Compass
together for a good society

building blocks:

for a new political economy

the new economy project

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Acknowledgments –

A huge thank you to everyone who attended the new economy project conference and contributed to this project in other ways. We would especially like to thank:

Zoe Gannon	Project Coordinator
Anna Coote	nef
Avner Offer	Oxford University
Ben Kind	Unison
Beth Stratford	Friends of the Earth
Charles Seaford	nef
Chris Murray	Core Cities
Christine Berry	Share Action
Clifford Singer	False Economy
Colin Hines	Green New Deal Group
Danny Dorling	Sheffield University
Deborah Hargreaves	High Pay Centre
Frances Northrop	Transition Towns
Hannah Griffiths	WDM
Heather Boushey	IPPR
Iain Hasdel	Employee Ownership Association
Indra Adnan	Soft Power Network
Janet Williamson	TUC
Joe Cox	Compass
John Palmer,	European Policy Centre
Jonathon Perraton	Sheffield University
Luke Hildyard	High Pay Centre
Luke Wreford	WWF
Neal Lawson	Compass
Neil Mcinroy,	Centre for Local Economic Strategies
Nick Isles	Corporate Agenda
Owen Tudor	TUC
Paul Dezylva	FOE
Phillip Pearson	TUC
Richard Murphy	Tax Justice Network
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Sargon Nissan	Bretton Woods Project
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Building blocks:

for a new political economy

The economy isn't working for the vast majority of people and it isn't working for the planet. Britain is 'enjoying' a pre-election boom fuelled by state subsidies for private housing and Quantitative Easing (QE) - pumping money into the banks.

The inevitable sugar rush will be succeeded by an equally inevitable crash, as the global economy is still fuelled by financial trading beyond the control of any authority and banks still too big to fail or jail. Only this time the state won't be able to bail the banks out. Meanwhile, relentless industrialisation and endless consumption is starting to affect not just the climate but our daily lives. Flooding, food shortages and energy crises will become a permanent feature of life in the 21st century. Compass has set out the most comprehensive alternative to austerity in Plan B1[1] and Plan B+12[2]. Some of what we advocated in those documents, like infrastructure investment, has been taken up. But the austerity argument still dominates.

On the other hand, alongside these structural challenges people are living their lives in a different way. Powered by new technology and social media in particular, we are living in what might be called 'New Times'.[3] It is an era where old vertical structures in the economy, political and public life are being flattened as peer to peer networks start to challenge and replace the old elites.

It is against this backdrop of looming crises that a new political economy must be imagined and built - one where citizens are encouraged to think and act collaboratively. This collection of essays seeks to occupy this space and to merge the feasible with the desirable. It is not just more policy that we need but a different frame with which to view the economy – a 'political' economy is just that – a view of how the economy can shape the world you desire. And instead of just a policy list, this report attempts to draw the outline of a new framework for thinking about the economy. It is aimed at all those decision-makers, influencers and activists who want a good society – one that is much more equal, sustainable and democratic. As such the report fits within the broader scope of Compass' work to define the vision, policies and political movements to shift us decisively towards such a good society; such as public rail ownership, a green economy, the reform of Europe, rethinking education and much else.

Of course 'a new political economy' is a daunting task – where on earth do you start or stop? It is indeed an impossible task for any single publication but the moment demands ambition and boldness, tempered by realism. So we have set out a template to help cohere the process of building a new political economy. The template looks at the economy at distinctive levels and establishes a policy agenda that flows up and down from businesses through to the local, national and the European – the latter as a basis of connection to the rest of the globe.

The remit of the content was determined at a conference hosted by Compass in July 2013. At that conference a group of economists, activists, trade unionists, experts and interested parties came together to discuss and debate what economic reform should and could look like.

This was an attempt to draw on a wide range of expertise and a wide range of voices. The goal was to think about economic reform not as something separate, or expert, but as something that must bring people together and be a coherent response to the challenges faced.

An essential element of this was not only to consider what reforms could be implemented on each of the four levels, but also, how these reforms can achieve Compass' overall vision of a good society - one that is much more equal, democratic and sustainable.

Each essay tackles these questions of equality, democracy and sustainability independently. However, together they paint a more coherent picture of what economic reform could look like and draw on similar economic and social traditions. Some of the main themes include:

Trust: This is perhaps the most significant theme; trust in people, whether this is trust in those we work with or for, trust in people's abilities to collaborate and innovate is key. Trust requires frameworks of accountability and transparency but we have tried to build an economy and society based on the worst in people. It is time to build a new economy based on the best in all of us.

The second theme is ***collectivity.*** Each essay emphasises the need for the collective, recognising that by acting individually none of the reforms needed are possible. Only if different groups, sectors, localities and regions work together will radical change be achievable.

Perhaps one of the most significant aspects of these essays is the fact that each recognises that what is needed is not simply new economic policies, but **a new political economy** – an economy that is designed and run to achieve a certain social, cultural and environmental outcome – a good society that is much more equal, sustainable and democratic.
Each essay addresses these themes and suggests a range of policy reforms that add up to a more coherent and transformative agenda for the British economy.

The heart the problem we face is that free market capitalism wants it both ways; it wants a public realm to sell to, to provide for its well-educated and nurtured workers. It wants the laws and culture of responsibility that make markets and trading secure and provide the wider infrastructure of transport and utilities to make business possible. But it doesn't really want to sufficiently pay for any of this or behave like it is responsible for the conditions in which sustained business activity is possible. The answer lies in understanding that to be commercial is not the same thing as endless capital accumulation, nor markets the same thing as profit maximisation. We need markets and economies that operate within socially determined values and norms and within the planet's limitations. Anything less will make business impossible.

The starting point for a new economy has to be what it means to be fully human in the 21st century. How do we, our families and the planet really flourish? Against the backdrop of floods, financial crises and the Facebook generation this will demand a very different economy to that which took hold 35 years ago. In this new world, full of complexity and uncertainty it will be our ability to pool both risks and our collective intelligence that will determine the quality of our lives. For the moment the old system is still standing but its moral superiority is now broken and it will struggle to survive another crisis of its own making. What follows the next crisis isn't inevitably progressive - it could be more authoritarian. That's why we need to move with speed to a more feasible and desirable alternative.

[1] N Lawson & U Elbæk, The Bridge, Compass, 2014, http://www.compassonline.org.uk/publications/the-bridge/

[2] N Lawson & H Reed, Plan B, Compass, 2011, http://www.compassonline.org.uk/publications/plan-b-a-good-economy-for-a-good-society/

[3] H Reed, Plan B, Compass, 2012, http://www.compassonline.org.uk/wp-content/uploads/2013/05/PlanB1.pdf

Policy summary for new economic and democratic reforms

The business economy

- Require companies to take responsibility for employees and communities
- Include workers on company boards, voted on by the workforce
- Introduce a system of works councils as exists elsewhere in Europe
- Create a National Co-operative Development Agencies in England and Northern Ireland along the lines of existing successful models in Scotland and Wales
- Create patient funds for new co-operative and social business development, funded by all co-operatives as a percentage of their annual surplus and paid, partly, in lieu of tax
- Break the hold of large corporations on particular industries, with state backed 'challenger' institutions and the provision of meaningful consumer/supplier protection
- Link companies back to their ultimate owners – the ordinary members of pension funds and their social and environmental needs
- Support for a 'living wage' payable by all enterprises that can afford it

The local economy

- Deliver constitutional change that establish effective government at a local level
- Tax housing sale profits or a introduce a land tax to finance a regional growth fund – the money raised and spent at a local/regional level
- Create a regional infrastructure programme funded through central government and through public sector borrowing, local government bonds and green QE
- Provide low interest loans supporting investments that have clear environmental, economic and social value
- Create regional investment banks and a regional banking sector through the break up of RBS and the establishment of regional banks with a mutual or social ownership structure
- Strengthen the credit union movement which can provide low interest loans for small businesses
- Have a regional approach to energy planning with regions responsible for the development of renewable energy infrastructure

