

# The Politics of Solutions

Shaping a Labour Britain

Edited by Alison McGovern MP and Phil Wilson MP

June 2013

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# 1. No baseless, lavish promises: Towards a politics of solutions

Hopi Sen

‘The Labour Party makes no baseless promises ...

... It is very easy to set out a list of aims.

What matters is whether it is backed up by a genuine workmanlike plan.’

*Labour party manifesto, 1945*

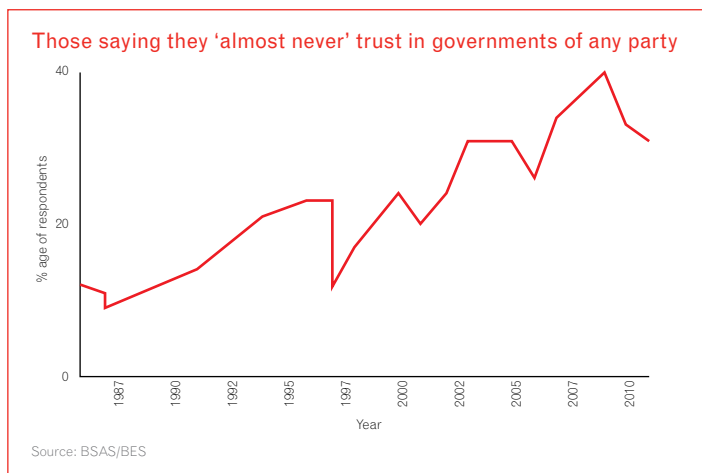
‘We make no lavish promises ...

... Too much has gone wrong in Britain for us to hope to put it all right

in a year or so.’

*Conservative party manifesto, 1979*

We all know there is a crisis of trust in British politics. In Ipsos MORI’s ‘Veracity Index,’ 77 per cent of respondents said they did not trust ‘politicians generally’ to tell the truth, putting a member of parliament roughly on a par with an estate agent. The British Social Attitudes survey demonstrates that trust in politics is also eroding. The number of people who say they ‘almost never’ trust British governments, of any party, has effectively trebled since the late 1980s.



And those who distrust politicians are much less likely to vote. Last year, Ipsos MORI asked if each of the party leaders were trustworthy or not. Those who do not trust politicians do not bother voting.

Ipsos MORI poll, 12-14 May 2012, 1,006 adults	Certain to vote	Would not vote
Ed Miliband net trust	+6 (49/43)	-33 (27/60)
David Cameron net trust	-7 (45/52)	-33 (29/62)
Nick Clegg net trust	-5 (45/50)	-29 (29/58)

Yet politicians have responded to this lack of trust by making ever more promises.

Whether it is to abolish tuition fees, be the 'greenest government ever', cut carbon emissions or raise living standards, the political response to an era of distrust has been an escalation of pledges, promises, aims and ambitions. As people lose faith in the ability of

politics to change things, politicians tell them that they will change even more.

Even the forms promises take have multiplied. We have manifestos, pre-manifestos, policy agendas, pledge cards, 'contracts'. In these, our party leaders solemnly pledge to do things that sound almost impossible: 'I'll cut the deficit, not the NHS'. 'No more boom and bust'. Even, ludicrously, 'No more broken promises':

Think of Nick Clegg's famous 'broken promises' election broadcast: we see Westminster littered with past broken promises. A forty-something man strides down a path towards us, promising never to break his word. He promises to end the era of broken promises. Then, of course, in government, he breaks his promises, again, and again, and again. No wonder that when YouGov asked what politicians paid most attention to when making decisions just two per cent said politicians paid most attention to their promises.

If people find political promises literally incredible, why are they the core mechanism of all our political communications? I suspect it is that we do not know how else to communicate change. The more people are sceptical of our promises, the more we feel we need to display our good intentions, and the easiest way to do this is to promise people more.

When these promises don't come to pass, they themselves become evidence of the worthlessness of a political promise and the degenerate nature of modern politics.

But what if the reason politicians break their promises is not because they are awful (even Clegg) but simply because delivering change is hard, grinding and requires compromise and revision? The issues politicians face are constantly changing and the resources available are usually inadequate. Choices are forced upon them, which means that even treasured objectives are reluctantly

abandoned or compromised away. What if it is the political promise itself that is our problem, not the politician, or the party, or the values of both? Can we find a way to stop promising things?

—

My first job after university was at Procter and Gamble making adverts for washing powder. We spent a lot of time trying to understand why consumers were not buying our products. This meant trying to understand why people we felt should be buying Daz were not doing so. The answer might be that they thought the product sucked, or that it was tacky, or that they did not believe it was any better than Surf. These beliefs were what we called the ‘benefit barriers’. They were the views that consumers had about us that we needed to change.

To get past these barriers we would try to change minds. If the barrier was that consumers thought Gleamo was the same as Shino, we would look for a test where Gleamo worked but Shino failed. Maybe it would be faster-working, or more reliable, or just smelled nicer.

So far, so obvious, right? It is just a promise. But the crucial part was that you needed to give the consumer some reason to change their mind. We used to call this the ‘insight’ – ‘If only the consumer knew this, then they’d behave differently’.

Sometimes the insight would be thuddingly practical: ‘Daz washes so white that people will show their washing to anyone’. Sometimes it would be more personal: ‘It’s worth paying extra for Lenor, because even really uncommunicative kids will notice the extra freshness’.

The insight was what made your promise believable. There was no point using an insight that just did not fit with consumers’ existing attitudes: if your product was cheap, you could not tell them it was the best imaginable. They would not believe you. But you perhaps



could persuade them that no one would be able to tell the difference, or that it worked better than they expected.

Similarly, if the main electoral ‘barrier’ is doubt in our promises, then our values, and the policies we base on them, are worthless without giving voters a better reason to believe what we say. The relevant insight is: ‘If you could prove you could actually do what you say, I’d be interested.’

Yet in politics we tend to move straight from our values to our promises, without ever giving much of a reason to believe we will actually deliver the benefits we offer. That is where we can change – if we seek credibility, begin and end with the soluble, the demonstrable, the down to earth. It is not that you wash perfectly white, but that you can get rid of the ring around your collar.

—

Political scientists have a concept called valence politics.

It runs something like this: There are lots of outcomes on which pretty much everybody agrees. It is better if most people are in work. It is good if the economy is growing. That schools should be better. That the health service should work well.

What matters, then, is how you are going to deliver generally agreed end results, not what you promise. End poverty? Reduce pollution? Grow the economy? Everyone wants that, or can say they do. What matters is your solution. After all, everyone wills the same ends. Even George Osborne can say he wants full employment.

One reason why valence politics – the politics of effectiveness – is important to voters is because people know that making change is hard, that delivering a good outcome requires confronting many setbacks, means keeping battling on despite limited power to make a difference. This is, after all, the experience of people’s daily lives. Nothing is easy and most things go wrong.

There is a wider observation here. Politics is not all-powerful. Making a decision is very different from implementing it. Even implementing a decision does not always get you the results you seek. The space between good intentions and good outcomes is where most of us spend our working lives.

We see this even in politics. When MPs talk about their constituencies, of the practical business of making a difference to communities, they speak an entirely different political language

to that of national political promises. Getting a new bus route becomes a major battle lasting months. A housing development is fought over, and is agreed through compromise. The problems of a local school are intractable, and require the involvement of many groups

and individuals. I do not think it is a coincidence that local MPs are more trusted than the national parties or politicians as a class. It is because that struggle to get things done is more visible, more real, with practical solutions more significant than promises. Yet, nationally, parties often act as if all that is required to reach the shining city on a hill is a change of government.

A politics of solutions would take a different approach.<sup>1</sup>

Instead of making a grand promise about what a Labour government would achieve, we would set out precisely how we would address specific problems, and leave the judging to others.

Rather than saying, ‘Labour will lift living standards by increasing wages’, for example, we would emphasise the practical solution we offer. ‘We’ll give companies national insurance rebates if they pay

“Instead of making a grand promise about what a Labour government would achieve, we would set out precisely how we would address specific problems, and leave the judging to others”

<sup>1</sup> There is a famous quote about making laws that compares politics to making sausages, suggesting that, in both cases, it is best not to know too much about it. My argument is the exact reverse. If you want people to believe you are making the best possible sausage, and they do not believe you even know how to make a sausage, you need them to show them how your factory works. You need them to see everything from farm to filling.

employees the living wage, so it'll be in businesses' interest to pay people better'.

Why does the difference matter? Because one approach begins to sound practical, likely to deliver results, even small. The other relies on your belief in the promise.

Put this another way: If the voter's barrier to supporting you is that your promises are not believable, then the political challenge is to show your solutions will actually work.

You can only do this by demonstrating the practicality of your changes, given weight by real experience, the endorsement of others or the evidence of the voter's own life. Ultimately you can only do this by offering concrete solutions.

This has a few implications.

First, by focusing on the solution you have to ensure that your solution bears the weight of your intent. It has to be practically achievable. It has to be reasonably explicable and has to stand up to harsh, critical scrutiny.

Next, by identifying a limited number of practical solutions to policy challenges, you can be frank about the problems faced in making change happen. By focusing on what exactly can be done, it becomes possible to speak about what cannot, and why not.

For example, the process of integrating health and social care services is enormously complex, with dozens of organisations, agendas and budgets needing to be managed.

This need not mean a diminution in the ambition of a big journey, simply an emphasis on the deliverability of the individual steps required.

What about values? One objection to this approach might be that in emphasising the practical politics of concrete solutions we relegate politics to a purely technical debate.

I argue the opposite. It is in our solutions that we truly demonstrate our values.

