

a  
new  
nation



BUILDING A UNITED KINGDOM OF  
PURPOSE, PATRIOTISM, AND RESILIENCE

Stephen Kinnock

# **A NEW NATION**

Building a United Kingdom of purpose,  
patriotism and resilience

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## FOREWORD

My union, Community, has come through some hugely challenging periods in our past, but we have always emerged from those periods as a stronger and more unified campaigning force. 2015 has without doubt been one of the most difficult and turbulent years in the history of for the Labour Party, but I am convinced that under Jeremy Corbyn's leadership it can also heal its wounds, re-establish itself as a credible opposition and reclaim its rightful place as a party of government. In the wake of defeat in May, and following a lengthy (and at times bruising) leadership contest, the Labour Party must now rethink, regroup and rebuild.

*A New Nation: Building a United Kingdom of Purpose, Patriotism and Resilience* contributes directly and forcefully to that urgent task. Stephen Kinnock correctly identifies that the foundations of the UK's economy, society and constitution are cracking beneath our feet, and he sets out a number of ambitious and practical ideas for tackling those fractures and constructing new economic, social and political strength.

As an essential part of that, he sets out some fresh and challenging thoughts about the Labour Party, and what needs to happen if Labour is to get back on the path to winning ways between now and 2020.

The central premise of this pamphlet is that the world has changed beyond recognition over the last 30–40 years, and so, in many ways, has the British electorate. Stephen's analysis – that to go back to the past would be electoral suicide – is right, and he then sets out three principles – purpose, patriotism and resilience – that should guide us in all that we do. He concludes by delving into some salient policy areas that exemplify the sort of reforms that are needed if we are to build greater confidence, cohesion, competitiveness and justice in our country.

As a life-long trade unionist and (unfortunately) a veteran negotiator, I was particularly drawn to ‘Industrial relations for grown-ups’, the section of the pamphlet where Stephen outlines the central role that industrial relations plays in driving productivity, and underlines how a culture change is required on both sides of the employer/trade union relationship. I recognise that Community has to be a modern union for a changing world. We must be a relevant, constructive and accountable representative of the interests of working people in the here and now, supporting them as they strive to rise to the challenge of a constantly evolving economic landscape. As Stephen so rightly argues, the Labour movement must engage with the world as it is, not as we would like it to be. He goes on to offer exciting ideas around how trade unions can and should re-invent themselves to reflect the huge changes in our labour market such as the explosion in the number of self-employed, the emergence of the sharing economy and the challenges of the second machine age.

And as a life-long steel worker, I was also drawn to ‘Rebalancing Britain’, where Stephen sets out the case for a manufacturing renaissance in our country. He is absolutely right: the decline in manufacturing that has been a defining trend over the last 30–40 years is the root cause of structural weaknesses in the British economy such as the productivity crisis and the largest peacetime trade deficit since 1830. Stephen makes a compelling case for an effective, consistent, strategic industrial policy, and argues convincingly that this would create the conditions for the more resilient, purposeful growth model that is so desperately needed.

The ideas and proposals presented in this important pamphlet represent precisely the sort of vision and radical thinking that can relaunch Labour, encourage current supporters and – vitally – offer fresh appeal and earn new support. They are a contribution to a debate that will determine whether or not the Labour Party is able to regain the trust of the British people, reset its reputation as a party of government, and ultimately rebuild the economic, social and constitutional foundations of the United Kingdom;

These are ambitious, realistic, radical goals – but we know that Labour is at its best when it has those qualities, and *A New Nation* is a timely and unequivocal reminder of that fact.

Roy Rickhuss, General Secretary of Community Union  
September 2015

## Acknowledgements

*A New Nation* is the product of many years of reading about and reflecting on the UK's political economy, and it is not possible for me to single out any single source of inspiration. Writers such as Will Hutton, Polly Toynbee, John Harris, Thomas Piketty, Joseph Stiglitz, Paul Krugmann, George Lakoff, Simon Sinek, Kate Pickett and Richard Wilkinson have all influenced my thinking, and I am grateful to them all for doing so.



## **Introduction: that was then, this is now**

I joined the Labour Party in 1985, and since then the United Kingdom has changed almost beyond recognition.

Back in the '80s we were still very much in the analogue age: a smartphone was what you might have called a landline that had a keypad instead of a dial, and if you'd ever heard the term 'sharing economy' back then, you'd probably have assumed that it was a fancy new way of saying 'charity'. Globalisation, at least as we know it today, was also a distant reality: the closest you got to a budget airline was a charter holiday, and the only immigration of any note was from the Commonwealth. The British state was also far more unified, both constitutionally and culturally: devolution was off the agenda for the foreseeable future, and the BBC and ITV were the only shows in town.

Fast-forward 30 years, and we find obviously ourselves in a very different place: globalisation, de-industrialisation, automation and the technology revolution have transformed the world of work, and fundamentally changed the way in which people live and perceive their lives; devolution has loosened the constitutional ties that bind, and our tastes and habits have been atomised.

But while all this seismic change has been going on out there in the real world, the Westminster and Whitehall 'villages' have remained firmly anchored in the past, stubbornly refusing to adapt fully to the new reality. And the consequence of this deepening disconnect is that the economic, social and constitutional foundations upon which our country is built are cracking beneath our feet.

That said, the good news is that the gap which has opened up between the reality of life in the 21st century and the anachronistic world of our politics and government offers the Labour Party a fresh opportunity. For too long we have been trying to play catch-up, struggling to comprehend and respond to the pace of change. But now, with five long years of opposition ahead of us, our Party has the time and space to rethink, regroup and relaunch.

Jeremy Corbyn fought a truly impressive leadership campaign, and secured an emphatic victory. He now has a strong mandate to lead, and he has stated clearly and repeatedly that he wishes to have a comprehensive conversation about the future of the Labour Party. The purpose of this pamphlet is therefore to make my 'starter for ten' contribution to the re-invention and relaunch process that Jeremy has initiated, and the proposal at the heart of it is that we should commit to building a New Nation: a country with confidence, creativity and a sense of a **purpose**; a country that is powered by a redefined **patriotism**; a country **resilient** enough to withstand the shocks that will surely come our way. In short, a truly United Kingdom in which people and communities can embrace and shape their future.

The challenge before us now is to put an offer to the British people that is both founded on a deep understanding of the world as it is now and driven by a radical vision of how we want it to be in 2025 and beyond. Developing and articulating this offer is the only way in which we can return to government in 2020, and thus the only way in which we can once more make our values meaningful to people's lives.

We know we cannot afford to lose in 2020, not for ourselves, but for the country. And we understand that the Conservatives' approach to governing has limited horizons, based on ideological dogma not rooted in reality and without the courage or confidence to build a broadly shared prosperous future for the United Kingdom. They will reduce investment in our future – as individuals, communities and an economy; they will leave us more vulnerable to the unpredictable shocks and threats of the future; and they will see us withdraw into an isolated corner on

the world stage. All of these trends are already under way. We cannot accept them.

Their short-termist focus on tactical political advantage will never lead to the radical re-imagination and reform of our economy, society and constitution that are so desperately and urgently required. Yes, it has won them an election, but it will forfeit our future.

Labour must set out a different path. We must set out a vision for 2020, 2025 and beyond to build a country – a United Kingdom – of purpose, patriotism and resilience, and our mission over the coming five years will be to convince the British people that Labour is the only political party that has the desire and capability to achieve those goals.

## **Faulty foundations**

When the exit poll appeared on our screens at 10pm on 7 May 2015, the floor gave way beneath the Labour Party. Every candidate, activist and supporter across the country felt as I did – a sickening sense of disappointment and disbelief. Of course, it turned out to be even worse than we all feared at that moment, and we ended up with a majority Conservative government.

Ever since that night, the image of a sinkhole has played on my mind. We've all become more aware of sinkholes in the last few years. In 2014, we had a large number appear across the UK. There were quite a few near misses – a hole as deep as a double-decker appeared in the middle of a South-East London garden, whilst another one in High Wycombe swallowed a family car that was parked outside the house.

Sinkholes challenge our faith in the thing we rely most upon, and yet take most for granted – the ground beneath our feet. One minute it's there ... and then it's not, unleashing a force that destroys and swallows up those unfortunate enough to be in the wrong place at the wrong time.

On 7 May it was the Labour Party that was swallowed up – and too many of our candidates. The ground that we thought was solid

beneath our feet proved to be constructed on faulty foundations, and so we went crashing through the floor.

The result on 7 May was not only devastating because we lost, but also because we know that Britain in 2015 is a more unequal, divided and insecure country than it has been at any time since 1945, and five more years of unfettered Tory rule is only going to make things worse.

We now live in a country where the income of the five richest families is greater than that of the entire wealth of the lowest earning 20 per cent; where the middle class is being hollowed out by the impact of new technologies, misdistribution of incomes, and growth that is – again – largely dependent on rising household debt; where the manufacturing base is being eroded by retrograde industrial policies; a country where on 7 May the forces of nationalism, separatism and reaction triumphed over the forces of solidarity and progress.

And yet not that long ago we were a country characterised by a broad sense of optimism, purpose, and a sense that we were genuinely all in it together. For most of the Blair–Brown years we were moving in the right direction, thanks to doubled investment in health and education; employment at its highest level ever; the introduction of the National Minimum Wage; devolved power to Scotland and Wales; crime cut by 32 per cent; 600,000 children and a million pensioners lifted out of relative poverty; the number of apprenticeships more than doubled; the Good Friday Agreement in Northern Ireland; and so the list goes on ...

That it is certainly not to say that the UK was a land of milk and honey between 1997 and 2010. The seeds of the deep-seated challenges that we now face were sown long before the Blair–Brown years, and it is beyond doubt that more could and should have been done during those years to tackle the *structural* weakness of the British socio-economic model. Tony Blair and Gordon Brown did a huge amount to rebuild the UK after the deeply damaging impact of 18 years of Conservative rule, but the fact of the matter is that too much was built on sand. Blair and Brown succeeded in fixing the leaky roofs and the crumbling

façades of schools and hospitals, but they failed to redesign its foundations: affordable housing was neglected, asset inflation and wage slowdown widened the wealth gap, the forces that caused the financial crash were (vital for the country) rescued but then still not firmly regulated.

The financial crisis of 2008 is the most obvious example of what happens when your foundations are faulty – our financial system, which had been held up as a shining beacon of success, crumbled almost overnight and the fallout has cast a long shadow ever since.

Of course, the idea that Labour's investment in public services caused the crisis is nonsense. The reason it happened was, largely, that some of the beliefs and ideas that underpin the international economic system are faulty.

We ourselves were beholden to three ideas that meant our economy and society wasn't as resilient as it could have been. One was that the stability of the financial system could be taken for granted – the 'end of boom and bust'. So, yes, Labour did run a small and historically insignificant deficit when they shouldn't have done because they didn't think it would be an issue.

The second foundational idea that still holds sway over much of the economic system is that regulation is a bad thing: overbearing government inhibiting business. But unfettered deregulation allowed for cowboy banking practices and a financial services Wild West that caused a global crash. Individual bad bankers may deserve condemnation and worse, but the roots of the disaster were in a system based on assumptions, practices and gambles that would always lead to the bursting of the bubble.

The third, and possibly the most damaging, idea was that as long as the overall economy grew, the type of economy that was growing didn't matter so much. It meant that we were over-reliant on financial services and personal debt for success, leaving millions of people brutally affected when the crisis struck. Some of those were the young people who had benefited from Labour's investment in education, but then couldn't find a job: as industries shrank and opportunities shrivelled, their prospects disappeared down the sinkhole.

The point about those three key ideas was that they were the consensus: held by both Labour and the Tories. Before the crash, the Conservatives would have deregulated further and they had completely signed up to Labour's spending plans. And in the five years since winning power their one-dimensional focus on austerity has done nothing to make the economy more balanced, or to make regulation more effective at supporting business and building a more resilient socio-economic model.

Although the underlying ideas, concepts and principles that drive the actions of government don't make the national news that often, they are what form the basis of the 'received wisdom', which we too often uncritically accept and yet almost completely shapes the politics of our country. We are often quick to blame people, yet we have to realise that bad systems are just as responsible for the world's problems as bad people.

The global financial crisis of 2008 is just one example of why it is vitally important that we get to the heart of the matter: Labour must challenge the received wisdom that has such a chilling effect on politics, government and the media in our country, for this deeply entrenched conservatism is preventing us from conceiving of the radical reforms that are the precondition for building a more resilient nation, that is re-founded on a new sense of purpose and patriotism.

## **A once-in-a-lifetime opportunity for Labour**

I offer a very simple argument: the Labour Party is the only political party that has the potential to truly understand that the foundations upon which the UK's economic, social and constitutional model are built are not fit for purpose in the 21st century. But in order for us to realise that potential we must now learn the lessons of the Blair-Brown years and of the 2010 and 2015 electoral defeats.

It is an opportunity for original thinking, but also to learn from those who are driving the economy and our society forward by trying to accelerate their joint development – with ingenuity, with skills and with common sense.

It is an opportunity for us to develop new ideas and ways of working that allow us to build a society and economy in which people, communities and businesses can flourish.

Winning a battle of ideas is not new to the Labour Party: we have long been the champions of equality and inclusion, we have always understood the crucial interdependence of social justice and economic efficiency, and we have propelled great advances. Who could have imagined back in 1985 how proud the Conservatives would have been now of their ethnic diversity after this election? Who would have thought that a Conservative-led government would put forward a Bill legalising same-sex marriage? And who would have imagined a Conservative leader one day pledging that 0.7% of gross domestic product (GDP) must be devoted to international development?

These are just three examples of Labour ideas and beliefs becoming the consensus. They have made our society and country better, without doubt. Yet there are too many areas where we made progress when in power, but where we didn't win the battle of ideas – and where we are now seeing the gains we made rolled back under this government. Even battles seemingly won are at risk of re-igniting – as the Tories' actions against the principle of free universal healthcare show.

The UK faces challenges across the entire spectrum of our economic, social and constitutional institutional model. From the future funding of our NHS to the development of universal child care, it is essential that we rethink our social safety net so that it is rebuilt to last. However, this pamphlet focuses on the political economy, because I believe that a strong economy is the precondition for a fair society.