The national economy

- Move beyond the current measures of GDP and concepts of growth, towards measures such as the Happy Planet Index
- Introduce a Land Value Tax to replace council tax and a proportion of the current VAT and income tax/national insurance systems
- Move towards replacing means-tested benefits, tax credits and the botched Universal Credit system with a tax-free basic income paid at the Minimum Income Standard level to all families
- Replace the current income tax and national insurance systems with a Unified Income Tax (UIT) payable on all income (earned and unearned) at a series of rates starting at 30% with a top rate of 60%
- Rapidly expand the 'living wage' – with incentives for the private sector through the tax system, public sector procurement measures and the development of community organisers to build campaigns for change
- Replace the current polarisation between workless households and households of 'workaholics' with an alternative model where a larger number of people work between 20 and 30 hours per week through the voluntary right to a shorter working week
- Reform employment relationship by easing laws on trade union recognition
- Ensure a better deal for parents in the workplace: introducing universal pre-school childcare and much more extensive rights to maternity and paternity leave
- Introduce a Green New Deal including large scale investment in affordable low-carbon housing, energy efficiency and public transport

- Increase subsidies for research and development
- Create tax breaks for crowdfunding and other innovative business finance models such as peer to peer lending and community renewable energy schemes
- Establish credible long-term fiscal rules based on fiscal balance to be achieved at some point in the 2020s but with enough flexibility to respond to major global shocks

The European economy

- Implement a financial transactions tax, both to rein in financial speculation and to raise significant revenues for new European-wide initiatives
- Issue Eurobonds, drawing on the basic economic strength of the European currency
- Create a much stronger social floor, with common working conditions across the whole of Europe, reinforced by a Europe-wide minimum wage as a set proportion of each country's national average, the introduction of stronger wage enforcement and common health and safety legislation
- Introduce a European integration fund to ensure that investment follows migration

A new democratic politics

A new economy, like that suggested by the policies above, cannot just be wished into being. It will only be created through political and democratic effort. But UK politicians are trying to run a government for the 21st century using a democratic system largely unchanged for 100 years – and, unsurprisingly, they are failing miserably. General public contempt for politicians of all stripes is a symptom of this deep malaise. Meanwhile, all the factors which act to diminish genuine UK democracy - closed-door supranational trade deals, surveillance of the population in the name of 'anti-terrorism', corporate lobbying, suppression of dissent and protest - are on the rise, helped by the UK's corporate-friendly political classes. To reverse these dangerous trends, the following could be implemented:

- Reform of the democratic process with state-funded political parties and proportional representation at all UK elections.
- Scale back the UK's surveillance state, with significant cuts to security service budgets, an end to the NSA/GCHQ programme of mass electronic surveillance, and restrictions on the police's use of covert surveillance
- Reform the media to ensure a wide range of ownership of print, electronic and private sector broadcast media services. Reforms to the BBC to uphold impartiality while ensuring representation of a wide range of political viewpoints both left and right.
- Enshrine the right to dissent and the right to protest in a new UK bill of rights and limiting police powers to intervene in peaceful protests
- Immediately repeal the 'gagging bill' currently going through parliament, which aims to restrict the rights of NGOs, trade unions and other civil society groups to campaign on issues relevant to elections in the UK
- Introduce severe restrictions and full accountability on corporate lobbying

[1] P Toynbee, "If Britain's charities are gagged, who will stop this lobbying bill?", Guardian, 18 October 2013. http://www.theguardian.com/commentisfree/2013/oct/18/if-charities-gagged-who-will-stop-lobbying-bill

[2] J Peck, "Warsaw lauch of new corporate climate lobbying guidelines", Huffington Post, 13 November 2013. http://www.huffingtonpost.com/jules-peck/warsaw-launch-of-new-un-corporate_b_4255295.html

The business economy

Rosie Rogers

Business is the building block of the economy – large or small, local, national or global, private, joint stock, mutual or social – it is the economic unit through which production happens and wealth and value are created. The legal and social development of the range of enterprises has been haphazard, and while government intervenes on regulatory and governance issues with great oversight, there has been little large scale change in the way businesses operate or what their function might be. For well over a century the basis for the 'enterprise' in our Anglo-Saxon economy has remained remarkably stable – with the domination of profit maximizing firms. For some, the ownership model has changed from largely private ownership to public listing and separate executive management. Whether small and medium enterprises (SME) or corporate the legal and moral basis of the dominant enterprise model has been private ownership rights and 'heroic' management, who get the lion's share of the spoils.

We have to tread with great care in looking at how to reform business – as an important part of the wealth creating heart of the economy we tamper with at our peril. But serious structural problems are arising as a result of the dominant business model that we need to understand and put right. This cannot just be a technical fix however - the problem is as much moral and political as it is legal.
Not only do we have to right the wrongs of the profit maximising firm and create much greater diversity so there are a healthy range of enterprise alternatives – we have to develop a much wider, more generous and accurate view of how value is created.

The failings of the firm

The lack of diversity in terms of different enterprise models and the singular focus on profit maximisation and capital accumulation is causing real problems, for example:

- With the mixture of globalisation and the threat of blackmail exit that goes with it, government legislation and cultural trends around consumerisation and individualisation have driven a squeeze on living standards for the vast majority of the workforce. The bargaining power of workers has been reduced thorough union de-recognition and the casualisation of the labour market.
- Workforce wages increased by only 0.7 per cent in the past year and inflation is running at 1.7 per cent[1]. Real-terms pay rises have virtually disappeared for most people and wages are back at 2003 levels, according to the Office for National Statistics[2].
- This is contrasted with the lion's share of rewards being channelled to those at the very top. Chief executive pay was up 10 per cent last year to an average £4.3 million and has quadrupled in the past 10 years.
- Such inequality was a direct factor in the crash as aggregate demand was fatally reduced as those with a high marginal propensity to spend, the poor, saw their money going to the rich – who are much more likely to save.
- Shareholders are often no longer interested in holding executives to account since more than half of UK shares (53 per cent) are held overseas [3]. The average holding period is only 7 months, making investors overly interested in short-term returns.
- British business has been criticised for its short-term decision making, which drives big executive pay-outs as well as heightened merger activity, rather than long term productive investment.
- It is estimated that UK based companies are sitting on funds of as much as £750 billion which could be spent on vital infrastructure projects. Of course this is part a lack of confidence in the wider economy.

This toxic mix of chronic short termism and an effective investment strike is making the modernisation of the British economy an almost impossible task.

Alternative thinking

There is little point trying to address these shortcomings with legislation unless we address the moral and ethical underpinnings of how and why we want to create value through business.

What drives entrepreneurs as much as anything is not profit maximisation but creativity and autonomy. So we should build on the desire to create and find self-expression and not just the desire of some to maximise returns.

We also need to change our understanding of how value is created. The free market narrative is that dashing, swashbuckling entrepreneurs single handily come up with a new product or service and make it profitable. They have all the inspiration, take all the risks and therefore demand all the returns. Of course James Dyson does exist and it's hard to deny him his millions but the exception shouldn't determine the rule. In most cases profits come from other people's ideas, commodities given by nature and the work of everyone in the enterprise. The structures, governance and rewards should match this much more complex reality. Business must go further and recognise the existence of the 'core economy' – the families and communities that produce, nurture and sustain the workforce. Rather than society being an 'unfair burden' on enterprise it should be viewed as a key asset. And further still, businesses should recognise the key role played by government investment into research, education, training and infrastructure that makes economic activity possible. We only have to remember that the internet was the product of the defence and higher education sectors to understand the unique role that government has to play.

From this basis we can begin to imagine what kind of reforms might work best. There are two main reform features – greater diversity of models and sensible adjustments to the dominant model.

It is time to rethink the nature of business – not just its structure but its culture. Business by definition is not the construct of one person, although there will always be leading figures. Rather it has to be social – a gathering of individuals who decide to act collaboratively to create and innovate. To be truly successful and to sustain that success demands a voice for all who contribute to it and a more equal share of profits/surplus. In an increasingly interconnected world the successful enterprises of the future will be those that employ all the talents of their workers, harnessing their full creativity and commitment.

Different models

There are alternative models to the dominant shareholder form of profit maximisation, but these make up only niche parts of our economy. Cass Business School estimates that non-conventional forms of ownership in the UK economy account for just over 2 per cent of total employment.