Read the 1945 Labour manifesto again, and one sees repeated reference to practicality – the hard-won victories of Labour ministers in the wartime government, the workmanlike approach of the party, the practical nature of each proposal, the emphasis on the difference between willing an end and achieving it.

Equally, if our ambition is for higher pay for the majority, it is in our solution to depressed private sector wages that the values will be demonstrated.

If we seek an industrial renaissance, it is the scale of our solution to financing small businesses that will show our ambitions.

If we want to help every family work in the way that is best for them, it is in the precise structure of our childcare plans that our values will come to life.

It is our solutions – what we choose to prioritise, how we would make them work, what resources we would give them – that will differentiate us from those of our opponents.

A sturdy scepticism has long been part of British culture. As Shakespeare has Hotspur say to Glendower when he claims to summon spirits, ‘Why, so can I, or so can any man; But will they come when you do call for them?’ Any populist can make a promise. It takes something more to offer a solution. It is by our solutions that we can distinguish ourselves.

## 2. 'Whole person care': Building an effective and sustainable care system

Liz Kendall MP

When Labour was elected in 1997, the top National Health Service priority for patients and the public was waiting times.

Back then, people were being forced to wait 18 months or more for their operation. While those with enough money had the choice of opting to pay to go private, patients without the necessary means were left to languish on waiting lists, often in terrible distress and pain. Some even died waiting for vital treatment like heart operations. Many commentators seriously questioned whether a universal, free at the point of need NHS could survive.

Through unprecedented increases in investment and reforms, Labour transformed a service that had been on its knees. We left office with the lowest-ever waiting times – down from 18 months to a maximum of 18 weeks – and the highest-ever levels of public satisfaction with the NHS.

The situation Labour will face in 2015 is very different. While in 1997 ending unacceptably long waits for operations was the key health issue, the biggest challenge now is improving care and support for older people and those with long-term lifestyle-related conditions like diabetes, heart disease and dementia.

Public expectations are changing too. People increasingly want more choice, say and control over their health and care – just as they do over many other aspects of their lives.

We also face a dramatically different financial climate from that of 1997. While the NHS will always be a priority for investment under Labour, the kind of double-digit increases in spending we made when we were last in government simply will not be available, whatever the state of the economy and whichever decisions are taken about the public finances. So we will need to get the most out of every pound spent on the NHS and deliver the best possible value for taxpayers' money.

Ensuring our care system keeps pace with changing needs and expectations, within extremely tough financial constraints, cannot be achieved through continuing to 'salami slice' existing services. Instead, these need wholesale reform.

As people are living far longer, their needs often become a complex blur of the physical, mental and social. Yet we are still trying to meet these needs in three essentially separate systems: physical health, predominantly through acute hospitals; mental health in often separate services on the fringes of the NHS; and social care in council-run services.

The result is a system that works for Whitehall, but not for people, and that wastes billions of pounds of taxpayers' money paying for the costs of failure rather than preventing problems from happening in the first place. Too many older people are left isolated in their own homes, their families struggling between all the different NHS and social care services to get the support they need for their loved ones.

Without preventative care in the community or at home, elderly people and those with long-term conditions end up going into more hospital or getting stuck in hospital when they do not need

to. Once there, many older people go downhill fast. Although their physical needs may be being addressed, their mental and social needs can be neglected if they are suffering from a condition like dementia or need help getting up, washed and fed. People with serious mental health problems, meanwhile, see their physical health needs neglected, dying on average 15 years earlier than everyone else.

Labour's solution to these problems – 'whole person care' – is a radical shift to bring our health and care services into the 21<sup>st</sup> century.

Rather than three separate services treating different parts of a person, there would be a single service meeting all of a person's care needs, integrating health and social care and breaking down the barriers between physical and mental health. A single budget for the NHS and social care would help shift the focus of services towards preventing people becoming ill and avoiding unnecessary hospital visits, with more care delivered in the community and at home.

In practice, whole person care means having integrated teams of NHS and social care staff – doctors, district nurses, community matrons, pharmacists, social workers, physiotherapists and occupational therapists – as is already happening in places like Torbay, Greenwich, and Edwinstowe in Nottinghamshire.

Instead of having to repeat their story to lots of different people, a single care coordinator makes sure people's needs are assessed and a package of support put in place quickly and effectively. Some areas are going a step further, introducing a single phone number for people to ring if they or their elderly relative need care and support.

The experience of places like Torbay shows integrated care can achieve great benefits for users and taxpayers. Emergency bed day use for people aged 75 and over in Torbay fell by 24 per cent

between 2003 and 2008 and by 32 per cent for people aged 85 and over. Delayed transfers of care from hospital have been reduced to a negligible number, and this has been sustained over a number of years.

However, integrating budgets, teams and services for the NHS and social care will not – on its own – be sufficient. Individuals, families and communities must have more say and more control over their care and support. This is crucial to ensuring that services are more responsive and personalised, and retain public support over the longer term.

**“Individuals, families and communities must have more say and more control over their care and support”**

People with long-term illnesses can play a major role in managing their own condition in the community or at home. Specialist nurses and new technologies can help patients

take their medicines properly, eat the right diet, exercise, and check for early signs their condition is worsening before a crisis point is reached.

Personal budgets and direct payments also have a crucial role to play. Labour introduced these when we were last in government to give people more choice and a greater say over their social care, and between half and three-quarters of users say they have had a positive impact on most aspects of their daily lives.

However, there are still barriers to making personal budgets genuinely effective. Budget-holders often say the kinds of services and support they would really like are not available in their area. Some Labour councils like Lambeth in London are seeking to tackle this problem by bringing budget holders with similar needs together, so they can shape what is on offer from local providers.



The council can then influence existing providers, or support start-up enterprises to meet new care and support needs, including in the voluntary and community sector.

There are also significant untapped resources in local communities that could be released with the right backing and support. Membership organisations like Circle and Shared Lives Plus help older and disabled people stay living independently in the community and at home. Circle members can call on a network of paid and unpaid volunteers to provide practical help with everyday tasks like shopping or DIY, and get involved with social events and activities. Shared Lives carers take people who need care and support into their homes and lives, either permanently, for short periods or during the day.

There is increasing evidence that boosting these kinds of local, trusted, neighbourhood relationships can make a real difference in tackling social isolation, improving people's health and wellbeing, and provide more efficient services too.

Labour's empowerment agenda must be for care staff as well as care users. Mutual organisations like Sunderland Home Care Associates have shown it is possible to boost skills and training, and reduce staff turnover and sick leave by giving employees a say through a share in the ownership of the company they work for.

Whole person care is Labour's vision for an effective and sustainable 21<sup>st</sup> century care system. Integration, personalisation and empowerment are the means by which it will be delivered. This is a radical agenda, which offers people practical solutions to issues which are essential to their daily lives – and genuine hope for the future.

### 3. From defence to alternative: A strategy for welfare

Nick Pearce and Graeme Cooke

Two uncomfortable truths stand out in any debate on the future of welfare, which Ed Miliband alluded to in the speech he gave on social security in June 2013.

First, given that social security accounts for around a third of public expenditure, it cannot be immune from steps to reduce the deficit, especially given that a substantial share of this spending is not cyclical in nature. Notwithstanding that the government's economic failure is racking up benefit, and other, bills, and that recessions rightly see the 'automatic stabilisers' rise, we are spending more than we are raising in taxes – so both have to give. The social security system inspired by William Beveridge cost four per cent of GDP in the late 1940s, whereas expenditure now accounts for nearly 14 per cent of national income. The social contract is being re-examined in every western country, and it is better to do it strategically rather than in a salami-slicing panic.

The second uncomfortable truth is that the expansion in the scope and range of the social security system has not strengthened its popular roots; in fact arguably the opposite is true. What was a towering achievement and strategic asset for the postwar Labour government is at risk of becoming an ideological and electoral

achilles heel for the centre-left. Some benefits, like the state pension, are in principle 'popular'. And public opposition to the Tories' benefit cuts is rising, as it emerges that cancer sufferers, minimum wage workers and soldiers returning from Afghanistan are affected. However, consistent polling – as well as any conversation with the public – reveals widespread concern about the perceived scale of spending on benefits and anger at a system that is too often seen as rewarding people who take out of the system without putting something back in.

We could say that if only people really knew the facts, like the very limited cash payments to the unemployed (jobseeker's allowance is just £71 a week, less than £4,000 a year), then the welfare state that was built in the 20<sup>th</sup> century would be fine. But that is not convincing, in part because politics is more emotional than objective. But also because those on the centre-left should not allow themselves to be painted into defending the current settlement, when in many ways it is not consistent with our values or aligned with our priorities. The battle is not change or no change, but good reform versus bad reform.

Instead, social democrats need to confront how needs are changing and budgets are evolving, and figure out a new response that aligns values and priorities with policies and finances. The last Labour government made major progress in raising the income of poor pensioners and poor families, as well as helping single parents and disabled people. But its record also shows the limits imposed by an economy where wages are stagnant, structural unemployment real and markets from housing to pensions are not working effectively for ordinary people.

The current government came to office with claims of a radical plan for reform of the welfare state. For a long time Iain Duncan

Smith was given the benefit of the doubt, but the evidence is mounting that he has not been able to take his ideas effectively through into policy – the essential test of a political reformer. For a start, implementation of the new benefit has already been seriously delayed and scaled back, with fears that the Department for Work and Pensions will have to run two systems alongside one another for a long time. The bigger risk is of an IT and administrative seizure that could leave millions of households without money and employers snarled up in a fiendishly complex reporting system.