It is the area where Labour is not only perceived to be weakest, but also where we have not established any of the 'received wisdom' that has then become the consensus, as we have done with far greater success in social policy. Our role should not simply be to administer the economy when we're in power according to someone else's beliefs, but to establish a new, more progressive and more sustainable consensus around what is 'normal'. Moreover, if

the Labour Party is to have a serious chance of winning in 2020 then we must, first and foremost, set out a convincing vision that makes clear how we will manage the economy and restore budget balance by delivering sustainable, resilient growth.

What follows is therefore an attempt to outline the three principles – purpose, patriotism and resilience – that I believe must underpin our efforts if we are to make the most of this once-in-a-generation opportunity. It is by no means comprehensive, and does not offer fine policy detail. I wrote it as a contribution to a debate in which we have to challenge ourselves to go further, to be more creative and more courageous than ever before.

And this is without doubt what we must do, if we are to set ourselves back on the road to government, and the country on the road to a more sustainable and confident future.

## Three principles for our future

The Labour Party has traditionally defined its mission around the values of fairness, community and aspiration. Our *raison d'être* has always been to build:

- *a fair society*: where opinion is free, where talent and effort are all you need to get on in life, regardless of the family into which you were born, and where the safety net will catch you and help you to bounce back if you fall on hard times;
- *cohesive, confident communities*: where people respect and support each other, and where civic pride is the defining feature;
- *an aspirational economy*: where enterprise is valued, hard work is rewarded and social mobility is celebrated;
- *a just and peaceful world*: to be achieved through the maintenance of human rights, international security, equity and the rule of law.

These objectives have always been, and will always be, at the heart of Labour. But the central premise of my argument is that we have been confusing our means with our ends. We have been talking about fairness, community and aspiration as if they were outcomes in themselves, but they are not, they are components of progress, and here's why:

- We do not believe in equality because we are bleeding heart liberals, but because we see equality is a stepping stone to a society of **purpose**: a society in which we are all pulling in the same direction, and therefore happy to lend a helping hand to those who need it.
- We are not simply against gross inequality because it is unjust, but because it is also inefficient, wasteful and costly.

- We do not support greater community cohesion because we are a sentimental or nostalgic, but because we know that confident communities are the building blocks of security, creativity, and self-esteem that are essential elements of a truly **patriotic** society.
- We do not see ourselves as enablers of aspiration because we are driven by the politics of envy, but because we know that rewarding aspiration is the route to **resilience**.

My contention is that many in the British electorate are confused by Labour. People are struggling to grasp what we stand for because while they regard fairness, community and aspiration as decent desirables, they are likely to see them as a soft-focus, 'touchy-feely' set of intangibles unless they are clearly enabled by a credible, workable programme of economic advance for themselves and for the country.

We have already seen on how much the world has changed in the last 30 years: from Fordism to freelancing, analogue to digital, electoral bloc to network society. These transformations can broadly be described as a seismic shift from homogeneity to atomisation.

Back in 1985, when I became a member of the Labour Party, fairness, community and aspiration seemed to many to be good enough, particularly because established political allegiances were so much stronger back then: 'my Mum and Dad would spin in their graves if they thought I'd ever think of voting Tory' was a phrase that you heard a lot more on the doorstep then than you do now. Thirty years later, the way in which the Labour Party defines itself needs to be brought into far sharper focus, and has to convey a sense of the country as it is now, not as we would like it to be.

If we are going to regain the trust and support of the British electorate then we have to show them that we fully understand the current realities which shape and rule their lives. We have to show that our commitment to fairness, community and aspiration is no longer enough. We have to offer more, we have to raise our level of ambition: yes, we want to strengthen fairness, community and aspiration, but as an essential means of ensuring a productive,

competitive, prosperous United Kingdom of purpose, patriotism and resilience.

## The politics of purpose

Britain is suffering from a crisis of purpose. For decades we have put all our faith in markets as the ultimate arbiters of right and wrong, and then in 2008 we discovered the folly of our ways. The fall of Lehman Brothers and the ensuing near-total collapse of the global financial system was the clearest and highest impact example of market failure since 1929 (although it was by no means a first – history is littered with similar crashes). What every one of those market failures should have taught us is that markets are not perfect – they have to be managed and regulated. But that vital lesson has not been learned. Instead, we lurch from one crisis to another, constantly treating the symptoms of the problem, as opposed to the causes, and so remaining stuck at square one.

Why is it that we seem to be unable to learn the lessons of market failure? In my view the answer to this question lies in the simple fact that we lack a sense of purpose. If we were to develop a shared understanding of what the economy is actually for, and if we were to articulate a vision that takes us above and beyond the orthodoxy of neoliberal economics and its obsession with deficit reduction at any cost, then we might have a chance of breaking the mould, and of changing the behaviour patterns that lead us constantly back to the cycle of boom and bust.

In the same way, people need to be more than just secure in their lives. They need to have something to hope for; our society can't just be about maintaining the status quo. We need to be more ambitious for ourselves and for each other. As a society we talk a lot about what is being done. Yet before deciding *what* to do, you have to work out *why* you're doing it – your goal, your founding belief, your mission.

It is what some call 'narrative' – but to build a convincing narrative, we need to identify that compelling purpose to begin with. It is what the author Simon Sinek calls the 'why': the vision

of what a country should be – how it should serve its people at home, and what it should stand for abroad. As Sinek points out: Martin Luther King declared ‘I have a dream’; he did not mutter ‘I have a plan’.

No wonder then, when we only spoke to people’s compassion and sense of justice in the last election, we failed to convince many. We did not speak enough to their hopes or ambition. They didn’t understand our vision for society, because we didn’t tell them what it was. They noted that we used up a vast amount of airtime talking about the bedroom tax and zero-hours contracts, and their response was: ‘That all sounds fine, I agree with much of it, but what does that mean for me when I’m not on zero hours or liable for bedroom tax? How will those changes impact on my life? How will those policies help me and my family to get on?’.

The only good news is that the Tories don’t have a narrative either. Their ‘long-term economic plan’ mantra has certainly been effective in electoral terms, but in reality it is a political slogan, not a productive economic strategy. Savage cuts in public spending diminish the fiscal deficit, at great cost to investment, social support, and economic potential. But they will never be a sustainable solution, because they only restrain resilient economic growth. The only way in which to get our public accounts back into surplus is by tackling the structural weaknesses that lie at the heart of Britain’s economy. Austerity is diminishing society and economic performance. Something far more ambitious is required.

Our priority as a party must therefore be to spell out a policy design that gives the UK purpose in the modern, global age. It must address how we build stronger foundations for our society and economy, and also how we build them higher and more broadly. Yes, we will focus firmly on the deficit, but we will do so in the knowledge that indiscriminate reductions in public investment, services and support can never be the real, productive answer.

The relevant changes must extend from the principle that every child should have the same shot at life, no matter their background, all the way through to a manufacturing renaissance, with the UK becoming the world’s leading exporter of knowledge and skills,

as well as the source of competitive products. In all of these and other features of our programme we will have to show why we want to achieve such outcomes as a matter of productive utility as well as social equity. Crucially, we have to signify how they can be credibly and cumulatively reached. That will require firm restatement of Labour beliefs, such as the ideal that no person is left behind, rendered anew to be relevant and workable in the modern world. Our vision has to set out what we are for, not merely what we are against.

In short, the ambitions of our country and the aspirations of our people must be furthered by a future Labour government: a government of purpose.

In the sections entitled ‘What is the economy actually for, anyway?’ and ‘Rebalancing Britain’, I attempt to articulate a new politics of purpose, and to give a few examples of how this could play out in practice.

## **Reclaiming patriotism**

With the rise of the United Kingdom National Party (UKIP), the Scottish independence referendum, and the EU referendum on the horizon, the notion of pride in our country has been a leading part of the national conversation in recent years. Some have used a sense of pride in country to resist the new, the different and the ‘other’. Others view people who exhibit pride in their country as closed-minded and, in extreme cases, judge them to be racist. The notion of full-throated pride in your country has unfortunately been skewed to the negative in some circles.

Like charity, patriotism is a sentiment that should begin at home. The way in which we perceive and engage with the rest of the world is based on how we view the state of our own country. If things don’t feel right on the inside, then human instinct is to blame the outside.

And it’s clear that things just don’t feel right. The remorseless advance of globalisation and new technologies has had a hugely destabilising impact, eroding the old sense of collective solidarity

and cohesive identity. And once solidarity and cohesion are weakened, it is only a matter of time until they are replaced by insecurity, fear and xenophobia.

The undercurrents of insecurity and instability were deepened by the recession, and then further compounded by the austerity policies of the 2010–15 Conservative-led government. The resulting sense of division and fragmentation created fertile ground for nationalism, leading people to flock to the Scottish National Party (SNP) and UKIP in numbers we never anticipated five years ago. The appeal of both the SNP and UKIP is based on the way in which they feed off insecurity and fragmentation, and channel those destructive forces into encouraging people to unite against a common enemy. In the case of the SNP this enemy is the ‘overbearing and exploitative’ English state, and in the case of UKIP the villain of the piece tends to be the ‘European superstate’ and the ‘political elite’.

I love the UK and feel deep pride in being Welsh, British and European. However, my UK is not the UK of UKIP, or of the SNP. My UK is a country of openness and liberty, built on shared values of compassion and of courage. I celebrate the fact that for so long the UK has been ‘the shining city on the hill’ that people from all over the world want to come to, as it represents hope of a better life, and fairness and freedom under the law. My patriotism believes the UK and its people can and will be best served by engaging in the world and playing a leading role in shaping our shared global future. And yet that is not a version of patriotism that is articulated as assertively as it should be, despite the fact that it is shared by millions.

That, it seems to me, reflects the fact that as a country, we’ve lost our sense of confidence in what our role in the world should be. This is partly a consequence of the recession, partly a consequence of the Tories’ negative agenda of managed decline, but Labour must also bear its share of responsibility. Over the last five years we failed to set out a compelling vision of our country, and what it could be and what it should represent for our people. We failed to counter the SNP’s or UKIP’s narrow nationalism with a proud,

inclusive patriotism that celebrated the values we hold dear and showed, in plain terms how everyone in the UK gains tangible advantage from unity and EU engagement.

Yet it was not that long ago that New Labour was more than political branding and, a New Britain more than PR spin. That sense of patriotic endeavour was real and widespread – and you could see it in how we helped shape the global agenda. Think of how the Labour government helped avert catastrophe in Kosovo; led the charge to make the historic 0.7 per cent pledge for international development; secured the agreement at the 2005 Gleneagles G8 meeting to write off \$50 billion in debt for the poorest countries; won the Olympics for London and passed the ground-breaking Climate Change Act in 2008.

It was a government that shaped the agenda across the world, something that has been forgotten in the terrible shadow of Iraq and, later, the recession. Yet even in the aftermath of the financial crash, Gordon Brown certainly led the global community in preventing a cataclysmic financial meltdown that would have shattered the UK and many other economies.

Seven years later the international community no longer expects Britain to be a substantial international influence. Our standing is diminished and our leadership role abandoned. The German and French leaders deal with Putin without any British presence; we restore relations with Iran on US coat-tails; the refugee crisis produces no convincing engagement from the UK. Our patriotism has been distorted into a narrow brand of nationalism that wants us to retreat to an isolated position, under a government that is no longer a constructive partner on the global stage, but rather a murmuring spectator on the side-lines.

It isn't vanity or delusions of grandeur that makes me detest this posture. On the contrary, it's the realistic recognition that retreat from significance makes our country less able to frame the future of our people and our fellow human beings, consequently leaving us less secure and less able to advance our economic and political wellbeing.

The point is that era-defining issues such as the current migrant crisis will never be solved by retreating from the world; further international engagement and co-operation are our only hope, if we truly wish to tackle and resolve both the humanitarian disaster and the domestic implications of mass migration.

Continued failure to acknowledge the interconnectedness of foreign and domestic politics will cost us not only in terms of prestige, but also in terms of financial opportunity. As a seasoned official at one of the EU institutions once said to me: 'If you're not at the table, then you're on the menu'.

It's not too late to get the UK back into its rightful place in the flight deck of world affairs, but if the Labour Party is to take a lead in making this happen then we have to start redefining and reclaiming patriotism.

The separatism of the SNP and UKIP is not driven by patriotism, or at least not as I recognise and understand that term. Their separatism is a narrow form of nationalism, and nationalism is, in fact, the direct antithesis of patriotism. The time has now come for Labour to reclaim ownership of patriotism. The Union Jack, the Welsh Dragon, the Cross of St George, and the Scottish Saltire belong to the British people, but for too long the Labour Party has allowed others to claim these potent symbols of what it means to be British as their own.

We must now redefine our patriotism by re-engaging with our communities. We know that we cannot defeat the malign forces of social fragmentation and under the pressures of nationalism and separatism until we have a compelling, positive alternative. This means rethinking the role of community in the age of austerity (which is a euphemism for deprivation in many areas), and it also means redesigning the state in the age of the networked society. In later sections of this pamphlet entitled 'Power to the people' and 'Reshaping the UK: federalise or die', I outline some aspects of what this might look like in practice.

## **A foundation of resilience**

The politics of purpose and the new patriotism are underpinned by the third principle that must be a feature of all our work – resilience.

Why resilience? The definition of resilience is the ability to recover quickly from difficulties. In an uncertain and unpredictable world, it is essential if we are going to be prepared to absorb and respond to change, whilst fostering and maintaining a sense of purpose and hope.

The UK wasn't resilient in 2008 as we had put all our eggs in the financial services basket, and so the recession cut deep. Following that, the Conservative-led government reverted to the Thatcherite idea that government shouldn't be an active partner with business and so our recovery was slow. This lack of resilience makes us vulnerable again to potential future shocks.

In this era of huge and overwhelming transformations, there are going to be enormous pressures on our society, only some of which we can predict. In a world that is in a constant state of flux, the successful societies and economies of the future will be the ones that recover most quickly: when the earthquake comes, the only buildings that stay standing will be the ones that are built to absorb the shock. The same is true of economies.

Partnership and solidarity are the key ingredients in resilience and the essential Labour ideas of collaboration – 'common endeavour' in Clause IV parlance – is the practical means of building resilience in every sphere.

The EU, imperfect as it is, is a living illustration of how the pooling of resources, integration of economies and co-operation across communities can strengthen resilience. The EU, after all, has taken a battering since the sovereign debt crisis, but it has absorbed the shock and it is generally recovering, although the values and obligations of solidarity must be applied in the Eurozone, particularly in response to the realities confronting Greece. Without the commitment to declared partnership that underpins the EU the impact of the debt crisis could have been far greater. And it's also worth noting that the EU makes the UK

more resilient in terms of dealing with international crime, making positive trade deals that leverage our combined scale and, above all, successfully securing a Europe at peace with itself.