Co-operatives and employee-owned companies can be more democratic than shareholder companies, but they are not a magic wand as the recent problems experienced by the Cooperative Group demonstrate. Indeed the problem in the UK is that cooperativism is sectorally weak and hasn't been practiced in a sufficiently deep way. Elsewhere in the world co-ops have flourished, notably in Spain where the Mondragon co-op of industrial operations is the country's seventh largest employer. Mondragon maintains a pay ratio between highest and lowest paid workers of 6.5 to 1, which is extremely low by the standards of other western businesses - and it's thriving.

In the UK, John Lewis is often held up as an example of best practice and it is certainly a successful company with a strong democratic culture, a pay policy that links its executive pay with the rest of the workforce – albeit on a pay ratio of 75 to 1 between top pay and average. It also operates a profit-share that extends to everyone. But its enlightened owner was prepared to put all of the shares into an employee-owned trust at his demise.

However, the democratic nature of decision-making at John Lewis is worth exploring as it holds lessons for the rest of the corporate sector. The partnership council at John Lewis is a representative body of the workforce (known as partners) and has the power to dismiss the chair who must appear before the council twice a year to answer questions, according to the constitution of John Lewis.[4]

Five members of the workforce are also elected to the management board that runs the company, two of whom sit on the remuneration committee. The viewpoint of ordinary members of staff is taken very seriously. The in-house journal is committed to publishing any letter from workers anonymously and must be answered by management within 21 days.
In countries such as Italy, the co-operative sector accounts for 10% GDP and one of the drivers for growth has been the creation of patient funds for new co-operative business development, funded by all co-operatives as a percentage of their annual surplus and paid, partly, in lieu of tax to the state. The same approach would have a step change impact in the UK. Alongside this could be the creation of national co-operative development agencies in England and Northern Ireland along the lines of existing successful models in Scotland and Wales.

One way of addressing the lack of democracy in other businesses is to include workers on company boards. These could be voted on by the workforce and could be fully-fledged company directors. They would bring a different viewpoint and open up company boards to more diversity and accountability.

However, without some form of company-wide structure to back them up, they could lack credibility. A system of works councils as exists elsewhere in Europe would provide that back-up.

The UK is unusual in its lack of employee voice in company decision-making. In fact, the European participation index compiled by the European Trade Union Institute puts Britain second from bottom, just ahead of Lithuania [5].

Britain's mutual sector of (primarily) building societies grew out of local movements where people clubbed together to pool their savings. This was a genuine alternative model of ownership in the early 20th century. However, the lack of access to funds for expansion led many of them to launch on the stock market. This has had disastrous outcomes for many such as Northern Rock and Halifax that over-expanded into reckless property lending. The mutual sector has struggled to recover from this body blow to its reputation, with Nationwide building society remaining as the largest.

New mutual's will thrive where both the market and the state fails to make adequate provision. This is why we see the growth of credit unions, peer-to peer lending schemes and community energy enterprises along with all sorts of sharing, pooling and collaboration – from cars to gardening equipment. These emerging forms of enterprise need to be scaled up and joined up with the help of government incentives, investment and legislation.
Another developing model is the B Corp - B (for benefit) Corp is to business what Fair Trade certification is to coffee. They are certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency – and while they are for profit they explicitly don't prioritise profit maximisation and instead seek to realign stakeholder interests around a wider set of social and sustainability imperatives. Today, there is a growing community of more than 950 Certified B Corps from 32 countries and 60 industries working together toward 1 unifying goal: to redefine success in business. But, as yet, there are few in the UK. Politicians can help by providing the moral, ethical and business case for the growth of B Corps.
Finally, to fit with the risks and challenges of new times, many companies are agreeing to work together on research to co-develop new products and services rather than chance it alone. This collaboration and sharing revolution is still in its infancy but requires a values frame of trust and experimentation to make it work. The state acting as a risk taker to support start-ups and also through intellectual property regimes that foster open and collaborative behavior can assist this. But such a frame cannot be regulated for but can be championed by political leaders.

Stakeholding once more

David Coats argues in his recent book [6] that countries that appear to have embraced stakeholder models of capitalism have better outcomes for labour and more equal societies.

Gary Greenberg, fund manager at Hermes asset management, is one of a small but growing number of long-term investors who regard the current state of labour markets worldwide as unsustainable. He says "One thing that does need to change is the idea of shareholder value being the only responsibility of a company". He thinks companies should have more of a responsibility for society: employees and communities.

This would require a major change from the current focus purely on shareholders, but needs to be written into company law. Companies currently pursue many practices and policies in the name of shareholder value which are injurious to society and their own employees. This has of course been tried before through the Company Law Review but was blocked by the Treasury and powerful corporate interest. But that is no reason not to try again.

Low pay is just one of the issues that could be addressed, with CEOs currently incentivised to cut costs across the board to boost the share price and their own share-based pay-outs. Andrew Smithers, the highly-regarded City economist believes this leads to much of the short-term decision-making for which British industry is criticised. He says we won't have a sustainable economic recovery until the way we pay execs is addressed.

It would also address another part of the current system that needs reform: the need for greater sustainability. Some enterprises are leading the way; B&Q, the British DIY home improvement retailer, aims to recycle 98% of its waste by 2023 and Caterpillar has grown its remanufacturing activities to encompass nine locations around the world, employing over 3600 people in a business model with an emphasis on component recovery. Key to embedding 'closed loop manufacturing' is tighter regulation, cross sector collaboration and design innovation.

But companies currently have few incentives to operate more sustainably and the few that are in place are under threat. Energy companies, for example, are required to increase their use of renewable energy under the Renewables Obligation, but are lobbying hard for its removal following the outcry over rising prices. This is a huge and massively important area which cannot be dealt with in three paragraphs.
A requirement for companies to take responsibility for employees and communities could see more investment in workforce skills and training. It could also see them take more account of the true costs of their business to the environment and the community in which they are based.

Regulatory power is another area that needs strengthening. Ed Miliband has, for example, said he will look into the structure of the energy market if Labour is elected in 2015. Energy companies have been accused of operating an oligopoly and customer prices are rising sharply. A more aggressive enforcement of competition law could help address some of these issues. Regulators who were set up when many of these industries were privatised need re-enforcing. Equally government should start investing massively in community renewable energy schemes to establish local enterprises that tick all the boxes of sustainability, democracy and equality. The same approach could be applied to the banking sector – which could be transformed via state investment in peer-to peer lending schemes, this would also help pluralise the basis of our business economy.

Consumer power could be enshrined in a commitment to break the hold of large corporations on particular industries or to back suppliers and customers such as in the case of the Grocery Market Adjudicator. The new regulator has the power to name and shame supermarkets that treat their suppliers badly.
As a huge purchaser of goods and services there is much more government could do through better procurement practice; both national and local governments and authorities could insist on the payment of a living wage, as well as the sourcing of materials and jobs to boost local economies.
In a discussion of new structures, traditional shareholders should not be overlooked. Some do adhere to strict codes of stewardship and take a long-term interest in the companies in which they are invested. Explicit legislative clarification could confirm that investors are not legally obliged to chase short-term profits and ignore wider considerations. This could be modelled on section 172 of the Companies Act, which requires company directors to have regard to companies' environmental and social impacts.
Another important aspect is breaking the investment chain and linking companies back to their ultimate owners, those ordinary members of pension funds, could be a more fruitful way of encouraging long-term interest in corporate outcomes. That requires a huge shake up in the investment world and, essentially, more interest on the part of pension fund members in the future of the corporate sector.

There are emerging developments online which could help boost reform of the corporate sector, but so far they are very small. Crowd-funding sites such as Kickstarter could provide an interesting new way of resourcing business start-ups.

Flatter structures are being tested by some businesses, most notably, Valve, the North American software company. It has no hierarchy and all employees contribute to decision-making. This is risky and can be time-consuming, but could provide a new business model for some operations.
Some of these measures could transform the corporate sector, but there are no quick fixes. One of the most important hurdles to change is the complacency among regulators, policymakers and keepers of the corporate governance code.