Even if implementation miraculously turns out to be smooth, the other major problem for government is that its grand claim to ensure it ‘always pays to work’ is unravelling. Analysis by the Institute for Fiscal Studies has made clear that the impact on work incentives will be mixed at best. It finds that, under the new system, more people (1.8 million) will face a higher effective tax rate on each extra pound earned than will face a lower one (1.7 million). Incentives to work among potential second earners – crucial for reducing household poverty – will be unequivocally worse. In addition, the reforms are bad news for those with savings: households with anything over £16,000 in the bank will be disentitled from receiving any universal credit (unlike under the current tax credit system).

With the central claim of better work incentives in question, and palpable fears of significant technical and delivery problems, the remaining argument in favour of reform comes down to simplification. Universal credit will mean people only have to deal with one agency – rather than three at present – to get a single combined payment, which will be withdrawn on one taper as their earnings rise. This is a valuable change, but is more a tidying-up exercise than a revolution. And even then the simplification gain is partial, with a number of benefits – such as contributory JSA and

employment and support allowance, child benefit and disability living allowance – remaining outside universal credit.

More fundamentally, the universal credit amalgamates existing payments, without asking what they are for, who they go to and on what basis. At a time of considerable pressure on public expenditure, this is to miss the central challenge facing the social security system. The chancellor's £21bn of reductions to benefits and tax credits have not been guided by any discernible strategy, principle or set of priorities (other than protecting pensioners): Universalism has been both defended (winter fuel allowance) and undermined (child benefit), while many of the largest cuts have fallen on those in work, despite the rhetoric of 'making work pay'.

In the face of rising populist moves from the right, those of us who believe that social security is a force for spreading power and protection in our society – as vital now as it was throughout the 20th century – need an alternative, not just a defence. That could start by opening up a much more fundamental debate than the universal credit involves about where benefit and tax credit spending is directed, what accounts for its growth and what purposes we want it to serve.

It is obvious that demography drives spending. Over two-fifths of social security expenditure now goes to pensioners. Just a tenth is spent on the main out-of-work benefits (JSA, ESA and income support). And the expanding scope of welfare spending has largely been the result of political choices. In the postwar period, financial

“ The universal credit amalgamates existing payments, without asking what they are for, who they go to and on what basis. At a time of considerable pressure on public expenditure, this is to miss the central challenge facing the social security system ”

support for children, disabled people, renters and the low paid have all been substantially extended (often for good and important reasons in their own right). Nostalgia for the supposed 'golden era' of the postwar era neglects the fact that there are many more benefits now than then.

Another important factor driving higher spending is the trend towards more economic needs and costs being shifted onto the benefits system, often to compensate for market and social failures. The classic example is unemployment: a disaster for individuals and expensive for the state. But there are others, which Miliband referred to. The housing benefit bill now tops £22bn a year, in large part because we have not built enough homes and rents have shot up (40 per cent of the cash goes straight to private landlords, with no impact on housing supply). Britain's comparatively high rates of low pay contribute to a tax credit bill of almost £30bn a year. And the weakness of occupational pensions for low-to-middle earners (especially in the private sector) contributes to the need for spending over £10bn a year on pension credit and other extra payments to protect against pensioner poverty.

Opening up the debate about where we spend is difficult but necessary. Compared to the UK, Denmark, for example, directs a much greater share of its spending on families with children through services like childcare rather than cash benefits. This underpins its high rates of female employment and low rates of child poverty. IPPR has proposed that we shift spending, over perhaps a 10-year timeframe, from child benefit or child tax credit to expand high-quality, affordable childcare. Similarly, it is vital to rebalance housing expenditure from subsidising rents to building homes, which could be done through mobilising the energies and leadership of our cities: decentralising the combined resources of housing benefit

and housing capital to boost affordable housing. And the prize of a reformed social care system could justify looking at the panoply of benefits that go to older people.

Allied to pursuing such strategic priorities could be an aggressive agenda for reforming key consumer markets in ways that ease cost pressures for families and reduce the demands placed on the social security system. For example, a job guarantee would lower the costs of long-term unemployment. Greater take-up of the living wage would ease pressures on the tax credit system. Smart regulation of the private rented sector would help reduce the housing benefit bill. And a more effective occupational pension system would lessen the need for a compensatory system of pensioner benefits (in addition to the basic state pension).

Pursuing reforms that limit the demands placed on the social security system could then be combined with focusing resources on the big risks and needs that really impact on people's lives: like losing a job, having a child, living with a disability and moving to retirement. This is consistent with Miliband's suggestion of (re)introducing a higher rate of jobseeker's allowance for those who have spent a number of years contributing into the system.

Detailed financing plans will be needed, comprising switch spends, structural reforms and straight savings. For instance, it is also not sustainable to permanently protect spending on pensioners at the expense of families with children and working people. That means restricting payments like the winter fuel allowance to those who really need it, as well as bringing personal income tax reliefs – part of what the great academic Richard Titmuss called 'fiscal welfare' – into scope. These 'cost' the exchequer almost £28bn in lost revenue each year (the vast majority of which is pension tax relief, which overwhelmingly benefits the better off).

These are all components of a medium-term strategy for the centre-left. As has been widely discussed, George Osborne is expected to use this month's spending review to propose 'new limits' on so-called annually managed expenditure, a significant proportion of which is benefits and tax credits. This is far from straightforward in policy terms, given that pension spending is protected and the government does not want to impair the 'automatic stabilisers'. Miliband was wise to get ahead of this move by setting out a distinctively centre-left analysis of the drivers of higher welfare spending and the outlines of a strategy of reforms to control expenditure.

The key insight is that the problem is not that AME rises during a recession – it should – but that it does not come down by enough when the economy is strong. This is because of underlying drivers like rising rents, high childcare costs, low wages and disguised unemployment among those on inactive benefits. We believe an effective response would, therefore, include shifting some spending out of cash benefits and into pro-employment services – such as childcare and housebuilding. This could be combined with strengthening the impact of the actual automatic stabilisers, for example, by locking in a cut to employer national insurance contributions when unemployment is high, offering national salary insurance to temporarily unemployed workers (repaid when they are back in work).

And, most importantly perhaps, such proposals need to be connected to the development of new fiscal rules that commit to reducing welfare spending (and raising taxes) if growth is strong, laying out employment plans to give credibility to those rules. Ed Balls' recent speech opened up the space for just such a debate to now begin.



Adopting strategic stances such as these provide a centre-left alternative to both 'slash and burn' and status quo politics in relation to the welfare state. This is based on a commitment to controlling costs, but in the service of a different and better system. It focuses more on priorities than levels of spending, with the aim of shaping a more popular and resilient system, shifting the centre-left to playing on offence not just defence. And it involves reforming the market as well as the state, because together they generate the pressures on the welfare state that play out in people's everyday lives.

## 4. One nation at work: Building security and social capital at work

Alison McGovern MP

The economy has undoubtedly gone global. It should be news to no one that, according to the International Monetary Fund, as a share of global output trade is now at almost three times the level it was in the early 1950s, and much of this growth is in high-tech products.

So what does this mean for the average British person at work? As long ago as 1997 economists like Adrian Wood described the impact of globalisation on the labour market. Though debated through the 1990s and 2000s, a consensus grew that labour market insecurity was, at least in part, a consequence of decreased trade barriers.

My constituents do not need a Cambridge professor to tell them this. Local factory sites that used to employ a small town's worth of people no longer need to. Global companies like General Motors, Unilever, and Airbus now employ fewer, more highly skilled people. We have witnessed the number of permanent employees in such companies decline in line with productivity improvements. And those heading into Job Centre Plus are more likely to find opportunities in lower-paid care sectors than in these global multinationals that scour international job markets, and not always local markets.

And these days it is not enough to compete against other companies for business; employees also compete internally within

global companies to keep work in the UK. Winning requires investment. To secure investment, employees must demonstrate flexibility. For some, this means added insecurity.

In government, Labour addressed this first through skills policy, and, second, via active labour market intervention. The expansion in 2003 by Gordon Brown of modern apprenticeships represented a change in industrial strategy so successful it has been unquestioned in the 10 years since. And the New Deal, in a growing economy, helped those with significant labour market barriers – lone parents, for example – enter the workplace.

However, more recent decades have seen changes to the labour market in the UK. The number of women in the labour force has increased to over 13.5 million. The number of disabled people engaging with the labour market has increased too. According to the Labour Force Survey, economically active people with either a work-limiting or a day-to-day activity-limiting disability have increased from 4.5 million in 1998 to 6.4 million in 2012. These changes influence the kind of barriers to work government should tackle.

The 2008 crash demonstrated that the UK's particular exposure to the financial services sector had exposed the UK to hidden risks within that industry. But beyond that it also demonstrated the impact of the supply – or lack of supply – of credit more widely to industry, thus lifting the lid on a much more potentially volatile labour market.

The impact of this was not merely to cause frictional unemployment while the economy shifted in its priorities, but also to build up the stock of people for whom the recession has had a permanent damaging effect on their chances of success in the labour market.

As Pat McFadden described last year in his paper, *Making Things*: 'In the great wave of globalisation that swept the world ... its boosters

were keen to talk about the opportunities it presented to the UK as an open trading country ... But the debate too often ignored or downplayed the insecurity and dislocation globalisation caused as factories closed ... and places became less sure of their economic purpose.’

Today, a regressive UK government is trying to undermine the UK’s social protection system by advocating a race to the bottom. Falling living standards are exacerbated by cuts to social security that make the less well-off, less well-off. This simply will not help tackle the central challenge the UK faces: insecurity.

The answer to global insecurity, I believe, is the building of social capital.

