

THE EVERYDAY ECONOMY

Rachel Reeves MP

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About the Author

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Chapter 1:

A political economy of everyday life

People want security and they want prosperity: they want good work and a decent wage; parents want their children to have an education that will give them the opportunities to get on in life; young people want to believe they have a future, and voters want a government they trust will benefit both their own family and the country. But the Conservative government, consumed by Brexit, has had no thought of improving the country. The NHS is starved of funding and other public services are stretched to breaking point. In short, the economy is not working for the majority. Theresa May's promise to govern in the interests of working people has so far come to nothing, and a decade of austerity and stagnant wages has resulted in widespread insecurity and division.

Labour's 2017 election campaign captured a popular mood for change from this era of austerity. We lost the election but we now have an historic opportunity to develop a programme of national renewal. Our manifesto was the first big step. It broke with the past and offered voters hope and optimism. But to win the next election we will need to have a debate about how we develop our manifesto. As well as increasing public spending and redistribution, we need to explain how Labour will generate wealth and improve work and wages for the majority. Our promise on tuition fees won over many younger voters, but we said nothing about the cuts to in-work benefits which will have a devastating impact on many low-paid families. In the end, our manifesto was regressive in its redistributive policies.

We need to be radical in setting out new ways of taking on vested interests to make our policies better for working people. It will mean breaking up monopolies, devolving power and reforming corporate governance. We need to support new forms of economic ownership. The report to the Shadow Chancellor on *Alternative Models of Ownership* (Labour Party 2017) was a valuable initiative which set out a more democratic approach to the economy. However, little of its agenda found its way into the last manifesto. We must push forward in reforming the institutions of our economy so that capital works more effectively for labour, driving up productivity and increasing the wages of the lower paid.

The last Labour Government made Britain a far better place to live after years of Tory neglect. We set up Sure Start centres across the country, sharply reduced poverty amongst children and older citizens and dramatically increased spending on schools and the NHS. However, as a party we must be more ambitious and break with the ‘command and control’ politics that has characterised Labour’s political economy in the last century. We must give more power to people through genuine devolution, particularly in England, not more centralisation.

Our next manifesto must also bridge both the divisions in the country and in Labour’s coalition: Labour Remainers versus Leavers; older voters versus the young; the cities versus the poorest parts of the country: the coastal and ex-industrial towns and rural areas. Our country is riven by inequalities, particularly in our cities, and divided by class, ethnicity and culture. Within Labour’s coalition, social liberals and social conservatives view each other with suspicion and dislike. Labour has to bring together all these estranged interests and build a new coalition that makes common cause against the unrestrained capitalism of the Conservatives.

The vote to leave the EU has dramatically exposed these divisions. One-third of Labour voters voted Leave because they valued national sovereignty and democracy more than membership of the EU. It was an expression of a deep anger at the way the governing class had ignored them and belittled their concerns about their national culture and identity. Those of us who voted Remain, the majority of the Parliamentary Labour Party, the Party membership and Labour voters, put the economy ahead of identity. We believe that remaining in the EU represents Britain's best chance for creating prosperity, protecting the environment and safeguarding workers' rights.

As we leave the EU, Labour must build bridges between Leave and Remain voters with a bold vision of a national economy that puts working people, jobs and wages first. This pamphlet argues that the best way to do so is to concentrate on the everyday economy which is made up of the services, production, consumption and social goods that sustain all our daily lives. It is an economy too often characterised by low wages, low skills and low productivity, but if we can increase productivity in the everyday economy, we will raise the wages and living standards of the British people. This pamphlet also offers an analysis of the present-day British economy and its failings. It outlines the component parts of the everyday economy and offers some strategic policy directions to improve our productivity, but is less concerned with the technical details of policymaking. Political economy is about the wider relationship of production, consumption and trade to culture, society and government, and so here larger questions are addressed about the kind of society Labour wants and how we can achieve it.

Chapter 2:

Labour's purpose

The Labour Party was founded to represent the labour interest. Its historic role is to redress the power of capital and to make it work in the interests of working people. However, due to long-term changes to British society, the labour interest has changed and Labour is losing its role. We need to regain this role by understanding who and what the labour interest is in our post-industrial society and how we can develop around it a political economy of everyday life.

We can begin with the three constituent parts of this political economy: work and wages, families and households, and the local places people belong to. Purposeful and dignified work defines what the Labour Party stands for, whilst good wages are the principal means of distributing the rewards of economic prosperity. Families in all their shapes and sizes are society's most precious assets; love and relationships are not only what matter most to people, but family households are vital to economic prosperity and security. They create social stability, sustain the workforce and pass on our moral and cultural inheritance from one generation to the next. Finally, a place of belonging is important in defining where people make their home and where they form a sense of community. Place structures the political and economic system and in turn is structured by it. Where we live largely defines our life chances (Social Mobility Commission 2017).

The everyday economy begins with people in their daily life at home and at work. Simply put, to distribute wealth fairly and to create a flourishing society we need to increase our

productivity (the output per hour worked that is determined by how effectively the factors of production are used). Britain is not currently doing this well. Productivity has been low for many decades and lags well behind comparable nations such as France, the United States and Germany. This difference has become much greater since the financial crisis, but more significantly the gap between our top 20 per cent of high-performing firms and our bottom 20 per cent is much larger than in these comparable economies. Every sector of our economy has a cluster of the top 20 per cent high performing companies and a long tail of average – and low-productivity companies reaching down to the most poorly performing bottom 20 per cent (Haldane 2017). It is this long tail that the everyday economy focuses on.

Central to developing a new political economy are institutions. Here institutions are defined as the practices, rules and customs that structure our social and economic interactions. This civic infrastructure includes the labour market, research and development, finance, the tax system, public procurement policy, skills training, and further and higher education. The purpose of a Labour political economy is to reform and strengthen the institutions of our economy and, if necessary, create new ones. By improving our civic infrastructure and focusing on the supply side of the economy, we can begin to achieve our ambitions to increase productivity, devolve power, reduce inequality between classes and regions, and reintroduce the moral dimension of reciprocity into economic activity.

Relying on the central state to administrate reform will concentrate power in a political technocratic elite. It is inefficient and will undermine the development of a more participative, democratic and equal society. For several

decades, national politics has been dominated by the market and the state: what has been crucially left out and often ignored is society. To counteract this, Labour must give up its overreliance on state control and become a more social and more democratic party. In order to successfully develop the everyday economy, Labour must also modernise itself and to do so it must learn from the experiences of its own history and traditions.

Chapter 3:

Political economy and the Labour tradition

Economics has stopped being about people's lives. The reinvention of a neo-classical political economy (also called liberal market economics or neo-liberalism) in the 1980s led to the discipline becoming overly mathematical and detached from social realities. Economic policy treated individuals as if we are economic units governed by rational choice rather than complex, feeling social beings. Human motives were reduced to self-interest and a desire to maximise the acquisition of things in the market.