Conclusion

The PLC structure of business is a Victorian construct – a 19th century vehicle in a 21st century world. Two things need to happen; firms need to be reformed to help balance the need for innovation and profit alongside the need for greater equality, sustainability and democracy. They also need to be challenged more effectively through different corporate, ownership and governance forms - then we can truly have a business economy fit for people and our planet.

[1] Heather Stewart, UK unemployment data: 0.7% average pay rise dwarfed by inflation, The Guardian, 16/10/2013 http://www.theguardian.com/business/2013/oct/16/uk-unemployment-average-pay-rise-inflation

[2] The Office for National Statistics, Real wages fall back to 2003 levels, The Office for National Statistics, 13/02/2013 http://www.ons.gov.uk/ons/rel/mro/news-release/real-wages-fall-back-to-2003-levels/realearn0213.html

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The local economy

Stuart Speeden

If this is the pluralised and democratised vision for the enterprises of a new economy then what of the localities they operate within?

We cannot understand the local economies of the UK without understanding the role of the nation's capital. Despite the slow recovery of financial services and the general public disdain for 'bankers' following the financial crisis and an endless stream of controversies from the miss-selling of PPI through to the Libor Scandal, the sector and with it, London, remains fundamental to economic prosperity.

One possible view would be that in a world created by thirty years of neo-liberal economic policy and the onward march of globalisation that the only way forward is to accept London's global position and with it the distorting effects on the rest of the UK economy. In this telling, the only scope for socially progressive policy is to accept the distortions that exist and await recovery, relying on markets and increased social spending to redistribute some of the benefits of growth.

Is there an alternative? Is it possible to develop an alternative economic strategy that can move us towards a more sustainable and socially progressive economic future; less dependent on the financial sector; less divided by regional imbalances; more socially inclusive and less divided by wealth and poverty? Is an alternative that can address long-term structural issues that maintain current trends towards social division and unsustainable growth achievable? The answer has to be yes, through a radical decentralisation of economic and political power, placing local and regional strategies at the centre of an economic renewal strategy.

The role of cities

City economies are fundamental to economic growth. Mega-cities, such as London are central hubs within the global economy and its global position makes London the main focus for economic growth in the UK. This trend concentrates prosperity and wealth in the south-east and generates economic forces that continue to widen the economic divide between the south-east and the rest of the country.

Cities are an essential component in the emergence of the 'knowledge economy' where the complexity, density and connectedness of social relations within cities play a crucial role in the creativity, innovation and implementation of ideas that provide the spur to development and growth within modern economies. The importance of the 'knowledge economy' is widely recognised as being important in the future of advanced economies and this in turn depends upon thriving city economies.[1]

Recent research from the US has shown that it is not only within the mega-cities of the global economy that we see the creation-innovation benefits of cities.[2] The strategic development of our regional cities could play an important part in any strategy in addressing regional imbalances in economic development.

The role of cities was recognised by the last Labour government but has largely gone unrecognised or largely ignored by the policies of the Coalition government.

A wake-up call, however, highlighting the importance of cities and city economies came in a recent report on economic growth from the Conservative Lord Heseltine. In it he proposes a growth strategy based on devolving power from Whitehall and re-invigorating the big cities that had fuelled the growth and wealth that the country had enjoyed in past decades. The resurgence of the 'core' cities of Newcastle, Leeds, Manchester, Sheffield, Nottingham, Birmingham and Bristol in the last decade, or so, has started a process of economic change and these cities can be at the heart of a renewed policy for economic growth and form the basis for regional 'pull-factors' that act as a counterweight to the drain of knowledge, expertise and wealth to the south-east.

The core cities should not be seen as the only points of economic renewal; urban renaissance within regions will depend on developing inter-dependency and connectivity between networks of towns and cities. The Centre for Cities (2013) point to 26 towns and cities, with populations above 250,000 outside the core cities make up 14% of the national economy. While there should be a strong emphasis on core cities, as these are the urban centres that provide the strongest focal points for regional growth strategy, a broader urban strategy is important for sustainable economic development.

Following decades of industrial decline and depopulation, the core cities have already made considerable progress in rebuilding their economies but this should be seen as a starting point in economic recovery and a new framework for investment, infrastructure and economic planning is needed to support this process.

The need for greater co-operation between local authorities in dealing with major economic initiatives has been recognised by local councils. Pressure from city regions led to an amendment in the Localism Act 2012 to include enhanced powers for city regional working and 'combined' authorities to address issues that go beyond a single authority's boundaries. The principles involved here should be extended so that there are stronger powers for planning and investment in infrastructure that supports transport and connectivity, innovation and business support, skills and employment, sustainable communities, culture and creative industries, climate change, finance and industry to support coherent regional growth. Ideas include:

- Changing the national debate on major infrastructure plans such as airports or rail so that they are focused on regional growth strategies that are less London centred.
- Creating strong semi-autonomous regional economies based on regional capitals such as Leeds, Manchester, Birmingham but with a regional infrastructure that builds inter-connectivity between urban centres in each region to promote regional growth.
- Developing stronger regional identity supported by regional institutions such as banks and government, and Metropolitan Mayors that reflect and support regional economic interests.
- Devolving economic powers to regions through devolution of the business rate

The economic logic of city regions points to the re-establishment of Metropolitan Counties abolished by the Thatcher Government in 1984. The political will for this has to be built from below rather than simply imposed by Whitehall. European debate on economic growth and regions highlights the significance of regional economies.

Radical Decentralisation

To support new patterns of economic development based on localities and regions we need radical decentralisation of government and the banking sector to bring enhanced powers, resources and focus on regional development. Although the present government has, through the Localism Act, appeared to go part way towards decentralisation, the reality is somewhat different. The General Power of Competency contained in the Act, combined with the Power of Well-Being introduced in the Local Government Act 2007, appears to give local government much greater power to act in the interests of the social, environmental and economic well-being of the community. In practice, these powers have been of little value in tackling the impact of decline caused by the central government's austerity measures. The freedom that the GPC seemed to offer has been curtailed by financial constraints and local government's dependency on central government for resources, with around 75% of funding coming from central government.

The severity of cuts in Local Government financial settlements over the past four years means that the scope for innovation and creativity has been virtually eliminated. Fundamentally, the power relationship between central and local government remains unchanged and in key areas of policy central government continues to control directly the policy initiatives that affect localities.

In order give greater powers to local government the next step must be to deliver constitutional change that establishes a real level of general competence at local level and revenue raising powers that can assure local government's independence of action. A step in this direction would be to decentralise the control of the business rate, but other decentralising measures such as local income will be necessary to provide some degree of local autonomy in economic and social policy.

The current steps towards localism fail to provide a real basis for autonomy and economic intervention that are suggested by the powers of general competence. A more radical shift in powers from central to local authorities is required to support economic development in the regions. The extent to which, authorities are empowered to act depends critically on their autonomy. Pratchett suggests three ways in which local autonomy can be manifest.[4] This can be freedom from central interference; freedom to effect particular outcomes; and as the reflection of local identity. This level of autonomy can only be achieved through a radical, constitutional shift in power from central government. The level of autonomy that can be achieved depends on the reform of taxation and public sector borrowing to give authorities greater independence. There is, however a fundamental need to rebalance the distortions produced by current market forces and two forms of taxation should be considered. A tax on housing sale profits or land tax to regulate the housing market and provide revenue for infrastructure and an additional levy through Financial Activities Taxation to support a regional growth fund managed through regional investment banks. Funds from taxation may be used to provide low interest loans supporting investments that have clear environmental, economic and social value.

Economic Planning Localities and Regions

A major implication of the Localism Act was that it brought an end to regional government in England and with it regional economic development. The whole regional tier concerned with economic development has been removed (Regional Development Agencies (RDAs), Government Offices for the Regions, the Regional Observatories, the Regional Ministers, Regional Select Committees and the Leaders' Boards and Regional Statistics). The responsibility for economic development has been transferred to Local Enterprise Partnerships, which have been given a General Competency to act as necessary to secure the prosperity of the area. LEP's have been promoted as part of a localism agenda but again fall short because while being the general competency powers to act, they have no budget and function primarily as a conduit for European funds to the private sector. The situation is further confused around economic development by the encouragement given in the Localism Act for 'combined authorities' and for the formation of Economic Prosperity Boards. The flexibility and freedom to combine and act together as local authorities may have some considerable benefits in developing infrastructure and economic development projects that cross boundaries, enabling authorities to respond to the real economic and social geography of city regions but the real benefits of such freedoms will only apply if there is a real level of power at the local level. Whitehall initiatives to encourage greater co-operation between providers through the Total Place initiative and through Whole Place Community Budgeting may encourage greater co-ordination of planning and more control over how they spend their budgets but this remains subject to central constraints.