Social capital describes our shared values and expectations that help us to feel good about ourselves, our community and our life. The opposite of this is insecurity: worry and fear about the future on offer. Clearly workplace insecurity, as McFadden points out, impacts severely on shared understanding and the sense of purpose a person has. Now while there may be much work to do to build global economic consensus for coordinated growth policies, at home in the UK I conclude that we need three plans to build social capital in the workplace.

First, we need a plan to help with childcare, as Nick Pearce and Graeme Cooke discuss in their contribution to this pamphlet.

Second, we need to consider rates of pay, and the calculations people make about working. That is why living wage campaigns are certainly an important part of the work the labour movement does to build social capital. Kevin Rowan’s piece in this pamphlet discusses the role of trade unions in the modern economy.

However, there is a third problem in the labour market caused by recessions.

There is more than one type of unemployment. The labour market is 'sticky' and the unemployment rate is usually thought to lag behind growth in the rest of the economy. There is both 'cyclical' unemployment that arises from the ebb and flow of the business cycle in normal times, and 'frictional' unemployment that occurs when demand shifts from one sector to another in a changing economy. This friction causes some to lose their jobs and be unable to find another one in the medium term, and has been exacerbated by the processes of globalisation mentioned above.

It can be very hard for those affected to know what is going on. Getting information about how to retrain and get appropriate skills for a changing labour market can involve significant risks for an individual, and no small impact on their feelings of security and self-respect.

Economists once thought that a level of unemployment was a natural feature of the economy, desirable in so far as it kept inflation under control. But it is now broadly accepted that the impact of unemployment is far from neutral. Where a person cannot reskill, this will have a permanent effect on their place in the labour market. Even when growth returns, they will face barriers to work. As such, the labour market displays hysteresis – like other systems, the labour market 'demonstrates memory', meaning the injuries of today leave permanent scars for the future. That is, unless these barriers are tackled.

Britain currently faces twin problems of hysteresis. We still carry with us the echo of economic change that deskilled whole communities in the 1980s. And when Ed Miliband walks through the door to No 10 in 2015, he will face the legacy of five years of drift between 2010 and 2015.

Is there an answer to these twin problems of historic and recent periods of recession? I believe the practical solution might be to

reshape the part of the government that intervenes in the labour market: Job Centre Plus.

I suggest we need to look at five areas of improvement: localisation; what goes on inside Job Centre Plus itself; young people and graduates; older people; and finding a response to underemployment. Crucially, much of this improvement does not rely on new work for government. Rather, it involves a critical look

at current practice, and changes to how government works, not what it does.

As implied above, skills barriers to employment are complicated, and vary right across the UK. Stephen Timms, shadow minister for work, has suggested increasing capacity

for local authorities and regions to harness resources to get people back into work, reversing their exclusion from work programme contracts.

Some parts of the UK are better than others in analysing labour market clusters in their locality. Take, for example, the Newham council. It worked to analyse the borough's worklessness and found, 'a number of complex and often interlinked barriers to work that affect Newham residents. These include lack of skills and experience, language issues, cultural barriers, caring responsibilities, debt issues and criminal records amongst others.'

In Knowsley, Merseyside, the Knowsley Resilience Monitor provides detailed geographical information on where worklessness is clustered and specifically points out the difference between its borough and other parts of the country: there being currently 16,900

**“ We need to look at five areas of improvement: localisation; what goes on inside Job Centre Plus itself; young people and graduates; older people; and finding a response to underemployment ”**

working-age residents without any qualifications in Knowsley, around one in five of the population aged 16-64 – almost twice the national level. In doing so they are tracking the areas of low social capital. This makes the authority much better placed to target resources to address problems.

These are just two examples of local authorities seeking to own the employment challenges they face. What makes them different is the detailed, specific information on the employment clusters located within their area. The current work programme regions, by contrast, are very large, and they do not focus on specific economic clusters. Yet back in 2008, Department for Work and Pensions research demonstrated that working intensively in neighbourhoods that demonstrate very high levels of worklessness yields results better than a blanket approach.

So the starting point for Labour has to be to allow localities to analyse then intervene appropriately in their labour market.

One view that I often hear from my constituents' experience of Job Centre Plus is that, at a time when they are already dealing with the knock to confidence of job loss, the job centre itself can make people feel worse. Confidence and self-respect can be reduced by both the process that DWP sets out, but also by the attitude of a minority of public servants, which is not to say that many DWP staff are not talented and committed; rather, that they face challenges for which we can skill staff better than we presently do.

And, as I have said above, for each individual, there should be no financial disincentive to work. Yet, even when it would pay to work, impressions about the value of wages and tax credits leave some confused. Hence the 'better off calculation' carried out with each jobseeker under the last government. But there may still be informational barriers, where people do not have full knowledge

of the possibilities for earning in their area. Work opportunities are changing all the time, and Job Centre Plus staff could be both in-house experts on local labour markets, and able to commission high-quality tailored help for individuals.

The challenge then is, in an ever more difficult climate, how we improve the quality of intervention within the job centre. With the reduction of specialist advisers – lone parent advisers, for example – there is more of a tick-box approach and less personalised help. The work programme has exacerbated this. The country is segmented into large, unwieldy regions that do not necessarily reflect economic clusters. I think that the best job centres truly reflect local needs and are expert on the local economy. Getting a better skilled, more motivated team, focused on each individual that walks through the door is the place to start.

The benefits of globalisation have certainly been realised by the UK. But there remains a significant challenge to enable all, wherever they are in our country, a chance to participate fully in employment. Localities – cities, towns and regions – should now play a greater role in putting this right. People must be treated as individuals, each with unique barriers, but unique skills and chances to contribute. Only that way will we see our entire one nation securely at work.



## 5. Campaigning trade unions: Progress through collaboration

Kevin Rowan

There is little doubt that working people are facing a very tough time. Unemployment remains high, especially in regions like the north-east, leaving many families in difficult circumstances and possessed of little optimism for positive change any time soon. Those in work are dealing with constant, pervasive insecurity and are struggling to make ends meet as wages fail to keep pace with rising living costs, especially for food and energy. Ongoing cuts to public spending remain the major cause of challenges and are leading to further job losses and diminishing terms and conditions for public service workers, while the coalition government systematically seeks to dismantle basic employment standards across the board for all workers. It is no wonder that trade unions have been principally occupied with seeking to hold what we have, to defend workers against the most challenging political onslaught in a generation.

In these circumstances some have sought to characterise trade unions as reactionary, self-interested organisations with a limited, defensive agenda. This would be a major misrepresentation of modern trade unionism. While it is not only necessary but right that trade unions seek to maintain the watermark of decent standards at work, as well as levels of employment in all sectors, it is also

the case that trade unions are pursuing a positive and progressive agenda that is absorbing as much energy as efforts to ward off these broad attacks.

There is little doubt that the UK economy is rife with long-term structural problems, though these have clearly not been helped by coalition government policies. Following two generations of economic dislocation, the employment rate in the north-east is a staggering 64 per cent; over one-third of the adult working-age population is not earning a wage. Those that are in work are earning less than workers in other parts of the UK. Average household income in the north-east is just £555, less than 80 per cent of the national average of £699<sup>2</sup> and the lowest in the UK. Current pay increases are running well behind inflation; in real terms workers will be over £8,000 a year worse off by the end of this parliament.<sup>3</sup> The major economic challenge for the north-east remains the need not just for more jobs, but for better quality employment too.

Such is the extent of systemic wage depression that the majority of children in poverty are in working households, welfare benefit cuts now affect more working people than those not in employment, and over 90 per cent of new housing benefit claimants are in work. One in five workers in the north-east earns less than a living wage. The state is effectively subsidising low-paying employers through £6bn in tax credits and benefits. But it is not tough times for everybody. If the national minimum wage had increased in line with the earnings of the top one per cent it would be worth more than £19 per hour today.

Low levels of household income have devastating long-term implications. It does not just damage the image of the region, it feeds declining aspiration, establishes a permanency of 'low pay,

<sup>2</sup> ONS (2012) Regional Trends North East. Available at [www.ons.gov.uk](http://www.ons.gov.uk)

<sup>3</sup> TUC analysis of October 2012 wage trends. Available at [www.tuc.org.uk](http://www.tuc.org.uk)

low skills' and it leads directly to embedded social and economic consequences: poorer educational attainment, poorer health and a cycle of persistent poverty. The north-east endures some of the worst health metrics in the UK, in no small part due to the lifestyle choices low-paid workers are persuaded by their circumstances to take.

Responding to Public Health North East's 'Better Health, Fairer Health'<sup>4</sup> challenge, the Northern TUC recognised the workplace as a key location for tackling some of the wider health challenges in the region. The TUC, initially supported by the regional development agency, introduced a truly innovative approach to improving health. A simple process of establishing a collaborative approach to raising awareness about health and wellbeing issues, introducing health checks and interventions such as 'mental health first aid', smoking cessation sessions and cycle-to-work schemes from within the workforce has led to phenomenal results. Now four years old, the programme has engaged hundreds of workplaces, reaching hundreds of thousands of workers, and has made an incredible contribution to improving health.

An evaluation of the programme found that 90 per cent of employers introduced health and wellbeing measures that they would not have otherwise considered; 70 per cent of employees were less likely to take time off; 40 per cent of employers recorded reduced absenteeism; nearly half of employers recognised productivity increases; and the majority of both employers and employees found the workplace 'a better place to be'.<sup>5</sup> The long-term benefits to health will be witnessed in years to come, and the impact on workers and on productivity is real and immediate – a major contribution to progress led by trade unions. Collectivism in practice, delivering both individual and organisational gain.