Under this political economy, markets were treated as if they were self-regulating and would always ensure fair prices and a proper balance of supply and demand. The institutions that had intervened in markets in the name of the public interest were considered obstructive and so they were often either removed or weakened. Economics became more about maximising profit in the short term than human flourishing, with growth in GDP the sole measure of success. Who benefited and who lost out from the extra economic activity was ignored. Economics lost the human touch.

The financial crash in 2008 discredited this neo-liberal economic model, but we still lack a viable alternative to it. In starting to create this alternative we need to remind ourselves that political economy did not start out as a mathematical and technical discipline. It originated in Britain in the eighteenth-century in the philosophical debates about the moral and emotional foundations of society. These debates were a central preoccupation of the British Enlightenment.

Unlike the abstract reasoning and theoretical systems favoured by Enlightenment thinkers on the Continent, in Britain the concern was with the social virtues and the conflict between emotion and reason in human beings (Himmelfarb 2008).

The Scottish philosopher David Hume was perhaps the most significant figure in the British Enlightenment. In 1793, he published *A Treatise of Human Nature* in which he claimed that people's feelings provided the expression of social bonds which formed the basis of their moral values and which joined individuals together in society. He likened this sociability to a direct flow of emotions between people and described it as sympathy. Feelings between individuals were a form of communication and the impetus behind human action.

Hume's friend, Adam Smith, disagreed with this view. In his *Theory of Moral Sentiments*, published in 1759, he argued that while sympathy was necessary for the moral foundation of a commercial society, Hume's unmediated emotions would result in people's unreasonable behaviour. Moral beings are accountable and responsive to others, but morals are broadly social, not simply personal. In Smith's view, being sociable is a rational calculation of self-interest. We must 'imagine ourselves not the actors, but the spectators of our own character and conduct' (Smith 2005). By arguing that rational thought governs feelings he concluded that the pursuit of individual and rational self-interest, not simply the expression of sympathy, would promote the wider common good.

Hume's exploration of moral meaning and the relationship of the individual to society helped to define a distinctive argument within the British Enlightenment. In 1776, Smith published *The Inquiry into the Nature and Causes of the Wealth of Nations*. In contrast to his friend, Smith remained doubtful of the social value of human feelings. Morality and

its regulation would be anchored in the ‘immense machine’ of public life and the ‘visible hand’ of government, whilst the public good would be managed by the ‘invisible hand’ of the market. The wellbeing of society would be ensured by disinterested competitive markets and contractual relations.

It was Smith’s liberal view, rather than Hume’s social ethic, that became the dominant organising principle of early industrial society. As a consequence, the value of society as the web of relationships and institutions within which individuals and their morals are formed took second place to the operation of the market. There was nothing natural about the *laissez-faire* market economy of the industrial revolution this view created.

Smith’s ‘simple and natural liberty’ was the product of deliberate state action and to make it work required the growth of a powerful administrative state (Polanyi 1957). A banking and financial system was created by statute, with legislation in 1844, 1855 and 1856 establishing the joint stock company. The Northcote Trevelyan Report of 1854 founded the modern civil service and in the early decades of the Industrial Revolution the building blocks of capitalism were laid. Perhaps the most significant of these was the 1834 Poor Law Amendment Act. It divided the poor into helpless paupers to be confined to the workhouse and free labourers who must earn their living by working for a wage. No work meant either entering the workhouse or death by starvation. The principle of ‘less eligibility’ enforced a competitive market in labour and established the basis of a modern capitalist system.

If the *laissez-faire* system was planned, people’s resistance to its brutality was spontaneous. A politics grew out of the social ethic of the British Enlightenment. In the same year as the passage through Parliament of the Poor Law Amendment Act, Thomas Carlyle published his famous essay *Chartism*

(Carlyle 2017). ‘Who’, he asks, ‘speaks of the Condition of England Question?’ ‘What is the condition of the working classes in their houses and in their hearts?’ His question helped to define a moral response to the Industrial Revolution and gave rise to the social novels of writers like Elizabeth Gaskell and Charles Dickens, as well as to critics such as Matthew Arnold and John Ruskin. When Ruskin railed against the machine age with his rallying cry, ‘there is no wealth but life’, he defined the moral value of labour.

The extension of the market into society created radical counter-movements which sought to conserve society and defend people against the commodification of their labour (Polanyi 1957), of which the Chartist Movement was the first to offer a counter-culture to industrial capitalism. This movement of the labour interest grew out of religious non-conformism and the nineteenth-century mass popular movements for self-improvement and mutual self-help. The most significant of these were the trade unions. The labour movement, wrote R. H. Tawney, stood for the ideal of social justice and solidarity. It was the faith in the possibility of ‘a society in which a higher value will be set on human beings and a lower value on money and economic power, when money and power do not serve human ends’ (Tawney 1979).

The Labour movement truly came of age with the organising of unskilled labourers in the London Dock Strike of 1889. The strike brought together the estranged interests of Catholics and Protestants, the churches and socialists, and the working class and parts of the middle class, all in a democratic politics of the common good. Eleven years later, in 1900, a Labour Representation Committee was established which became the Labour Party in order to represent the labour interest in parliament. In 1906, when the *Review of Reviews* asked the

first Labour MPs which authors had most influenced them, Charles Dickens, Thomas Carlyle and John Ruskin were the foremost three. It was British social virtues, not Marxism, that shaped the early labour movement.

Forty years after the founding of the Labour Party, the Victorian generation of Clement Attlee, Ernest Bevin and Arthur Greenwood joined Winston Churchill's War Cabinet and backed him to defeat appeasement. Under Ernest Bevin at the Ministry for Labour and National Service, the relations between capital and labour were transformed. Labour won the war on the home front and in 1945 a Labour government founded a social democratic settlement at home and, on its basis, also helped to create a new international order abroad.

The social ethic of the British Enlightenment, in the idea of fraternity, defined the early Labour Party. It was not a revolutionary movement, rather the British labour movement grew out of parochial and conservative regional cultures. In its scepticism of grand theoretical design, its constraint on political extremism and its popular attachment to ancient English liberties, it was a product of national tradition and one shaped by the British constitution. It was this rootedness in national popular life that enabled it during the twentieth century to stand against both communism and fascism while fellow continental Social Democratic parties were defeated.

The Labour movement's traditional values have been self-reliance, self-improvement and the practice of reciprocity. These values were formed in the philosophical debates which created modern, democratic Britain and have become part of its national popular culture. They were forged in the mass organisations of mutual self-help and the sacrifices of working-class resistance to the *laissez-faire* system. In spite of the rise of consumer society and the changes in modern class cultures, they still provide the moral foundations for

a new Labour political economy (Galbraith 1999). Gordon Brown, in a speech in 2009 in St Paul's Cathedral, defined this foundation when he said that we do not reduce people to merely what they can produce and what they can buy. 'No: we say, do to others what you would have them do unto you' (Brown 2009). It is this tradition of social virtue and reciprocity that we now need to develop further in order to meet the challenges of our post-industrial society.