Partnership also allowed us to tackle a whole range of challenges throughout the Blair–Brown years in office, from reducing domestic violence and global extreme poverty through to helping investment in national innovation through Catapult centres. At the root of all these successes was the idea of partnership – between government, the people, the private and third sectors, and even international partners.

Or consider productivity – ultimately the most enduring economic challenge facing the UK – as an example of where we need partnership. The national debate currently views economic success in the terms of simple growth in GDP and employment figures. Yet we look at how our national productivity is flatlining, falling further behind economies such as those of the US, Germany and France, and we know something is seriously wrong. It means our companies are less competitive in the global market; our employees suffer job insecurity and stagnant wages; and our government doesn't secure sustainable growth, continually reduced unemployment or increases in tax revenue to fund public services.

But practical answers do exist: case study after case study shows that it is only if employers and employees tackle the challenge together, with a collaborative eye on the long-term future, that productivity can be boosted. Embedding partnership – between companies, workers, government and, trade unions – into how we build our economy will make the UK more resilient, and thus more competitive in the global marketplace.

Yet in all these areas, despite their claims that 'we're all in this together', the Conservatives have actually followed a 'you're on your own' philosophy that creates distance between the different actors involved, isolating each of us and therefore making the whole more fragile and insecure.

Partnership is just one example of how Labour ideas can build resilient foundations for our society – there's a reason we called it the strength of our common endeavour.

We need to win this battle of ideas, and to make the language and actions of resilience into our vision and into our policy-making. If we are able to do this, then in time the British electorate will come to understand that the Labour Party is the only party truly working to advance the performance and security of the UK, because we have the capability and practicality with the desire and capability to build truly resilient economic, social and constitutional foundations.

Purpose, patriotism and resilience are three characteristics that a future United Kingdom must have if it is going to succeed in what is a potentially exciting but testing future.

Ours must be a confident vision of a country that creates the opportunity for our people to live the lives they are capable of living. Labour has always been (and will always be) the party that champions the cause of ordinary people, regardless of whether those people are considered to be working or middle class. But the central point is that the interests, lifestyles, hopes and dreams of the British people have changed beyond recognition since I joined the party back in 1985. Now is the time for the Labour Party to acknowledge and understand those changes, and to craft a new narrative that is relevant and meaningful in the modern world.

# The politics of purpose

## What is the economy actually for, anyway?

This pamphlet focuses on the political economy and the governance system that underpins it, as I see these as the central drivers for how much of society operates: whether we can demonstrate purpose, whether the country has the confidence to be patriotic and whether it has resilience.

Although the election became about ‘who is more credible on the economy’ and the myth purveyed so effectively by the Tories that Labour was responsible for the global financial crash, we do know that if we’re going to succeed together, as a country, there are serious structural issues that we must have the courage to address.

Our economy was and is too unbalanced and unstable to be resilient. It is too:

- *reliant on the financial services sector*, at the expense of other sectors where the UK has enormous potential;
- *London-centric*, ignoring the talents of too many of our people from other areas of the country;
- *inward-looking*, with persistent trade deficits that mean we miss opportunities in the world;
- *unequal*, pushing the proceeds of growth to the wealthiest 1 per cent rather than boosting the income of everybody in the country. Even in London, 40 per cent of people live in poverty;
- *greatly weighted in favour of private interest* over the public sphere;
- *short-sighted*, aiming for the fast buck rather than long-term and sustainable prosperity.

And this is all against the backdrop of more global competition than ever before, as people, communities and countries are working harder than ever to survive in the global marketplace.

If we don't address these issues together with fierce urgency, we will, quite simply, forfeit our future. Our lives will become poorer. Poorer financially because more people will struggle every day with the cost of living when opportunities shrink and others take advantage. Poorer socially – income inequality and financial insecurity will increase, fostering resentment and weakening the ties that bind.

Of course Labour tried to address this over the last five years, but we forgot that in order to do so we needed not only to work with business, but also make any solutions work for business, as central actors in our economy.

The Tories, in the meantime, have chosen a path of managed decline. Their answer to everything is simply to reduce the size of government and to transfer as much as possible of what is currently in the public sphere to private hands. Their 'long-term economic plan' is not a plan at all, it is a book-keeper's to-do list, focused entirely on the reduction of costs without any meaningful thought given to the generation of revenue through sustainable growth. They have not challenged and will not challenge the fundamental issues – the faulty foundations – of our economy.

But if we are going to articulate an alternative vision, then we must have a clear sense of purpose, and a definition of desired outcomes. Therefore, my first question is: 'What is the economy actually for, anyway?'

Bill Clinton's famous campaign slogan 'It's the economy, stupid' is absolutely right – but doesn't give any indication of what a good, functioning economy is supposed to look like. Too often we look for topline indicators only: GDP up, unemployment down, books balanced. Yet these statistics fail to reflect the impact of the economy in everyday life. They are statistical results, not human outcomes.

So, what is the economy actually for? I always liked this definition, which is my own, but which draws on a range of thinkers such as George Lakoff, Drew Westen and Will Hutton:

Through the success of people **and** businesses, the economy is there to do six things:

**First, to be productive** – with high levels of public and private investment in innovation, skills and infrastructure in order to generate persistent productivity improvement, thus ensuring competitiveness at home and abroad, decent incomes and reasonable job choice and security.

**Second – it has to provide enough money for people to live off.** People who work should earn enough for them to feel secure, to care for their family, to invest in their future and, yes, to enjoy themselves and be able to send their children to dance class or football without scrimping.

**Third – it has to speak to people’s human dignity.** Skills provide pride. Work provides worth. When jobs introduce great insecurity into life, then this affects confidence and sense of self-worth. Therefore the onus is on us to build an economy that promotes security, and a sense of purpose.

**Fourth – it has to speak to people’s ambitions.** Nelson Mandela once said ‘there is no passion in living a life less than the one you are capable of living’. A promise of our country should be the opportunity to seek and fulfil ambitions.

**Fifth – it has to enhance our society and our common endeavour,** enabling everyone to play their role effectively, including government. That means an economy in which people and business pay a just amount of taxes; where the public interest – our common interest – is an important consideration in trade deals and planning decisions; in which we recognise that our individual success is indivisible from our societal efforts.

**Six – it has to operate within our planetary boundaries.**

We have to learn to grow our economy in such a way as to ensure that it works in harmony with our environment. This means reducing our dependence on the fossil fuels industries, whilst offering game-changing opportunities for green growth through renewables, and through the expansion of energy-efficient technologies.

And the economy has to deliver those things for everyone, equally – no matter their background. And it has to deliver them not just for us, but for our children, and for our children's children.

Now, when you look at what the economy is for like that, it changes how you go about creating it. You realise that statistical growth isn't enough, and you see that the Tories' chosen path of managed decline will ultimately destroy our economy's capacity to do the things it needs to do.

Shaping an economy that fulfils the six criteria listed above is clearly a challenge, but I firmly believe that it is possible – not least because it has the characteristics of a well-functioning economy that is achievable, not just desirable. It is possible to create an economy of purpose, and of resilience. Generating robust, durable growth is possible. Jobs that pay well are possible. Developing people's skills that give them the chance to be the best they can be is possible. And it is possible that, even while there is more competition around the world, we can still innovate, create and produce with the best of them.

With that economy as our aim – and resilience, purpose and patriotism as our guiding principles – we can begin to re-imagine the foundations upon which we're going to build our future, higher and more ambitiously than ever before. And our story begins with equality.

**Equality – the cornerstone of purpose and resilience**

Inequality has been a key theme in politics across every part of the globe in the last decade. It's hardly a surprise: the richest 1 per

cent in the world own more than the rest of the world's population combined. The 80 richest billionaires are worth \$1.9 trillion, which is equal to the bottom 50 per cent of the rest of the world's population.

There is growing consensus across the political spectrum that wealth and income inequality have become the key indicators when it comes to assessing the performance of the 34 Organization for Economic Cooperation and Development (OECD) economies, which makes inequality the key problem area to tackle when the gaps become too wide. We also know that inequality undermines resilience in almost every way: increasing crime; reducing economic opportunity; deepening social and economic instability; damaging our health; and weakening the ties that bind.

Christine Lagarde, Managing Director of the International Monetary Fund (IMF), speaking at the Inclusive Capitalism conference in May 2014 in London, stated that excessive inequality 'makes capitalism less inclusive. It hinders people from participating fully and developing their potential. Disparity brings division.' And she went on to describe how the deregulated finance sector has become 'extractive rather than inclusive'.

Labour should now be building a coalition for action on tackling inequality, but it's essential that this coalition reach beyond the 'usual suspects'. We should be engaging with business leaders to make the business case for equality – highlighting not just the impact that inequality has on social cohesion, but also the damage it does to our chances of securing long-term economic growth.

According to the OECD, the rise of income inequality over the last two decades is estimated to have knocked 4.7 per cent off cumulative growth in member countries. And whilst the public imagination conceives of inequality as being the gap between the top 1 per cent and the rest, the big problem when it comes to stalling growth is actually the difference between the poorest 40 per cent and the rest.

Inequality stifles social mobility, which is both a huge waste of potential, and a decisive factor in the constraint of growth. But perhaps the most pernicious effect of inequality can be seen in

the way that it leads to the concentration of wealth through the ownership of physical assets, and manifested in particular through the acquisition of property. Exclusion from the ‘golden circle’ of those whose credit-rating allows them to borrow to invest is particularly toxic, because it almost always passes from generation to generation. As Thomas Piketty demonstrated so clearly in his best-selling work *Capital in the Twenty-First Century*, the rate of capital return in advanced economies is persistently greater than the rate of economic growth, and this will inevitably cause wealth inequality to increase in the future. The link between the concentration of asset-based wealth and the growth of inequality is a fundamental structural weakness that must be addressed if we are to build a more resilient economic model. Later in this pamphlet I outline some ideas around reforming income and inheritance tax, which I hope may serve as a useful contribution to the debate about how we are going to tackle the challenge that Piketty so accurately sets before us.

Whilst economic inequality underpins all forms of the stifled social mobility that is unfortunately a defining feature of contemporary Britain, historical and cultural factors have also played a key role, particularly when it comes to ethnicity and gender. People who have come to the UK from all over the world in search of a better life have undoubtedly suffered disproportionately from a lack of access to opportunity. It is clear, for example, that we still don’t have enough black, mixed race or Asian representation at the top of our companies, our institutions and our politics. It is starting to change, with leaders such as Pat McGrath; Lord Rumi Verjee; Karen Blackett; Amol Rajan; Damon Buffini; Mishal Husain; Idris Elba; Baroness Lawrence ; Azeem Ibrahim and, of course, Malala Yousafzai inspiring new generations to re-imagine what they can achieve with their talents. But inspiration, while helpful, is in itself not sufficient. The opportunity to develop your potential and put it to valuable use actually has to be accessible.

The lack of social mobility in our society – a question of how we build our economy and people’s access to it – without a doubt perpetuates ethnic inequality in this country. It is an issue that

must be addressed with greater urgency: not only does the UK currently miss out on the full potential of too many people and communities, making us all less successful, but ethnic inequality also makes us more fractured and insecure, which means we are less resilient.

The same is true of the vital role that women can and must play in our economy and in our society. The fact is that just four years ago, in 2011, women filled only one in eight board positions in the UK's leading companies. That figure now stands at one in five and is set to increase to one in four by next year, as set out by Lord Davies' important report *Women on Boards*.<sup>1</sup> It's progress, but too little progress. We're still paying the price of the imbalances of our society 20 and 30 years ago – a time when fewer women joined the corporate world, were able to have realistic ambitions of executive careers and overcome the sexism built into our businesses.

Things have changed, but we need more change and we need it faster. Because the business case of bringing the female perspective and experience into the boardrooms and the executive teams of our companies is clear.

The Psychology of Entrepreneurs Report, published by Barclays and Cambridge University,<sup>2</sup> found that female entrepreneurs are less likely to take risks (20 per cent less likely than their male counterparts), have a healthier attitude towards financial management and are more likely to look after their staff in times of crisis. This distinctive approach makes a difference. A third of male-led companies go bust. For women-led companies, that figure is less than a quarter. During the recession, fewer women-owned businesses had to downsize.

And it's not only entrepreneurs. The homogeneity of the board at RBS was identified by the FSA as a key factor in its failure. Had women been part of the conversation, the conversation would likely have been different, as well as the outcomes. Greater diversity of representation almost always leads to better results.

Action is being taken, though it needs to be accelerated and expanded. In London, there is the 30% Club, which aims for – what should be a relatively limited and entirely achievable goal

– 30 per cent of top positions to be filled by women. One of its members, David Tyler, chairman of Sainsbury's, said clearly: 'The way most effective boards tend to be composed is with both men and women playing a full part. Shareholders benefit when boards have a diversity of skills, background and experience.'

As it is true with boards, so it is true for our society and economy: we need everyone to play a full part if we're going to make the most of the opportunities the future presents. This is why Yvette Cooper's passionate advocacy of Sure Start and universal childcare is so important. Yvette has called for a more feminist approach to our economy, and she is absolutely right. If we are to see the changes at the top that we so clearly need, then we have to provide the basic infrastructure that women need to enable them to play a full, active and equal part in our economy.

It is therefore clear that if we are to shape an economy of purpose and resilience then the first step has to be to tackle inequality.

This vision and narrative must emphatically not discount smart fiscal consolidation, public service reform and targeted spending cuts as important tools in the toolbox of the next Labour Chancellor of the Exchequer. But it must also be defined by our understanding of the fact that that the 'Tories' one-dimensional focus on austerity will never build a dynamic, resilient economy. It cannot do so, because austerity deals only with the deficit, which is merely a *symptom* of the deep foundational weaknesses in our economic model. If we are to build an economy of purpose and resilience we must instead address the flat-lining productivity, skills deficit, creaking infrastructure, anachronistic constitution and structural inequality that are the root causes of our malaise.

The central premise of this pamphlet is that Labour must work to re-invent the debate about what politics, government and the economy are *for*. If we are able to achieve that step-change in the way that people think and talk about why we have become the nation that we have become, and why the status quo is no longer a viable option, then we will have gone a long way towards reconnecting our party with the hearts and minds of the British people. But redefining the *why* will not in itself be sufficient. We

must also focus on the *what* and the *how*, meaning that we must craft a compelling, clear and feasible plan of action.