4 'Better Health, Fairer Health', Public Health NE, [http://www.northeast.nhs.uk/\\_assets/media/pdf/Better\\_Health\\_Fairer\\_Health\\_pdf.pdf](http://www.northeast.nhs.uk/_assets/media/pdf/Better_Health_Fairer_Health_pdf.pdf)

5 Evaluation of the Trade Union Contribution to Regional Development Project, New Skills Consulting, May 2011

Responding to the need for more and better jobs has been at the centre of trade union activity in the north-east and Cumbria. Trade unions in the region have a long history and tradition of working with business and government at all levels to plan strategically and generate imaginative ideas to promote growth and maximise economic performance. The Northern TUC places critical importance on direct partnerships, collaboration and alliances as a

means of harnessing collective endeavour for the greater good.

In recent years the TUC has worked alongside Phil Wilson MP, business bodies and local authorities to energise the wider

**“Responding to the need for more and better jobs has been at the centre of trade union activity in the north-east and Cumbria”**

community to campaign for the Intercity Express Programme to be approved and for Hitachi to locate in Newton Aycliffe, enjoying successful efforts leading to over 700 good-quality, new jobs and 3,000 more in the supply chain. Trade unions in the north-east have been at the forefront of lobbying to maximise the potential from low-carbon renewable opportunities, from electric cars in Nissan to offshore wind, and campaigning for clear support from government in the recent energy bill and for investment in training to secure opportunities for local people.

In a region with at least one in five young people out of work and an advanced manufacturing sector that estimates 8,000 new employment opportunities in the next 10 years just to stand still there is a strong and clear case for more and better apprenticeships. The TUC is at the heart of efforts to encourage and enable more employers to provide good quality apprenticeship opportunities.

The north-east faces many challenges. There are, however, strengths to build upon. The north-east is the only English region

to consistently have a positive balance of trade, exporting around £12bn-worth of goods each year, with Nissan, Komatsu and Caterpillar the main constituent industries. What these workplaces have in common is that they are unionised, with progressive industrial relations.

By working together in a modern relationship, unions and management have been able to introduce flexibilities that enabled the companies to survive the worst period of recession without the workforce feeling threatened; to develop progressive investment in training, including large numbers of high-quality apprenticeships; to bring in learning and skills and health and wellbeing initiatives for the current workforce that directly contribute to improvements in productivity. In all of these companies, as we hope it will be in Hitachi IEP, trade unions are seen as part of the solution, contributing to success, not hampering it. Through this collective endeavour the business and the employees within it are set to benefit.

These sources of decent employment are too often the exception to the rule. The north-east is regrettably characterised by poor-quality jobs and low pay. One such response is the adoption of campaigns to secure a living wage. Newcastle city council is one of a few large employers to adopt a living wage; a growing number of other local authorities are also actively considering this and are also looking at how their procurement policies and practice can also be deployed to lever living wage agreements with private sector contractors of public services.

Introducing a living wage would do the north-east and Cumbria much good, lifting families out of a generation of poverty. It is not a substitute for effective and strong trade unions in workplaces but it is certainly a powerful aspiration. It is, though, absolutely the case that growing wage inequality and an increasingly diminished

share of GDP paid in wages directly reflects the decline of collective bargaining. There is a parallel correlation between the declining scope of collective bargaining coverage and fair pay at work.

Polling shows that, while fewer and fewer people have faith in the current government's economic policy, 76 per cent of the public think trade unions are essential to protect workers' interests and twice as many people trust trade unions compared to government ministers.

Herein lies the key challenge for trade unions and all progressives. Even in the relatively well organised public services sector, collective bargaining coverage is in decline, due in large part to fragmentation and privatisation of public services. In the private sector trade union coverage is at less than 14 per cent and the majority of private sector workers are now in workplaces with no trade union influence at all – not just without recognition or representation, not a single member.

The paradox of strong support in public opinion is contradicted by the evidence of workplace organisation and membership. Trade unions have modernised: most have online support for members, first rate services in a range of valuable areas and potential members can sign up via their iPhone, and unions are increasingly innovative in their approach to organising, including community organising programmes. What has not, perhaps, caught up is 'the narrative'.

The debates around public services, economics or welfare benefits are incredibly personalised and individualised. The coalition talks about 'shared responsibility', but demonises and penalises individuals; welfare benefits, single mothers, public sector workers are all in the firing line. Describing progress in such individual terms neglects the value of collectivism. Yet the greatest progress has consistently been made through collective gain.

In seeking to shift from public support and positive public opinion into not just trade union membership, but activism, we

need to raise our voices again about the value of collectivism and demonstrate these values through action, facilitating inclusive engagement through collective action and campaigning on issues that are important not just to workplaces but communities too. Trade unions can only gain, not just by offering high-quality and accessible services, but by also articulating what members can give to the union and to their community through what can be achieved by collectivism and collaborative action.

While trade unions face a significant challenge in converting that popular support into practical membership and activism the TUC collectively still represents the single largest democratic body in the UK, representing some six million members. If we are to build better workplaces, better work and better lives out of the current wreckage, we also need to effectively harness and add to that resource in speaking up for and acting in the interests of better communities.

What is clear is that in order to make sustainable progress in all of these areas, trade unions will need to be at the heart of that future.

## 6. Who benefits? Delivering on energy and infrastructure

John Woodcock MP

Britain has rarely faced a more pressing set of infrastructure challenges. The next Labour government will need to set out an infrastructure delivery programme that provides economic growth, ensures Britain's competitiveness on the global stage, and meets the challenge of climate change.

Lack of progress is particularly alarming in the critically important field of energy. More than one-third of the UK's energy needs are dependent on imported fuels while our generation capacity is ageing too: by 2018, around 19 gigawatts-worth of existing capacity – a quarter of UK capacity – will close as first generation nuclear power stations reach the end of their lives and fossil fuel stations fall foul of emissions targets.

The next Labour government should be prepared to draw a line under infrastructure stewardship that is good at producing initiatives for budget days but is otherwise proving itself not fit for purpose. It must address both the barriers to getting infrastructure projects accepted locally, and the national failure to devise and adhere to any joined-up strategy to meet the country's infrastructure requirements.

First, the problems on the ground.



Across the industrial north, it is striking how old pit villages and industrial towns are proving far less willing to embrace renewable energy than the noisier, more polluting fossil fuels and industries which shaped their identity. Energy companies are getting a nasty shock after mistakenly believing that these communities would not bat an eyelid at a few wind turbines on the surrounding hills because they had been content to make huge slag heaps part of the landscape in decades past.

Take County Durham, where local people felt increasingly inundated and let down by the planning system, as 16 wind farms were constructed across the area's hills, with a seemingly endless stream of further applications.

In one ward alone 67 turbines are in operation.

Many residents in my constituency of Barrow and Furness, whose economic success from submarine-

building in Barrow shipyard was built upon the iron and coal discovered in the 1870s, share a similar antipathy. Moreover, residents in a part of Barrow which had been the site of a coal-fired power station three decades earlier, and where a gas-fired station still exists, were implacably opposed to the idea of a new biomass plant on the site. A community used to living in a town where residents of certain properties are given iodine tablets in precaution against a nuclear incident in the shipyard, would not countenance a new plant which would burn virgin woodchip.

All over the country, in energy and other areas, there are similar examples of communities saying no, slowing down or stopping planning processes. The result is to slow the progress of the nation

“ All over the country, in energy and other areas, there are examples of communities saying no, slowing down or stopping planning processes ”

itself, causing uncertainty for investors which can render schemes dead in the water.

Who benefits from a wind turbine being plonked on a hill? The farmer who owns the hill usually gets a sizeable amount from the energy company, hence his acquiescence. Everyone else benefits from one wind turbine-worth of increased energy security and one wind turbine-worth of reduced carbon emissions into the atmosphere.

And they benefit equally from those things whether they live in sight of the blades or hundreds of miles away. Hence those who are getting their view spoilt often, quite understandably, do not feel inclined to take one for the team.

It is surely the 'something in return' that made the established industries worth having, and made proposed new developments distinctly unappealing by contrast. That quid pro quo can be summed up in one syllable: jobs.

Barrow is a town that has grown up around its shipyard. Today the submarine programme sustains around 5,500 highly skilled manufacturing and engineering jobs paying decent wages, and double that number indirectly in the local economy. Anyone who suggested that nuclear submarine-building was too dangerous a line of work for Barrovians would be sent packing.

The proposed biomass plant was going to create around 50 permanent jobs in the town. Most local people quite reasonably thought that there was slim chance that they or a family member would be employed there. In those circumstances, they were not prepared to tolerate the level of local disruption that the enormous new power plant would entail, or take any risk whatsoever with their health, however dubious the claims might be. The downsides could be considerable, and what was in it for them? As they saw it, nothing.

Similarly in former coal-mining communities: the mines were dirty but they were the heart of the entire area with the jobs they created. Wind turbines are comparatively clean but they sustain very few local jobs.

Jobs and prosperity as a trade-off for local disruption is of course still a basic deal in many areas, the highly labour-intensive and well-remunerated nuclear industry being an obvious example. But what to do when the jobs quid pro quo is not naturally there, as in the parts of the energy and other industries which may be strategically important to the UK but do not need to employ so many people and so are being rejected at a local level?

What can government itself do? The coalition government has focused on changes to planning regulations, making it easier for the wishes of a community to be overridden when it is perceived to be for the greater good of the country.

While it would be in the interests of all sides for planning procedures to be less cumbersome, a strategy based on ignoring communities rather than getting their buy-in is surely doomed to fail.