New regional financial institutions

New investment in regional infrastructure for connectivity, transport and 'smart' sustainable cities is a priority alongside investment for innovation, new businesses and social enterprises. To support this investment there is a need for a new breed of financial institutions at the regional and local level that are more attuned and accountable to local needs. The creation of regional investment banks would be one step in this direction and the creation of a regional banking sector with a commitment to supporting regional economic development, this initiative could come from the disaggregation of one of the big banks such as RBS and the establishment of regional banks with a mutual or social ownership structure. At the local level a strengthening of the credit union movement to develop a stronger mutual banking movement providing low interest loans for small businesses providing a real alternative to the big banks. Funding to support investment would be an important stimulus to building more prosperous regions, and resources should be made available through regional growth.

A good local economy for a 'good society'

Generating prosperity by strengthening the capacity of city economies to develop can lead to multiplier effects across the city region leading to a wider growth in related industries and services. The extent to which this will occur depends on how businesses and individuals make purchases. The longer that money circulates within the local economy the greater the potential benefit for economic growth and employment opportunities. An important task for local economic development is therefore to encourage the conditions for local purchasing. Market forces will stimulate some of this development but these processes can be encouraged. Conditions associated with public spending, such as local labour clauses should be an important lever associated with infrastructure spending but this form of intervention has to comply with EU competition rules. There is additional scope in working with the private sector to encourage a 'civic' perspective, which encourages greater emphasis on local purchasing and the development of local skills. Encouraging civic values for investment and business development are important in developing commitment to social value investment and in restoring faith in the public sphere.

Stimulating growth through 'localism' may have an impact on prosperity and growth but the challenge facing economic development is whether this growth can benefit low-income groups. Economic development is an uneven process with growth in some areas taking place at the cost of decline elsewhere. While economic growth can 'trickle-down' to some parts of the community and to some areas, there are barriers to inclusion. Some of these barriers are to geographic communities such as peripheral estates, and some to social communities, defined by ethnicity, gender or disability. The last three years have seen a retreat from regeneration, social inclusion and equality at a time when the economic impact of recession and austerity has produced powerful forces to exacerbate social exclusion, inequality and economic decline. If the benefits of economic growth generated through infrastructure spending and through the economic growth of cities is to be inclusive and socially progressive, a revived social inclusion strategy has to be integrated with economic development.

Social inclusion should be a clear duty for all bodies involved in economic development and investment, whether they are local authorities, LEPs, Local Prosperity Boards, Investment Banks or Regional Banks. Creating an institutional framework that values inclusion, social value and social investment should be a priority and should include duties for these institutions, which are subject to scrutiny and accountability.

The consequences of economic exclusion cut across administrative boundaries, and while local authorities can mitigate some of the impact within their own authority a broader framework will be needed. There may be scope for dealing with social and economic exclusion through combined authorities but the complex problems associated with peripheral estates, or other areas of social and economic decline, require comprehensive programmes for renewal that can tie these communities into new patterns of economic growth. A tier of government at the city region may be the basis for this form of intervention, but some issues can only be addressed through a wider regional approach. The impact of the city region is felt across a wider area than the metropolitan boroughs and social inclusion strategies need to address the wider rural and urban periphery, addressing problems of rural poverty, urban decline in coastal towns and declining industrial areas through a broader regional authority.

Based upon the models already established in Scotland and Wales the formation of autonomous English Regions with devolved powers and resources could provide for different social and economic models to emerge.

Along with inclusivity and equality, the 'good' economy should be green and environmentally sustainable. Greening the economy is increasingly recognised as a generator of new economic growth rather than a drag on growth. Infrastructure investment in alternative energy production, investment in energy saving homes, green transport policies, sustainable food production, greener and more sustainable built environments and the management of resources.

Developing the culture and the strategies to use this shift to a green economy for the economic benefit of cities and regions should be at the centre of our approach to economic development. If the knowledge economy through innovation, research and creativity form one pillar of the new economy, then a green revolution should form the second pillar. Currently, the UK is lagging behind in innovation and in the development of new start-up companies based on clean technologies. A 2012 report by WWF and Cleantech placed the UK at 11th out of thirty-eight countries behind Denmark, Sweden, Israel and Finland.

Creating a stronger culture for green research and innovation may be fostered through increased funding for University research, knowledge transfer in green technologies and the strategic use of green infrastructure spending to support innovation and manufacturing linked to green technologies. A regional approach to energy planning would be one step in this direction with regions responsible for the development of energy infrastructure.

It is important to mainstream sustainable development throughout local government in a meaningful way. A way that makes green economies central to plans for economic development, spending, plans for growth, infrastructure and planning policies with funds diverted from high-carbon infrastructure such as roads and airports, to renewable energy, smart grids, energy efficiency, railways and broadband.

Environmental impact and social inclusion are often driven out by value for money considerations and a much stronger accounting ethos that places the environment and social inclusion along with a longer term view of social value and social progress at the heart of public investment -this would be investment in accordance with the duty of well-being. A focus on well being and happiness should be central to the development of new economic indicators of development and progress that moves us beyond the current measures of GDP and concepts of growth, such as the Happy Planet Index[5]

To ensure these values are encouraged in the private sector, accountability for green and inclusive development should form part of policy appraisal and impact assessment and used to drive green and inclusive economics through the supply chain.

Regional planning

Regional development requires effective regional planning and investment. A regional infrastructure programme funded through central government and through public sector borrowing could provide a stimulus to regional growth. For regional investment to be effective there will be a need for governance at a regional level that can direct investment to support environmental and economically sustainable growth, secure maximum circulation of investment funding within the region, develop strategies for social inclusion and equalities and develop integrated planning for urban and rural areas. Regional governance would take the form of revived regional development agencies with devolved funding and powers from central government working in partnership with existing local government, core cities and reformed LEPs to maximize the opportunity for new economic development in the regions.

From Big Society to Social Economy

The Big Society initiative has been rightly criticised for the way it has served to legitimise the narrative of austerity, paving the way for public expenditure cuts, the retreat of the state and the institutionalisation of voluntarism. At the same time, it has occupied ground that would traditionally have been associated with left alternatives such as social enterprise and co-operatives.

In practice the initiative has stalled or never started in most areas but there are examples where initiatives based on community initiatives have contributed to the well-being by stepping into spaces left by declining markets or the retreating state. In developing a new vision of localism it is important to recognise the importance of community initiative, social enterprise, co-operatives, social ownership and municipal enterprise in shaping a new social economy; an economy that meets social needs and contributes to well-being.

By embracing the social economy there will be a necessary shift in the way we understand the principal sectors of the economy - public, private and voluntary and this will require a new settlement that secures labour rights and a living wage - perhaps through a Citizen’s Wage.

Democracy in economic development

Two of the six principles of decentralisation set out in the Localism Act propose systems of scrutiny and accountability. The two relevant principles are 1) Open up government to public scrutiny and; 2) Strengthen accountability to local people. How in practice this is to be realised is less clear.

It is important if economic development is to be directed towards social goals of inclusion, equality and environmental sustainability that there are effective systems for scrutiny and accountability. Tools such as impact assessment, social audit and citizen's juries can play a valuable role, but systems for democratic accountability need to be meaningful. They need to be resourced, informed, and deliberative and have the capability of some form of impact or sanction.

Elected Regional Assemblies

A problem with the emerging patterns of economic development based on LEPs, Local Prosperity Boards and combined authorities is that the these bodies are not easily held to account and this democratic deficit poses a strong argument in favour of Regional Assemblies to hold regional governance to account.