In the following sections I attempt to outline some ideas around what selected areas of such a plan might look like. I have chosen to focus on pay, taxation and productivity, as I believe these are where Labour most urgently needs to present the British people with a more compelling offer.

## **Pay, risk and reward: the fairness triangle**

If we are to shape an economy of purpose and resilience then we must fix how people are paid in this country. There are millions of people in Britain today who are working every hour that God sends, but who cannot live on what they earn. This makes them eligible for tax credits that top their salaries up to what is deemed to be a living wage, in what amounts to a huge subsidy from the taxpayer to enable businesses to pay their workers too little. Thanks to this system of robbing Peter to pay Paul, the share of public spending that is allocated to tax credits has ballooned in recent years to £30 billion (accounting for 11.9% of the overall welfare bill), in line with the vast increase in the numbers of working poor.

The use of tax credits as a means of subsidising low pay epitomises the privatisation of rewards and the socialisation of risks that characterises the way in which the British socio-economic model functions: from bailouts to tax credits and uncontrolled rents to Housing Benefit, banks and large corporations are able to maximise profits, shareholder value and executive pay because their activities are either underwritten or subsidised by the taxpayer. The explosion of zero-hour contracts and similar erosions of rights at work are further examples of where the risks of business have been transferred from the corporation that stands to benefit to the individual worker and, because individual workers can only rarely build up their own resilience and safety net, the risk is then passed on to the taxpayer.

In terms of pay, this has manifested itself through sky-rocketing executive remuneration, based on the generation of profit margins

that frequently result from the workforce being paid wages that are far below true market value.

The Conservatives claim to understand this. The fact that George Osborne was cheered to the rafters by Tory MPs when he announced his ‘national living wage’ in his 2015 summer Budget is of course testament to his penchant for political cross-dressing but it is also a recognition of how much **it** is valued by people across the country. It is now universally understood, of course, that Osborne’s summer Budget was an elaborate confidence trick, as the effective freezing of tax credits cancelled out any net benefit that the increased hourly wage might have delivered. The Chancellor giveth, and the Chancellor taketh away ...

But the more interesting point about the sight of a Tory Chancellor being cheered on by his colleagues for committing to a substantial increase in the minimum wage is that it reflects the fact that the entire political establishment has come to recognise that there is something fundamentally wrong with the way in which workers at the low end of the income scale are remunerated. Osborne’s budget opened the door to a radical rethink about how the minimum wage and the living wage are set and funded, and the Labour Party should be leading the charge.

Labour under Tony Blair was absolutely right to introduce the National Minimum Wage, in the teeth of opposition from the Tories. It is now time to go further. It’s time to state that a resilient pay model is one where there is a clear and balanced link between risk and reward, which in turn is the defining feature of a properly functioning market economy, and it’s time to make it clear that rebalancing the relationship between pay, risk and reward will be a top priority of the next Labour government.

It is crystal clear that the only sustainable way in which to curtail the unacceptable and pernicious practice of the taxpayer subsidising poverty pay is to increase the minimum wage to £10 an hour (£12 in London) for all workers aged 18 and above, with immediate effect. To do so would also, of course, make a huge contribution to balancing the books, as it would remove several billion pounds from the tax credits segment of spending

on social security. There is also an added bonus: study after study is showing that as big employers move to pay the Living Wage (currently £7.85 nationally, £9.15 in London), higher pay leads to high productivity – leading to more successful companies and a more robust economy (but more on productivity later).

So, why aren't we already pushing for this to happen now, and why was our election manifesto commitment a timid pledge to increase the minimum wage to a mere £8 an hour by 2020? The answer is that the minimum wage as it stands is a very blunt instrument that is applied across the board to businesses of all shapes and sizes, regardless of their scale, turnover and net operating profit. Thus the owner of a shoe shop or other modest retail business in Aberavon Shopping Centre is obliged to pay her single employee the same minimum wage as multi-billion-pound companies like Tesco, McDonald's or HSBC are obliged to pay theirs.

Below I outline a proposal that might be worth exploring as it could enable the introduction of a £10-an-hour minimum wage, with immediate effect, whilst simultaneously ensuring that small businesses are able to flourish.

To set it in context, the purpose of pay policy should be fourfold:

1. To ensure that all working people (from the age of 18 to retirement) receive a living wage, that is set as a minimum.
2. To make it as easy as possible for start-ups and small and medium-sized enterprises to thrive and grow.
3. To ensure that highly profitable businesses contribute in a fair and equitable manner to the development of a more resilient growth model, in the knowledge that small businesses are the backbone of the UK economy and a critically important element of their supply chains.
4. To radically reduce the annual subsidy of £30 billion that is effectively being transferred from the taxpayer to company balance sheets to enable those companies to pay their employees poverty wages.

To achieve these four aims, the concept is to apply a Living Wage Levy (LWL) to all companies that are clearing a substantial net operating profit. The LWL would then be used as a ‘top-up’ to employees of low-margin small and medium-sized enterprises (SMEs; ie companies with fewer than 250 employees that are currently paying one or more of their employees the minimum wage), thus enabling the SMEs to continue paying their employees the current (2015) minimum wage. In practice this would enable the owner of the shoe shop in Aberavon Shopping Centre to continue paying her employee the current minimum wage of £6.50 per hour. That employee would then receive an additional £3.50 per hour from the LWL, thus topping her salary up to the £10-an-hour level of the new minimum wage.

Clearly, the details would need to be worked out. For example, setting the rate of the LWL and identifying the companies to which it would apply would be a relatively complex task. A starting point could be the FTSE 250, where the market capitalisation is now approximately £520 million (and this definition would also include large numbers of AIM listed companies and private firms). However, care would need to be taken with this, to ensure that the LWL does not impede companies from accumulating sufficient capital to cover the debt liabilities that they require in order to be conservatively financed (around a multiple of 5 before tax, and a multiple of 2 after tax).

Similarly, we would have to work out how to ensure that we are not simply propping up failing businesses through the use of the LWL, as that would be the immediate criticism from big business. Here the solution could potentially be to make the LWL a time-bound arrangement, based on an in-built assessment of recipient SMEs’ profit and growth prospects.

These are challenges, of course, but they are not insurmountable and the potential benefit of such a programme to our society means it could usefully be explored. Labour should therefore propose the establishment of an LWL Commission to undertake a thorough study of feasibility requirements, such as net operating

profits before and after tax, in order to determine the amount of net operating profit that would trigger the application of the LWL.

To recap, the Living Wage Levy could potentially deliver:

- a living wage that would become the minimum wage for all employees aged 18 and over, whilst ensuring that the small business sector is not adversely affected;
- a substantial reduction in the £30 billion that the taxpayer currently pays into the system in order to subsidise low pay. The precise amount of the reduction would depend on the number of companies that are required to pay the LWL, but the aim should be to reduce the burden on the taxpayer by several billion pounds;
- enhanced competitiveness of the SME sector, which would in turn deliver direct benefit to larger businesses through the development of more vibrant and thriving supply chains.

If the LWL were to be established and made to function effectively it is possible that it could take several billion pounds off the working families tax credits segment of our overall social security budget. I would propose that the Treasury should direct a large proportion of this saving into a ‘Resilience Fund’ that can then be deployed as a pump-primer for investment to drive a manufacturing renaissance and a productivity revolution across the UK. (There is more discussion of this in ‘Rebalancing Britain’ below.)

## Reforming tax

Let’s first and foremost be clear on the role of tax, within the framework of an economy of purpose and resilience:

- Tax should be a driver of social mobility, not a perpetuator of the status quo.

A resilient market economy has to be founded on a taxation system that is *disruptive*, in that it seeks to maximise social mobility rather

than simply to consolidate the status quo. In Britain we have seen the steady erosion of this principle over the years, as inherited wealth has become increasingly concentrated in the hands of the few, whilst hard-working people from less privileged backgrounds have a far steeper hill to climb.

If we are serious about rebalancing the British economy, then our primary aim must be to turn the current reality on its head by making the prospect of starting a business more attractive than the prospect of inheriting a home. Council tax in England is currently based on 1991 property values, and in Wales on 2003 values, whilst inheritance tax is engineered in such a way as to make the virtually risk-free passing of 'passive assets' between generations far more rewarding than the more risky creation of productive enterprise. Once again, we see the severing of the link between risk and reward that is a founding principle of a resilient market economy.

The paradox at the heart of our tax system is this: we reward the passive accumulation of wealth through our approach to inheritance tax, whilst we discourage dynamic economic activity through income tax. It is absurd that the child who is fortunate enough to be born into the family of a millionaire will benefit greatly from the relatively lenient tax on the assets that he or she inherits from his parents, whilst those who inherit nothing but their parents' commitment to hard work will face a far tougher tax regime throughout their lives.

If we are to successfully redefine the way in which people think about what the economy is actually for, then we must start by reframing the way in which people think about tax. To achieve this aim we should:

- state unequivocally that a resilient economy is founded on the principle that material wealth should accrue more from talent and hard work and less from asset accumulation and inheritance. All of our fiscal policies should flow from this principle;
- move to radically rebalance the relationship between effort, risk and reward;

- demonstrate that we are ready, willing and able to use taxation as a tool for re-engineering the equation between inherited assets and hard-earned income;
- make our tax policies a clear articulation of our belief that the accumulation of wealth through productive enterprise is to be encouraged, as long as it is underpinned by a strengthened connection between effort, risk and reward, whilst the concentration of wealth through the intergenerational transfer of physical assets is to be properly taxed.

For too long the political rhetoric on tax has not been aligned with the basic principles of meaningful economic policy. Among the results of that is the fact that incomes which seem to exceed the responsibility and risk taken by the earner are under-taxed, as are incomes which derive from asset inflation. If effective measures were taken to increase the obligations on very high earners (for example those earning annual salaries in excess of £500,000), including those benefiting from allowances for capital gains, then tax rates for other high earners – including earning between £150,000 and £500,000 a year – could be modified. There is compelling evidence that such changes would both increase revenue to the Exchequer and foster economic growth by stimulating demand. By proposing these changes Labour would be demonstrating that our approach to tax is not driven by the politics of envy, but rather is based on a hard-headed assessment of what it takes to rebalance the relationship between risk and reward, whilst securing the revenue that is required to fund 21st-century public services.

The great majority of income tax payers are now trapped by a system designed more than half a century ago, and they are paying the price for lack of reform. Larger corporations can, and do, pay extravagant sums to accountants to take advantage of the inefficiencies in our tax system, to the detriment of the common good. Labour cannot accept policy written for the advantage of hedge fund Tory paymasters, whilst we sit back and allow the large

majority of the electorate to fall victim to this outmoded system. Nothing short of a fundamental overhaul is now urgently needed.

A 'smooth curve' approach to the rate of tax obligation is therefore required to incentivise and not penalise career-building. As people earn more they pay a little more, gradually, without the perverse incentives currently built into the system. This new 'classless taxation' would create the simplicity and clarity required for actual fairness. People will know where they stand and, critically, would be likely to commit to a tax regime which disrupts the status quo, enhances equity and underpins an economy of purpose.

Below I outline some ideas that might help to reshape our tax system so that it is geared towards the creation of a more efficient, dynamic and resilient economy.

### *Rebalancing the relationship between income tax and inheritance tax*

Labour emphatically agrees that the lowest rate of income tax should never apply until the national Living Wage is earned, which is currently £7.85 per hour for workers outside London, and £9.15 in the capital (note that these rates would rise to £10 and £12 per hour respectively, if the Living Wage Levy that I propose above were to be adopted, and these rates would duly form the new floor for the lowest rate of income tax). Setting the top rate of income tax is a more complex challenge, and I believe that Labour should fundamentally rethink its approach in this regard.

There is a large body of evidence to suggest that increasing the top rate of tax does not translate into higher tax receipts, due to a multitude of behavioural and accounting practice changes used as a response to the higher taxes. For example, according to HM Revenue and Customs (HMRC) data and analyses by the Institute of Fiscal Studies, there is little evidence that increasing the top rate of income tax from 40 per cent to 50 per cent in 2009 resulted in substantially greater tax receipts for the Exchequer.

The notion that ‘the people with the broadest shoulders should bear the heaviest burden’ has traditionally been one of Labour’s basic commitments, even though it has not always been rigorously applied. Our default position has therefore always been to propose an increase in the top rate of taxation, as we duly did at the last election. But if the data consistently suggests that increasing the top rate of taxation actually has little or no effect on increasing tax revenues, then why do we constantly push for it? I believe that we should remove value judgements from our thinking about how to set the top rate of taxation, and focus instead on what works. In other words we should not base our approach on what appears – I emphasise ‘appears’ – to be ‘fair’ or ‘morally right’, but rather on finding a level of taxation that will strike the right balance between (a) incentivising and rewarding productive enterprise (as opposed to the accumulation of wealth through excessive remuneration and the accumulation and transfer of physical assets); and (b) generating the greatest possible amount of revenue for the Exchequer.

My proposal is therefore that the Labour Party should commit to a comprehensive approach to income, capital, property, sales and local taxation policy which would mean:

1. if the top rate of income tax is at 45 per cent on incomes above £150,000 pa at the time of the next general election, Labour would not seek to raise it above that level;
2. rates on lower incomes which take proper account of the spread of incomes in the economy, and the advantages of a ‘smooth curve’ graduated system of taxation;
3. incorporation of the value of all inherited property above the current level of regional house prices into an individual recipient’s total income, and taxing it accordingly. Note that this measure on inheritance tax should only be considered if we are simultaneously committing to the changes to income tax outlined above.

The benefits of such an approach would be fourfold: (a) the real equity of our tax policies would be evident; (b) we would be in

a position to increase tax receipts from higher earners, both by reducing tax evasion and by stimulating demand; (c) we would incentivise and reward productive enterprise vis-à-vis inherited assets, and (d) we could contribute to correcting the distorted image of Labour as being antagonistic towards business, entrepreneurs and the aspirational.

In presenting our more positive approach to tax, we must demonstrate that we are strongly committed to incentivising enterprise, rewarding growth and celebrating the productive innovations of hard-working people across the length and breadth of the United Kingdom. That is the combination of equity and efficiency that will help to shape a dynamic, resilient economy and society.

Income tax obviously can't be considered in isolation. Indeed there are many areas where Labour can lead the debate on optimising taxation to maximise the return to business and society alike.