Chapter 4:

Globalisation and society

For forty years, British governments have been committed to more liberal market globalisation. The flow of capital, goods, information, people and services across borders has brought about dramatic rises in living standards around the world, with British people benefiting from the growth in trade and lower prices. But it has also created historically high levels of inequality, cultural destruction and demographic upheaval with waves of mass migration across and into Europe.

The scale and rapidity of immigration into England over the last decade has been without precedent. In post-war years, immigration on a much smaller scale was a consequence of the end of the Empire and was eventually managed through legislation. In recent decades, with the introduction of the EU's single market and its free movement of labour, immigration became a function of the free market economy. Low-paid, low-skilled migrant labour enabled government and business to sustain a highly flexible labour market and avoid the costs of both technological innovation and the training of a skilled and productive workforce. Meanwhile, despite remittance transfers, the social and cultural cost of emigration from already weakened societies both inside and on the borders of the EU has been significant. Mothers and fathers have had to leave behind their children and young ambitious workers have been lost from already struggling economies (Atoyan, et al. 2016).

Unmanaged immigration and flows of refugees have contributed to an upsurge in right-wing anti-globalisation

populism across Western market economies. In countries across Europe, the working classes have been deserting their social democratic parties and boosting the fortunes of anti-immigration and nativist politics. While cultural disruption has been the driving force of right-wing populism, in Britain austerity and economic inequality have fuelled a left-wing populism, particularly amongst younger voters and in the public sector professions.

Employment models have also shifted in the last few decades, as the state and business have increasingly transferred risk onto the individual. In the 'gig economy', companies like Uber and Deliveroo place the burdens of flexible working onto their 'self-employed' staff and the taxpayer (Business, Energy and Industrial Strategy Selection Committee and the Work and Pensions Select Committee 2017). Individuals have become more anxious about changing jobs or moving to a new area, and this feeling of insecurity limits their opportunities.

In the old industrial regions, jobs have been exported to low wage economies or lost through new technologies. New jobs have often been part-time, temporary, low-paid and low-skilled, or they have been for the professional classes in the more prosperous cities. Rapid, extensive and unplanned de-industrialisation has left a legacy of high levels of chronic physical and mental illness in ex-industrial areas (see, for example, Foden, Fothergill and Gore 2014). The social stability won by the skilled working class during the industrial era has gone and consequently many find themselves now struggling to get by.

The economic winners of globalisation are the asset rich elites (Piketty 2014) and the metropolitan professional class of creative, media, knowledge and finance workers, and opinion formers. They now have larger markets in journalism,

media, banking and business within which to sell their skills. They are concentrated in London and the Thames corridor, and to lesser degrees in the large cities and university towns, however, the places they inhabit are rapidly changing. The scarcity of affordable housing has driven out lower-income citizens or restricted them to the diminished stock of social housing and the dysfunctional private rented sector. The everyday economy of expanding service, retail and hospitality sectors for the elites employ low-paid migrant labour rather than the old established working class, many of whom are now excluded from high-skilled sectors.

The professional classes escaped the first wave of globalisation and economic restructuring in the 1980s and 1990s, but their adult children face global-scale competition in graduate talent as well as the threatened redundancy of professional tasks by automation (Brown and Lauder 2012). Unlike their parents, their graduate status no longer guarantees them a traditional, middle-class lifestyle. They have also been hit hard by the pay squeeze, with those born in the late 1980s earning no more in their late 20s than those born in the early 1970s did at the same age (Gardiner 2017). Young people's access to the housing market has been severely reduced (Corlett and Judge 2017) and now access to entry-level jobs often requires periods of unpaid internship. While their access to higher education provides their principal source of esteem and class power, student loans, with their interest rate pegged to future earnings, act like a permanent form of negative equity.

Geographically and demographically, Britain is structured around the places that are connected to the global economy and the low-skill, low-wage and insecure peripheries which are not. The biggest divide is between London – which itself contains high levels of inequality – and the rest of the country.

The places of least opportunity are the ex-industrial and coastal towns and rural areas. For example, average wages in West Somerset are £312 a week, less than half those in the London Boroughs of Wandsworth, Richmond and Westminster (Social Mobility Commission 2017). Better off parts of the country often have the highest levels of inequality: the Cotswolds, for example, has few opportunities for the children of low-income families. The economy used to be integrated into society and the classes used to share this same economy, if not an equal share of it. But this is no longer the case as globalisation has created a two-speed economy of winners and losers.

This two-speed economy is distinctly divided by a class and cultural faultline. There has been decreasing social and cultural traffic between these two groups, with marriages, friendships and social occasions that cross the cultural divide becoming rarer. Inequality and exclusion have also become more acute both amongst the younger generation and between generations, with schooling and the housing market reproducing this class segregation. At the same time, prestigious universities, the national media and our other cultural and political institutions are dominated by the professional middle class, reinforcing the underlying class hierarchies of cultural distinction.

Chapter 5:

Labour's coalition

The EU Referendum exposed how divided our country has become. Two sometimes antagonistic class cultures are diverging and pulling apart Labour's coalition: the metropolitan professional middle class overwhelmingly supported Remain and live in the globally connected places of the economic winners, whilst the ex-industrial working class largely supported Leave and are often trapped in the low-skill, low-wage economy. One class has been reaping the benefits of globalisation, while the other fears the redundancy of its way of life.

Labour's 2017 election campaign galvanised a coalition of public sector workers, BME voters and the socially liberal, metropolitan middle class. Jeremy Corbyn transformed Labour's standing in the country and Labour's vote share dramatically increased. In 2010, we held 258 seats on a vote share of 29 per cent. In 2017, we increased our seats to 262 on a vote share of 40 per cent. It suggests that Labour gained seats in the areas where we already did well but struggled to broaden our appeal. Labour fell well short of a majority government and the Conservative Party, which ran an inept and self-destructive campaign, still held 318 seats on an improved vote share of 42 per cent.

Labour's working class vote increased in the 2017 election, but in working-class areas, the trend of political support was towards the Conservatives and away from Labour. The areas in which the professional middle class live are moving toward Labour and away from the Conservatives – a trend which

suggests that Labour is becoming the party of the better off and higher-educated at the expense of its traditional working-class vote (see, for example, Burn-Murdoch, et al., 2017; Cowling 2017). To reclaim our role amongst the working class as the party of the labour interest, Labour has to overcome the divisions between its Remain and Leave voters. It must appeal to voters across the cities, towns and rural areas, particularly in England, and it must also find common ground between those who hold social liberal values and those who hold socially conservative values.

Some wish to bypass this difficult political task in favour of a progressive alliance of the like-minded. But a reliance upon this kind of alliance concentrated in the liberal middle class and the public sector will cede large parts of England – areas like the North East and the Midlands – to the Conservatives. It would bring to an end Labour's historic role as the party of working people. And what then would be its purpose? Labour has a duty to construct a modern labour interest at the heart of a 'broad church' coalition, and by doing so make itself a party of the whole nation. It is the only way it can form a majority government and fulfil its purpose.

