
POWER AND PROSPERITY

**HOW A RADICAL LABOUR GOVERNMENT
CAN TRANSFORM BRITAIN**

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EXECUTIVE SUMMARY

- The scale of the task facing the new Labour government is substantial. Labour requires a clear and optimistic narrative based on values to build and maintain support for reforms and to help ministers take decisions. Ideology matters.
- A clear values framework is also important because, understandably, proposed change can prompt fear or mistrust. It will be important to make the case for change and reform not simply on the basis of efficiency, but direction, which means values and vision.
- Labour inherits an underperforming and unbalanced economy, with low levels of productivity and investment, and public institutions in survival mode suffering from underfunding and in need of reform. Scandals, many long term, have been growing. Power is too centralised and unaccountable.
- Labour should draw on liberal, ethical socialist thinking, from RH Tawney and others. This powerful tradition holds together the importance of the individual, enjoying freedom, with the benefits of flourishing in the community. It is passionate about equality. It stands against collective action which denies the individual, and against individualism which ignores family and community. Combined with a drive to reform, we term it *radical ethical socialism*.
- The aim should be a stronger, fairer economy; a stronger, more cohesive society, and a new, better politics. The building blocks are ideology, innovation, implementation, and investment.
- Mission-driven government requires delegation to cabinet members with sufficient power to fulfil their responsibilities. This may require new departments, such as for defence procurement.

- Economic policy should go beyond reaffirming existing orthodoxy. In time, fiscal rules should allow greater scope for borrowing to invest in growth-enhancing programmes. The opportunity should be taken to reform tax, including introducing a land value tax.
- Industrial policy should promote a dynamic market economy, understanding how the government affects incentives, and be proactive in supporting businesses while not shying away from reforms.
- Public sector reforms should be accompanied by hypothecated taxes, starting with a focus on health. A new settlement for social care should initially be funded primarily by redirecting spending. A revamped Sure Start should return.
- A universal capital endowment should be introduced, funded by a levy on unearned income, so every young adult has access to opportunities.
- Constitutional reform should aim to devolve accountable power to city-regions, counties and local government, supported by House of Lords reform and compulsory voting with a more effective electoral system.
- While ministers must decisively enact the reform agenda elaborated in the 2024 manifesto, it is never too early to begin outlining a second term programme of progressive advance.

CHAPTER 1

THE CHALLENGE AND THE AGENDA

Labour ministers should articulate a practical, compelling and optimistic story about the nation's future. Such a narrative, based on ethical socialist values and which starts by speaking to people's experience and hope, is essential to sustain Labour in government while it takes difficult decisions, both long term and in response to crises. Proposed change can prompt fear or mistrust. It will be important to take time to make the case for change and reform, based on values and vision.

Bringing stability to politics and economic policy is essential, but transforming the country is the hard task. It will require a lot more than good public administration. In this pamphlet, we examine what should be the new Labour administration's governing project for Britain and how Labour can secure the second term it will need to bring about lasting change. The fundamental question is how the Labour party can positively and sustainably transform the United Kingdom, entrenching institutions and values to make social democratic change in Britain permanent and irreversible.¹

Credible fiscal policy is the fuel required for the political and economic journey on which Labour is guiding the country, not the destination. Above all, Labour needs to show how the UK can become a more equal society, quelling the forces that have driven structural inequality and polarisation in recent decades. We know that greater equality cannot be imposed from the top down: a strategy of equality has to be implemented *with* people, not done to them. Labour needs a 10-year mission that entrenches a centre-left progressive settlement, based on the core values of liberal ethical socialism, or what we term *radical ethical socialism*.

Keir Starmer's commendable speed in turning Labour into an electable force has meant that the updating of the party's ideological and governing purpose is, at best, a process yet to be completed. Labour needs a far-reaching analysis of a Britain that has changed in the wake of the financial crisis, Brexit, Covid-19, and 14 years of Conservative rule if it is to craft a robust agenda for power. The wave of far-right violence

that swept the country in the wake of the murder of three young children in Southport during the summer of 2024 was an example of the divisions pervading society. Yet it also prompted inspiring and encouraging examples of community spirit, giving a sense of what is possible.

While the reorientation of the civil service to serve the new government has been impressive, Labour also inherits an economy and government institutions in need of direction and reform.

The global financial crisis resulted in rapid and oscillating policy responses as conventional wisdom was overturned by events but eventually, without a credible economic policy to replace it, returned in force under the Conservatives. The crisis had revealed that government tax and spending assumptions relied on growth, especially in the financial sector, which was not sustainable. Subsequently, the underlying problems of low public and private investment, a poor rate of innovation, deep regional inequality, and a labour market no longer delivering for people were laid bare, but opportunities to address them seriously were not taken. Shocks, such as Brexit, Covid, and the energy crisis led to further oscillations in policy and exposed structural shortcomings, made worse by inept decision-making by Conservative ministers. Meanwhile, powerful long-term trends in demographics, climate, and technology were and are changing economies and societies across the globe. The essential point is that, while it is still a rich country, the UK is a lot less well off than it had assumed.