### *Aligning income tax and capital gains tax*

The top rate of capital gains tax is 28%, which is clearly substantially lower than the top rate of income tax. This provides a relatively obvious opportunity for avoidance, and business owners have therefore consistently sought opportunities to pay dividends to themselves, instead of paying income tax under PAYE. One of the recommendations of the Mirrlees Review conducted by the Institute for Fiscal Studies<sup>3</sup> was to correct this distortion by aligning tax rates on earned income with those on capital income, taxing returns in full but with an allowance for the amount saved, thereby not penalising saving and investment. In practice this would take the top rate of capital gains tax to the same level as the top rate of income tax, which would in turn remove the incentive for the current practice of shifting income to dividends. This alignment would not only simplify the tax system, it would also facilitate the taxing of all UK-generated profits here where earned, which would in turn restrict the ability of corporations to avoid paying

their legal fair share of the tax burden. It's commonly agreed that approximately £50 billion is being legally 'avoided' rather than 'evaded', and much of this occurs through the shifting of income to dividends. Avoidance of this nature should be illegal, plain and simple.

### *Merging National Insurance with income tax*

When it was introduced in 1911, National Insurance (NI) was initially intended to be a contributory system of insurance against illness and unemployment, which was later expanded by the 1945 Attlee Government to provide retirement pensions and other benefits. Today, however, there is no longer any meaningful relationship between additional NI paid and additional benefit entitlements. Therefore NI in effect functions in the same manner as income tax, but less fairly. This is not only taxing people on the basis of a false prospectus, in that the system effectively misleads the electorate into believing that NI contributions are different from other forms of taxation, but is also costly to administer by the Exchequer, which must assess NI contributions and income taxes separately. There is also a substantial carry-over cost to business, which must calculate employee tax levied at different times on slightly different definitions of income. It is time to put a stop to this false system, and either set up a true national insurance scheme or merge NI with income tax so that it is at least levied more progressively.

### *Council Tax*

Due to capping and the failure to revise it in line with property values since it was last defined in 1991 in England and Scotland, and in 2003 in Wales, Council Tax is now one of the most regressive forms of taxation. Although at the last election Labour did attempt to address some of the iniquities in this system by proposing a 'Mansion Tax', this proposal and accompanying rhetoric helped to fuel accusations that the party was the 'enemy of aspiration'. A

thorough UK-wide re-evaluation of Council Tax for all households is long overdue, and will allow the full implementation of a more progressive system, based on current property values and a greater number of bands, with concessions where appropriate.

### *Cutting VAT and broadening its base*

Value added tax (VAT) was introduced in 1973, and has now become the country's third highest yielding tax. Originally conceived as a simple sales tax, the current VAT system is a clear and very negative example of how our tax system has failed to keep pace with the rapidly changing world around it, and how this disconnect creates regressive effects.

When VAT was introduced, certain goods and services were considered so essential that they were exempted. However, as society and technology has changed, beyond recognition in some areas, revisions to VAT rules have created a labyrinth of confusing and sometimes bizarre legislation producing one of the world's narrowest VAT bases, which is both costly and inefficient to administer for government and industry alike. The plethora of eccentric VAT anomalies would be too exhaustive to list here; however, prominent examples include the fact that helicopters are exempt but a cup of coffee in a café carries VAT, paperback books are zero-rated for VAT yet e-books are fully liable, tuition provided by an individual is exempt, yet if the tutor incorporates her business as a company, then her services become liable for VAT at the standard rate.

I therefore believe that VAT should be lowered to around 10 per cent, whilst simultaneously extended to cover all sales of goods and services, with the exception of food and children's clothes. Lowering the rate and broadening the base in this way would minimise costs for government and business, and would raise greater revenues through increased taxes on consumption, which typically affect the wealthiest most. Those on low incomes tend to spend a disproportionately large part of their income on

food, so this section of the population would be protected by the exemption on food and by the effects of lower general rates.

Another option, building on the ideas that are outlined in ‘Reshaping the UK: federalise or die’, would be to follow other countries and set a national VAT rate of between 5 and 8 per cent, and to leave it to local authorities to set (and to retain the revenue generated by) their own local sales tax.

Labour must rethink taxation to create a system which balances the nation’s finances while being socially just and benefiting all fairly. It is imperative that Labour create a tax framework where work is rewarded and we all pay a little more as we improve our circumstances. This win-win situation – that is, a rationalisation of our antiquated tax system whilst avoiding the politics of envy– will help maintain a growing and sustainable economy that produces a tax surplus year after year.

## Notes

<sup>1</sup> Lord Davies of Abersoch, *Women on Boards: Fourth Annual Report*, March 2015.

<sup>2</sup> Barclays, *The Psychology of Entrepreneurship: A data driven study into the motivation behind new business creation*, June 2015.

<sup>3</sup> Institute of Fiscal Studies, *Reforming the Tax System for the 21st Century: The Mirrlees Review*, September 2011.

# Reclaiming patriotism

## Power to the people

In outlining the three principles for our future, I attempted to sketch the contours of a new, practical and appealing patriotism, underpinned by a sense of internal confidence based on civic pride and voluntarism. In this section I aim to put some more flesh on the bones of that argument, with some thoughts on what it will take to build more confident communities, as the building blocks of the new patriotism.

The 21st-century UK is characterised by a paradox. The British state, business community and population are deeply connected to the rest of the world. Always an open, trading nation, we have been shaped by centuries of globalisation. However, while our networks of external engagement become ever closer and more complex, the domestic story is increasingly one of fragmentation.

The sense of loss and dislocation that have come out of de-industrialisation, globalisation, immigration and technological change are feeding separatist sentiments and alienation, and causing much of the malaise that currently blights our communities. Equally, the Tories' dogmatic addiction to (selective) austerity has led directly to the friction and fractures that have become the defining features of the last five years. Social cohesion is a precondition for sustainable economic vitality, cohesive communities and national unity, but the Tories have, as always, pursued the politics of divide and rule: attacking the poorest and most vulnerable; slashing local authority budgets to the bone; freezing wages, creating mounting personal debt, increasing inequality and protecting an over-mighty finance sector.

As globalisation intensifies it is increasingly clear that the UK must pull itself together. Internal fragmentation will dilute our national ‘brand’, undermine our economy, weaken our soft and hard power, and diminish our ability to influence international agendas. As European integration deepens and the BRICs (Brazil, Russia, India and China) continue to advance, the fragmentation of the UK patently runs counter to our national interest: size and scale do matter, if we wish to punch our weight in the global arenas.

It is therefore urgent and imperative that we develop a compelling narrative for the future of a UK that is confident on the international stage because it is comfortable in its skin at home.

Labour’s commitment to building a more resilient economy and society goes hand in hand with our understanding that the nations, regions and communities of the UK can and must stand together. An aspirational narrative for the future of the UK can only emerge from a shared sense of purpose. Our narrative points to a new, rebalanced economy based on high-skilled, well-paid, high-productivity jobs, created through a coherent industrial strategy that reverses the expensive and fragile concentration of wealth in London and the south-east.

You can hear and read a lot of negative commentary these days about the state of our communities, but what comes through loud and clear on the doorstep in Aberavon, the constituency that I am proud to represent, is that people care very deeply about the future of their neighbourhoods, and they are frustrated by the feeling that they don’t have the power to shape that future themselves.

For too long UK governments have addressed local challenges by setting targets and pulling levers in Westminster and Whitehall, but it has become clear that centralised, standardised decision-making and direction is not only inefficient, it also plays straight into the hands of the separatists by contributing directly to the disempowerment of our communities. The new localism and the new patriotism that I am advocating are therefore the antithesis of statism. We must stop looking to the state for the answers, and instead all levels of government must re-invent themselves

as enablers and delegators, listening to and partnering with local communities, and helping them take control of their own destinies.

By devolving greater responsibility for economic development and managing public services to local government and communities we will:

- address the over-concentration of wealth and investment in London and the south-east by spreading power, jobs and prosperity more evenly across the country;
- enable greater innovation and collaboration within and between public services and local communities, leading to more cost-effective solutions through pooled resources and economies of scale;
- empower local authority and community leaders by giving them greater control, and consequently greater accountability, over budgets and prioritisation.

There are numerous examples of the new localism in my constituency. As the cuts have bitten deeper, so Neath Port Talbot County Borough Council has been obliged to withdraw the subsidies that have been the lifeline for many libraries, community centres and sporting facilities. In almost every case, community groups have pulled together and jumped through a plethora of bureaucratic hoops in order to be in a position to take ownership of these assets, and in most cases the asset has been successfully transferred. However, the asset transfer process tends to be painful, as the council and community groups alike seek to find new ways of working together. Labour should therefore push for more training and confidence-building measures to facilitate constructive dialogue between local authorities and their counterparts in the community, as such dialogue is of central importance to the smooth and successful handover of assets from local authorities to communities.

The emergence of the new localism – collective self-organisation, community activism and advocacy, rooted in a sense of civic pride – can and should become the cornerstone of the new patriotism

that is discussed in the previous section. But the new localism also presents Labour with a golden opportunity to re-engage with the communities that should form the backbone of our support, and that should make up a large component of our natural constituency. However, in order to achieve this goal we must learn to think and act outside our comfort zone. We must discard the conventional structures of politics, and instead be willing and able to return to our roots as a campaigning, co-operative movement. We have to stop trying to ‘plant the flag’ on any given issue that arises, but rather act as equal partners with our communities, and as catalysts for their activities. Labour councillors have a critically important role to play here, as they build the trust and sense of community service that is so vital. This is not about electioneering; this is about Labour’s elected representatives across the length and breadth of the country rethinking their role, and adjusting to the new reality of serving their communities in the networked society, as facilitators as well as representatives.

As mentioned above, the new solutions are emphatically not statist. Top-down proposals never really worked very well, but in the digitised, networked society of today they are less appropriate or effective than they have ever been. The new localism is based on a new politics that is about empowering people to take control of their own affairs, and on the formation of formal and informal partnerships within and between communities. We must move from co-option to co-creation, based on the belief that:

- Stronger co-operation between service users, service providers and other interested parties will deliver better outcomes for citizens. The *co-operative council* model has huge potential, and is being rolled out in a number of Labour-controlled councils;
- Cities and towns are the primary drivers of economic development, and they can be the locomotive that pulls the rest of the economy forward. Our regional economic development strategy should cluster our cities, towns and surrounding areas, and we should continue to push for the Adonis Review’s<sup>1</sup>

recommendations around allowing these economic powerhouses to retain and invest additional business rates revenue;

- The recently published Final Report of the Local Government Innovation Taskforce<sup>2</sup> contains a number of recommendations that could be adapted and applied across the UK. The Labour Party should take these proposals as a basis for discussion, and should consider the possibility of presenting our shared vision for *people-powered public services*.

I believe that the new localism can and should be the cornerstone of the new patriotism. People are crying out for an opportunity to give something back, and out of this sense of civic pride a new confidence in our communities can be developed. Confident communities will reject nationalism, separatism and xenophobia, because those sentiments are the antithesis of the principles upon which the new localism are founded.

## **Immigration: telling it like it is**

We can't talk about patriotism without speaking about immigration. Let's be clear: immigration is a burning issue, and we need to have a big, open conversation about it. Four million people voted for UKIP on 7 May. That is a seriously large segment of the British electorate, and to ignore or dismiss their views, as some might have it, would clearly be a deeply misguided thing for us to do.

I believe that in order to give this conversation some focus, the Labour Party should stop talking about the economic benefits that immigration undoubtedly brings, because nobody is listening. Concerns about immigration are visceral, they're not cerebral. Moreover, British attitudes to the refugee crisis that is currently unfolding on Europe's doorstep flow directly from underlying sentiments about immigration in its broader sense.

The majority view of immigration is shaped by a deep unease about our cultural identity as a nation, and has very little to do with the debate about whether or not immigrants make a net contribution to the Exchequer (which they do by some margin –

but that is beside the point). Rather, disquiet about immigration has everything to do with the sort of observations that we hear constantly on the doorstep: ‘this country is full, we just can’t take any more of them’, or ‘this neighbourhood just doesn’t look like it used to’.

We cannot and must not simply dismiss this as xenophobic, or even as racist. The fact is that people’s unease about levels of immigration is sincere. It is bound up tightly with our sense of insecurity around the unpredictability and uncertainty of our future in a world that is changing at an unfathomable rate, and exacerbated by the impact of the global recession. How we live our lives is transforming; jobs – entire sectors – are disappearing; and, yes, communities are changing.

And when, in this context, wages are undercut, jobs are unavailable, class sizes grow or hospital queues get longer, people don’t blame the businessman who breaks the law and undercuts local workers by not paying the minimum wage. They don’t blame the government for not building an economy that is equipping people with new skills and creating the jobs that require them. They don’t blame the false economy in public services that means that savings now cause much greater expense later, leaving less money to invest in front-line public services. The blame is directed against that which is different and obvious – the people who arrived and changed our community – whether it is fair to do so or not. And more often than not, we are helped along by a manipulative populist, dressed in tweed and armed with a pint and a catchy slogan.

It is against this backdrop that I would propose that the following six strands could form part of Labour’s approach to immigration.

### *Be confident in the inspiration of immigration*

This debate goes to the heart of who we are as a country, yet we answer questions about immigration as if we are administering a profit-and-loss ledger. We need to be more confident about the huge contribution immigration has made and can make to our

country, because this is a fight for the type of country we want to be.

We have never really defined ourselves as a nation of immigrants and yet rare is the family that has not been touched by immigration. Our society has been immeasurably enriched by immigration — economically, culturally, socially — and the people who have come here with their hopes have helped us dream and achieve far more, simply by dint of their will to contribute.

As a party, Labour has to be clear that if the UK is going to succeed in the future, then we will need to continue to be that ‘shining city on the hill’ that calls the brightest and best from around the world to it. Every bit of diversity, experience and resourcefulness is going to be required for us to succeed as a nation. As long as people contribute to our society, then we should welcome them as an open, compassionate and confident state.

This is not ignoring people’s complaints. But it is recognising that immigration at its heart is about how each of us see the future. We all hope to have a life of security and opportunity, where as long as you play by the rules and work hard you will get on. If we are to see that hope realised for our people, then we need immigrants as part of the UK to build a growing economy and a thriving, vibrant society and culture.