The problem with regional assemblies remains the lack of political identity with the regional concept and the recent history of Labour's devolution proposals following the Devolution White Paper, Your Region Your Choice. The proposals collapsed following negative results in a referendum in the North-East region. Critics supporting regionalism attribute the failure to the weak proposals for devolved powers. So, on the one hand, there is a case for Regional Assemblies as a necessary part of regional devolution but there would be an uphill struggle in developing a popular case for it. The context of the Scottish referendum on independence and the continued worsening of the North-South divide may provide a foundation for a renewed campaign, but it should be for the regions to decide how political representation and accountability should develop.

Conclusion

In the development of economic policy there is always a tendency to see regional economics as afterthought: an attempt to redress the balance. The argument here is for a fundamental re-think that places regional economies at the centre of economic policy, encouraging new patterns of growth and development that are rooted in city regions; and creating the capacity in those regions through locally based financial and political institutions to develop policies for socially inclusive, green, regional economies.

[1] Cooke, P. N. & Lazzaretti N. (2008) Creative Cities, Cultural Clusters and Local Economic Development, Edward Elgar Publishing, Cheltenham, UK

[2] Katz, B & Bradley, J (2013), The Metropolitan Revolution: How Cities and Metros are Fixing Our Broken Politics and Fragile Economies, Brookings Institution Press

[3] Rt. Hon. Lord Heseltine of Thenford (2013) No Stone Unturned in Pursuit of Growth Department of Business Innovation and Skills, London

[4] Pratchett L (2004) Political Studies, Volume 52, pages 358-375, June 2004

[5] Abdallah, S., Michaelson, J., Stoll, L. The Happy Planet Index: Report 2012 New Economics Foundation, http://www.neweconomics.org/publications/entry/happy-planet-index-2012-report

The national economy

Howard Reed

Building on the proposals for new enterprises and local/regional economies the reforms proposed in section of this report are organised around seven key themes:

- Reforming the UK financial sector;
- Reducing inequality through a restructured tax/benefit system;
- A fair deal in the labour market; Investing for a sustainable recovery;
- A new democratic politics;
- Truly public services;
- From austerity to sustainable prosperity.

The overall objectives of these reforms are to create a new national economy which could prioritise the three fundamental principles of equality, democracy and sustainability that should be ventral to any new political economy.

Reforming the UK financial sector

As discussed in the last section, the UK currently suffers from a severely unbalanced economy with an oversized and unstable financial services sector. The current government's decision to "dash for growth" from 2013 onwards with a boom funded largely by consumer debt and a house price and stock market bubble makes things potentially even worse than they were in the run-up to the 2008 financial implosion. Three key reforms would begin to address these problems:

- The creation of a public investment bank at a much larger level of funding than that envisaged by the Coalition Government, with an initial funding level of £20 billion - funded by a Financial Transaction Tax (see below). The bank would have a remit to invest in productive areas of the economy such as high-tech manufacturing and services with (crucially) an overriding low-carbon investment objective.
- The nationalised Royal Bank of Scotland (RBS) should be converted into a national mutual bank owned by a combination of bank customers and employees. Importantly, unlike the ill-fated Cooperative Bank which was simply a conventional plc bank owned by a cooperative, the new RBS would be a full cooperative - the largest one in the UK economy to date. It would have a specific mandate to prioritise lending to local businesses and to refrain from speculative activities.
- Tax breaks for crowdfunding and other innovative business finance models which move the UK economy towards new ways of providing finance at the micro-level - in particular, to the UK's rapidly expanding micro-business sector. Reducing inequality through a restructured tax/benefit system

The current UK tax/benefit system suffers from serious structural problems. Overall, the share of tax paid is regressive, with the poorest fifth of the population paying substantially more in tax than the richest fifth . Meanwhile, the benefit system fails to provide enough support to escape poverty for millions of families, including many of those in work. To redress this, the following reforms would make an excellent start:

- A Land Value Tax to replace council tax and a proportion of the current VAT and income tax/national insurance systems, as well as helping fund investment in essential public services. This could raise up to £200 billion per year according to the most rigorous recent estimates (cf Mark Wadsworth), and would significantly decrease wealth inequalities in the UK, which has reached huge proportions.
- A Financial Transactions Tax to discourage financial speculation and raise approximately £20 billion per year .
- Replacing the current patchwork quilt of means-tested benefits, tax credits and the botched Universal Credit system with a tax-free basic income paid at the Minimum Income Standard level to all families along the lines proposed in a recent paper by Richard Murphy and Howard Reed . Additional means-tested support for housing would continue to be available alongside this system.

- Replacing the current income tax and national insurance systems with a Unified Income Tax (UIT) payable on all income (earned and unearned) at a series of rates starting at 30% with a top rate of 60%. The UIT would have a small individual tax-free personal allowance, with all other reliefs and allowances to be abolished.

A fair deal in the labour market

Since the early 1980s the share of national income accounted for by wages has fallen from around 59 percent of national income to 54 percent, while the share accounted for by profits has increased from around 25 percent to 29 percent. Given that income from profits is much more unequally distributed than wages, this has been a major factor in increased household income inequality over the last three decades . At the same time, the dispersion of earnings has widened markedly, with huge gains for top earners and much lower growth for middle and low earners. In addition, since 2008, average earnings have fallen by around 15 per cent in real terms. At the same time, the Coalition Government has been removing employment protections and workplace rights, failing to uprate the National Minimum Wage for inflation and marginalising trade unions at the same time that low-wage employment - and especially self-employment - has boomed.

To reverse these trends and encourage a high-wage, high-productivity economy with a better work-life balance, fairer gender balance and a more pleasant working environment for the UK's employees the following reforms are put forward:

- Rapid expansion of a living wage – with incentives for the private sector through the tax system, public sector procurement measures and the development of community organisers to build campaigns for change. Recent research for UNISON suggests that in the current economic depression the boost to demand created by the increase in wages for low earners should lead to overall employment gains from the policy.
- Promoting full employment by expanding employment in public services - in particular social care, health, and education to make up for productivity enhancements in manufacturing which tend to reduce the share of manufacturing jobs over time .
- Replacing the current polarisation between workless households and households of 'workaholics' with an alternative model where a larger number of people work between 20 and 25 hours per week .
- Reforming the employment relationship by easing laws on trade union recognition (currently some of the most restrictive in the world) to allow workers to organise freely and bargain collectively across a much larger proportion of the economy, particularly the private sector.
- A better deal for parents in the workplace: introducing universal pre-school childcare and much more extensive rights to maternity and paternity than currently exist.

Investing for a sustainable recovery

The UK's business investment performance both in the run-up to and the wake of the Great Recession has been abysmal, with investment falling sharply in 2013 even as the 'recovery' gathered pace. At the same time, after an initial pledge to be "the greenest government ever", the Coalition Government has been scaling back environmental regulations and investments as fast as it can under the influence of the far right of the Conservative party who deny that humans are contributing to global warming. The following measures could reverse this trend:

- A Green New Deal - a "£50 billion plan to boost real economic activity in a way which provides quality jobs on a living wage in every community in the UK, while reducing the UK's overall ecological impact" , funded by a combination of green quantitative easing and tax finance.
- Large scale investment in affordable low-carbon housing - both refurbishments and newbuilds - meeting the most exacting environmental standards (through retrofitting the UK's entire housing stock with increased insulation, and insisting that all newbuild homes are insulated to the same or a greater level) while tackling the UK's acute housing crisis.

- Increased subsidies for research and development by businesses and the development of a large-scale reform and expansion of UK research funding along the lines of the US Small Business Innovation Research Scheme, which channels government research funding to hundreds of small and medium-sized enterprises .
- Investment in public transport, including the savings from brining the rail operators back into democratic public ownership.

