour will be well placed to make gains amongst these voters.

Ed Miliband's exposition of a more ethical capitalism, his critique of managerialism and much greater emphasis on egalitarianism, are music to these voters' ears. Many of the contributions to this pamphlet, such as those by Helen Goodman, Kate Green, and Will Hutton, provide a harmonious accompaniment to this message. Labour's activists too are increasingly drawn from this values group. They are energised by a shared passion to create a fairer society.

Of course, David Cameron is not willing to vacate this territory. Protecting international aid budgets, the 'big society' and talk of happiness indicators are all designed to detoxify the Tory brand and appeal to progressive voters. But whilst the Tories are doing so much that hurts the poor and turning the health service upside down, they will struggle to make significant progress with this group.

Historically Labour's support has predominantly been based on a coalition between these post-materialist voters and more socially conservative 'old Labour' voters. Tony Blair changed the dynamic by marching Labour – probably more firmly than ever before – towards the aspirant voter. For much of the last few decades the swing voter has been most likely to be found among voters who are both aspirant and socially conservative.

However, today the belief that it's 'the economy, stupid' and that Labour should chase the aspirant voter, which has imbued recent Labour thinking, is much less true than before the Lehman Brothers collapse. There are fewer aspirant voters, and those that there are simply are not listening. Nearer the election their numbers may swell again and they will listen more intently, but right now the aspirant voter is disinterested, disbelieving and small in number.

The voter that Labour must really focus on – our real weakness – is the socially conservative voter. It was among these voters that Labour's vote collapsed at the last election. And it is these voters whose numbers have grown as previously aspirant voters have become too anxious about today to dream of a better tomorrow. Rowenna Davis speaks eloquently to this constituency, celebrating our social conservatism, rather than tiptoeing around it. Others should digest the importance of her argument.

Most socially conservative voters are receptive to messages about fairness that also work for post-materialist voters, particularly on health, and are angered by the greed of the few. Many share with the post-materialists a belief in the notion of the kind of activist state spelt out by Chuka Umunna. However, beyond debates about fairness and more collectivist solutions to our economic challenges Labour rarely speaks their language.

One way to really understand the socially conservative voter is to unpick two issues that are core to their psyche: immigration and crime. In fact, for socially conservative voters, at root they are one.

In the latest YouGov poll voters put immigration as the second most important issue facing the country, behind the economy. It has been like that for many years. A recent international Ipsos-MORI poll found that, of the 23 countries covered, Britain had the second highest level of concern about immigration. At the end of a deep recession Mrs Duffy did not berate Gordon Brown over her standard of living.

That immigration is a significant issue for many is well understood, but what is less understood is why. Labour treats immigration as an economic issue. In government we gave the distinct appearance of seeing migrant labour as a tool to aid economic growth, nothing more, nothing less. We subverted the social to the economic. Even when we apologise over immigration we do so as if the only

thing that mattered were its economic impact. But, for the socially conservative voter, rapid social change challenges social mores, and threatens the moral codes by which we live. It provokes deep anxieties about 'where I fit in' or even 'if I fit in?'

The last Labour government halved crime. Yet ask most socially conservative voters whether they believe crime is lower than it was fifteen years ago and the response is often complete disbelief. For these voters fear of crime is very real. It is spurred by a belief that the social norms which govern daily life are under threat and that children don't learn right from wrong anymore; that there is moral decay.

In boom times the aspirant voter is in the ascendancy. In these circumstances, for most voters, rapid cultural change is merely seen as necessary consequence of economic progress. When, as now, economic confidence has been shattered, the socially conservative voter is in the ascendancy, and many perceive rapid social change as a threat to our sense of belonging, our identity and our safety. Labour lost the argument on crime for the same reason it lost the argument on immigration.

By either barely talking about cultural issues or by treating them as if they were economic we are betraying our greatest weakness. We compound this by treating economic issues as if they were divorced from the social and the cultural. In an age of austerity it is not just that we cannot afford to trade numbers, we simply cannot connect with numbers. Perhaps we fear that cultural narratives lead inexorably to a nasty brand of politics that exploits fears to divide us from each other, but history teaches us that it is when we fail to or address palpable anxieties about social change that this brand of politics thrives. We do not have to close our borders, just open our minds to the very real anxieties that mass immigration provokes. A debate is long overdue and in his piece Andrew Harrop boldly opens the door to it.