The UK is a standout case of how a persistently weak economy leads to a high burden of personal taxation alongside a high level of public debt.² The public finances are stretched to breaking point as the result of an enfeebled economy, while public services have endured 15 years of under-investment and mismanagement. Overall government borrowing is at its highest level since the 1940s, while the stock of debt is at its highest point since the 1960s.³ Taxation and government spending are both at or approaching historic highs when compared to GDP, yet taxpayers are paying more for less. The tax base is itself under pressure, for example as petrol cars are phased out, which will force messy reform unless action is taken now.⁴

Pressures on public services have been rising. In June 2024, there were 7.6 million people on NHS waiting-lists, enormous backlogs in the courts system, a growing educational divide, a housing crisis, and a sharp rise in child poverty. Our ageing population is increasing pressure on the health service, while birth rates have fallen to a 20-year low. There were 2.83 million people not working due to sickness and invalidity, while the incapacity benefit bill has been rising.

There is a malaise in our public institutions. Under the last government, stories emerged regularly about wasteful procurement, managerial incompetence, and corruption in the use of public funds. There is something deeper; a sort of political myopia in institutions concerning what the public expects of them, with diverging norms of behaviour

and outlook; an *infectious institutional incapability*.⁵ Persistent underfunding means institutions and their staff have been in survival mode for years, but that is not the whole explanation. Many public services are also suffering a fundamental crisis of purpose.

The combined result is ongoing scandals. Often these are the result of decisions, resource allocations, and institutional cultures ignored or affirmed for years before tragedy strikes or poor practice makes the headlines and finally grabs government attention. Some scandals are slow burn; visible, but with little sense of urgency in addressing them. Health service performance, long waiting lists, and absence of dental care, despite higher funding, mean unnecessary suffering for millions. Lack of sufficient social and end of life care condemns many and reflects poorly on politics and all of us. Decades of wasteful defence procurement harms our national security while we have fewer resources for public services. Poor and deplorable housing and reliance on food banks harms families and limits our future. These scandals and potential scandals are almost accepted as features of the current system rather than recognised as the outrageous anomalies they are. More widely, the widespread use of personal data, and insufficient global action on climate could see sudden shifts in society's patience.

The UK's only hope is to take radical action to change. Without growth, which cannot be delivered by an Act of Parliament or a vote at a Labour party conference but is the result of millions of decisions made by people and

businesses in light of government policy, any new strategy is akin to managing a more efficient deckchair allocation on the Titanic.

Not surprisingly, trust in democratic institutions has plummeted to new lows, as we show in Chapter 5. The UK (particularly England) is among the most centralised of the advanced economies. Disengagement runs deep. Voters have become alienated and sceptical. Brexit left the nation without a coherent view of its place in the world.

Consequently, the UK electorate is more volatile, as evidenced by the sharp swings in party support witnessed at recent general elections. A report by Labour Together argued that: "The institutional and cultural bonds that linked many voters to Labour have become weaker and weaker."

Labour requires a governing programme that matches the scale of the problems confronting the nation: a strategy to transform the UK with the narrative to match. That cannot be achieved by relying on the traditional tools of 'tax and spend' social democracy, or a hope that growth delivering higher tax revenues for the state to spend will be sufficient. We contend that the core purpose of a Labour government is to enable individuals, families and communities to have the resources and capabilities to shape their own lives, while leaning against the drivers of economic inequality and polarisation. This approach will entail the redistribution of power to working people and places, many of whom are hundreds of miles from Whitehall and Westminster.

The UK is a society disfigured by enduring ‘cradle to grave’ inequalities. A key test is how far public policy improves the life chances of the least advantaged; we do not address every relevant policy issue in this pamphlet, but focus on some of the essentials. For public policy to meet this test requires an active commitment to a dynamic market economy which encourages aspiration, with government playing its part, not least through infrastructure investment and encouragement of innovation. Without this, the rest is not possible. Imaginative action will be needed, including reform of taxation, hypothecated taxes, help for people to invest in themselves, and redirection of spending. There will need to be major reforms of public services; this is a responsibility, not an optional extra, especially given the already high levels of public spending. Practical, institutional changes are required to build trust in our political system.

A successful 10-year Labour project in government would mean:

- **A stronger, fairer economy**
The aim should be to encourage a dynamic, growing economy in which everyone has a stake and businesses are encouraged to invest and innovate. Such an economy should benefit everyone across the income distribution, helping forge a fairer, more equal society. Sound public finances are the means rather than the end of progressive economic policy.
- **A stronger, more cohesive society**
We all do better in an integrated

society where individuals are supported to make the most of their potential. Such a society requires high quality public services that support us throughout our lives ‘from cradle to grave’ alongside an active civil society. This means tackling the forces that drive polarisation and division, including prevailing anxieties about migration and national identity.

- **A new, better politics**

The disillusionment of voters with democratic institutions has risen to alarming levels in the last 20 years. Trust has never been lower. Despite the post-1997 constitutional reforms, too many outdated, anachronistic institutions remain. Our government machinery appears less able to deliver for citizens, leading to a crisis of expectations. We must tackle the trust deficit, ensuring citizens are able to participate.

At the next election, Labour must show that it has achieved the improvements outlined in its 2024 manifesto. But it cannot offer more of the same. Ministers will need to show that they can build on the advances of the first term to develop a compelling agenda for the future. This is not about simply spending more on public services when more money is available.