### *Set a sensible and rational entry policy*

Nobody wants to be taken advantage of and everybody who lives in our country should contribute to it. So when it comes to intra-EU immigration, we should support the Prime Minister’s negotiating position on out-of-work benefits, but we should also advise him clearly that he is onto a hiding to nothing when it comes to in-work benefits. Britain’s ability to attract the world’s ‘brightest and best’ should be a cause for celebration. People are often hostile to immigration because they tend to confuse legal migrants — including 188,000 students last year (accounting for just over half the total net migration last year of 330,000), and many skilled graduates — with the relatively small number of would-be

asylum seekers seen at Calais. The top priority has to be for the Labour Party to place this critically important distinction at the heart of its thinking about immigration.

On immigration from outside the EU, we should push for the establishment of an independent review panel that will look at:

- every possible option for ensuring that we have a system that enables us to attract the talent that a purposeful and resilient economy requires; and
- ensuring that we do not see an increase in the number of people coming into this country who do not have a realistic prospect of securing mutually beneficial work or undertaking meaningful study.

*Help people and communities know and understand each other*

Once people are here, we want to ensure that they can make this country's future their own in a way that enhances society as a whole. There is no doubt that cultural dislocation and transition can be unsettling for people, both existing residents and people moving into an area. This is where the new localism comes in – across a whole range of areas, from settling children into a school and helping new members of the community to access services to hyper-local community events where people who are neighbours can get to know one another. Given fiscal constraints, this will be difficult and, of course, there will always be people who simply do not wish to engage. But there should be a sufficient number of activists and people of goodwill who are prepared to promote trust within and between communities.

*Do a government's job: run public services properly and apply the law*

Apart from cultural changes in the community, the key complaints we hear about immigration are the lack of capacity in public services and wages being undercut at work. And yet these

complaints (underneath the rhetoric) are not actually about the immigrants (or even the number of them), but about the quality of government delivery. On one hand, it is the government's responsibility to ensure public service delivery is in line with the number of taxpayers. On the other hand, government should be clamping down on employers who are undercutting the majority of the work market by not paying their staff a minimum wage by making such practices a criminal act. Similarly, we should crack down on unscrupulous employment agencies that only hire workers from certain parts of the world. In a classic stunt of misdirection and sleight of hand the Conservatives have managed to dodge the responsibility for their failure to deliver effective government services by channelling people's discontent towards the bugbear of immigration.

The solution is not, therefore, to follow David Cameron down the road of using immigration as a smokescreen for his own inadequacies, as this is both counter-productive and deeply divisive. The solution is rather to get our own house in order. In essence this means that we must develop a robust plan for government that allows us to deliver services which are resilient and responsive enough to expand when there are additional taxpayers in the region.

*Make active citizenship an integral part of the national curriculum*

Young people across the length and breadth of the United Kingdom generally know far too little about how our country is governed and unfortunately that's nothing new. There are, of course, notable exceptions to this generalisation, but many teenagers – as they testify themselves – have far too little understanding of the systems and structures that currently underpin our national identity and are given little guidance in being discerning citizens. I therefore believe that every child in the UK who is aged between 8 and 16 should receive one hour of active citizenship learning per week,

based on a curriculum that would foster useful knowledge and cover a broad range of questions, such as:

- an overview of the legislative, executive and judiciary;
- how the institutions of central, devolved and local government function;
- electoral systems;
- the role of the media,
- the central issues of current public concern.

Active citizenship learning should also include projects based on young people going out into their communities and making a practical and positive contribution. If our young people are to become active and engaged citizens they must have experiences that are both rewarding to them, and which are valued by the community.

The challenge at the heart of the immigration debate is a breakdown in trust: trust between communities and government – or, more precisely the political establishment – which they feel has abandoned them; and trust within and between communities that don't yet know and understand one another and are, consequently, susceptible to distorted information and rumour.

If we are to shape and reclaim a sense of our true patriotism in this context, then we must first of all rebuild the trust that is absent within and between too many of our people and communities. And the first step towards rebuilding this trust will be to have systems and structures in place to demonstrate clearly that the requisite sensible controls and resilient checks and balances are in place.

## **Deal with the refugee crisis, both short and long-term**

It is essential that the UK takes its fair share of refugees. David Cameron's pledge to accept 20,000 refugees over five years falls way below the benchmark that has been set by Germany, and Labour must continue to make that point with conviction. But the

UK must also engage actively and constructively at European and global levels to shape a resilient international refugee management system to be based on a range of measures, including:

- a global programme of large-scale support to Egypt, Lebanon, Turkey and Jordan in order to improve conditions and infrastructure in the refugee camps that already exist, and to build new capacity;
- a review of the legal framework that governs refugee status, to explore options for enabling refugees in the camps to work. It is clear that peace and stability are distant prospects in Syria and the other war-ravaged countries that are generating the refugee crisis, and so it follows that we should start effectively re-categorising the camps as nascent towns, and the refugees there as people who should therefore be able to engage in productive activity. For example, there are huge numbers of children in the camps whose education has been curtailed by having to flee, and there must be thousands of teachers and people who are qualified to teach, but who are unable to do so because it is illegal under international law. The international community should therefore conduct a review of the current legal framework, with a view to proposing reforms that would enable the creation of a rudimentary labour market in the refugee camps, to be managed in conjunction with community leaders;
- a global burden-sharing arrangement, including substantial commitments from countries such as Saudi Arabia and the other Gulf states, as well as countries further afield such as the US and Russia (particularly in light of the close links between Moscow and Damascus);
- an action and investment plan to boost Frontex, the EU's border force, so that it becomes a properly resourced organisation that can both guard the periphery of the Schengen Zone and manage the reception and processing of refugees and economic migrants. The refugee crisis has clearly demonstrated that the fact that the UK is not a signatory to the Schengen Agreement is irrelevant: the UK is directly affected by these unprecedented movements

of people across the European continent, and so it is in our direct national interest to play an active part in the capacity-building of Frontex that is so urgently required.

Immigration is a complex issue, and there are no simple answers. Our challenge is to ensure that we engage in the debate in a manner that is anchored by our Labour values, tempered by our understanding of people's real and valid concerns, and open to some of the pragmatic policy solutions that I have outlined.

### **Britain in Europe, Europe in Britain: the new patriotism in action**

Labour must not allow the EU referendum to be about deciding whether or not Polish plumbers or Latvian taxi drivers are allowed to claim tax credits. Rather, we must ensure that we make this a referendum about what sort of country we want to live in, and what sort of nation we want the United Kingdom to be. This referendum must be about what it means to be British in the 21st century. And the choice will be clear and stark: are we as a people going to confirm that we are open, confident and happy to embrace and shape the world as it is, or are we going to turn in on ourselves, pull up the drawbridge and sail off into the mid-Atlantic?

It is, of course, essential that the 'Yes' campaign wins the EU referendum, but the manner of our victory is at least as important as the result. The pro-EU camp must learn the lesson of the Scottish referendum campaign, which in the end delivered a pretty convincing win, but which somehow failed to fire the imagination. Our campaign must be clear why and how exit would be a disaster in terms of the economy, but it must do more than that. It must appeal to the heart at least as much as it does to the head. It must make the *patriotic* case for the UK's membership of the EU, and must be rooted in the argument that nationalism is in fact the antithesis of patriotism. It must state unequivocally that we are not a nation of quitters, we are a nation with a proud history of

international engagement. ‘Leading, Not Leaving’ should be our drumbeat.

The prevalent trend of the last 15–20 years has been the rise of identity politics. Nationalism and xenophobia have been on the rise across Europe, and this is why we should embrace our EU referendum as a golden opportunity to tackle those ‘forces of darkness’ head on. We can and must win the argument by telling a positive, uplifting story about what it means to be both British and European.

Our point of departure must be to acknowledge that the EU is far from perfect, and is in need of deep and far-reaching reform. But, as Alan Johnson has said, reform is a process, not an event. There are a myriad of examples of how the UK has brought its influence to bear in order to secure reform over the course of the four decades of our membership of the European community of nations, and it will be essential that we bring these to the fore during the referendum campaign. There are also many instances of how Europe has brought its influence to bear on us in a positive sense, with the Social Chapter being the most prominent example.

Moreover, leaving the EU would vastly diminish the UK’s influence in the world. It would probably lead to us losing our permanent seat on the UN Security Council, our relationship with the US would be damaged beyond repair, and we would effectively be removing ourselves from all the key global conversations that impact directly and profoundly on our national interests and security: climate change, cross-border crime and terrorism, energy, Russia, Iran, the list goes on ...

The ‘Leave’ campaign is sure to exploit the current refugee crisis to make the case for Brexit, and to dredge up some of the toxic language that has unfortunately been a feature of the immigration debate. A fact-based approach is the only way to combat this, and the simple fact of the matter is that the economic migrants and would-be asylum seekers who are currently waiting at Calais and trying to get across the Channel are not EU citizens with Schengen visas. Thus Brexit will not make it easier to keep those people out – it will only make it harder for the UK to influence the debate,

and to contribute to reaching a human solution to the crisis. Stated in starker terms: maintaining a positive and co-operative relationship with the French government is of central importance in the context of what is happening in Calais; do we think that relationship would be improved or damaged by Brexit ...?

In addition to making the patriotic case against Brexit, we must also make the hard-headed economic arguments about the way in which our membership of the EU brings jobs and investment to our country. Recent polling conducted by the Labour 'Yes' campaign indicates that potential leavers are sceptical of the economic arguments because they only see that we are a net creditor to the EU budget. It is essential that we explain what we get in return for this membership fee in terms of tariff-free access to the world's largest internal market. And we must also place greater emphasis on the point that our membership of the EU delivers vastly reduced administrative and management costs for our export-oriented businesses, as it enables them to deal with one harmonised set of norms and standards, as opposed to 27.

Scotland has taught us that the pro-union case is not always the easy one to make as it tends to be more subtle and nuanced, whereas the separatist case tends to be more tangible (eg appealing to narrow definitions of identity, rallying against an imaginary imperial master, tapping into fear of 'people who are not like us', and so on.). As with the Scottish referendum, the debate will take place in multiple theatres, and will range across the economy, identity, sovereignty, Britain's role in the world, cultural values and so on. By thinking ahead we can define which theatres we want to channel the debate towards, how we want to frame the debates in each, and how we build a narrative that will prove compelling across the broad swathe of the electorate.

We need to make this choice early and objectively. We cannot afford to get it wrong, and this cannot be a standard political campaign, solely about politicians. If we can create, objectively and comprehensively, a winning positioning, messaging and communications strategy that connects with the target audience,

then Labour can make a truly significant contribution to securing the emphatic win that is required.

## **Reshaping the UK: federalise or die**

The United Kingdom is more centralised than any other leading industrialised country. Only 5 per cent of total taxation is raised locally, central government controls the vast majority of public spending, and local authorities have little or no say over how that money is spent. The last five years have seen savage cuts to local government budgets, and the next five will see more of the same. Many of the so-called discretionary services (libraries, community centres, sports facilities, and so on) that used to be provided by councils have been closed down, or when possible transferred to the community. But with the next wave of cuts looming large on the horizon, it is now becoming difficult to see how local authorities will manage to continue delivering on their statutory obligations in areas such as social services, health and education. As a Neath Port Talbot County Borough councillor recently said to me: ‘We have already cut to the bone; the next step will have to be amputation’.

The cumulative impact of this structural disempowerment combined with austerity on our local authorities is deeply damaging. It has undermined their ability to defend and develop public spaces, to stimulate local economic development, and to promote a sense of civic pride.

It has been clear for decades that our local authorities and communities should be given greater power to spend, tax and borrow on their own account, within a UK-wide framework. And for many years there has also been a compelling case for councils to have more control over council tax, and for the introduction of a local income tax. Many thought that the Liberal Democrats would use their influence within the coalition to drive through their much-proclaimed commitment to localism, but instead the Localism Bill that was passed by the last parliament ended up

being just another milestone along the road towards a shrunken, diminished state.

Right up until 2014 it therefore seemed that the over-centralised nature of the British state was set in concrete. But then along came a wrecking-ball in the form of the Scottish referendum. The people of Scotland made absolutely the right choice by voting 'No' to secession, but the vibrancy and energy of the campaign captured the imagination of the British people; within hours of the result, David Cameron was manipulating it to secure political advantage with his 'English votes for English laws' declaration. By that means, he turned that Scottish vote to bind the Union into a lever to widen the fissures within the Union. The constitutional foundations of the British state are cracking beneath our feet, and if we wish to hold the country of which we are so proud together, then we must decentralise and modernise – the time has come to empower the regions, cities and towns of the UK.

Separatist movements thrive on uncertainty and instability, and it is now beyond doubt that the governance of the UK is unstable, out of kilter with the prevailing winds of change, and riven with future uncertainties. The devolution of power to Scotland and Wales in the 1990s was the right way to go towards decentralisation, but it was a typically British example of defensive pragmatism which is creating grey zones all over our constitutional map.

The UK needs and deserves better: we must start developing and consulting on a comprehensive written constitution that sets out the modern principles and division of powers of this country. This blueprint should define our collective future as a unified but confederal nation state, with an elected Senate and clearly devolved powers for Scotland, Wales, Northern Ireland and – crucially – the English regions, and with clarity about the role that local authorities will play in this new settlement.

This realisation goes far beyond 'English Votes for English Laws', which is the Tories' typically partisan response to the constitutional crisis that we now face. If we do not urgently embark upon a radical restructuring of our governance structures, including the current devolution status quo and mobilise support for a comprehensive

new settlement, then the UK will fall apart within the next 20–30 years. Our country must federalise, or die.

So, what would this process of decentralisation look like in practice?

First, it is clear – despite Tory government resistance – that a full and authoritative Constitutional Convention must be established, run for a maximum of two years, and consist of respected, independent people with proven knowledge of all parts of the UK, who would objectively examine options for the restructuring of the governance of our country. My own preference is for a confederal United Kingdom, with the regions of England having representation and fiscal powers and obligations that are comparable with those of the devolved nations. This confederal structure would permit permanent unity for common purposes, high and common standards in health, defence and other vital services, and fiscal transfers that were made equitably on the basis of proven relative need and capacity to contribute. That structure would sustain the strength of the Union while facilitating the devolution that safeguards regional and national identities and interests, brings decision making closer to the communities served, advances transparency and accountability and resists divisiveness.