In England, when the Conservatives fall in the polls, UKIP – a party whose appeal is based almost exclusively on culture and identity – rise. And north of the border we are reminded that when the politics of culture and identity are fused with egalitarianism its allure can be potent. Ed Miliband's heritage and considered approach to politics make him one of politicians best equipped to address issues like immigration adroitly, without awakening the beast of xenophobia from its slumber.

This is not the 1980s, when – despite repeated evidence to the contrary – many Labour activists, and some in its leadership, took the view that if the aspirant voter did not support our conception of fairness, it was their problem. There is no chance of the current Labour leadership falling for that fallacy. And for all the anxiety about our economic message, attrition cuts and declining living standards are providing ample opportunity for us to regain ground.

But if our cultural antenna is not attuned this will count for much less than the received wisdom supposes. The move to a more credible fiscal position – exemplified by Rachel Reeves's contribution – demonstrates we understand the logic of austere times; now we must find the language. That language should aim to engender a sense of belonging, to remind us all that social order is the foundation stone on which strong communities are built, and to rekindle our love of country. Englishness should not be bypassed on the way to Britishness or internationalism. Solidarity and reciprocity make for the best communities and these are Labour values. To foster both requires an 'age of reassurance' to match our 'age of austerity.'

Our economic message should be built from the ground up – connected to community and family – and based on the three pillars of responsibility, endeavour, and thrift. Already Ed Miliband's best speech was delivered last summer, when he made responsibility a golden thread that should run through all walks of life – from the boardroom

director to the council house tenant. Ideas, like Kitty Ussher's call for a return to contributory principle, should resonate with voters in austere times: you put something in you get something back when you need it.

The next election will not just be about which party offers a better life, but which can provide the emotional nourishment we need to feel good about our way of life. In the north tribal loyalty to Labour will see us through but further south, without emotional succour, many of Labour's potential voters will be easily dislodged by the Conservatives. Ed Miliband has avoided the obvious trap of only playing to our perceived strengths. He has also opened the door to many of the right arguments, but hitherto he has weighted these to one part of the congregation, the post-materialist voter. These voters are vital to our mission and will take us further than technocratic analysis suggests, but not far enough. It is now time to address Labour's real weakness and to celebrate all that is good about the country we seek to govern.

Endnotes

- 1 The British Values survey was started by Pat Dade and Les Higgins in 1973 and segments the population into 12 groups based on their dominant motivations.

13 | THE PERSONAL POLITICS OF ED MILIBAND

Marc Stears

To have any sense of whether Ed Miliband is to continue to turn the Labour party around, we need to know more about the man himself, his organising ideals and his natural political capacities. His political journey reveals an instinctive egalitarian who developed a means of practising politics that was deeply democratic; an efficient administrator of New Labour's redistribution by stealth who realised people needed to be persuaded to change their minds and behaviour.

The crash of 2008 opened up a new paradoxical age and required a politics that was equally paradoxical: one that was more openly committed to its core values than before but that was also focused on building unlikely alliances in order to bring those values to realisation. The kind of energised, democratic, open-minded and engaging politics that Labour needs now more than ever is the politics that Ed Miliband does best.

Even though many appear to have forgotten it, Ed Miliband took over the leadership of the Labour party at a desperate time in the party's history. Its performance in the last general election was one of the worst in its entire existence. After years of internal division followed by incompetent leadership, Labour was all but wiped out in large swathes of the country. And in the immediate months after the election, the party was not

in a position to renew itself. Instead, it was thrown into a leadership election where the leading two candidates were brothers whose political positions were widely – if mistakenly – interpreted to reflect the very schism that did so much to damage the party in the first place.

The nature of the Labour leader's vision is, then, more pressingly important than at any moment for decades. If Ed Miliband is to continue to turn the Labour party around he will have to possess a set of ideals that can capture the heart of the nation and to become a virtuoso in performance. Nothing less will do. To have any sense of whether that is possible, we need to know more about the man himself, his organising ideals and his natural political capacities.

Ed's intellectual journey

When I first met Ed Miliband, in October of 1989, he was already beginning to shape a political vision. He had emerged, of course, from an incredible household. His father, Ralph Miliband, was the most prominent British-based Marxist intellectual of the age. His mother, Marion Kozak, was an equally prominent campaigner for progressive causes. Their house just off Primrose Hill in North London was a constant meeting point for radical intellectuals and politicians from all over the world.