The modern labour interest is largely a mix of the middle and working classes (in terms of demographic classification they are termed C1s and C2s and make up just under half the population). The key group of voters Labour must win work mostly in the private sector on full-time contracts. They are aged 35–55 and are the workhorses of the economy. Their households have the highest proportion of people in work and the highest proportion of younger children. They are a generation beyond their parents' traditional lower-middle and working-class ways of life. They are witnesses to the ending of the industrial world and its communities. Some

feel this loss and sense society passing them by, whilst others have succeeded in grasping the new opportunities of globalisation. Their ethic of work remains deeply held because it is about identity, self-reliance and self-respect. They believe in the welfare state, but they have lost faith in a system which they believe gives ‘something for nothing’ to those who have not contributed and ‘nothing for something’ to those who have paid in over a lifetime of work. They strongly support the principle of contribution and their concerns are about too much debt, too much uncontrolled immigration; in short, they worry that their taxes are being squandered. These voters are patriotic and they value their democracy and cultural inheritance. Many voted to leave the EU. They are not overly ambitious for themselves, but they want a better country and a good education for their children to give them the best possible start in life.

Labour should be the natural home of these voters, but it is a Labour Party that stands for work, family and fairness and today many no longer see a party cast in their image or one which shares their moral values. The decline of the industrial working class and the rise of the professional middle class has been transforming the Labour Party since the middle of the last century, but now Labour must reach out beyond its metropolitan cultural strongholds and build a new labour interest, just as its forebears did in the late 19th century. In England in particular, it must win over voters whose inclination is Labour but who have now walked away from the party. Then it must win over enough former Conservative voters to secure a majority in the next election.

Chapter 6:

Economic failure

Over the last forty years, the balance of power between capital and labour has shifted decisively away from working people. Since 2009, the share of national income going to wages has fallen from 58 per cent to 53 per cent (Haldane 2015). In order to function fairly and efficiently, markets must be rooted in society. But in recent decades the opposite has been happening. Society has increasingly been made a part of markets, and capitalism has been allowed to expand into areas of society where markets should not belong. The social bonds that once bound people together and defended them from insecurity and exploitation have now been weakened or lost.

The places people live have often changed in ways they have not wanted but have been unable to prevent. Civic life, the ethos of public service and the social virtues that govern our behaviour toward one another have all been subjected to market forces and thus weakened. Nature, knowledge, social relationships and vast swathes of our personal data have been captured by corporations and commodified. None have been more voracious than the new monopolies of platform capitalism like Google, Facebook and Amazon (Lynn 2017), all three of which exert a monopoly power over knowledge and information. They block competitive markets, avoid taxation and impose oppressive control over their employees. And they use their monopoly power to extract and commodify information about the personal lives of consumers.

We have gained immeasurable individual choice in consumer goods, but it has been at the expense of social goods like economic security, human flourishing, community and a sense of belonging. We are wealthier as a society but more divided and unequal, freer but lonelier, more plural but less sure of who we are. The way forward is not to diminish wealth creation nor to boost the power of the central state, but to bring capital under better democratic control.

In the last few decades, economic growth has been driven by consumer spending and the rising value of assets, particularly housing. In the 10 years between 1997 and 2007, banks lent £1.3 trillion to the UK-based non-bank private sector (Weldon 2013). An astonishing 85 per cent went into property or the financial system while business lacked investment. In the absence of any solid foundation for sustainable growth, governments allowed the expansion of cheap personal credit. It acted as a privatised version of Keynes' public spending and tax cutting stimulus. The consequence was growing household debt (Crouch 2009). This problem has continued to worsen as a result of the Conservatives rejecting the idea of borrowing to invest during the great recession following the financial crash.

Household debt is rising ever closer to its pre-crisis levels and the Office for Budget Responsibility has projected that the household debt-to-income ratio is likely to reach 150 per cent in early 2023 (OBR 2017b). Alex Brazier, Chair of the Bank of England's Fiscal Policy Committee, has set out how excessive debt magnifies, multiplies and extends the effects of shifts in confidence on consumer spending, aggregate demand and financial stability. In consequence, the economy becomes more volatile, increasing its vulnerability to downturns and deepening the downturns when they inevitably arrive (Brazier 2017).

Britain also has a persistent problem of under-saving which further increases insecurity (Reeves 2011). The 2017 Household Savings rate – the proportion of household income put aside for emergencies – has fallen to 1.7 per cent of disposable income down from an average 10 per cent for the last 50 years (OECD 2017).

During the revival of liberal market economics in the 1990s, traditional profit-seeking was no longer the sole driver of economic activity – what counted was increasing shareholder value. Company directors were partly paid in share options to align their self-interest with company profitability and their pay soared even while productivity failed to improve. In order to boost their share price, companies began to continuously ‘re-engineer’ – creating new products and markets, restructuring and re-branding – to signal their economic dynamism to the capital markets (Sennett 2006). Analysis of six major UK companies in 1980 found that CEOs were paid between 13 and 44 times that of their average employee (Hildyard 2014). By 2015, the average pay ratio between FTSE 100 CEOs and the average pay of their employees had risen to 148:1, dropping to 129:1 in 2016 (High Pay Centre and Chartered Institute of Personnel and Development 2017).

The 2006 Companies Act encouraged this business model by putting the shareholder in the driving seat and squeezing out employees and customers. But, the doctrine of shareholder value has failed to improve business productivity. Profits have been used to pay dividends or to buy back shares and a culture of short-termism has discouraged business investment for future growth. Shares are held by shareholders for an average of six months and often for just seconds. Corporations are now becoming ‘ownerless’ and thus less accountable. The banking crisis was caused by banks seeking higher returns

for their shareholders who included their own management as they borrowed too much and gambled too much to do so. Similarly, building companies rebuilt their balance sheets after the 2008 crash using their land banks. Their business model was tipped too heavily toward land price inflation rather than the building of homes.

Britain more than other OECD countries went further and deeper in the liberalisation of its economy. Economic activity became financialised and this has led to a spiralling of wealth upward to a small elite. Our football clubs, power-generating companies, airports and ports, water companies, food and drink businesses, rail franchises, chemical, engineering and electronic companies, merchant banks, top-end houses and other assets have been sold off to foreign owners. Our universities rank as some of the best in the world but they have business models that put selling prestige brands for high fees to overseas students above spreading good teaching and learning amongst young Britons. Vice-chancellors have followed the lead of company Directors and awarded themselves six-figure salaries paid for by student debt.

Britain has ended up with an economy of wealth extraction rather than wealth creation. Today, loans to UK businesses account for just 5 per cent of UK bank assets compared to 78 per cent for property loans (Stirling and King 2017). Our top performing companies are let down by those with low productivity and poor management (The Smith Institute 2016), whilst high levels of immigration have created a larger labour market which has allowed government and business to evade the need for both innovation and to invest in new technologies, skills and training. The sense of moral responsibility and mutual obligation Adam Smith believed essential for a commercial society has been lost.