Second, a root-and-branch review of central government is required. The over-mighty Treasury should be broken up and restructured to reflect and engage with the devolved nations. The First Ministers of Scotland, Wales and Northern Ireland should then be invited to a series of summits with the Chancellor of the Exchequer and the Prime Minister, with a view to agreeing the comprehensive devolution of domestic spending, borrowing and taxation.

Third, the English question. Here, the aim must be to re-invent the relationship between Whitehall and town hall, so that local government is given the tools that it needs to be able to run its own affairs. The precondition for this is that English local authorities should sign service-level agreements (SLAs) with a newly created arm of the Treasury whose sole function would be to work with England's local authorities on the definition of high-level desired

outcomes and performance indicators, across the spectrum of their activities. These SLAs would be accompanied by a business plan that includes cost projections and enhanced revenue-raising and borrowing powers. Once these SLAs and business plans have been negotiated and agreed, then each local authority should be given a multi-year financial envelope, and left to deliver the desired outcomes, as it sees fit.

Fourth, the House of Lords in its current form should be abolished, and replaced by an indirectly elected Senate made up of senators from each of the nations and regions of the United Kingdom. Eighty per cent of the new senators should be local councillors with at least five years' experience in the role, elected by their peers for a fixed term of five years, renewable once. The remaining 20 per cent should be eminent experts from the worlds of business, the law, science, the arts and so on, identified and appointed by an independent panel established on the basis of cross-party agreement. This latter contingent should be limited to a single 10 year tenure. The senate should in principle have full powers of scrutiny and revision, but whether or not it has the power to block legislation that has been passed by the House of Commons is a question that requires further debate, as it will be essential that we avoid the legislative gridlock that has become a prevailing feature of US politics.

Fifth, the Constitutional Convention should also look at our antiquated first-past-the-post voting system which distorts our democracy, encourages an adversarial political culture and divides us, along north-south, urban-rural lines. Moreover, we have to grasp the fact that an electoral system that leads to large parts of the country either being taken for granted as 'safe seats' or disregarded as 'lost causes' is deeply pernicious, because it has a direct influence on decisions about the distribution of resources. Thus the case for radical reform of our electoral system should not be based on the obscure opinions of political anoraks, it should instead be driven by the fact that it has a direct and vitally important relationship with real economic and social outcomes.

We also need electoral reform because it is imperative that we start to build a more deliberative political culture that is designed to deliver much-needed improvement to the quality of our decision-making processes by building consensus and cooperation. Would we have invaded Iraq or created private finance initiatives (PFIs) if there had been proper consideration of the case for these proposals across a multi-party governing coalition? Finally, the sheer mathematical absurdity of first past the post must also be addressed. A system that enabled the SNP to win 95 per cent of the seats in Scotland with just 50 per cent of the Scottish vote, whilst yielding just one UKIP MP on the basis of four million votes, is simply not credible and it feeds disenchantment with the democratic system .

The conclusions and recommendations of the Constitutional Convention should be reviewed by parliament and then codified in the form of a written Constitution that should be put to a UK-wide referendum.

It is only by undertaking a radical root-and-branch reform of our constitution that we will create the building blocks for the new patriotism. Labour can and must demonstrate to the British people that we are ready to push this agenda forward because we know that if we are to hold our ramshackle old house together, then we must fix the foundations upon which it is standing. And we know that it is only once we have put our own house in order that we will be in a position to engage with the rest of the world with a sense of pride, purpose and patriotism.

## Notes

<sup>1</sup> A. Adonis, *Mending the Fractured Economy: Smarter State, Better Jobs – Final Report of the Adonis Review*, July 2014.

<sup>2</sup> Local Government Innovation and Taskforce, *Final Report: People-Powered Public Services*, July 2014.

# A foundation of resilience

## Rebalancing Britain

The UK economy in its current state is best described by the saying ‘all that glitters is not gold’. At first glance it has the semblance of being a positive picture: recent growth relatively healthy; unemployment falling; consumer confidence relatively high. But lift the lid and a very different story emerges: a story of low productivity, ballooning personal debt, a yawning trade deficit, creaking infrastructure, dangerous over-reliance on financial services, and a chasm opening up between London and the rest of the country.

The Tories have spent the last few years parroting the phrase ‘long-term economic plan’ ad nauseam, and to great electoral effect. But the reality is that they do not have a plan at all, what they have is a *passive agenda for managed decline*. Their so-called plan is in fact a giant shrug of the shoulders. Their shrink-the-state approach will simply perpetuate the status quo, and what’s more worrying still is that the status quo is built on decidedly shaky foundations. Their ‘plan’ is based on deficit reduction fetishism, but what they have failed to realise is that the fiscal deficit is a symptom of a deeper malaise, it is not the cause.

In part, this is due to Tory anti-government dogma whose sole intent is to reduce the government to a shell company, running the country in name only.

Yet the laissez-faire approach that is advocated by the Tories ignores the important role that government can play if it is effectively led and run. Wherever you look in the world, the successful countries are the ones in which government has been

an active partner of citizens and business, using its scale, convening and financial power to create long-term platforms for national success, with individual businesses benefiting within that.

If we are to succeed in the future we need a Labour vision of government – not the nanny state, as the Tories would have it, but a government that enables people and businesses to make the most of their talents: a government that is a true partner with business, prepared to outline and deliver a long-term vision that gets to the heart of the matter; a plan that addresses the structural weaknesses of the UK economy (causes, not symptoms), and then sets out how to build a sustainable, rebalanced and resilient growth model that is fit for purpose in the 21st century. A *real* long-term economic plan would aim us towards an aspirational New Nation 2025, which would in turn set our country on course towards a high-productivity, geographically balanced and export-led growth model.

Clearly, government has a central role to play in driving us towards this vision, in partnership with business and the trade unions. So in this sense New Nation 2025 is in fact the framing for a modern industrial policy, the over-arching aim of which should be to rebalance the UK economy away from its excessive reliance on financial services. The Resilience Fund (RF; see ‘Pay, risk and reward: the fairness triangle,’ and ‘Rebalancing the relationship between income tax and inheritance tax’ for an explanation of how the RF would be generated) would be put to work as the pump-primer of the Future State 2025 industrial policy, and as such would be combined with more traditional borrowing for investment (greatly assisted by historically low interest rates) across four key areas: skills, innovation, energy and infrastructure:

1. *Skills*: The priority here will be to produce highly motivated, skilled young people willing and capable of entering the worlds of manufacturing, engineering and wider industry. A proportion of the RF should be used to create a financial resource that small and medium-sized manufacturing businesses can tap into, to partially cover the costs of hiring

one or more apprentices. Remaining costs should be provided by the business on the basis of a sliding scale, depending on the turnover and profitability of the business.

2. *Innovation:* The UK has a strong research capability and a world-class community of universities, but we struggle when it comes to driving our new ideas and technologies into the business sector: spending on research and development (R&D) is just 1.7 per cent of GDP, against an EU average of 2.06 per cent. A new compact between government and business is now required, that would lead to a shared commitment to increasing R&D spend to 3 per cent of GDP. The Catapult centres (another Labour idea shamelessly pilfered by the Tories) have provided a welcome boost to the commercialisation of R&D, but much remains to be done. Those centres should be strengthened, and an element of the RF should be set aside to enable them to manage and disburse funding for projects that will accelerate technology transfer.
3. *Energy:* There is a pressing need for a 10-year plan that lays out the investment path required to build a secure, competitively priced and clean energy supply. The growth of clean energy is a huge opportunity for the UK economy, with projects such as the Swansea Bay Tidal Lagoon promising to deliver thousands of high-pay, high-productivity jobs. A portion of the RF should be deployed to catalyse investment in the green energy industry. It is essential that we see the big picture here: whilst this government is wrangling over strike prices and removing subsidies for onshore wind, the rest of the world is forging ahead. For evidence of this, just look at the way in which China has committed to the green energy transformation.
4. *Infrastructure:* The UK's inadequate transport and digital infrastructure is a major contributor to the chasm between London and the rest of the country. There is a pressing need for a long-term infrastructure plan that will reconnect the country and provide the launch pad for a nationwide industrial renaissance. This is where the fourth quarter of the RF should

be focused, to help unlock the large-scale borrowing to invest that is so urgently required, and to capitalise on the historically low interest rates that provide a golden opportunity for this.

In addition to the aforementioned investment-based drivers of change, two additional reforms do not require money, but simply some political leadership:

5. *Finance*: The UK's banking system is fundamentally skewed towards the stimulation of private consumption, asset value inflation and personal debt. It is essential that a new financial support system for manufacturing is created, which is geared towards enabling the creation and growth of the manufacturing sector. Germany's *sparkassen* should be the model: truly local banking that is an integral part of the regional economy, focused exclusively on lending to start-ups and small and medium-sized manufacturing businesses.
6. *Procurement*: The government manages a multi-billion pound budget for the procurement of everything from care services to steel for major infrastructure projects, and its approach is far too laissez-faire. Far more can and should be done to ensure that UK products and services are prioritised for procurement. This can be done without violating EU competition rules, simply through tighter definition of value for money clauses in tender documents. It is right that contracts funded by the British taxpayer should be won and delivered by British companies.

The first four of the above measures require hard finance that should be drawn from the RF as seed funding for the leveraging in of large-scale borrowing to invest. Delivering on the final two recommendations around finance and procurement will simply require some political leadership, as opposed to the Tories' make-do and muddle-through approach. With interest rates at historically low levels, now is the time for bold investment strategies that will re-invigorate the UK's manufacturing sector.

## Tackling the productivity crisis

The national debate currently views economic success in terms of simple growth in GDP and employment figures, but in reality productivity (ie GDP measured per head, as opposed to overall national output measurement) is ultimately the most important economic issue facing the UK. A glance at the way in which our national productivity is flatlining, falling further behind economies like the US, Germany and France, tells us clearly that something is going badly wrong. Poor productivity undermines our entire socio-economic model: it erodes our industrial base, leads our companies to be less competitive in the global market, and causes our employees to suffer job insecurity and stagnant wages.

In 1970 manufacturing accounted for one third of the British economy; it currently stands at barely 10 per cent. And the dramatic decline of the UK's manufacturing sector is the stand-out cause of our productivity crisis. The most rapid and effective route to significant and sustainable productivity improvements is through the purchase and employment of labour-saving machinery and technology for the manufacturing sector. Investing in the service sector by building office blocks or coffee shops will create jobs, but will do next to nothing to improve productivity. And yet the last 40 years have seen a significant increase in investment in the service sector, accompanied by a corresponding decline of investment in manufacturing. Little wonder, then, that the United Kingdom is facing a productivity crisis.

The decline of our manufacturing capability is the root cause of three further deeply worrying structural weaknesses in our economy:

1. It has had a deeply negative impact on our trade balance: most world trade is in manufactured goods, and because of the relative weakness of our manufacturing sector we now have a huge trade deficit – currently 5.9 per cent of GDP – the largest such peacetime deficit since 1830!

2. The heavy bias of our economy towards imports over exports has played a major part in shaping the debt and consumption-driven behaviour that defines the British economic model.
3. Manufacturing provides a far better spread of high-quality, high-pay jobs than the service sector does, with a better geographical distribution across the regions of the country. In 2013, 79 per cent of all the new private sector jobs created in Britain were based in London. This is clearly not a desirable or sustainable state of affairs. A rebalanced, broad-based economy is a resilient economy.

David Cameron likes to bemoan the ‘productivity puzzle’, but his tactics are clear: try to obscure his government’s abject failure on productivity by talking about how terribly difficult and complex it all is. But solving the so-called productivity puzzle is not rocket science, it is about replacing the government’s idleness and myopia with strategic commitment and applying effective political leadership in partnership with industries and local government, based on three changes:

1. accept that laissez-faire government simply does not work, in tackling our productivity deficit.
2. acknowledge that the decline in manufacturing and the productivity crisis go hand in hand.
3. commit to a properly funded productivity plan that is based on:
  - investing in machinery, technology, R&D equipment and staff;
  - fostering a culture of constructive industrial relations;
  - boosting skills development for young people and mature workers, as opposed to the 40 per cent cuts that have been made to further education for over-19s since 2010.

## Invest, invest, invest

There are a range of measures that will drive sustainable increases in productivity, but the primary driver by far is the use of labour-saving machinery and technology. Little wonder, then, that productivity increases in the UK have faltered almost to a halt. Over the last 30–40 years we have simply stopped investing in areas of the economy where such investment would deliver significant improvements in productivity.

Investment as a percentage of GDP in the UK is one of the lowest in the world, at barely 14 per cent. By the time depreciation is netted off that gross figure, then we are down to about 2.5 per cent. More worrying still, most of that investment is concentrated in the service sector, for example building new restaurants, cafes or office blocks, which does very little to increase output per head. The real potential for improving our productivity is in the manufacturing sector, and there we have gone past the tipping point in that depreciation is greater than investment, so we are actually *disinvesting* from what is potentially the most productive sector of our economy.

In the private sector there are large holdings of potential investment finance that is being hoarded by big corporations which lack confidence in the strength and durability of the recovery. The government could incentivise those companies to start buying new machinery and developing new technologies by offering business rates relief on the new equipment, or even business rates exemptions for smaller companies. These measures should be directed exclusively at the manufacturing sector. An example of the absurd nature of the Tories' approach to business rates can be found in the Port Talbot steel works, in my constituency, where Tata Steel invested £185 million in the installation of a new blast furnace, and was promptly clobbered by a £400,000 increase in business rates.

The Labour Party should commission an in-depth review of how business rates are set, with a view to creating a system that incentivises investment in the manufacturing sector. The message

to manufacturing businesses the length and breadth of the UK should be crystal clear: a Labour government will always support your efforts to increase your output, and we will never penalise you for attempting to boost your productivity.

## **Industrial relations for grown-ups**

The UK's 'them and us' industrial relations culture is a huge drag on our productivity. There is an urgent need to foster more collective bargaining across the economy, as this will have a direct and positive impact on productivity.

The statistics speak for themselves: in the UK approximately one third of the economy is covered by collective bargaining, whilst across the EU that figure rises to around two thirds. There is no doubt that a consulted workforce is a happy workforce, and a happy workforce is a productive workforce. And it is also worth noting that across most of continental Europe the employers' federations are at least as keen on collective bargaining as are their counterparts in the trade union movement.

Industrial relations in the UK are characterised by an outdated Punch and Judy tone, with every trade unionist caricatured as a 'lead-swinger' and every boss a 'fat cat'. The legislation that has been proposed by this Tory government on voting thresholds for strikes is typical of their prejudice and short-sightedness. And it also exposes the chasm that exists between Tory rhetoric and Tory reality: on the one hand the government claims to be passionately committed to improving the UK's productivity, and on the other it is pushing through industrial relations legislation that is contemptuous of workforces and will have a very negative effect.