Despite this background, there was never any doubt that Ed was Labour. He had read his father's books, including *The State in Capitalist Society* and *Parliamentary Socialism*, both of which cast severe doubts on the Labour party's ability to deliver far-reaching change to Britain. But it was clear to all who knew him that although Ed admired each of these books, he was entirely unpersuaded by their central arguments. A properly radical Labour party, Ed always insisted, could build the public support necessary to transform the country, to make it fairer and more equal.

Ed spent most of his college days thinking and arguing about both the nature of that desired transformation and of the means of achieving it. Most of the formal teaching he received in political philosophy was inspired by the John Rawls' 1971 masterpiece *A Theory of Justice*. Rawls' theory, at least as he was taught to Oxford students in the early 1990s, offered a distinctly liberal view of the purposes of politics. The goal of political life, on this account, was to secure a set of basic rights for everyone and to work towards a narrowing of the gap between rich and poor. Indeed, so strong was Rawls' dedication to reducing that gap that he insisted the only inequalities that should be permitted should be those demonstrably to the advantage of the very worst off in society.

There was much in this vision that attracted the young Ed. It seemed to offer, in particular, an academically respectable defence of the kind of egalitarianism to which he was instinctively sympathetic. But Ed was opposed to the ivory-tower philosophical abstraction of Rawls' theory. This abstract philosophising meant that Rawls had forgotten that the actual rights and equalities that citizens currently enjoy – such as the equal right to vote – had been won through long struggle by real people acting together across the course of history. Ed felt Rawls' apparent ignorance of these movements needed to be put right. In 1991, he bought a book containing selected writings on 'human rights' from the 18th and 19th centuries. Reflecting on it, he wrote that some Oxford tutors "may lead us to believe that political theory began in 1971, but this book suggests otherwise."

Democracy as a means and an end

Ed's early academic reflections on politics led him to some profound conclusions, even if he was still a very young man. A proper political philosophy, in his view, took issues of rights and equality seriously but always located those

issues in the practical possibilities of actual times and places. Change needed ideas, but it also required people, movements and parties, not just philosophies.

These nascent academic thoughts were reinforced by his experiences of practical political action. Although Ed loved many aspects of Oxford life, he was consistently disappointed by some of its more traditional practices. He was unsettled by living in an institution that excluded most of its members from its decision-making. In the Oxford of the early 1990s, students were very rarely permitted to discuss the issues that directly affected their lives and neither were the vast majority of college staff. Ed was shocked at the pay and conditions that the college cleaners had to endure but he was even more outraged by the fact that they had no means of representation. There were no unions, no works councils, not even a culture of consultation.

Ed's response was to develop a means of practising politics that was deeply democratic. His goal in university politics was simple: to get people involved. He wanted every student to come to the college junior common room (student union) meetings, to argue about the issues and to dedicate themselves to doing something practical after the meetings. He spent hours strategising with friends, as all aspiring student politicians do, but he spent just as much time, if not more, talking to those who were unlikely to agree with him. Ed recognised that change could be built only if he connected with everyone. Even the most conservative student or member of college staff had to be drawn into the process.

Pragmatism and New Labour

There were those around Ed at university who were uncomfortable with his politics. Some of those, of course, were turned off by his radicalism. Oxford in the early 1990s, after all, was home to the Bullingdon Club as well as to the largest CND branches in the country. Others, though, were

disappointed by what they saw as by his pragmatism. At the time when he was JCR president, Ed was always keen to build the broadest possible consensus before taking any action. Unusually for a student politician, he was uneasy about dramatic political risks, preferring to hold back on action until he was fully persuaded that effective support could be mobilised. None of this was because he lacked principle. No-one thought that. It was a strategic sense that change required broad and popular support.

Such caution was rare in student politics, but it was a characteristic that served him well as he graduated from student politics to national Labour politics. In the early years, the New Labour project seemed entirely right and natural to Ed. If Labour was to be able to make a difference to people's lives it had to secure office and it could only secure office if it connected directly with a broad range of the people of Britain.