The Attlee governments launched an unprecedented phase of legislative activism after the second world war. Yet by 1950–51, they were perceived to have run out of steam. The defeat that followed in 1951 appears, in retrospect, all but inevitable.

Such is the state of things that the most prized value in politics today seems to be competence. Simply having serious people in charge who can do some of the basics is a major step forward. It is to Labour's credit that it put in years of hard work to ensure that it was expected to govern in this way and that, once elected, it began to meet those expectations immediately.

Yet Labour requires a 'map' of today's Britain through which it can present an uplifting vision of the country's future while repairing the economic and social fabric. Keir Starmer's government should demonstrate that it has a coherent programme that will resonate in every corner of the UK. And it needs a clear and persuasive narrative to help Labour through the battles to come. A clear 'map' will help the party construct policy and help ministers make difficult decisions. And it will help overcome natural fears of change and inherited low levels of trust in politics.

THE BUILDING BLOCKS OF A 10-YEAR PROGRAMME

In this pamphlet, we set out how Labour can meet the challenges it faces with a guiding philosophy of radical ethical socialism. We emphasise four key approaches and strategies for governing:

- *Ideology*: Labour should maintain a political focus anchored in values. A coherent political narrative is vital to promote and achieve change. Ideology helps policymakers choose between competing priorities and stay focused on the most important goals. Too many centre-left govern-

ments in Europe have been narrowly technocratic, detached from the daily concerns of voters. These mistakes should not be repeated, however tempting managerialism might be. Any paternalism or plaintive hand-wringing indecision from ministers should be seen as warning signs. Labour should articulate a clear story about why it is in government and where we are heading.

- *Innovation*: Ministers should not be afraid to experiment with new policy approaches and methods. The UK was world-leading in its approach to governance; over the last 15 years, progress stalled. The UK needs to catch up, particularly in applying technologies to increase the effectiveness of public services. We need radical experiments with new institutions to deliver preventative healthcare, community trusts to provide affordable housing, more public service mutuals and co-ops, and a new spirit of social enterprise focused on common purpose, alongside improved neighbourhood services made possible by enhancing the power of local government and city-region mayors.
- *Implementation*: There should be a relentless focus on translating policy ideas into workable reforms that alter people's lives for the better. Implementation is the most arduous stage of the policy process, yet it receives little attention. A top-down delivery approach focused on targets is less effective than an emphasis on integrating systems and driving

change from the bottom-up. It is essential to have the discipline to focus on key priorities. And successful implementation relies on effective relationships between the government, employers, and trade unions.

- *Investment*: It is widely recognised that the central weakness of the UK is a long-term failure to invest. The UK is unique in suffering from

both low public and private sector investment. This low investment goes a long way to explaining the present economic malaise. Yet under Labour's current plans, public sector investment will fall as an overall share of GDP. Ministers should focus on where resources have the greatest impact. Over time, they will need to increase their capacity to borrow and invest.

CHAPTER 2

APPLYING OUR VALUES: RH TAWNEY, IDEOLOGY AND LIBERAL ETHICAL SOCIALISM

A credible centre-left government has guiding principles and animating values. As the post-war Labour politician, Richard Crossman, insisted, a commitment to pragmatism, the mantra of “what works”, is insufficient.

In the past, Labour politicians suspicious of intellectuals were inclined to dismiss ideology. It was said that contempt for doctrine was a defining characteristic of British socialism. GDH Cole, the leading Fabian intellectual, welcomed the fact that Labour was “so undefined in its doctrinal basis as to make recruits readily among people of quite different types”. Yet as Crossman observed in the *New Fabian Essays* shortly after the defeat of the Attlee government: “The Labour Party has lost its way not only because it lacks a map of the new country it is crossing, but because it thinks maps unnecessary for experienced travellers.” The lesson is that a Labour government must be clear about the political and economic journey on which it is embarking and stick with it.

During the election, Keir Starmer stated that he was both a ‘socialist’ and a ‘progressive’, acknowledging that politicians need ideology. He referred to “the idea of a society based on contribution”. Past leaders described their ideological position in varying terms. Neil Kinnock was a ‘democratic socialist’. Tony Blair and Gordon Brown were “Christian socialists” or “ethical socialists” while also embracing the language of modern “social democracy”. The essence of social democracy, which can be a radical creed, is defined by the Polish philosopher and historian Leszek Kolakowski as “an obstinate will to erode by inches the conditions which produce avoidable suffering, oppression, hunger, wars, racial and national hatred, insatiable greed and vindictive envy”.

A productive starting point is found in the ethical socialism of RH Tawney, who was a prominent and influential Christian Socialist, Fabian, and Labour party member. Writing in the early 20th century, Tawney rejected the left’s

association with statism, Marxism, and managerial corporatism. Instead of concentrating on the narrow aim of industrial ownership, he argued that socialists should focus on eliminating class barriers, tackling hereditary privilege, and building a culture of democratic citizenship. Tawney emphasised the relationship between the individual and the community as the basis of ethical socialism. His approach valued people as individuals of equal worth, able to lead fulfilling lives as members of a community. There was a natural focus on supporting the least well-off in society.