Britain needs to restore its national economy and build institutions that improve wealth creation, social security, and quality goods and services. Old and new monopolies need to be broken up to ensure that markets are competitive and concentrations of unaccountable power in the state must be democratised for responsive and efficient public services, in order to spread more power and control to users. The welfare state needs redesigning to help better develop people's capabilities and enable them to build up their assets for their sustainable economic future.

This is an undertaking for a generation. It begins with the political economy of the everyday life of work, family and the places people live. This will provide a foundation upon which Labour can develop our manifesto, rebuild our coalition and bring the country together. A political economy that begins with this everyday economy can harness capital and put it to work for the benefit of the whole country.

Chapter 7:

The everyday economy

The everyday economy is made up of the services, production, consumption and social goods that sustain all our daily lives. Its activities include transport, child care, health, social care, education, utilities, broadband, social benefits and the low-productivity, low-wage sectors of hospitality, retail, food processing and supermarkets. It is made up of the private, public and social sectors and is distributed across all regions of the country. Everyone, regardless of income, participates in the everyday economy, and according to the Centre for Research on Socio-Cultural Change at Manchester University, it employs up to one-third of the workforce in England and Wales (Bentham, et al. 2013).

Conventional economic policy tends to treat the economy as a single whole divided up into different sectors, where competition and market policies are prioritised. The UK must compete internationally by producing new goods and services that the world wants to consume. Innovation, entrepreneurship and access to capital are crucial to Britain's global competitiveness, and so the recent interest in industrial strategy has tended to concentrate on cities as engines of growth, on property development, technological innovation and the high-productivity trading sectors. This approach to economic growth neglects middle – and low-paid workers in the low-productivity, non-traded sectors, as well as the civic infrastructure required to develop research and innovation across the whole economy. It also tends to exclude rural areas and towns from the very wealth-creating activity it is promoting.

Industrial policy to date has had little to say about the everyday economy of the family household, about people's social relationships or about the dynamic interaction between the private, public and social sectors. George Osborne's Northern Powerhouse is tightly controlled by the Treasury, granting limited powers to cities, towns or regions and lacking a joined-up national approach. The narrow sectoral focus of the Government's approach to industrial strategy has targeted only 10 per cent of our manufacturing base and its focus on research and development largely benefits facilities in the affluent South (Fothergill, Gore and Wells 2017). While the Government's 2017 white paper on Industrial Strategy is a welcome change from past Conservative neglect, it has not rectified these limitations, nor does it address the sectors where productivity is low and thus where wages have stagnated (HM Government 2017). 'The rhetoric is compelling', says the New Economics Foundation, 'but the substance is lacking' (Pendleton 2017).

Industrial policy to date has offered only a limited correction to the structural faults that generate regional inequalities in productivity, wealth and income. It is only very recently that the importance of place has been recognised in economic policy development (MacDonald 2017). The conventional approach to wealth creation has relied on a combination of it trickling down to the majority (high-value jobs creating demand for services), and redistribution through tax and spend policies. As a consequence, schemes either fail or end up creating poorly paid, low-skill jobs. As fellow Labour MP Lisa Nandy has pointed out, the industrial strategies and forms of devolution based on this model of economic growth are 'enabled by the current settlement that allows for no scrutiny, no accountability and no voice for the people. In short – no power'

(Nandy 2017). They reinforce the divisions in the country and the class faultlines that are dividing Labour's coalition.

To begin to transform the British economy, the first task is to develop a national plan for improving the quality, pay and productivity of jobs in the everyday economy. Of course, we need more high-skilled, high-productivity jobs in the traded sector, but we have neglected the parts of the economy where most people work and spend their money as consumers and taxpayers. All the while, we are failing to spread development and innovation down the long tail of poorly performing companies.

As the Industrial Strategy Commission has argued, Government must guarantee that all citizens should be provided with a Universal Basic Infrastructure, to ensure that 'everywhere in the UK [is] served by high quality hard infrastructure and [has] access to high quality human capital-building universal services' (Industrial Strategy Commission 2017). Government, anchor institutions such as universities, FE colleges, hospitals and larger, highly productive firms can help to build capacity and productivity in their supply chains. But we do not have to wait for Labour to be in national government; Labour-controlled city regions and local authorities along with anchor institutions can start improving the productivity of the everyday economy now.

Chapter 8:

Work and wages

The last 30 years have seen dramatic changes in the nature of working life as the economy has shifted from manufacturing – to services-based. In the last seven years, two million new jobs have been created in the UK. However, 10 per cent of the workforce are underemployed, 5 million are under-utilised, 5.8 million earn less than the living wage (Haldane 2015), and the growth of zero-hours contracts has increased insecurity (see Rix, et al. 2017). There is a gender pay gap at hundreds of Britain’s major companies, with some paying women over 50 per cent less per hour than men (Palmer 2018). Added to this, wages suffered a 10 per cent fall between 2007–2015 following the financial crisis and George Osborne’s subsequent faltering economic recovery (TUC 2016).

We are an economy in work but the work is not always good enough, and the vital connection between economic growth and levels of pay has been broken. This is most acute amongst younger generations where there is a hollowing out of the jobs market, as middle income, middle-skill jobs disappear and a gulf opens up between those in well-paid, high-skill jobs and the rest (Gardiner 2017).

The story of work, however, is a contradictory one. Four out of five workers are still on a permanent contract. Temporary work remains at a low level, and self-employment has increased by only one per cent for each of the last three decades (Coats 2016). And work still matters to people: in fact, the majority enjoy their work (Tait 2016). It contributes to a sense of belonging and it empowers self-esteem and respect. But yet

again, many employees are anxious about decisions that will change their status, increase their workloads or change the tasks they do (see, for example, Sweeney 2014). Half of the workforce has reported some form of unfair treatment in the last year: for example, one in nine women are forced out of their job each year as a result of being a mother or becoming pregnant (Equality and Human Rights Commission 2015).

Workers increasingly lack protection in the workplace. In 2016, Trade Unions experienced the biggest membership drop since records began in 1995. The overall proportion of employees who are trade union members is now only 13 per cent in the private sector, in contrast to 52 per cent in the public sector (Department for Business, Energy and Industrial Strategy 2017). The extent of collective bargaining has thus been greatly reduced and Trade Unions are struggling to adapt to the new economy.

Trade Unions are not the only ones suffering in this new economy. The Resolution Foundation forecasts that the period up to 2021 is ‘on course to be the worst on record for income growth in the bottom half of the working age income’ (Corlett and Clarke 2017), while the Bank of England predicts 15 million workers are at risk of losing their jobs through automation (Haldane 2015). The OECD, however, argues that automation will be less drastic and will replace tasks in jobs impacting on average 9 per cent of jobs across the 21 OECD countries (Arntz, Gregory and Zierahn 2016). Whatever the future does bring, Britain’s current level of investment in automation is low and so change is slow in coming to our economy. When it does happen, automation will affect professions such as law, banking and accountancy. Conversely, work that involves creativity and a human touch; designers, IT engineers, cooks and carers, will be in ever-greater demand.