There were undeniably individual aspects of early New Labour that unsettled him. As a young man, he wasn't as comfortable in some of the company his more senior colleagues were keeping. But he rarely displayed any of this unease in public. He was satisfied with a general approach to politics that emphasised the necessity of building up from the population rather than seeking simply to impose a set of principles and policies from above. And he was confident too that it was the means to electoral success. Ed had no sympathy at all with the oppositionism and self-described moral purity of the militant far left. Real, sustainable change mattered to Ed, and that would not come from intellectual discussion or minority politics alone.

The drift from New Labour

Ed's admiration for many key elements of the New Labour project should not be underestimated. As anyone who has read the multitudinous memoirs of New Labour will know,

he was adept at helping those running the state machine. He appreciated the intricacies of the tax-benefit system and always evinced a faith that the cause of social equality could at least partially be progressed through effective administration. The instinctively democratic capacities of his youth did not find a natural outlet in such a role.

As the government aged, though, doubts surfaced as to the desirability of this approach to politics and Ed began to notice them. As support for the government ebbed away, like many in the party Ed became increasingly uncomfortable with aspects of New Labour's apparent desire to follow focus groups and opinion polls rather than to engage in a deeper conversation with the public. Having been elected as an MP and moving towards the cabinet, he began again to insist that Labour should try more openly to convince the public of the merits of their case. There was a problem when politics became detached from people's everyday lives; a problem when people thought politicians too distant from their concerns.

In lectures to the Fabian Society and other supportive groups, he announced a desire to shape a new public opinion – a “new consensus” as he called it – rather than to follow established orthodoxy. This was the task that aspects of New Labour had abandoned, he began publically to argue. Too often New Labour governments sought change by stealth, through clever financial adjustments that it hoped no critics would notice. There was some merit in that, but the less positive result was that New Labour rarely made an effort to persuade the country of the need for a new direction, at least in the most controversial of terrain.

Ed seized the opportunity that his post as climate change secretary allowed him to move beyond these self-denying ordinances. Climate change, after all, required that people be persuaded to change their minds and behaviour. Here was the politics he had grown up with. A politics where a large number of people cared about the issues, where

young people were even willing to take to the streets, and where he was personally able to get out and make a persuasive case to the people of Britain. It was no coincidence that this was the moment that Ed truly emerged on the national scene. Ed got his political energies back in this moment and the belief grew that he could do politics in a new way.

A new political vision for Labour

The crash of 2008 transformed the context within which politics took place, making this commitment to a new form of politics even more timely. The crash thus not only terminally destabilised Gordon Brown's Labour administration. It opened up both new opportunities for politics and serious new challenges for the centre-left.

The precise combination of opportunities and challenges was dizzying. The collapse of the financial services sector revealed most importantly that Britain's political economy was not fixed forever, but it did not do so in a way that crafted a straightforward alternative. The crash had destroyed public faith in an under-regulated market; at the same time as it had rocked confidence in the capacity of government to predict economic crises. It had also alerted people to the grave dangers of severe inequalities – especially inequalities of power – at the very same time that it had made them anxious about the size of the public debt.

This was a new paradoxical age. What was required in such a time, Ed began to argue, although not in these terms, was a politics that was equally paradoxical. One that was more openly committed to its core values than before but that was also focused on building unlikely alliances in order to bring those values to realisation. Just at the moment when Ed Miliband began to consider leading the Labour party, then, he became even more conscious than before of the need to find a way of combining real radicalism with the search for sustainable social coalitions.

During Ed's leadership campaign and the first two years as Labour leader, he thus displayed a continuing emphasis on far-reaching innovation in exactly this terrain.

The idea of 'responsible capitalism' that has played such an important part in Ed's second year as leader was one of the clearest results of such a conception. No longer willing to countenance a political economy that failed to deliver higher wages and better conditions for working people while rewarding some at the top with vast increases in pay and power, Ed announced a clear intention to reshape the balance of Britain's economy. At the same time, however, he recognised that such a transformation had to enlist the energies and support of Britain's businesses and business leaders themselves. A broad coalition of support would have to be built to generate a new economy for Britain. It would not emerge directly from government nor could it come from empty oppositionism.

This shared commitment to reconciling a politics of principle and realism echoes across the policy agenda. As other chapters in this volume illustrate, it stands at the heart of the understanding of public service reform, of broader social responsibility and of civic renewal that Ed Miliband has begun to sketch out. But it is not just policy that was impacted by Ed's understanding of the post-crash era. Underpinning his view was also a new conception of how politics itself should be conducted.