Labour should draw from the “liberal” ethical socialism that originates in Tawney’s political thought. Ethical socialists, celebrating humanity, were passionate about the equal worth of each individual, while recognising that most people lead fulfilled lives in fellowship with others. The holding together of the importance of the individual, enjoying freedom, with the benefits of community, is a powerful tradition but one too often underplayed. On the left it has helped prevent excessive or prolonged indulgence of Marxist-style collectivism which suppresses individuality, while providing a challenge to right wing individualism. Its focus on humanity leads to impatience with inequality and conservatism but it is democratic in nature, seeking to harness the power of government. The term liberal ethical socialism aligns the spirit of community with a recognition of individual autonomy in the modern world.

The left needs a nuanced approach to the relationships between public and private, state and market, government and community.⁶ It must build and support trusted institutions that win popular support and legitimacy. And liberal ethical socialism recognises the imperative of ensuring that everyone has a stake in the economy.⁷

For liberal, ethical socialists, the state cannot replace the most powerful force for social change: individuals, families and communities supporting one another, with the government accountable, enabling, and serving. As such, individual freedom comes with a strong ethic of reciprocity, duty, and responsibility. The freedom comes first; not as a reward for social behaviour that the government desires because anything else would undermine dignity and individuality.

People “can only realise [themselves] as part of a community”.⁸ A community is also a place; a village, a town, or neighbourhood that has its own unique fabric and identity. Liberal ethical socialists seek to build powerful places that both enhance economic prosperity and spread wealth and power.

At heart, liberal ethical socialism means recognising that individuals should be accorded respect regardless of income, wealth or market worth. The German chancellor, Olaf Scholz, told the Guardian in 2021: “Merit in society must not be limited to top earners... those who keep the show on the road don’t get the respect they deserve. Respect must not be limited to top earners and those with university degrees.” Scholz concluded that Michael Young’s satire,

The Rise of the Meritocracy, “was an almost prophetic description of the trends of our time”. Social democrats must ensure there are countervailing forces against the dominance of meritocratic reward.

For Tawney, and for more recent generations, being on the Left is about fellowship and community. The equal worth of every individual in society and a strong sense of community is being undermined by an enormous and growing divide between rich and poor, not just in terms of income but in terms of our willingness to use public services and participate in the public sphere. The consequence of this divide is that people from different class and wealth backgrounds increasingly lead segregated lives. They interact less with one another, narrowing the basis of communal experience and identity. We know that those born into the most deprived neighbourhoods suffer long-term disadvantage. There is a growing risk that this divide becomes near impossible to bridge, and risks support for universal provision of services.

Equality and inequality can be contested terms. There has been a wide-ranging debate on the left about the virtue of equality of outcome *versus* equality of opportunity. ‘Old’ Labour, it was said, believed in equality of outcome through higher taxes on the income and wealth of the rich. In contrast, ‘New’ Labour prioritised equality of opportunity, allowing those from poorer backgrounds to escape the disadvantage of deprivation, though it faced criticism it was not doing enough to close the gap between rich and poor.

In reality, equality of opportunity – which is about freedom – and equality of outcome are two sides of the same coin. An equal opportunity society is difficult to achieve when the divide between rich and poor is growing; one needs the means to take an opportunity, and not just once. It is also hard to tackle social disadvantage when there is a marked disparity between those on the highest and lowest incomes. It is therefore necessary to protect those who are unable to flourish in the market in line with the “duty of care” that society owes the least fortunate. At the same time, focusing on income distribution alone is too arid and divorced from the question of what constitutes a good life.⁹

As such, equality is not merely about where an individual or household is located on the income distribution. It concerns relationships with others and an acknowledgement that human need and appreciation of equal worth should not depend on the narrow cold calculations of market exchange. It is achieved just as much by building institutions that bring citizens together through economic equality and the distribution of material resources.¹⁰

This analysis underlines the importance of the provision of amenities, high streets, cafes, parks, countryside and open spaces where people can lead contented lives. It captures what the Labour politician, Anthony Crosland, called the “moral-cultural-emotional appeal of the William Morris tradition”, an approach to politics and policy that is not merely technical and bureaucratic but ‘life-affirming and joyous’. Modern-day Fabians should not reflect

the Webbs' "considerable indifference to all forms of art and culture" but give people the chance to shape worthwhile lives of their own choosing.

The aim is to build a culture of common citizenship. Tawney observed that Britain's political culture was "steeped in the liberal tradition", noting that: "The result is the existence of a body of opinion, larger, probably than in most other countries, which is sensitive on such subjects as personal liberty, freedom of speech and meeting, tolerance, the exclusion of violence from politics, parliamentary government – what broadly it regards as fair play".¹¹

Writing at a time when the left was vulnerable to the charge of authoritarianism, Tawney recognised that voters who supported the party had "no intention of surrendering their rights as a citizen". He argued that if the public, including the working class, were presented with a choice between capitalist democracy, with its faults, and a socialism that appears undemocratic, "it will choose the former every time".¹² More than ever, economic prosperity relied on the exchange of ideas, alongside the creativity and invention of individuals.