Labour has championed merit, aspiration and opportunities to progress professionally, but we have had little to say about working life and the intrinsic value of work. We have rightly robustly criticised low pay and zero hours contracts, but we have neglected the actual work people do and the places they undertake it. In recent times we have been side-tracked by speculative debates about the end of work and so we have been slow to recognise the kinds of changes to the labour market that will take place after Brexit.

Although real wages are unlikely to rise for the majority, the supply of labour is set to fall and its price is set to rise. The slowdown in immigration in the wake of Brexit, the rolling out of auto-enrolment in pension schemes, the introduction of the apprenticeship levy and the rising National Living Wage will increase the cost of labour for employers. It will change the labour market in low-pay, low-productivity sectors. Ultimately, firms will be pushed into responding by investing in technological innovation, or in training and skills, or in both (Clarke 2017). Government will also need to respond by devising a new immigration system in which the Migration Advisory Committee could take up an expanded role (Clarke 2017; Griffith and Morris 2017).

Tom Watson, in his Foreword to the Future of Work Commission report, calls for a sharper more consistent focus on work. Labour needs to harness new opportunities and share the benefits of the technological revolution for the common good (Future of Work Commission 2017). The following three illustrative policy strategies outline our goals:

1. The first is to develop the economic and social capabilities of individuals to give them the power, knowledge and skills they need to become economic citizens. The proportion of adults with access to work-based training is below

the OECD average and most of it lasts less than a week (Henehan 2017). Britain needs to invest in a high quality national vocational education and a training system with a local and regional focus. It will need to be complemented by in-work training, improvements in career progression, lifelong opportunities to reskill for the unemployed and people returning to work, and reform of the system of student loans. Creating Royal Colleges to regulate trades that are currently unregulated, such as social care and retail, can improve standards and enhance worker's esteem.

2. The second is a strategy for good work: creating quality jobs, investing in technology and ending in-work poverty by restoring in-work benefits, and improving wages and working conditions. This can be undertaken by widening the remit of the Low Pay Commission and by brokering dialogue between employees and unions in sectors of the everyday economy (Taylor 2017). A national campaign for good work could extend the National Living Wage sector by sector, better enforce the National Minimum Wage and establish a wage floor in public sector procurement. Companies should report on their pay ratios and the differential between their highest and lowest paid workers could be linked to the level of corporation tax they pay.
3. The third is to help individuals to take back more control over their work. Reciprocity and a fair balance of interest between employers and employees must be restored. Companies have often lost their sense of common purpose, and so ownership should be understood as

being divided between shareholders, management and workers. In corporate governance, at least two members of company boards, and preferably one-third of the total, should be elected employees, with similar representation on company remuneration committees.

Stronger rights to collective bargaining and improving the effective working of modernising Trade Unions are vital to achieving these goals. They can increase labour's share of national income, reduce inequality and improve the quality of work. There also need to be new models of labour solidarity and social insurance for the self-employed (Hunt and McDaniel 2017). The GMB has been at the forefront of organising workers in precarious employment with its legal victory over Uber determining that their drivers were entitled to basic workers' rights. Meanwhile, Community have declared themselves the union of the self-employed. In the US, Hour Voice and Shyft use digital platforms to redress the imbalance of control, information and coordination between precarious workers, employers and platforms (Kelly, et al. 2016). Lastly, Labour should consider promoting Employee Ownership Trusts in which a majority of a company's ownership is vested in its workforce (Lawrence and Mason 2017). These actions would move us closer to achieving our aim of shifting the balance of power so that labour receives a fairer share of resources to improve productivity and wage share.

Chapter 9:

Families and households

The family is society's most important institution: family life and emotional relationships are the building blocks of communities, and a stable home is the foundation for a successful life. While much of its activity takes place outside the market economy, the household has a major role in the everyday economy as a source of labour and care, and the passing on of our cultural inheritance. However, austerity and the squeeze on wages have put millions of families under pressure, and without stable housing households can be disrupted by frequent moves, affecting the career prospects of adults and the education and relationships of children.

Family life is also changing. More low paid men are working part-time and in what were traditionally 'female' jobs. Men's wages have also fallen at a faster rate than women's. As a result, the two-earner household is now a necessity and the norm is increasingly for both parents to be earning. A third of all mothers with dependent children, over two million in total, now earn the majority share of household income (Cory and Sterling 2015). On top of this, many women have primary responsibility for looking after the home and caring for the children, and sometimes also an older relative.

While marriage rates amongst the wealthy remain high, they have fallen in poorer communities where parental separation is a more common outcome. This breakup of families thus falls disproportionately on poorer children. Poor relationships in childhood lead to poorer employment outcomes, higher levels of smoking, substance abuse and

overeating, and poorer mental health. In recent years the estimation of the proportion of children under sixteen with a clinically defined mental illness is 10 per cent (Mental Health Foundation 2016).

The good health and social care of the workforce is integral to a national plan to improve the productivity of the everyday economy as poor mental ill-health is a major cause of labour market exclusion. The OECD estimates that each year, mental ill-health costs the economy an estimated £70bn through lost productivity and increased use of social benefits and health care (OECD 2014). It has also been shown that the lower a person's social position, the worse will be their overall health. Inequalities in health in England cost between £31–33bn in 2010 and contribute to regional disparities in economic performance (Marmot 2010).

The best way of enabling people to live healthy, independent and fulfilling lives is by helping develop the capacities of individuals and families to strengthen their relationships and help themselves. Three illustrative policy strategies can signal our intent in these areas:

1. First, a 10-year Childcare Strategy can invest in early years care and education. We should seek to build on Sure Start which was one of the last Labour government's greatest legacies. Angela Rayner, Labour's Shadow Secretary of State for Education, has called for Labour to reverse Conservative cuts to Sure Start and to make early years development a top priority (Elgot 2017). As fellow Labour MP Lucy Powell has recently argued, it will enable women to return to work and boost household income, improve child development and so help to overcome disadvantage (Powell 2017). The best early years education possible can in part be funded through the abolition of the charitable

status allowed to private schools. We should also introduce a national scheme of parenting classes to provide mothers and fathers with support and advice.

2. Second, we need a properly funded adult care system and alongside it local innovation to find sustainable models of health and social care (The Health Foundation 2017). NHS providers and local government need to coordinate better to find the right kind of care for elderly people. Our care system cannot rely forever on an unsustainable combination of low-paid migrant labour and care homes laden with debt by private equity firms. We need more community-based care (Burns, et al. 2016; Shared Lives 2017), and Labour must learn from the prevalence of elder abuse and the scandals of Mid Staffordshire and Winterbourne View to more widely address the current culture of health and social care. We need to rethink the organisational culture of the NHS and social care so that anxiety and stress amongst staff are minimalised and the practice of kindness is encouraged and valued (Campling 2015).
3. Third, we need a long-term strategy to tackle the rise of chronic illnesses such as depression, obesity and diabetes by improving funding to the NHS and switching resources from the high-cost care of symptoms to the prevention, reduction and patient-led management of their causes. This would include a proper mental health care service and talking therapies (Layard 2006). Fellow Labour MP Luciana Berger has called for the real parity of esteem with physical healthcare and the prioritising of post-natal depression and children with mental illness (Berger 2017). Improvements in digital technologies can

allow the practice of a more personalised medicine, where people will be able to track and analyse their own health data and share this with others in ways which will aid both the self-management of long-term illnesses and their prevention (Bland, et al. 2015).