We should draw a line under the Tory willingness to let some parts of the country suffer in favour of new incentives that could lead more communities to embrace change because they see that it is in their direct interest to do so. To do that, we need to make direct community benefit – and, crucially, benefit for individual local residents – a more explicit and required part of the deal at planning stage. The coalition government recently signalled a minor shift in this direction, promising communities or individuals greater opportunity to demand financial concessions in return for operators building wind turbines in an area. Even that may not be sufficient to change people's minds; Labour should be looking at the whole

gamut of infrastructure, considering different forms of ownership as well as cash incentives.

Powers for local authorities to insist on money being set aside for measures that benefit the community do already exist, yet the snappily titled section 106 obligations often underwhelm those they are designed to placate. Residents may want a new roof on their community centre, but not enough to put up with the monstrous new power plant down the road, and should the council not be paying for the improvements anyway?

So if families cannot reasonably expect to get a job out of the energy development being planned in their neighbourhood, they should instead get a permanent discount on their energy bill. That could be in the form of regular direct payments to everyone in a certain radius; or local community ownership could become a required part of onshore wind turbine construction. If a company cannot offer an attractive enough deal to convince residents to sign up then, tough, the turbines cannot be built.

Lambeth council dealt with the long-term planning for the London Eye by ensuring that, as part of the planning deal, the citizens of Lambeth receive a proportion of the sales of the tickets on the Eye, sharing the benefits of the iconic attraction all the way through its life and building a bond between the people and the operators of the Eye and their customers.

There have been a number of examples of small-scale infrastructure developments on a community ownership basis. My own constituency saw the UK's first cooperatively owned wind farm, Baywind, with more than 1,300 voting members and a share of the profits invested into community environmental initiatives. In other areas, community-owned broadband schemes are bringing high-speed internet connections to remote or deprived areas.

In future, where the cost of a development would preclude full community ownership, there could be scope to develop hybrid schemes, with a mixture of private sector and community ownership, allowing a local voice in the design and operation of the asset – whether it be a power station or a road scheme – and a share of profits returning directly to the community. It is also time for government to get serious about incentivising fully or partially community-owned development through the tax system.

This new energy quid pro quo for residents would be partially offset by the mounting costs, ultimately born by bill payers, of the delayed or aborted projects that are currently clogging up the system. A further way to make this more affordable could be to take the money for resident incentives out of the amount that the company would be paying the local authority in business rates

However it is done, there needs to be better alignment of interests between the communities and the projects.

However, as well as doing more to oil the wheels on the ground, Britain at the highest level needs a much clearer sense of the infrastructure it needs, and the capacity to stick to its plan over the decades that it takes to deliver major projects. The government's national infrastructure plan in reality is little more than a multibillion pound shopping list of measures that are largely unfunded and already well behind schedule.

The mangle over Heathrow and airport expansion in the south-east is a prime, depressing, example of the current mess. Conservative opposition to the third runway before they entered government, then failure to come up with any alternative once in power, is causing years of paralysis and leaving Britain at risk of a major competitive disadvantage to its European rivals as eastern economies expand and seek strengthened partnerships in the west.

Similarly, the policy vacuum existing in energy has seen delay and uncertainty over levels of support and caused major companies to pull out of schemes. The government is right to look to sovereign wealth funds as a source of capital to support major investment in the UK, but every fresh wobble and fudged decision in Whitehall damages the investment case and makes it more likely that projects either will not happen or will have to be propped up by taxpayers. The lack of trust in government behaviour is badly damaging the UK's attractiveness to major foreign investors.

We need to try something different, something radical that puts big infrastructure decisions above party politics.

In his first week as prime minister, Ed Miliband should show leadership for the nation by establishing a UK infrastructure board to scope out the country's investment priorities. To be effective, this should be set up by cross-party agreement and comprise

representatives from across the economy and the nations and regions of the UK, including ministers, with a remit to plan out the UK's infrastructure needs over the next 20 years, and the best ways to meet them.

**“Currently the government unit charged with making infrastructure investment happen, Infrastructure UK, is part of the Treasury, the one department with the least experience of anything practical”**

Currently the government unit charged with making infrastructure investment happen, Infrastructure UK, is part of the Treasury, the one department with the least experience of anything practical. By contrast, the national infrastructure board should be removed from ministerial control, be transparent, and have real clout to set out a binding vision in the major areas of the economy which depend on long-term investment decisions. Of course, parliament would remain sovereign and

ministers could choose to deviate from the plan, but any government that did so would have to get parliamentary approval and would be held to greater account for being seen to be going against the experts and increasing cost and uncertainty by making changes. This is one area where a different accountability regime is needed; parliament's best minds with the greatest real experience of the creation and management of infrastructure – irrespective of which House they sit in – should hold the infrastructure board to account.

Britain ought not to go on like this. The weakness in the system may not have begun with the Conservative-led government, yet this administration has certainly made the situation worse; politicians who promised to look to the long term are systematically letting down the country by flunking many of the big decisions or pushing them over the electoral horizon. One Nation Labour in 2015, if we are prepared to think and act radically locally and nationally, has a chance to deliver real change where successive governments have fallen short.

## 7. Can we fix the banks? Reforming the rules, changing a culture

Pat McFadden MP

A modern economy needs a good banking system as much as it needs a sound legal system, proper regulation and clear property rights. Without it, ideas do not get finance, opportunities get missed, and repairing the damage from the last crisis triumphs over investment in the future.

Banking is a particularly sharp issue for the UK because we are a global financial centre with a medium-sized economy. Our banking sector has around it a cluster of other highly valued services such as accountancy, commercial law and consultancy. All of this provides much-needed employment and tax revenues and contributes to exports.

But the very size of the sector means we need to think carefully about how it is regulated, how it serves the rest of our economy (and not the other way round), and how we protect taxpayers from being left exposed if it gets into trouble. In short, the size of the UK banking sector relative to the rest of our economy, and the experience of our taxpayers who bailed it out, means there is a special responsibility on politicians and regulators to ensure we do not allow financial services to hold the rest of the country's economy to ransom

While memories are fresh the reckless attitude to risk which lay behind the crisis is unlikely to repeat itself. But what happens when



memory fades? Have we yet fixed the ‘too big to fail’ problem in our banks, or indeed the ‘too complex to manage’ problem? By these yardsticks, there is a great deal more to do.

In the UK the blueprint for sorting out the financial system was the 2011 Independent Commission on Banking report, chaired by John Vickers. Vickers’ key recommendation was to ringfence retail banks from their investment banking cousins, though the ICB also sought to make banks safer by making them hold more capital and increase what in banking jargon is called ‘loss-absorbing capital’ without resorting to the taxpayer.

When the crisis hit, the potential collateral damage to the economy of allowing banks to fail was so huge that taxpayers had to prop the whole system up. Understandably, that angered taxpayers who asked why the same logic did not hold when a retail chain or a manufacturer went bust.

So the first proposal was for structural change – a ringfence between the retail and deposit-taking function from the investment banking side. The argument here is partly about safety and partly about culture. There is indeed a difference between the trading culture of investment banking and what ought to be the relational culture of retail banking – the desire for a long-term relationship involving savings, current accounts and mortgages.

Ringfencing is intended to separate these cultures and to make failure more manageable by facilitating the rescue of the socially necessary part of the bank while, potentially, allowing the rest to fail. It is important to understand that ringfencing is not an attempt to ensure retail banks cannot fail.

Separation might reduce risks but we should be wary of thinking of it as a magic bullet. Yes, a major investment bank like Lehman Brothers went down and other investment banks made huge

mistakes. But there were other more prosaic retail bank failures such as Northern Rock and HBOS which failed because of reckless property lending.

Alongside it, the second part of reform must be about strengthening banks against future risks by asking them to hold more capital. Banks were vastly overleveraged in the run-up to the crisis. RBS was leveraged to something like a 1:50 degree, Northern Rock even more so. Those leverage levels meant even a small downturn in asset prices was enough to send the banks under.

In his report Vickers recommended a backstop capital level of four per cent of the balance sheet, meaning a leverage ratio of no more than 25:1 for UK banks. But the government has rejected this recommendation, instead asking only for the internationally agreed measure of three per cent, or a leverage ratio of 33:1.

The argument about leverage ratios illustrates the repeated pattern of shrinking from reform because of worries it will endanger London's position as a global financial centre. It is absolutely right to care about London's position as a financial centre but that should not mean government seeing its job as being to weaken reform. Instead it should be to have a strong financial sector with proper protection for the UK taxpayer from living alongside it. After all, the threat the sector can pose to taxpayers is not theoretical. We are still living with the consequences from last time.

Related to the capital question there is the issue of who bears the risk if something goes wrong, even after the structural and capital reforms.

Why is it that when a bank goes bust it is taxpayers who are on the hook and not those to whom the bank owes money? In a normal insolvency it is those to whom the business owes money who lose out, not the taxpayer. This is where the idea of 'bail-in' comes in –

bonds which would be loss-absorbing and seen to be so from the moment they were issued. The intention is to put banks on the same footing as other businesses and to put their bondholders in the same position as bondholders for other businesses.

This has been illustrated by the crisis in Cypriot banks recently. No one who advocates 'bail-in' expected ordinary savers with modest amounts of money to face a grab on their savings – yet that is what was proposed in the first version of the Cyprus rescue plan when savers with less than 100,000 euros faced a raid on their savings. The second 'bail-in' plan set a higher threshold but great damage to confidence had already been done. 'Bail-in' is a good idea in principle but it is supposed to place risk on the bondholders, not modest savers.

Even with these changes it would be rash to claim we have fixed the 'too big to fail' problem. No one knows exactly what would happen in a further crisis and more needs to be done to protect people. Making banks safe is about culture as well as structure and capital rules.

