

INTRODUCTION

John Denham

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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