The household and the relationships of its occupants are truly at the heart of the everyday economy. Labour needs to reflect this in developing policies to encourage social connection to both strengthen these supportive family relationships and reduce the chronic problem of loneliness (Jo Cox Commission on Loneliness 2017). We need to revive family policy development by collecting data and developing a mix of policy to promote the security and flourishing of family life and kinship.

Chapter 10:

Place

Britain has one of the most centralised states in Europe. One example of its deficiencies is the extraordinary £1,550 per capita spending gap in projected transport spending between London and the North of England (Blakeley 2017). Command and control policy schemes from Whitehall are often inefficient and wasteful; they do not work effectively in the digital age, nor can they adequately meet the public's rising expectations for rapid and responsive service delivery. Systems of centralised administration are often out of touch with the everyday lives of large parts of the population and traditional ways of policymaking – spending money and top-down regulation – are often neither cost-effective nor successful (Cruddas and Rutherford 2014). Labour has for too long been a statist party at ease with this failing, centralised system.

Local place should be central to our approach to the environment. In Leeds, the City Council has adopted a nature-first approach to flood defences by proposing planting a forest of trees along the banks of the River Aire (Newton 2017). The Woodland Trust and the Community Forest Trust are working with five Community Forests to create a Northern Forest to boost the local economy and improve the environment (Marsh 2018). Green politics should be rooted in a common appreciation of nature and the places we live, not centred around abstract targets and measures (Davis 2016).

Many of our public services have been hit hard by austerity. One of the first priorities of a Labour Government must be

to address the underfunding in the NHS, our schools and local government. We must break with the traditional top-down, ‘command and control’ approach and devolve power and decision making to people in the places they live. The relationship between central and local government, social institutions and the market needs to be reconfigured in order to help generate innovation, growth and jobs in our local and regional economies. Labour should adopt the principle of subsidiarity – decisions should be taken as close to the people they impact on as is appropriate and possible. This can better ensure value-for-money, counter longstanding tendencies toward centralisation and help to break up the concentrations of power in capital and the state.

Outside of London and the South East, no region has yet fully recovered from the Great Recession. Communities are at the core of reversing this economic decline, so instead of imposing change on communities, their insights and experience of what works and what doesn’t can be used to create better policy, and more responsive and cost-effective public services. Labour needs to avoid a technocratic approach and recognise the way in which a sense of belonging provides communities with cultural identity, esteem and resilience. Social integration and new forms of solidarity grow from the bottom up. Policy for helping to develop social integration is vital for both an inclusive society and economic development.

Three illustrative policy strategies can signal this social and cultural approach to economics:

1. First, Britain needs to reform its constitution and governance for a more federal system of government. Effective devolution requires a reassessment of the role of the Treasury and in Whitehall, cross-departmental collaboration is necessary to make a more devolved approach to government work

effectively. There needs to be a new relationship between the centre and the local, with a state that acts strategically for economic investment but genuinely shares power by devolving it to local places. A Unit for Local Wealth Building based in 10 Downing Street, under the authority of the Prime Minister, could create a national economic plan to build local capacity and organise the cross-departmental collaboration necessary for its implementation. Its remit might include coordinating a number of core Government objectives, including: a national procurement framework that will allow for the coordination of local and regional regeneration; a standard model of a special purpose vehicle for public-private partnerships; a plan to enable the expansion of the numbers of universities working with catapult centres in order to spread innovation and research to improve local economic productivity, and a menu of devolvable services, taxes and resources for cities and counties to choose from according to a mutually agreed assessment of their capability. Genuine effective devolution will require reform and a radical change in governance at the centre.

2. Second, we need to spread capital and housebuilding across the country. We could tackle this issue in a number of ways, but a British Investment Bank with regional banking is Labour's preferred option. However, it will take years to build. A more practical and immediate course of action would be to use the partly nationalised Royal Bank of Scotland as a mainspring to promote more socially important business lending and provide a robust state guaranteed deposit-taking institution. It is the largest provider of SME finance in the UK and it already has

a balance sheet and regionally-diverse trained lending officers, so it is well placed to build the capacity of SMEs across the regions and fund the development of regional infrastructure. Another option would be a decentralised Sovereign or Citizen's Wealth Fund that would provide commercial loans on a long-term basis with an equity stake, or invest in the provision of universal basic infrastructure (Lawrence and Mason 2017). Alongside the regional distribution of capital, we must prioritise house building. There is not currently enough housing at the right cost and in the right place, and it has become a powerful engine of inequality. Since the market won't fix the shortage and the state can't do it alone, Labour must find a business model that works across the country's regions. For example, housing bonds backed by a securitised rent roll could be used to fund genuinely affordable housing.

3. Third, we need to devolve power, decision making, funding and tax raising powers to our English cities, towns and counties in order to build up local economic resilience and wealth creation. This strategy can improve the efficiency of the land market and so help to increase the rate of building homes. It can also establish new bodies such as municipal energy production and municipal pensions schemes, and reorganize public services around households and local places, replacing inefficient administrative silos and institutional hierarchies.

'Anchor institutions' like hospitals, universities, large businesses and schools have an important stake in a local economy and they account for a considerable amount of spending. They provide significant local employment and

are unlikely to relocate due to historic ties and relationships. They can be used to help develop local economies through their procurement policy and by driving up wages through Living Wage deals (Jackson and McInroy 2015). Labour's best councils have been leading the way in innovating these new approaches, but we need a national and coordinated plan to take this further. Our aim is to generate local prosperity by pioneering a new model of Labour statecraft that shares power, knowledge and innovation, and which devolves resources and decision making in a new relationship between the central and local state.

Chapter 11:

Fiscal policy

These nine policy strategies offer a joined up approach to improving our everyday economy and creating a fairer, more equal and prosperous society. Labour needs to develop these strategies to broaden its electoral coalition and win the next general election. It will be crucial for Labour's success that we test these strategies for their viability. However, first and foremost Labour has to win the trust of the electorate that it can manage people's taxes.

In 2015, in an attempt to offset voters' negative perception of Labour's fiscal record, the manifesto provided a 'Budget Responsibility Lock' and a careful calculation of the cost of its policies. In 2017, Labour's manifesto dispensed with fiscal rectitude. We promised the nationalisation of railways and water utilities, free childcare, free Higher Education and increased spending in healthcare, social security and the public sector. These would be paid for by, amongst other sources, increases in corporation tax, a clampdown on tax avoidance and increased income tax on those earning over £80,000 per year.