Yet without collective institutions and a strong society, individuals from disadvantaged circumstances were held back. It was the philosopher T H Green who argued: "The mere removal of compulsion, the mere enabling a man to do as he likes, is in itself no contribution to true freedom".¹³ It is the task of liberal ethical socialism, or *radical ethical socialism*, to elaborate a cogent synthesis of social justice, individual liberty and

economic efficiency compatible with environmental sustainability and preservation of the natural world – and to put that ideal into practice in the real world through radical reforms. This is not an easy task and, as far as freedom and liberty are concerned, the left has found it all too easy to default towards state direction or, in the case of New Labour's 'Third Way', take them as given and ignore them altogether. It requires applying the values of freedom and equality together, identifying power and ensuring it is genuinely fairly held, exercised, and accountable.

As Tawney put it, "A society is free in so far, and only in so far, as, within the limits set by nature, knowledge and resources, its institutions and policies are such as to enable all its members to grow to their full stature, to do their duty as they see it, and – since liberty should not be too austere – to have their fling when they feel like it."¹⁴

Mission-driven government

Labour has declared it will be a 'mission-driven' government. A mission describes how a vision is going to be achieved. The vision Labour outlined in its 2024 manifesto was "to put the country back in the service of working people". It has focused on five key missions.

- Kickstart economic growth
- Make Britain a clean energy superpower
- Take back our streets
- Break down barriers to opportunity
- Build an NHS fit for the future

Labour defines mission-driven government *“as raising our sights as a nation and focusing on ambitious, measurable, long-term objectives that provide a driving sense of purpose for the country”* and *“a new way of doing government that is more joined up, pushes power out to communities and harnesses new technology”*.

Mission-driven government had been much discussed before the election. In contrast to a programme for government, missions may not come with a clear idea about how they are going to be achieved. They may be ‘moonshot’ in nature. The thrust is to focus on long term ambitious goals and focus different parts of government and civil society around achieving them.¹⁵

Labour can draw on its experience establishing the Prime Minister’s Delivery Unit, which from 2001 to 2005 helped reduce NHS waiting times, crime rates, and road congestion, while improving health outcomes, literacy and numeracy, and rail punctuality. It can look to New Zealand’s ‘Better Results’ programme, which encouraged departments to deliver targets that required innovative collaboration across services.¹⁶ It should learn from the experience of the vaccine taskforce during the pandemic, during which standard Whitehall institutions and procedures were incapable of delivering.

However, Labour should also learn from an early example of successful mission-driven government. In 1915, during the first world war, the UK faced a shell crisis; it did not have enough weapons or munitions and the War Office proved completely inadequate to the task of obtaining them (echoes of today). The solution was the appointment of David Lloyd George as minister of munitions in a focused cabinet role with wide-ranging authority to bring together departments and key people from business to find solutions, agree long-term contracts, encourage innovation, and increase supply. Even then, it required Lloyd George’s personality, vision, and seniority – together with prime ministerial intervention – to push through change.¹⁷

Something of the same is required today for those ambitions which are essential to Labour’s programme. It is important to define the aim, or mission, clearly. There must be the power to convene, direct, and recruit from anywhere in or outside government. The new approach should be driven by a cabinet member, with active support from the prime minister, potentially with a new department. It should be clear when each mission has been achieved. For effective delivery of its priorities in government, Labour should ensure these conditions are met.

CHAPTER 3

THE GOOD ECONOMY

The legacy Labour inherits is not simply a poorly performing economy that is not delivering the growth required to sustain even adequate public services. It is a legacy of policy, conventional wisdom, and ideology.

INHERITANCE

A key lesson of the past 15 to 20 years, an obvious lesson, is that whatever their prevailing ideology, governments need to exercise responsibility for economic management. Economic policy demands serious people. Relax attention and a country's economy can lapse into something that undermines people's sense of values and ethics. Even a centre-right pro-market ideology needs commitment to that cause, otherwise an economy will become characterised by monopolies and private sector rent-seeking¹⁸. Yet a more interventionist approach pursued unthinkingly can easily become entangled in the weeds of corporatism and produce monopolies that in this case are state, or state-sponsored.¹⁹

In the 21st century, UK economic policy has shied away from tough decisions, apart from late-in-the-day crisis management when the whole system seems threatened. This has been a failure of both politics and our institutions. Meanwhile, our economy has changed but those at the rough end have, for practical purposes, been largely ignored.

The global financial crisis was a profound shock to economies around the world, in particular the US and UK. It led to financial sector reform, but the period of reflection on economic policy by policymakers was brief.

Governments intervened to prevent disaster, departing from prevailing economic orthodoxy and embracing a more Keynesian approach. Central banks cut interest rates to near zero. So-called quantitative easing (QE) – the electronic printing of money, mainly to buy government bonds to help build bank balance sheets – was introduced.²⁰ Mass unemployment was averted but government spending levels now vastly

exceeded tax revenues. Something had to give. Essentially, the country was less rich than it had assumed, though borrowing had helped hide earlier structural problems with declining real incomes. After the crisis, productivity growth fell substantially. It has never recovered to pre-crisis levels.²¹

Under New Labour, growth had helped fund a proactive government which funded and reformed public services while redistributing via the benefits system, but the way the economy worked and its impact on society had not been adequately addressed. Now, Labour had rediscovered not Keynes but a crisis-focused neo-Keynesianism which did not challenge the prevailing economic orthodoxy.²² There was no new ideological framework.