Culture in banks takes in many things – the tone and leadership set by boards, competition or the lack of it, criminal sanctions and, of course, pay and incentives. All of these need to reinforce responsible behaviour, not reward complacency, excess and recklessness.

In talking about banking culture it is important to avoid the trap of nostalgia. 'Give me back the old bank manager who knew the town' is often the cry. But in this and in many other fields, being critical about the present should not mean donning rose-tinted spectacles.

In the past banks opened for few hours. Access to the services was limited and inconvenient. Bank managers making lending decisions based on who they knew was hardly fair on who the bank manager did not know or those who came from a different social

circle. 'Computer says no' pays too little heed to the circumstances of individual companies and must change but at least the computer does not care about your accent or the colour of your skin. The answer is not a return to the past. The task is to get better support for the real economy in today's world.

Banks talk big on culture. They are teeming with mission statements and codes of conduct. If producing a new piece of paper changed culture, the problem would have been solved long ago. But it does not work like that. There is often a huge chasm between what these mission statements say and the reality of behaviour on the ground.

At the root of culture is not mission statements but incentives. People who know they could go to jail if they do wrong have a strong incentive to stick within the law. For those who think the worst that can happen is a corporate fine, the incentive is less. Customers who think there is real variety in bank products may switch banks but if we view them as an oligarchy of similar institutions the case is weaker.

The area of greatest cultural impact is pay – everything from sky-high bonuses in investment banking to pressure on retail branch staff to sell more payment protection insurance policies. If sales and trading are what gets rewarded then sales and trading are what will happen, no matter what the five-point plan from the chief executive says.

The traditional centre-left attack on bank bonuses is usually about fairness, and, of course, it is right to point out the contrast between what, say, a nurse and an investment banker earn. But the issue of incentives is not just about fairness. It is also about behaviour.

The traders who manipulated Libor did so for personal financial gain. They knew their remuneration was linked to the results of

their trades and they did not care about the dishonesty involved. The incentives influenced their behaviour. That culture will not change until the reward structure changes.

The managers who ran the banks all pleaded ignorance about Libor. The regulatory system incentivises ignorance. It follows email and data trails so if the email trail did not lead to an executive they were better off than if it did. The parliamentary commission on banking standards, on which I sit, has seen much evidence of people paid millions who did not know what was happening in their banks – and whose ignorance arguably protected them from enforcement action. It cannot be right to incentivise ignorance at the top in this way. Regulators have to find a way of incentivising managers to know what is going on rather than not to know in case investigators come calling.

On the critical issue of bonuses, bankers swear by high multiples of variable pay. Some banks have changed the way this is done with deferrals, payment in shares, and systems of clawback if things go wrong. The EU's answer is to restrict variable pay to a 1:1 ratio.

As Prudential Regulation Authority chief executive Andrew Bailey has pointed out, it is a curious argument to say that the only way to get bankers to perform is to promise them multiples of their pay then threaten to withdraw it if they do not do their jobs properly. A ratio between pay and bonuses is, though, not the whole answer. The answer has to be in better aligning pay structures with the risks being run by the institution and the customer.

This is not only an issue with headline-grabbing bonuses at the top. It also matters in the local bank branch. Here staff are not highly paid, often earning only around £20,000 per year. But they can earn 10-20 per cent more through increasing sales. £2,000 to £4,000 may not be a huge amount for an investment banker but it will certainly

influence the behaviour of someone earning £20,000 per year when it comes to selling PPI policies and other 'add-ons' that consumers may not need or want.

The banking commission received evidence from staff unions which pointed out the pressure to sell, even if the products were not needed or not appropriate for customers: colour-coded sales charts on the wall; offers of 'help' and special management for those who did not sell enough. This retail bank sales culture helped drive the PPI misselling scandal and has ended up destroying trust and costing the banks billions.

So from top to bottom, in financial and non-financial ways, incentives need reform to drive the right culture. In all these areas – structure, personal responsibility and pay – the point is to produce a system which better serves the real economy and which helps individuals with the life decisions they must make in terms of savings, credit and home ownership.

Our aim must be to have a banking system which backs ideas and helps make them happen rather than one which serves itself. Britain is an exceptionally creative economy. But ideas need finance to become real and to create employment. One of the things holding us back at the moment is that these things are not coming together as they should because we have not fixed our banking system. We must bring these things together if we are to secure the sustained economic recovery we need.

## 8. The UK and Europe: Reform, not exit

Emma Reynolds MP

The Labour party in government held the strong belief that being at the heart of Europe served the interests of the British people. In opposition, we continue to believe this and remain committed to membership of the European Union and to a strategy which seeks reform, not exit.

The eurozone crisis and subsequent political instability have changed the terms of the debate about the EU. The aftermath of the global financial crisis and the ongoing crisis in the eurozone require delicate and sensitive handling and raise questions about the relationship between the 17 eurozone countries and the 10 countries outside the eurozone. But the current government has left the UK marginalised in the EU and its approach has been neither delicate nor sensitive.

As a significant economy with historical links with different parts of the world, a permanent member of the UN security council and a leading member of Nato, the UK has often set the agenda in Europe, especially in terms of the internal market, enlargement, foreign and defence policy, international development and climate change.

Regrettably, David Cameron's approach has been driven by an attempt to manage and unite his party at the expense of

promoting the national interest. His rash decision to walk out of the European council in December 2011 during negotiations on the fiscal compact treaty was foolish and damaging. It constituted a break with 30 years of British policy of successive governments, both Labour and Conservative, who always considered it vital to stay around the table, involved in the key negotiations. It weakened the government's leverage and provoked confusion, and in some cases bitterness, among our European partners. The walkout also set a worrying precedent that decisions could be taken outside the European treaties.

In a speech in January this year, Cameron further undermined his position in Europe by promising an in-out referendum on a hypothetical renegotiation of the UK's relationship with the EU if the Conservatives win a majority in 2015. He provided no clarity of either his overall goal or how he intended to deliver it.

In parliament he talks openly about repatriating powers from Brussels to Westminster so it was a surprise that he did not utter the word 'repatriation' throughout his entire speech. In effect, he was speaking to two very different audiences. While he was at pains to reassure European partners that he wants to maintain our membership, he was also trying to buy time with his own party. The inconvenient truth is that he has simply kicked the can down the road. The gap between what he will be able to negotiate with the rest of the EU and what his party wants him to deliver is simply unbridgeable.

He was also forced to admit that he could not say which way he or his cabinet would vote in a referendum if he failed to deliver on his own agenda. Cameron's approach was based on the imminent prospect of significant treaty change, at which point the UK could turn up with its shopping list of demands. But since Cameron gave



his speech it has become clear that many eurozone governments are keen to avoid treaty change, and even the Germans have gone cool on the idea. Our European partners have made it clear that an à la carte Europe is simply not on the table. Far from being a long-term strategic decision, Cameron's call for an in-out referendum was driven by a fear of the Eurosceptics in his party and of losing votes to the United Kingdom Independence party. Rather than acting in the interests of the country, he has used Britain's EU membership as a political tactic to paper over the cracks in his divided party.

Economically, there could not be a worse time to cast four years of uncertainty over our membership. Global companies invest in the UK because we are a launchpad to the rest of the internal market. The vital jobs and growth these companies create could now be at risk because, as business leaders have stressed, uncertainty is the enemy of investment.

Deep concern about the government's approach also extends beyond our European allies. Successive American presidents have regarded the UK as a bridge between the United States and the EU. So the comments from the Obama administration earlier this year came as no surprise. They were unequivocal that 'the UK voice in the EU is essential and critical for the US' and that Britain's membership of the EU was a key factor in the strong relationship between our two countries.

In terms of our standing in the world, the EU is a magnifier of the UK's voice in a world in which there is a shift of economic and political power from the west to the east.

As Ed Miliband said in his One Nation in Europe speech to the Confederation of British Industry in November 2012, 'an ambitious Britain has always been an outward-looking Britain'. It is clear that the first challenge for a Labour government will be to rebuild

relationships with our European partners, and this work is already under way.

But being clear that our future lies at the heart of the EU is not the same as saying we are satisfied with the status quo within the EU. Labour is a keen proponent of ambitious reform rather than narrow repatriation. We understand that to make progress on this reform project, we have to build consensus from within the EU, not simply threaten to leave with one foot already out of the door.

For Labour, being pro-European and pro-reform are two sides of the same coin. If the EU is to be relevant, successful and popular in the coming years, it needs to be fit for the 21<sup>st</sup>, rather than the 20<sup>th</sup>, century. There are many areas where change is required. For too long, the common agricultural policy has dominated EU spending even though it only represents a small percentage of overall GDP. The European budget should focus on creating jobs and sustainable growth and investment in infrastructure.

We have called for a designated European commissioner for growth and for a mechanism to be embedded within the EU tasked with assessing the impact of every new piece of legislation on the potential to promote growth.

The internal market in goods is a great European success story, so much so that other regional cooperation bodies around the world, particularly in south-east Asia and Latin America, draw on the model for inspiration. However, there needs to be significant reform of the internal market in services, in particular in the digital economy.

Labour will also seek to develop a mechanism for ensuring that national parliaments have a greater say in the making of new EU laws. While recognising that the European parliament has a significant role as the only directly elected EU institution, it is

also true that national parliaments remain essential to improving democratic accountability. We welcome the Lisbon treaty's 'yellow card' system of enabling national parliaments to push legislation into review, but this should be extended to include an emergency brake procedure which would further strengthen the voice of national parliaments.