Truly public services

For thirty years, public services in the UK have been on a path towards full private sector provision, mainly via outsourcing. For public services to play their vital role in creating a sustainable well-being 21st century economy, the trajectory has to be shifted through 180 degrees. This does not mean a return to 1960s top-down bureaucracy but instead a rejection of market feudalism in favour of decentralised publicly owned systems which combine consumer responsiveness and employee decision-making and engagement. Reforms which could address this are as follows:

- Abandonment of the outsourcing drive of the last thirty years, and its replacement with a drive to insource public service frontline and back-office functions - returning to public provision.
- Use of the cooperative/mutual industry model as a template for running public sector organisational units such as schools, hospitals, and local authority service provision departments, with worker representation and control of decision making. However, this must be combined with a 'co-production' model which puts service users centre stage in terms of deciding which services are priorities for provision, and what that provision should look like.
- Proper recognition for individuals and families who have formerly been an unpaid (or very lowly paid) support component of public service delivery (e.g. family members who care for other family members) through the adoption of the basic income scheme with additional payments for individuals with extra needs (e.g. due to disabilities).
- Universal pre-school childcare and nursery provision.
- The reforms stipulated in the employment section above would of course apply in an exemplary fashion to the public sector as a benchmark for high-quality employment.

From austerity to sustainable prosperity

Macroeconomic policy since 2010 in the UK has been, on the face of it, insane. Buoyed by the general public acceptance of the narrative that the 2008 crash happened because "Labour spent too much" and that belt-tightening was required, the Coalition Government has embarked on a programme of cuts to public spending unprecedented in seventy years. The result on the UK economy and many of the UK's most vulnerable citizens has been nothing short of catastrophic. In desperation, the Government has been forced to abandon its plans to rebalance the economy with an investment and export-led recovery centring around a revitalised manufacturing base, and instead plunge back into the old pre-2008 binge of increased consumer debt and a house price bubble to provide any kind of growth at all. As someone famously said at the 2010 election, "we can't go on like this". Instead the UK needs to:

- Abandon the current austerity programme, increasing borrowing and quantitative easing to invest until global economic conditions are such that a sustainable recovery can be assured;
- Invest more in key public services upfront to secure revenues from greater employability and higher earnings prospects down the line ;
- Establish credible long-term fiscal rules based on fiscal balance to be achieved at some point in the 2020s but with enough flexibility to respond to major global shocks along the lines of the 2008 crash with short-run stimulus to prevent economic collapse .

Conclusion

The reforms proposed in this section represent a radical alternative to the current economic model of austerity. They not only present a potential shift in how are economy functions, but also a move towards the good life, a life where we can step of the consumer treadmill and perhaps ensure that our actions today do not damn future generations.

[1] See Chart 12 in R Murphy and H Reed, "Financing the social state: towards a full employment economy", Centre for Labour and Social Studies (CLASS), 2013.

[2] Mark Wadsworth, 'Valuations and potential LVT receipts', http://kaalvtn.blogspot.co.uk/p/valuations-and-potential-lvt-receipts.html

[3] Stamp Out Poverty, 'Financial Transaction Tax: FAQs', http://www.stampoutpoverty.org/faqs/

[4] See http://www.jrf.org.uk/topic/mis for details of the level of the Minimum Income Standard (MIS), defined as "an adequate level of income, based on what members of the public think is enough money to live on, to maintain a socially acceptable quality of life."

[5] R Murphy and H Reed, "Financing the social state: towards a full employment economy", Centre for Labour and Social Studies (CLASS), 2013.

[6] See J Mohun Himmelweit and H Reed, Where have all the wages gone? Lost pay and profits outside financial services, TUC, 2011: and S Lansley and H Reed, How to boost the wage share, TUC, 2012.

[7] H Reed, The economic impact of extending the living wage to all employees in the UK, UNISON, 2013.

[8] W Baumol, The Cost Disease: Why computers get cheaper and health care doesn't, Yale University Press, 2012.

[9] A Coote and J Franklin, 21 Hours: Why a shorter working week can help us all to flourish in the 21st Century, new economics foundation, 2010.

[10] The Green New Deal Group, "5 years after Lehmans' collapse: National plan to detoxify the UK economy", press release, 8th September 2013. http://www.greennewdealgroup.org/?page_id=200

[11] See M Mazzucato, The Entrepreneurial State: Debunking Public vs Private Sector Myths, Anthem Press, 2013 for far more detail on reforms which the UK could undertake to boost small business research funding.

[12] A recent example of upfront investments having the potential to more to pay for themselves decades into the future is provided by H Reed and G Stark (2013), "Costing the 'When I Am Ready' Scheme", Action for Children Wales.

[13] J Cox, Invest to Grow: A Spending Review to get Britain moving, Compass, 2013.
http://www.compassonline.org.uk/publications/spending-review/

The European economy

Jon Bloomfield and Robin Wilson

Economic policy can no longer stop at the white cliffs of Dover. Global trade, vast flows of finance and labour as well as climate change demands at the very least a pan-European economic agenda. As we have seen above, there are distinctly British elements to the question of how we create a good society, they are not just a matter for UK politics. The original European project has hit the buffers. Ever since the Maastricht Treaty was rejected by the Danish electorate in 1992, there has been a growing public unease with Europe. The financial crisis from 2008 and the political response to it by the main European institutions has hardened these feelings and turned disquiet into animosity. As the German SPD President of the European Parliament Martin Schulz puts it: 'the EU is really threatened by failure…. The moment people withdraw their support from an idea, the idea is finished…. The consensus on Europe is in a kind of free-fall.' To find a way forward demands a reconceptualisation of the European project, not just a set of relevant economic policies.

The end of a technocratic project

An acceptance of the depth of Europe's crisis has to be the starting point for any serious discussion. Essentially, the European Union has always been a technocratic project, an attempt to overcome Europe's traumatic and bloody nationalist divisions by promoting economic unity. The founders of the Common Market presumed that creating economic cohesion across Western Europe would bring political harmony and prevent war. This indirect and economic-determinist approach was associated with a politics of stealth, in which it was assumed the European elite would only require a 'permissive consensus' from the people to pursue the project.

These founding conceptual flaws went unrecognised for decades because the project went with the flow of economic development. After the Second World War major companies leapt the boundaries of their national states and began to work on a multi-national basis. For a half a century, peace and significantly higher living standards were experienced across much of Europe. The project was tweaked to bring in a stronger social cohesion dimension – the Delors achievement – and to rectify democratic shortcomings, the European Parliament was created and its role slowly expanded.

Yet the technocratic imprint remains the dominant one and its uglier features have been revealed during the financial crisis. As the austerity philosophy of the European establishment has met public resistance, the authoritarian elements within the system have come to the forefront. The sacred status accorded to market 'liberalisation' has meant that however much deregulation caused the debt crisis – through a runaway banking system – the answer is somehow even more of the same. When Greek Prime Minister Papandreou suggested a referendum of the Greek electorate on Europe's proposals for further austerity, Angela Merkel backed by Nicholas Sarkozy leapt in to say no and they then forced Papandreou's resignation, and elsewhere a technocratic government was imposed on Italy entirely without consent. This is the mind-set of an establishment with little respect for democracy. People across Europe are beginning to realise that they are no longer living in a democratic political system as they have known it.

The technocratic elements of the European project have been incubating nationalist reactions for more than two decades. The financial crisis has provided the hothouse conditions within which these trends can grow more rapidly and raucously: witness Marine Le Pen's Front National in France and Geert Wilders' PVV in Holland and the straightforward fascist parties such as Jobbik in Hungary and Golden Dawn in Greece. In Britain the UK Independence Party draws from the same well with its anti-foreigner, anti-Europe sentiments combined with classic, Poujadist rhetoric against the Establishment. But the reaction to the European project has been influencing the mainstream Right too, with growing Euroscepticism emerging while it has become the dominant trend amongst British Conservatives.

What should a progressive response be?

There are four possible options.

1. **Trim and triangulate.** Anti-European sentiment has the winds in its sails; public opinion is increasingly negative: so keep your head down, do not make speeches on the topic (Ed Miliband's conference speech in 2013 did not mention it once); on occasion take the lead in a populist way as Labour did in calling in 2012 for the EU budget to be cut back. It is the approach that 'New Labour followed for a decade from 2000. It has fostered and strengthened Euroscepticism amongst the wider public. To continue with this strategy would mean that the UK will accelerate its semi-detached status in Europe.

2. **Promote a nationalism of the Left.** In the UK this means stressing that the future is local and that the Scottish, Welsh and especially English Left need to assert their own identities. This is the route that some Blue Labour thinkers have advocated, a focus on the local – as if the English economy can be insulated from 21st century economic realities. And it is there in the economic remedies of journalists, such as Larry Elliott. The roadmap here is never explicit but the logic would be to accept a British withdrawal from Europe.