This muted its opposition when, from 2010, a Conservative-led government adopted a harsh and counterproductive policy of austerity, based on a smaller-state ideology.²³ So began the undermining of both public services and the fabric of our society. GDP growth averaged lower after the crisis even while supported by a rising employment rate. Wage growth, already lacklustre, stagnated.

The hard Brexit adopted by Conservative governments, and the accompanying political divisions, led to a drop in investment growth and, according to the Office for Budget Responsibility, a 4 per cent fall in productivity compared to remaining in the EU.²⁴ Not only was free trade with other European nations replaced by frictions and costs, but the UK was no longer such an easy gateway to EU markets.

When the pandemic struck, the shock to society was deep and profound. We are still recovering, personally and institutionally. Facing another economic full stop, the Johnson government increased borrowing and funded schemes to keep people in work and businesses afloat, ensure public services continued, develop vaccines, and source equipment (with mixed success). During the crisis, Keynes-style measures were adopted, including the direct funding of jobs; effectively, the government served as the indirect employer of last resort. The Bank of England supported these efforts by cutting interest rates to near zero and resuming QE, mirroring the increase in government debt.

However, supply disruptions caused by the pandemic led to price shocks in commodities and goods just as QE was boosting the money supply.²⁵ As economies recovered, it proved difficult to distinguish between a series of price shocks that would recede, and embedded inflationary conditions.²⁶ Central banks hesitated and then played catch up with inflation just as Russia resumed its invasion of Ukraine. Subsequent higher energy prices pushed the inflation rate over 11 per cent, causing a cost-of-living crisis. Levelling up measures promised by the Johnson government were even more at risk as the economic world changed.

The Liz Truss government responded to the cost-of-living crisis by capping energy bills, with a mini-budget process which tried to ignore the OBR, with the promise of unfunded tax cuts to come. This increased a sense of uncertainty at a time when market interest rates

were rising and the Bank of England was reversing QE²⁷. The result was a mini financial crisis which hit pension schemes in particular, and raised long-term borrowing costs leading to hikes in mortgage rates.²⁸

The Sunak government cuts to national insurance rates reduced taxes on work but relied on optimistic assumptions about future spending reductions and limited public sector pay rises. The OBR estimated that, outside declared spending commitments, to meet fiscal rules departmental spending would have to fall by 2.3 per cent *in real terms* from 2025–26. Investment projects were cut back.

The legacy inherited by the incoming Labour government was summarised well by the OBR in March 2024: “The fiscal position remains very challenging due to high debt, subdued economic growth, and the highest interest rates for over a decade.” Not surprisingly, the OBR judged that “the medium-term economic outlook remains challenging”.²⁹

In the short term, there were more grounds for optimism about the UK economy than had been apparent from commentators during the general election campaign. With inflation falling, real incomes had been higher as pay settlements lagged price rises, and the Bank of England began cutting interest rates. The first official GDP estimate for Q2 2024 showed growth of 0.6 per cent. Survey data indicated increases in business confidence and economic activity post-election.³⁰ The cuts to national insurance were likely to have stimulated growth and the stability provided by the large Labour majority

and the government’s pro-business rhetoric helped improve sentiment.

However, the suspicion is that some inflationary pressures remain embedded, and how the economy responds to changes in monetary policy changes over time.³¹ Labour therefore came to power at a highly uncertain time for central bankers.

The foremost economic challenges are low investment and low productivity growth. These matter because they drive *economic* growth, normally measured by changes in GDP, the total market value of the economy’s output of final goods and services. Higher GDP growth means both a more vibrant economy able to adapt effectively in a changing world, including employing people in well paid jobs, and higher capacity to deliver better public services. The OBR forecast that GDP per person would trough at 1.25 per cent below its pre-pandemic peak in H1 2024, noting that weakness “...has been driven by rises in inactivity and subdued productivity growth, which has remained well below its pre-financial crisis average in recent years, even after accounting for the rebound from the pandemic”.³²

The UK has experienced years of underinvestment in both the private and public sectors, lagging behind its peers. The Resolution Foundation notes that: “In the 40 years to 2022, total fixed investment in the UK averaged 19 per cent of GDP, the lowest in the G7.” In the public sector, “the average OECD country invests nearly 50 per cent more than the UK”, and as far as the private sector is concerned: “If UK business investment had matched the average

of France, Germany and the US since 2008 our GDP would be nearly 4 per cent higher today, boosting wages by around £1,250 a year.³³ Changes to executive remuneration policies in earlier years may have affected private sector investment by rewarding short-term measures to boost share prices.³⁴ In March 2024, the OBR forecast that average trend productivity growth over 2024–28 would be 0.9 per cent. This is not encouraging for future GDP growth.³⁵

In the UK, the proportion of the working age population active in the labour market has fallen since the pandemic, has not recovered to the same extent as with other countries, and even fell again more recently. The causes are probably varied, including long term sickness especially and changes to the way people think about work. While policies on childcare expansion, welfare reform, and tax rates should help, partially offset by the freezing of tax thresholds, the OBR estimated that the proportion of the working-age population in employment will continue to decline gradually unless something changes.³⁶

Monetary policy decisions are made independently by the Bank, taking into account prevailing fiscal policy. Too loose a fiscal policy, and monetary policy is likely to be tighter than otherwise, for example. The way QE works means the average maturity of government debt has been shortened.³⁷ The UK public finances have become more sensitive to changes in monetary policy. This has the potential to constrain fiscal policy.³⁸