An outward-looking EU must prioritise free trade agreements with key economies. We are calling for rapid progress on negotiations for the EU-US free trade agreement. Barack Obama is said to have made this agreement a key priority for his second term in office, and the goal should be to complete negotiations and formalise an agreement well within this time frame.

The Conservatives are at risk of letting their hostility to the EU blind them to the national interest in many areas, and one area where this is acutely apparent is justice and home affairs. In 2014 they will have to decide which of the directives in this area they want to opt back in to. Yet Labour believes these measures – in particular the European arrest warrant – protect victims of crime and bear down on criminals. In general, to tackle cross-border crime and terrorism it is necessary to take a cross-border approach. A Labour government would take a lead in Europe in this vital area of national security.

We are also clear that we reject any calls to withdraw from the EU social chapter which we opted in to in government. The EU should provide workers with basic protection and avoid a race to the bottom. The Conservatives say that they want to bring power back from Brussels to Westminster in this area, but in reality their objective is to take power and rights away from working people.

**“Labour will seek to develop a mechanism for ensuring that national parliaments have a greater say in the making of new EU laws”**

In our push for reform we have acknowledged that centre-right governments have damaged the reputation of the EU through their exclusive focus on austerity. Unemployment and, in particular, youth unemployment now stand at shocking levels in some eurozone countries. One in two young people in Spain and Greece are out of work. There is an urgent need for a clear and concrete plan for growth to tackle this crisis and for the EU to become the solution rather than the problem.

Since 2004, there have been growing concerns about the free movement of people within the EU. It is vital that we have underlined that free movement goes both ways. Hundreds of thousands of British citizens live in other European countries. Free movement provides a right and an opportunity for work, study or retirement that we all enjoy. However, in opposition we have acknowledged that in government we should have applied the full seven-year transitional period for workers from the 10 new member states who joined nine years ago. And we believe the EU should look at ways of giving member states more flexibility over the transitional arrangements that they sign up to – both to relax them more when those countries see fit, but also to include the possibility of tightening them further if necessary.

We were too reluctant in government to discuss people's concerns about immigration but we have not shied away from this sensitive and serious debate in opposition. We will continue to do so in a way that hones in on questions of fairness and social justice and stands in stark contrast to the dog-whistle language of the Conservatives.

The eurozone crisis and concerns about immigration have fuelled Euroscepticism, but Labour's answer is not to concede ground to UKIP, like the Conservatives, but to offer a vision of a different kind of Europe. By putting the UK back at the heart of Europe the

next Labour government will take a lead in areas of great national interest.

The next Labour government will continue to rebuild bridges with our European partners. We will push for an EU that focuses on solving problems nation-states cannot solve on their own and for an outward-looking and non-protectionist EU that is flexible enough to accommodate varying degrees of integration while preserving a common purpose. These objectives are firmly in our national interest and it falls to Labour to advocate and secure them in the years ahead.

## 9. Earning, belonging and owning: The Labour tradition of aspiration

Phil Wilson MP

Surely aspiration drives our politics? We aspire for our children to do better than we did ourselves. We aspire for our communities to do well, and we believe the best way of securing all of this is through working together because we achieve more together than we ever do alone.

We should never let the Conservatives put Labour off the scent of aspiration, but this is what they are trying to do. In his 2013 budget speech, George Osborne talked of an ‘aspiration nation’. Michael Gove referred to the opponents of his education reforms as the ‘enemy of promise’. This is the new landscape the Conservatives are painting: Labour is ‘anti’, Conservatives are ‘pro’. They are attempting to turn the ‘forces of conservatism’ on its head.

The Tories will continue to speak the language which puts them on the side of ‘strivers’ even though, in reality, they are not. The Conservative ship of government sails the seas, its crew in a constant state of mutiny, pushing apart the waves, setting one community against the other because they only really believe in aspiration for some. Divide and rule, ‘strivers’ versus ‘shirkers’, where once it was the deserving versus the undeserving poor, because that is how the Conservative party has always sailed. If your tactics are divide and

rule, you must, by default, want to see aspiration for some, not all: security for some, insecurity for others.

However, people may believe their rhetoric if there is not a profound Labour alternative.

We heard the beginnings of an alternative strategy, under the banner of One Nation, in a speech Labour's policy coordinator Jon Cruddas made to the Resolution Foundation. He was correct to say that Labour's tradition is about 'earning' and 'belonging'. He was also correct to point out that earning was not just about financial income but also about earning respect, and that belonging was about the 'deep desire for the familiar, and the parochial; the ordinary.' And who can disagree when he said: 'One Nation Labour seeks to tell a plausible and compelling story of national renewal and transformation.'

Communities like those of the north-east of England, where I am a member of parliament, with its rich dialect, use the language of belonging where 'wor' means 'our' and to say of your brother or son 'wor lad' is to be proud of the familiar and makes the parochial and the ordinary feel special. Earning was more than pounds, shillings and pence, because to earn respect at the coalface was vital.

Cruddas' speech drew strength from community schemes similar to those established towards the end of the 19<sup>th</sup> century among the coalmining communities of County Durham. It is a strong heritage and for many years it was a way of life, one many miners wanted to leave behind. For those among us from that heritage who were miners or, in my case, the son of a miner, we thought that era had gone. With the increase in the number of foodbanks, public services rolled back and community cohesion threatened, I do not see the return of those days as halcyon; I view them with dread. Because the other side of the 'familiar' was the poverty; my experience of the 'parochial' was the school with the outside toilets; and for my father

the 'ordinary' was the choice of working down the pit or working on the farm.

Belonging and earning are important, but they are also not enough. They are two parts of aspiration and Labour's tradition. I believe there is a third: owning. Owning is important and it is wrong of those, like me, who own to say to those who do not that it is not. I believe the majority of people aspire to own their home. However, the government's 'Help to Buy' initiative will not help stimulate housebuilding, but will help to stimulate house price inflation, another way of ensuring aspiration for some. Labour's way should be to 'Build to Buy' and 'Build to Rent', creating a mixed economy of housing to nurture aspiration and strengthen communities. I also believe people want to have ownership of, as well as belong to, their community through, say, their public services or community groups. To say 'our community' raises issues other than belonging and owning, such as duty, rights and responsibilities.

Alan Milburn, in a speech to the Fabian Society in January 2005, said, 'if earning more is one side of the coin, owning more is the other ... owning assets creates a buffer in times of crisis ... it enables people to act independently and make their own choices.' He also spoke of One Nation: 'our task is to rebuild the New Labour coalition around "One Nation politics" that recognise, while life is hard for many, all should have the chance to succeed.' Milburn is also correct.

We should remember too all Labour has done that is good to ensure those from our heritage were given the opportunity to move on, for whom foodbanks, co-ops and self-help schemes are not even a folk memory. They will be voting at the next election and they are our people too. Aspiration is not two-sided, it is three-dimensional. Earning, belonging and owning are the three sides of aspiration. To



remove ‘owning’ from the Labour lexicon is like trying to construct a triangle with only two corners. Labour should therefore not disown ownership.

Labour’s reflex, and quite rightly so in a period of austerity, is to help those who cannot help themselves. But it should not be the party’s only reflex. Labour’s purpose is to champion those who are aspiring as well as those who want to aspire, because they are our people too. That is why to deny ownership as important to Labour supporters is to deny human nature – the 1980s ‘right to buy’ scheme proved the point.

“ To deny ownership as important to Labour supporters is to deny human nature – the 1980s ‘right to buy’ scheme proved the point ”

Ownership has always been a contentious issue for some in the Labour party. Ownership can be viewed from an anti-materialist, sackcloth and ashes perspective. This is not healthy because it blanks out the natural sentiments of millions of our supporters, mistakes working-class culture and understates the benefits of people and families having their own stake in society.

If earning is about more than earning a wage, then ownership is about more than owning a house. There is more to owning than bricks and mortar. For example, to have a capital asset for most people is more reassuring than relying on the state. Pensions can offer security in retirement, workplace pension funds are major investors in UK plc and millions of workers just do not realise how much ownership they have in British business. People want to see their public services reformed in such a way that they still feel collective ownership of the NHS or, as Milburn argues, in education where schools should be given the chance to become autonomous through a variety of models including academies, trusts, parent-owned or

community-controlled schools. People should have ownership of the welfare state so they know the system works for them, because those who contribute are also those who benefit.

In the Purple Book Caroline Flint argued that we should consider equity release to transfer assets from one generation to the next. Tristram Hunt talked about banks providing incentives to capitalise fledgling mutuals, and employee share-ownership being reformed so that all employees of a firm benefit and not just those on executive pay. One Nation Labour would also champion private sector ownership from the shop corner proprietor, window cleaner and plumber to high-tech start-ups. All our plans should be driven to create the ability to earn, the space to belong and the confidence to own, underpinned by Labour values.

We want our children to earn respect and earn more than the living wage. We want them to live in a community where they belong and do not feel left out. We want them to be independent and own their own home. Owning is something which can also make us feel secure and belong to the mainstream, and it should be something we all have the right to do and feel comfortable about doing.

The Conservatives will also say this, but their version of aspiration, more often than not, mutates into greed. That is why their quest for the 'big society' does not resonate. A tax cut for millionaires and a bedroom tax for the poor is not the politics of One Nation, but the politics of a little Britain.

One Nation Britain will look after those who cannot, and encourage those who can. A One Nation Britain will not just be about earning and belonging. It will also be about ownership, because, if it is not, One Nation Labour will be comparable only to a coalfield dialect spoken by a minority. One Nation Labour is to earn, belong and to own. That is Labour's new mantra for the 21<sup>st</sup> century.



# Progress

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