3. **Stick to the European project as it was originally envisaged.** Argue that if the leaders begin to pursue a more progressive, Keynesian economic policy, then over the next few years, things will improve and the benefits of European integration will again become evident. Yet this too would be a dangerous course to follow. Slow, tentative, crab-like shifts of policy are not going to convince public opinion across the Continent.

These three options represent dangerous dead-ends for any notion of a good society. For Europe to survive/thrive, a new approach is needed.

Developing a Europe-wide alternative

What are the key steps that progressives have to concentrate on if they are to develop a coherent alternative policy on Europe? They need to show that on the economy, immigration and politics, Europe can do better than it has done in the last decade.

Above all, on the economy, it must be unequivocal. Europe's current economic policies have proved disastrous and must be unceremoniously dumped. Twenty-six million unemployed, youth unemployment reaching 50% in several countries, falling living standards and yet a continuation of policies favouring the financial elites – this is not a price worth paying. These policies are the greatest immediate cause of the widespread public disillusionment with the European Union. In politics there are always alternatives. But social democracy, with too many of its leaders compromised by their mistakes in government, has failed to make the case for an expansionary European-wide policy. The core story is clear.

First, progressives should state unequivocally that the priority for Europe is economic growth, more particularly green growth, not austerity. That means rejecting the orthodoxies of Maastricht, the ECB and the Bundesbank and encouraging steps to boost aggregate domestic demand and active intervention to weaken the euro against other currencies.

Second, they should support a range of measures which Europeanise the debt problem. Former Prime Ministers Amato and Verhofstadt have proposed a transfer of Maastricht-compliant debt of up to 60 per cent of national gross domestic product to a Union debit account that is not traded. Its interest rates would be decided on a low and long-term basis by Eurozone finance ministers rather than rating agencies. This would strengthen governments, curb the speculators, stabilize financial markets and promote conditions for growth.

Third, the ECB should issue Eurobonds, drawing on the basic economic strength of the European currency. This would attract funds from the central banks of the emerging economies. Essentially the ECB must begin acting like a proper Central Bank- that is as a lender of last resort.

Fourth, progressives should strongly back the Commission's proposal for a financial transactions 'Tobin' tax, both to rein in financial speculation and to raise significant revenues for new European-wide initiatives. These could be allocated to the European Investment Bank to invest in a range of green growth programmes across the EU.

What is urgently required is a coherent challenge to the neo-classical mantras of the German financial establishment and the ECB. Social democracy has to show there is an answer to Merkel's austerity and that a better Europe is possible. It urgently needs to get its act together, thrash out a common programme to meet Europe's crisis and present that to the electorate at the 2014 European Parliament elections. And the same is true for other progressive groupings. If they don't do this, then the nationalist, anti-European and xenophobic Right will make huge gains.

The second task is to tackle immigration. The widespread sense that globalisation is inevitable and that you can do nothing about it has paralysed the debate on EU migration. At the moment, across the single market the free movement of labour brings with it substantial economic advantages for employers in terms of skilled, cheap labour. For the individual migrant, the large wage differentials between Eastern and Western Europe mean that s/he gets new work opportunities and higher wages than are available in their own countries. But the social and cultural costs of large-scale people movements are not picked up on by any public authority. They are just experienced by citizens living in the areas with large migrant populations, often creating a volatile cocktail.

This is fertile ground for racist, anti-immigrant and neo-fascist groups, which seek to demonise migrants. The answer is not to reject the EU or the value of closer economic co-operation but rather to shape it along progressive lines. Crucially, this requires European-wide action to re-shape the operation of the single market. Its economic benefits need complementary social measures. Politicians created and shaped the single market. They can re-shape it too. Firstly, there needs to be a much stronger social floor, with common working conditions across the whole of Europe, reinforced by action to win a Europe-wide minimum wage as a set proportion of each country's national average, the introduction of stronger wage enforcement agencies and common health and safety legislation. A second policy strand would be the introduction of a European integration fund to ensure that investment follows migration. This fund would be used to address the social pressures brought about by the free movement of labour. These proposals will not remove the dangers of racism from European politics, but would give the liberal-left a clear basis on which to challenge its socio-economic roots. On that secure foundation, it can go on to argue that not only is the cosmopolitanisation of today's European cities an irreversible fact but also, as the innovative Council of Europe Intercultural Cities programme has shown in practice, a source of competitive 'diversity advantage' for those who embrace it.

The third task is on politics. Pro-Europeans need to set out a vision which corresponds to the realities of 21st century society. The core story is that in an era of globalisation the only way to control the major forces shaping the world's economy and ecology is for nations to cooperate. If the nation state alone cannot bear the strain, it is precisely the task of politics to create new frameworks that can. But those frameworks have to be built on democratic foundations. For example, the President of the European Commission should be chosen by the European Parliament after the 2014 European elections, so that unlike now, citizens can see and understand how Europe's leading politician is elected.

The basic case for Europe is that only a trans-national organisation can assert compromise between labour and capital, competition and solidarity, the environment and the economy. These can no longer be managed within any one European country. Ed Miliband's 'One Nation' theme can only take root if it acknowledges this broader reality. Otherwise he will quickly end up like Francois Hollande, marooned in a national quagmire. The EU is the wider regional setting that can enable many nations to work together. This is the European Union not just as a means to prevent the recurrence of Continental war but as a new hinge to supplement the nation state and enable politics to shape the economy in an era of globalisation.

That is the reality that EU agnostics refuse to confront. The 21st century world is multi-polar. In the interconnected world of finance, with trillion dollar daily transactions, only big regional powers are able to exert effective controls. Similarly, only trans-national action can have a meaningful effect on climate change, which recognises no national boundaries. And the same is true of organised crime and other issues. To imagine that a mosaic of relatively small and separate European nation states can tackle these questions individually is to be the real utopian dreamer, summoning up a world that has gone forever.

Conclusion

The only way to shape the world of the 21st century is to pool sovereignty. Economics has leapt the boundaries of the nation state, so politics has to do so too. This means developing a new political model. The principle of subsidiarity – devolution to the lowest appropriate sphere – needs to be combined with flexibility, so that there is an active interrelationship between the European, national, regional and local spheres of government. But on politics, economics and migration here is a forward-looking agenda that realists of the Right, internationalists, greens and liberals, as well as core social democrats can support. Such an alliance is required to defeat the nationalist nostalgics and reactionaries in the UK and across Europe who want to turn the clock back to the 1950s – or even earlier.

Summary

A new political economy doesn't just spring into being. It evolves in fits and starts but there are moments, like 1945, when faster progress can be made and the whole structure reframed in to a new paradigm. Arguably we are at such a moment when we could see a transition to a more innovative, creative, socially just, environmentally friendly and democratically controlled economy. It will take governments with nerve, vision and ambition, but it will take a people and a whole set of intermediary organisations, between the state and citizen, to make it happen. This is one more contribution to turn the wheel and make sure it heads in the right direction.

Now really feels a fork in the road – either we go on doing the same thing, expecting a different outcome or we decide we can do better. Britain has never looked more divided; a few thrive in the global race mostly because of their birth right, many others survive but their lives are anxious and insecure, while a growing class really struggle. Britain is a world of rising house prices, designer goods and artisan coffee shops and at the same time loan sharks, food banks and zero-hours contracts. This cannot be right!

What is clear is that work no longer keeps you out of poverty, the floods will be back, the banks will fail again, many will never be able to afford a home and companies like Pfizer will ransack the likes of AstraZeneca.

So do we allow power and wealth to be concentrated still further or work intellectually and organisationally to ensure a century of creativity, sharing and collaboration? The lack of a feasible/desirable economic alternative is holding us back. Some of the building blocks are contained is this report – more are needed – we must keep building.

What next?

- Let us know what you think about this report – what you liked and what you didn't?
- Let us know what the next steps you think Compass or others need to take?
- And let us know how you can help?
- In particular Compass would like to develop its work and thinking on the notion of a democratic economy - what are the new forms of ownership and control of enterprises and finance that can help usher in a good society?

the new economy project

Building blocks:

for a new political economy

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