The UK's public finances are more vulnerable than in the past. As the OBR noted in 2023, the rise in borrowing

costs had been relatively significant and volatile, debt servicing costs had risen twice as fast as elsewhere, and the UK finances had not benefited from high inflation, which normally benefits borrowers.³⁹ In March 2024, the OBR forecast public sector net debt as a proportion of GDP to peak at 93.2 per cent in 2027–28, borrowing as a share of GDP to fall, and tax as a share of GDP to rise to 37.1 per cent in 2028–29. Excluding wars and the pandemic, spending as a share of GDP is near all-time highs.⁴⁰ On arrival in office, Labour stated that, including unsettled pay deals, there was £22bn of planned spending in the current year unaccounted for in the figures.

QE and ultra-low interest rates helped fuel asset price inflation. This was evident from house price increases, with the effect that while everyday spending remained affordable for many potential first time buyers, at least until inflation rose sharply, for many without the money to put down a deposit, the price of that first home soared out of reach. Those with assets benefited; those without fell further behind, not always evident in the here and now – income inequality was little changed – but in terms of the accumulation of wealth. This has led to a big shift, from a sense that with a reasonable income and diligent saving one could purchase a home to a (largely accurate) perception that home ownership will come later in life or never, unless there is already wealth in the family. It has been coupled with the uncertainty inherent in renting in the UK and the variable quality of housing available. Meanwhile, food

banks have become the norm in our society. Future problems are being baked in; in particular, provision for old age, by individuals and the state, is falling short. It is no wonder people are more ready to try something different politically.

Economies have changed in other ways too. The trend towards more globalisation in the form of further free trade deals has stalled. National and job security concerns have become more prominent. The UK, so dependent on being a trading nation, has underperformed other countries in this regard, even in sectors in which it specialises.⁴¹ ‘Big tech’ companies continue to fund innovation, but in return retain considerable market power.

The past couple of decades have been characterised by periodic crises and missed opportunities. Conservative chancellor George Osborne declared that Labour had failed to fix the roof when the sun was shining. It was a good line, and one which Labour itself seemed to half believe when in opposition, but missed the point. Market confidence in public finances is essential for governments to maintain, but it is a mistake to prioritise ‘balancing the books’ over sustainable growth. After the financial crisis, investors looked for credible growth policies. The period of ultra-low borrowing costs was our economic “years the locusts have eaten”;⁴² a waste of opportunities to invest in infrastructure, innovation, and people. Now, higher interest rates mean it is more expensive for the government to fund investment. Meanwhile, our public services have steadily deteriorated.

The Liz Truss and Kwasi Kwarteng period appears to have reduced room for manoeuvre. Their misguided attempt to break out of the constraints of conventional wisdom and the market reaction damaged the UK’s reputation and prompted a certain nervousness amongst policymakers about bold economic moves. It also led to a higher status for the OBR, as the guardian of sound public finance. Truss’s actions reinforced economic conventional wisdom rather than changed it, making sound reform more difficult.

Different approaches to Brexit, the Johnson “cakeism” approach, the Truss budget, and Labour’s far left excursion can all be seen as populist responses to the same sense that ‘normal’ politics was not working for people; that something had happened to the economy that meant that fewer people were benefitting, while authorities assured us that all was sound or that nothing more could be done. Yet to a large extent they represented ‘leap of faith’ politics; not into a new prosperous world and away from stale dogma, but into the unknown, away from economic realities and the serious business of building confidence and pursuing reform. And this sensibility has pervaded society too, perhaps fuelled by social media and its depiction of apparent instant success; that success can be achieved without difficult decisions and with little cost, and that, Genesis-like, new economic realities can be created simply through speaking them into existence. Perhaps we are indeed experiencing a “death of consensus”, while yet to agree on the new nightmares we want to avoid.⁴³

The Conservative party compounded the problem with astounding incompetence and irresponsible divisions when in power. Labour had its own problems in opposition but has achieved a remarkable transformation. Further ideological development – and the forging of a new economic consensus – are needed, however.

These shifts, in the UK and elsewhere, have taken place amidst longer term trends. Three trends are worth highlighting: demographic changes; the climate crisis; and developments in technology. They could dominate the political and economic debates for years to come.

Many countries are experiencing an increase in the average age of their populations, with the working age population falling as a proportion of the whole. As Charles Goodhart and Manoj Pradhan have outlined, the experience of the last few decades of the 20th century was very different.⁴⁴ As China, and then formerly communist-bloc countries, opened up their economies, the global economy's working age population effectively increased. Labour costs fell, and with them wages, inflation, and real interest rates. Income inequality rose as developed country workers faced competition from elsewhere, but consumers (including those workers) benefited from cheaper goods. Now, this trend is playing out in reverse, as proportionately fewer people produce goods and services demanded by the whole population, including those running down savings in retirement.

The OBR is concerned about the effect of an ageing population on the

public finances. It has projected a drop in tax receipts combined with increases in public spending to pay for increased health and other care demands.