Some claimed that Labour's better than expected election result was a vindication of our willingness to spend. But the Institute for Fiscal Studies criticised both the Labour and the Conservative manifestos for failing to offer the public 'an honest set of choices'. In fact, neither party addressed 'the long term challenges' of our public finances (Inman 2017). Torsten Bell, Director of the Resolution Foundation, described Labour's spending commitments as long-term: 'Predicting

how much very large tax rises focused on rich individuals and corporations will raise is next to impossible' (Bell 2017).

Over the next thirty years, the OBR forecasts a widening gap between expected public spending and tax receipts as the proportion of working age people declines compared to the growing number of the older retired and the growing costs of pensions, health and social care provision. It will create an 'unsustainable fiscal position over the long term'. The OBR argues that 'broadly speaking the fiscal position is unsustainable if the public sector is on course to absorb an ever-growing share of national income simply to pay the interest on its accumulated debt' (OBR 2017a).

At the next election, voters are likely to be more alert to how both parties propose to spend their taxes as well as the levels of borrowing and debt their policies incur. And yet we need more investment in roads, rail, schools and housing. Labour must win this fiscal argument by combining increases in public spending with strategies for improving productivity and creating the wealth to pay for it.

We need a radical overhaul of the tax system because our current system of wealth taxation isn't working. Wealth inequality in the UK is almost twice as deep as income inequality. Half of Britain's wealth is owned by just 10 per cent of adults, with the top 1 per cent owning 14 per cent of the total wealth (D'Arcy 2017). New innovations like automatic information exchange and country-by-country reporting are expanding the potential for international tax transparency and collection. They also open up new possibilities for taxing high levels of wealth in a globalised world.

Council tax, based on 1991 valuations, is at the very least long overdue a re-evaluation and revision of existing bands – a power which could be devolved to local government

to match local needs. We should also consider the case for its overhaul and replacement with a property tax, levied on property owners. It would be more equitable and it would place the burden on landlords and not tenants. It could also remove the attraction of using empty houses as investments rather than homes, put a social cost on second home ownership and rein in price volatility in the housing market.

Inheritance tax is not popular, but George Osborne's 2015 reform was not only unjust in deepening wealth inequality and the North-South divide, but it left untouched the loopholes through which the 'healthy, wealthy and well-advised' can avoid paying tax (Reeves 2017). It needs to be either reset or shifted wholesale to a tax on the receipt of any gifts throughout a lifetime, making tax on all gifts equal and thus avoidance more difficult. A land tax could help raise tax more fairly from the 0.6 per cent of the population who own 69 per cent of the 60 million acres that make up the UK.

Taxing the savings and investment income of higher rate taxpayers can be increased. Capital gains tax could be reformed, halving the annual allowance, having it paid at income tax rates and improving tax compliance. Reform will need to be aware of the risk of the inefficient distribution of capital which gets locked into old investments out of investors' fears of paying high capital gains tax.

40 per cent of UK wealth is held in private pension funds. To combat this inequality, higher rate pensions contribution reliefs could be restricted and legislation could require that 20 per cent of all pension contributions be invested in employment-creating opportunities in exchange for the tax reliefs currently available to pension funds. This could start with local authority pension schemes where the Greater

Manchester Pension Fund leads the way investing in local infrastructure and housing schemes.

These reform strategies could raise over £20 billion per year of tax revenues and a further £20 billion of investment funds which could be used to build up the proposed Sovereign Wealth Fund (Murphy 2016). The guiding principle for tax reform is that it should be fair in order to raise revenue but not punitive to deter enterprise and competitive markets. The right balance should minimise avoidance and evasion.

Chapter 12:

The common good

In 2007, the US economist Dani Rodrik was confronted with the extraordinary growth of trade and financial integration that had begun accelerating around 2002. He argued that we were faced with a ‘Globalisation Trilemma’. ‘Democracy, national sovereignty and global economic integration are mutually incompatible: we can combine any two of the three, but never have all three simultaneously and in full’ (Rodrik 2007). One option was to opt for global federalism by aligning democracy with global markets at the expense of sovereignty. A second was to pursue global economic integration by aligning the nation state with global markets at the expense of national democracy. Rodrik concluded that more globalisation meant either less national sovereignty or less democracy.

Rodrik argues that the nation state, for all its faults, remains the political unit best equipped for managing globalisation and national economic development.

Britain needs a national economy in which businesses invest in good jobs, workers are productive and there is a more equitable distribution of income, wealth and power. We have some of the best research and innovation institutions in the world, but these rarely reach beyond our top 20 per cent of frontier companies. Our trade in services is a £100bn success story, but the country has a trade deficit caused by high levels of imported goods and not enough successful export businesses. To remedy this, we have to grow our manufacturing sector and become a net exporter of goods again. All the while, we need to do this when Brexit has created uncertainty about our future internationally.

In 2008, the financial crash slowed down globalisation and there is now an argument that the banking sector has begun to de-globalise. World trade has slowed (WTO 2017). Across most sectors of the economy where productivity collapsed after 2008 they have not yet recovered. Technological change will continue to transform the productive forces of the economy with unforeseen consequences for jobs and for the way we live. Most forecasts now predict slower economic growth in comparison to the projected growth rate if Britain had remained a member of the EU. However, the wide variation in outcomes offered by the different forecasts make it impossible to predict the eventual economic impact of Brexit.

The two intellectual frameworks of Keynesianism and Neoliberalism which have underpinned Britain's political economy since 1945 had much to say about the balance between the state and the market, but both neglected society. This pamphlet proposes a different approach to confront the challenges we face. It draws on foundational debates in political economy to argue for an economy bound by reciprocity as the basis of a just society and the common good. A political economy which puts society first and which focuses on the everyday economy that sustains it.

By developing policies to strengthen and improve the everyday economy Labour can rebuild its own fractured coalition and begin to mend the class and cultural divisions in our country. In the years ahead as we leave the EU, our politics will focus on the kind of country we want to become. We must retain the best of the regulations inherited from the EU, in the interests of trade, workers' rights and environmental protections, and forge a new kind of relationship with our European neighbours.

In the 19th and early 20th century, the Labour movement built its power around the everyday economy: work, clean water, utilities, housing, education, and social services. It grew its roots in local places protecting working people, their neighbourhoods and their family life. A politics of community and belonging was forged alongside workplace struggles (Tomaney 2017). Labour's historical role is to be the party of the common good and to build a just social and economic settlement in the labour interest. Times have changed, we are living in a digital age, but that task remains the same.

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What kind of society does Labour want and how can we achieve it?

Labour was founded to represent the labour interest. Its historic role is to be the party of the common good and to build a just social and economic settlement in the interests of working people.

This pamphlet argues that the best way to do so is to concentrate on the everyday economy which is made up of the services, production, consumption and social goods that sustain people in their daily life at home and at work. It outlines some strategic policy directions around work and wages, families and households, and the local places people live in, as well as offering an analysis of the present-day British economy and its failings.

The labour movement originally built its power around the everyday economy: work, clean water, utilities, housing, education, and social services. It grew its roots in local places protecting working people, their neighbourhoods and their family life. A politics of community and belonging was forged alongside workplace struggles. Times have changed, we are living in a digital age, but that task remains the same.