Organising the new politics

In the hours immediately after Ed delivered his first Labour party conference speech as leader, he broke with tradition to attend a fringe event. That event was the assembly organised by the Movement for Change, the community organising wing of his brother David's leadership campaign. The room was crammed with organisers and community leaders, young and old, from all over

the country, who had come to tell their stories. They gave witness to community efforts to eradicate knife crime, to eliminate alcohol-induced anti-social behaviour, to save leisure centres, and to safeguard jobs. All of these efforts were united by one thing: a style of politics that involved coming together and arguing, openly, respectfully, but forcefully, in public.

As any new leader would, Ed Miliband came into that assembly somewhat tentatively. He was asked directly whether he was going to commit to ensuring that this kind of politics was central to the Labour party once again. His answer was simple: "I'd be crazy not to."

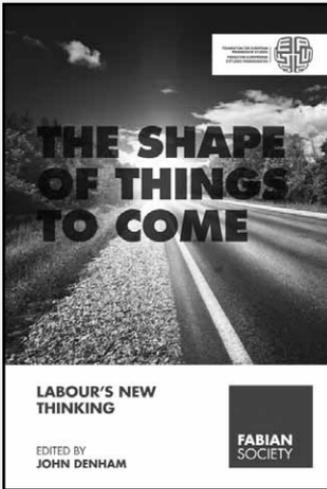
That answer was the right one. The most inspired aspect of Ed's pitch for the leadership was his commitment to the campaign for a living wage. This campaign was the perfect example of the very kind of politics that Labour needs in order to rebuild: people with no previous political allegiance coming together to argue directly and in public with their neighbours and their employers in order to secure a better life for themselves and their fellows. Such politics is a million miles from either the strategy of avoidance advanced by the more cynical of our spin doctors or the empty oppositionism of the traditional left. It offers the possibility of drawing people back in to politics and of restoring the reputation of the Labour party in the process.

There is no doubt that Ed Miliband knows this. There is no doubt, too, that he developed the personal capacities as a young man to engage in the kind of politics that Labour now requires. Probably more than any politician of his generation, Ed knows how to bring an argument into the public in a way that does not polarise. He knows how to focus on broad-based appeals rather than just on the core vote. He knows how to organise and to mobilise effectively even with the most unlikely of allies. He knows how to craft a winning coalition.

There must always be an anxiety too that it is a long time since Ed had the chance to practice this kind of politics himself and that it is extraordinarily difficult to do it from the leader's office. He was an efficient administrator of New Labour's agenda, and the pressures on his time and his energies are more intense now than they have ever been. But there should also be no doubt that this kind of energised, democratic, open-minded and engaging politics is the politics that Ed Miliband does best and is the politics that Labour needs now more than ever.

"Here's to a radical Labour government," Ed Miliband scribbled inside a book he gave me as we set about campaigning in the 1992 general election. Now, twenty years later Ed has a real sense of how it might be achieved. It requires a newly democratic form of politics. A radical Labour government will only be built slowly over time by the continual efforts of people all over the country to argue for Labour's causes, persuade others of their merits, and to organise for their victory in the short and the long term.

I believe that Ed Miliband is the leader to bring change to the way that we do our politics. I believe too that if he does, he might deliver the government of which he has long dreamed.



Discussion Guide: The Shape of Things to Come

How to use this Discussion Guide

The guide can be used in various ways by Fabian Local Societies, local political party meetings and trade union branches, student societies, NGOs and other groups.

- You might hold a discussion among local members or invite a guest speaker – for example, an MP, academic or local practitioner to lead a group discussion.
- Some different key themes are suggested. You might choose to spend 15–20 minutes on each area, or decide to focus the whole discussion on one of the issues for a more detailed discussion.

A discussion could address some or all of the following questions:

1. Ed Miliband's advocacy of responsible capitalism is the red thread that will run through the whole policy agenda of a future Labour government. How can a more active state deliver a more dynamic, competitive and fairer economy, and reduce the public costs of failing markets? What does this mean for traditional social democratic public spending measures such as tax credits?
2. Tight money is already showing that neither marketisation nor centralisation can deliver the best public services. Can new forms of mutual ownership transform the relationship between providers and users?
3. Ed Miliband is drawing on older Labour traditions and values. Labour has not always left markets to themselves, or identified the state with the public good. The 'good society' is shaped ultimately by the way that people live their lives, work together and the values they share. How can the Labour party reinvigorate itself so it is seen as a positive force in people's lives and communities all year round, rather than simply an organisation that asks people to vote for it every five years?