It's time to start seeing the development of a constructive industrial relations culture as a critically important step on the road towards improved productivity. In practice this means that a new tripartite settlement is required between employers, trade unions and government. The centrepiece of this settlement should be a commitment by all parties to increasing the amount of the economy that is covered by collective bargaining to 50 per cent

by 2018, and then up to the EU average by 2020. These are arbitrary targets, but experience demonstrates that the desired aim will only be achieved if all parties are working towards a clearly defined objective. Agreement to this target should be reached at the national level, between the Confederation of British Industry, the Federation of Small Businesses, the Trades Union Congress and the government (ie the Department of Business, Innovation and Skills). It should then be cascaded on a sector-by-sector basis.

The digital age has brought a revolution in the world of work. From the ‘sharing economy’ in which people rent out their services (eg *Uber*) or their property (eg *airbnb*) to the explosion in the number of self-employed people managing portfolio careers. This transformation has exposed the cracks in the antiquated foundations that underpin our labour market, and has given rise to a range of questions around insurance, pension rights, the distinction between employed and self-employed, tax, lifelong learning, and so on. On the one hand these changes are wreaking havoc with our old systems and structures, but the flipside is that they also offer employers, unions and government alike a once-in-a-generation opportunity to work in partnership; a chance to shape a framework that provides the blend of flexibility and security that this new reality requires. If all parties were to seize this opportunity, then we could potentially see the green shoots of a 21st-century industrial relations culture, which would in turn enable the development of a labour market that is fit for purpose, and resilient in the digital age.

Getting employers, trade unions and government back to the table to discuss terms and conditions in the more established sectors of our economy, whilst also creating a radical new response to the digital age, would substantially strengthen the sense of common purpose that is so obviously missing from our national economic model. Such reforms would greatly increase transparency, employee engagement and ultimately productivity, leading to better decision-making through more effective channels of communication between employer and employee.

These culture changes will in turn deliver significantly improved productivity, and business resilience.

## **Reinventing Britain's corporate culture**

The organisational culture of the UK's corporations is in urgent need of change. The prevailing business strategies are driven by short-termism – what Hillary Clinton calls 'quarterly capitalism' – with the delivery of fast-buck profits to shareholders taking precedence over all other considerations. Addressing this will require a new deal between shareholders, companies and their workforces, and between the public and private sectors. A reshaping of company law is required, and we need to rethink ownership structures so that managers are empowered to think and plan for the long term.

Reforming the way in which companies are owned constitutes a critically important step towards the development of a more resilient British economy. Far too many of the corporations listed on the FTSE 500 are characterised by a transactional, rootless form of ownership, which militates against the investment in R&D, innovation, skills development and new technologies that is so desperately needed if we are to rebalance the British economy. The prevailing ownership model is also particularly pernicious because it opens the door to takeovers by foreign companies, resulting in the UK having by far the highest number of successful hostile takeover bids of any advanced economy in the world.

The Labour Party should set up an in-depth review of the Companies Act, with a view to shaping and proposing a new form of incorporation that must be based on *balanced, resilient purpose* that speaks to:

- people;
- planet; and
- profit.

In practice this would mean that companies would not be allowed to incorporate unless their declared purpose strikes a balance between their societal, environmental and financial obligations. This new balanced-purpose precondition would be a statutory measure, and would be used as the benchmark against which the performance of all company directors would be managed. It would also be deployed to block takeover bids where the leadership team feels that the takeover being proposed would not further the company's balanced purpose.

Measures to drive behaviour change amongst the global asset management community are also urgently required. Productive enterprise has come to play second fiddle to the buying and selling of shares, with asset managers as the middle-men between investors and industry, creaming off the commissions as they go. In short, the tail is wagging the dog, and that needs to stop. The Labour Party should therefore develop and propose a new statutory Code of Conduct for Institutional Shareholders, focused on companies that are headquartered in the UK. The purpose of this Code of Conduct would be:

- to cap the annual turnover of portfolios under asset managers' direction;
- to cap performance fees;
- to oblige asset managers to provide far more transparency than is currently the case, in terms of strategy and trading activities.

We must create an investor community that is committed to supporting enterprise, innovation and investment, as opposed to extracting the greatest amount of short-term profit that it possibly can, within the narrowest possible timeframe. Such a transformation would give businesses operating in the real economy the time and space that they require to rethink, redesign and rebuild their business models.

There is much that Labour can do to broaden and deepen this convergence of interests and turn it into tangible outcomes, but here are three initial proposals:

First, Labour should identify five to 10 like-minded FTSE 100 chief executive officers who are spearheading these changes, and we should engage them in a conversation about rethinking the role of business, leading to a set of recommendations about how a Labour government can and will work in partnership with big business to accelerate the shift to more balanced and sustainable growth, and business models that are based on more responsible corporate cultures. In essence, these recommendations need to answer the central question, which is: how can we build a policy, regulatory and fiscal framework that encourages and rewards good corporate citizenship?

Second, we should build a stronger alliance with the SMEs that form the backbone of the UK economy. Many of these businesses are family-owned, which generally leads them to have much more of a long-term perspective as they are not driven by short-term interests of shareholders. We can and should learn from these businesses: what can they teach us in terms of corporate governance, focus on long-term performance, and clear alignment of executive incentives with measures of sustainability?

Third, we should develop policies and strategies to support the development of social impact businesses. To do this we should engage with organisations such as Ashoka and the Young Foundation that are doing ground-breaking work across the UK to promote and foster social entrepreneurship. Here, it's essential that we learn the lessons of David Cameron's failed rhetoric about the Big Society, which has essentially become a byword for cuts in social services.

We need to listen to the advice of social entrepreneurs on the ground making real change in their communities. People like Faisal Rahman, who launched Fair Finance to help thousands of over-indebted borrowers escape the grip of loan sharks and unscrupulous payday lenders. Or former Welsh international football player Kelly Davies, founder of Vi-Ability, a social enterprise operating across Wales that helps young people acquire business skills through working in local sports clubs. These are the

innovators with the imagination, know-how and drive to make change that we need to be listening to.

Labour now has a once-in-a-generation opportunity to reset its relationship with the world of business against the backdrop of an unprecedented level of shared agendas and overlapping interests. To make this happen we need to get out of the Westminster Bubble and listen to the people who are driving business forward as a force for good in society. Let's learn from them, and let's develop policies that will incentivise others to follow suit. Let's work together with the big corporations, the SMEs and the social entrepreneurs to rewrite the future of a 'responsible capitalism'.

By grasping the emerging opportunity to build real engagement and partnership with the private sector, Labour can and will demonstrate that we are a one-nation political movement, truly pro-business, but not pro-business-as-usual.

## Conclusion: so, where do we go from here?

Great swathes of the electorate do not vote for a political party on the basis of *what* it does or *how* it does it, they vote on the basis of their perception of *what it seems to stand for*. This is why broad instinct plays a far more important role than detailed analysis in determining the decisions that people take at the ballot box, and why the fundamental weakness at the heart of Labour's outlook and strategy for too long now has been our inability to connect with, reflect and shape, the *instincts* of the British people.

Understanding that, it is also critically important to recognise that self-interest plays a vital part in shaping the instinct of voters, and Labour should celebrate and embrace that fact. Self-interest is not, and never has been, the same thing as selfishness – indeed, it is often the opposite. The self-interest of reward from hard work, enterprise, service, the self-interest of ‘getting on’ educationally, professionally, personally; these features of the human condition are a force for good, and as such they must be constantly nourished and promoted by the Labour Party..

Self-interest is essentially a Labour instinct because it's about purpose and aspiration, and we are the party that embodies both of those qualities far more effectively than any other. From the transformational Attlee government of 1945 to the education changes of Crosland in the Wilson government and the positive impact of the Blair and Brown years, Labour has done more for social mobility in this country than any other party ever sought to do. Self-interest – the desire to get on in life, to do better for yourself and for your family – these instincts are hard-wired into the Labour cause, and we should never forget that.

But the problem is that much of the country thinks we have forgotten.

On 7 May, the message from the British electorate was clear: we think that you're on the side of those who are on welfare, and you don't care about us, the hard-working families who are trying to get on in life. Now, we know that's a grotesque caricature, but let's be clear: *perception is reality*. The Tories, backed up as always by their cheerleaders in the media, were entirely successful in the way in which they framed the Labour Party as a soft touch on the economy, and as a lobby group for 'the skivers', as opposed to 'the strivers'. The Tories shaped the mind-set of the British electorate, and they continue to do so.

And so most voters think that when we speak about fairness we mean dragging people who have done well down, rather than the idea that investing in society is actually about building a springboard for everyone to chase their dreams and realise their full potential, if they are prepared to work hard for it. 'Labour,' said one of the founding fathers a hundred years ago, 'is for the elevation of all classes, not the destruction of any.'

But what that means now has changed beyond recognition since the day that I joined the Labour Party in 1985. People simplistically say that, in order to win, Labour has to 'reconnect with its working-class roots', and that it is possible for us to gain votes by 'moving to the left'. But a cursory glance at some basic statistics tells us such superficiality is nonsense. It is true that 45 years ago, manual workers and their families (the normal definition of working class) once dominated our vote, accounting for 10 million Labour voters back in the early 1970s, compared with just 2 million middle-class Labour voters at that time.

In 2015, the composition of the British electorate, and of our vote, is completely different. In the early 1970s two thirds of all voters lived in working-class households, but in Britain today the number of middle-class voters exceeds the number of working-class voters by seven million. In addition to being substantially smaller in size than it was 40 years ago, the working class has been fragmented by de-industrialisation and the technology revolution,

and so it is no longer possible to talk about it as some sort of monolithic bloc that can be mobilised around a given political cause. Indeed, it is patronising as well as illusory to do so.

It is therefore vitally important that we wake up to this new reality: we will never win another election if we attempt to present ourselves as a party that represents a narrowly defined social group. It is, quite simply, mathematically impossible.

So if we can't be narrow, let's set our sights higher: let us be the only party that can create a future of opportunity for everybody in this country. After all, everybody who lives here wants much the same things: to be safe and protected; to feel like they belong and have a place here; to have dignity and confidence; and to have the opportunity to make the most of whatever talent they may have and whatever effort they make.

Let's state clearly that this future of opportunity means just as much to the pensioner in a former mining town who wants his granddaughter to have a good education as it does to the mother in Twickenham who worries about the decline of our manufacturing base because she knows it means her graduate son will have fewer opportunities.

It may be said that one carries a greater importance or 'fairness' than the other, but the human feeling is just as strong and just as genuine. Too often Labour politics has appeared to be writing off the importance of a large section of the population because we felt they were 'born lucky', or 'doing all right', and we should simply be demanding that they help us to help those who had not been so fortunate with the hand that life had dealt them. We didn't appear to value the needs and wants of this group, and we failed to recognise that they have the same sensibilities as everyone else.

So we have to move beyond tactical, retail politics. We have to win a battle of ideas about the future of this country - a battle for the foundations on which we build our economy and society. And if we are to win this battle then we have to share a vision of a country that is leading, confident and influential in the world, that is energised and full of purpose and, when the shocks come - as they will, resilient enough to bounce right back.

In this pamphlet, I have endeavoured to outline the three characteristics – **purpose**, **patriotism** and **resilience** – that a successful UK of the future will need to have, and to set out a few examples of the sort of policy choices we should consider, if we are to bring those characteristics to life.

My contribution is just one of the many that will doubtless emerge over the coming months, but at some point we will have to start making some choices and articulating our vision to the British people. And that needs to be sooner, rather than later. The primary lesson of the 2015 election was that if you are serious about winning an election you have to have your vision, narrative and mission firmly embedded in the minds of the voters long before polling day – elections are won in years, not in weeks.

Whichever path the Labour Party ultimately chooses as a consequence of the debate that Jeremy Corbyn will lead over the coming months, we must start by being clear about which national foundations are broken, and how we plan to fix and strengthen them. We must explain plainly, without jargon, why Labour is the only party that has the desire and capability to get to the heart of the matter, because we are radicals, in the true sense of the word. We respect and can learn from the past, but we exist to serve today and plan for tomorrow. The future belongs to those who prepare for it, and overwhelms those who do not.

Our message to the British people must therefore not only be that we are *on* your side, we would also like to be *by* your side, as we create together a modern and relevant vision and plan for the future of our country. We know that there is a steep hill to climb, for the forces of conservatism run strong and deep, and they will conspire to do all that they can to obstruct our progress. But we are realistic optimists, and we know that through the strength of our common endeavour we can design and drive through the radical economic, social and constitutional reforms that are so urgently needed, if we are to fix and strengthen the foundations of this country that we love.

Perhaps our ‘narrative’ should not, therefore, be a narrative at all. It should instead be an invitation – an invitation to the British

people to join us on a journey whose destination is a new nation:  
a United Kingdom of Purpose, Patriotism and Resilience.

Stephen Kinnock



Stephen Kinnock has been the Labour MP for Aberavon since 7 May 2015. He was born in Tredegar in 1970, joined the Labour Party when he was 15, and is a proud member of Community Union and the Co-operative Party.

Prior to becoming a Member of Parliament Stephen worked in Brussels, Russia and Sierra Leone for the British Council, and in Geneva for the World Economic Forum. He returned to the UK in 2012, when he took on the role of Managing Director at Xynteo, an environmental consultancy.

Jeremy Corbyn's meteoric rise to the leadership has had a profound and far-reaching impact on the Labour Party, and on the political landscape more broadly. Throughout his impressive and highly effective leadership campaign Jeremy made it clear that he wishes to initiate a truly open, inclusive and constructive conversation about the Labour Party's future: how can we craft an inspiring new vision and narrative? What should our new policy priorities be? What needs to be done if we are to construct a plan that will enable the Labour Party to regain the trust of the British people, become an effective opposition, and ultimately return to government in 2020?

*A New Nation: Building a United Kingdom of Purpose, Patriotism and Resilience* is Stephen Kinnock's 'starter for ten' contribution to the debate that Jeremy has launched. In it Stephen argues that the UK's economic, social and constitutional foundations are cracking beneath our feet, and that the Labour Party now has a once-in-a-generation opportunity to set out a reform programme that is ambitious, radical and built to last.