Please let us know what you think

Whatever view you take of the issues, we would very much like to hear about your discussion. Please send us a summary of your debate (perhaps 300 words) to debate@fabians.org.uk.

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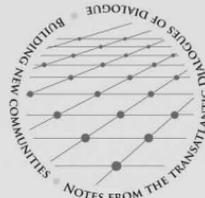


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NEXT LEFT V BUILDING NEW COMMUNITIES

Opening with forewords by **Dr. Alfred GUSENBAUER**, Chair of the FEPS Next Left Research Programme and **Dr. Ricardo LAGOS**, former President of Chile, the edition encompasses contributions by 15 outstanding scholars and intellectuals. Their deliberations reflect the two year long academic exchange on how to shape the future of progressive movements worldwide.

Next Left vol. 5 "**Building New Communities – Notes from the Transatlantic Dialogue of Dialogues**" is edited by Dr. Ernst STETTER, Mag. Karl DUFFEK and Dr. Ania SKRZYPEK in collaboration with Professor David KENNEDY (IGLP Harvard Law School) and Professor Michael KENNEDY (Brown University), and from **20th June 2012** may be ordered via FEPS website: www.feps-europe.eu



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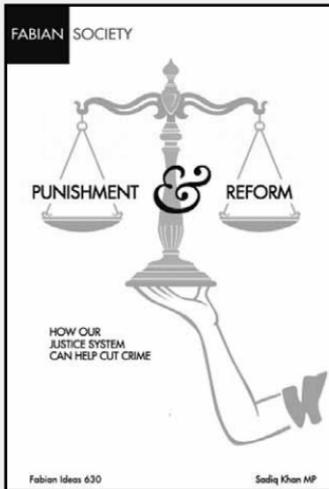
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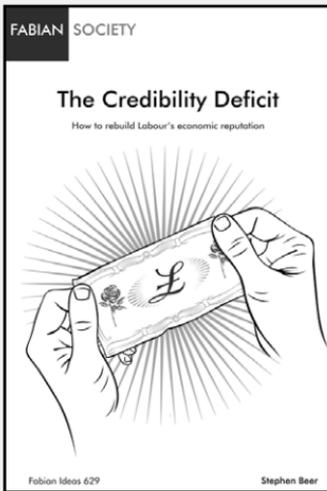


Punishment and Reform

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 Adebawale, 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 Fairness Instinct

How we can harness public opinion to save the environment

“This research makes a major intervention and deserves a wide readership.”

Anthony Giddens, author of *The Politics of Climate Change*

Responding to innovative new Fabian Society research conducted for the Joseph Rowntree Foundation, Tom Crompton, Lord Deben, Huw Irranca-Davies, Caroline Lucas, Ben Page and Baroness Worthington explore how this fairness instinct can be harnessed in order to tackle perhaps the toughest political challenge of our time: climate change.

Politicians need not fear public opinion when it comes to designing policy; they just need to understand it. The research shows people are prepared to act to change their behaviour and consume more sustainably, but this is dependent on the co-operation of others. The public may not like the idea of having to make lifestyle changes, but are prepared to do so once they understand the broader social issues at stake. Politicians need to recognise this and set a credible policy framework that can foster a shared sense of environmental citizenship, rather than attempting to sell policies by appealing to consumer self-interest.

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THE SHAPE OF THINGS TO COME: LABOUR'S NEW THINKING

After the 1970s it was inevitable that the Conservative party would move away from the postwar consensus, but it was Margaret Thatcher who made it Thatcherite. In the 1990s Labour was bound to be centrist; but Blair and Brown gave New Labour its distinctive shape.

After the banking crisis Labour was bound to reflect a public mood more critical of neo-liberal economics, and less confident about big state spending, but Labour in 2012 will also be shaped by the particular politics and personality of Ed Miliband.

Since becoming Labour leader Ed Miliband has successfully opened several new national political debates, from the 'squeezed middle' to 'responsible capitalism' and concern about diminishing opportunities for the rising generation.

These essays explore where this politics could take Labour – and there is a striking coherence, radicalism and optimism about the future they see.



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