Alongside other factors, it projects this could lead to the net debt: GDP ratio rising to 310 per cent or higher by the mid 2070s.⁴⁵ This is only a projection, but it demonstrates that it is essential to develop long term solutions to the current inadequate health and social care provision for the elderly. Failure to do so could be catastrophic for faith in democracy to deliver for its people.

The climate crisis – our warming world – is another influential trend. In 2023, the UN Global Stocktake of progress on efforts to mitigate climate risk reported that the world was still some way short of limiting global warming to 1.5°C.⁴⁶ The UK's Climate Change Committee stated after the election that: "Only a third of the emissions reductions required to achieve the country's 2030 target are currently covered by credible plans".⁴⁷ Climate change presents policymakers with a number of challenges. These include: what actions to take to contribute to worldwide efforts to limit greenhouse gas emissions; actions required to adapt to climate change, even if emissions targets are met; and how to ensure a "just transition" as economies adjust.

In addition, as the world or parts of it shift away from fossil fuels, economies will change. It will not simply be a matter of replacing one energy source with another and carrying on as we were. Cheap, clean energy with near zero marginal cost will drive electrification. The rapid pace of innovation,

for example in battery technology, gives grounds for hope even though the global pace of transition is far too slow.⁴⁸ For some, energy efficiency will come to mean using all the energy available rather than limiting consumption.⁴⁹ A challenge, in addition to the need for policy and regulatory changes worldwide, will be to include everyone in this change; to ensure everyone has a stake in the new world. In the short to medium term, climate action will require upfront public and private sector investment for longer term benefits. Electricity infrastructure is one such example. Short term constraints, such as the supply and processing of critical minerals, will need to be justly overcome or avoided via innovation.

Technology developments can drive substantial change in societies. When Labour was elected in 1997, few could have anticipated the impact of the internet and associated technologies. Projections of the impact of demographics or climate change cannot predict new innovations or their effects. This time, Labour has been elected in a period of exciting innovation and technological change. This is evident in different sectors including energy generation, large-scale data processing, and artificial intelligence. The latter is likely to fundamentally affect the future of work. Greater automation should deal with mundane tasks and increase productivity and, potentially, improve the experience of work. Governments will face the challenge of helping people adapt to and benefit from change, and ensure people are not left behind.

Labour came to power inheriting substantial challenges, which reflect the combined legacy of the global financial crisis, the pandemic, the energy crisis, and government policy. The state of our economy today can be traced to long-term trends accompanied by a legacy of failed ideology, missed opportunities, political distractions, and incompetence in government. Addressing it will require a reset, a rediscovery of values, and a restoration of capable government.

APPLYING VALUES:

TAWNEY'S PERSPECTIVE

The challenge is that what is understood as common sense encompasses many assumptions and values. Credibility can be confused with aligning with the prevailing conventional wisdom (a term introduced by the economist JK Galbraith), but the conventional wisdom is often wrong at crucial times.

Tawney believed that power and freedom have economic dimensions. A functioning democracy holds power accountable and goes wrong when that accountability is weakened. Tawney argued that: "If power divorced from responsibility is the poison of states, it is improbable that it is the tonic of economic effort."⁵⁰ Where economic power exists, it should be exercised with responsibility. This means more than a sense of duty to exercise power well or efficiently. It is about responsibility in a broader sense, contributing to the common good and treating people with dignity. The greater the economic power, whether in the private or public sector, the greater the responsibility and the more formal should be the

accountability. Viewed in this way, progressive economic policy also places a high value on free competition and on regulation where economic power is concentrated.

Furthermore, freedom matters not only to vote, speak freely, associate, and enjoy other civil liberties. It matters in the economic sphere. There should be opportunities for everyone to lead fulfilled working lives. Not every job will be incredibly joyful, but no job should treat people as machines or slaves. Pay should be sufficient to enable a person to have freedom to flourish in life generally. Equality and freedom go together; “the right to the free choice of an occupation [is impaired], if the expenses of entering a profession are prohibitive.”

Tawney contrasted the emphasis on service by professions with the emphasis on shareholder returns by companies. While we believe Tawney, who was writing at a time when society and economy were very different, was too stark in his distinctions and assessment of people’s motivations, the emphasis on the social purpose of business is important and still relevant.

Tawney warned against fetishising industry. In *The Acquisitive Society*, Tawney declared that “When the press clamours that the one thing needed to make this island an Arcadia is productivity, and more productivity, that is Industrialism. It is the confusion of means with ends.”⁵¹ Productivity is important, but it is not an end in itself. Industry, Finance, and Technology should be celebrated – when they represent and contribute to human

flourishing. Businesses, and entrepreneurial activity, are themselves positive expressions of human creativity and flourishing as long as they are ethical and contribute to or do not undermine the common good, even where a clear social purpose is not clearly defined.

BUILDING BLOCKS OF A 10-YEAR PROGRAMME

FISCAL RULES AND INVESTMENT

Labour returned to government promising to follow clear fiscal rules to keep public finances under control and prevent excessive spending. Labour committed to targeting a current budget surplus, so that day to day spending at least covers tax revenues. It also committed to government debt falling as a proportion of GDP by the fifth year of the official forecast. This constraint affects investment as well as current spending. Labour will also consider government debt alongside public sector assets, preventing an asset fire sale to meet debt targets. Labour has some flexibility in how it interprets and applies its rules.⁵²

Fiscal rules matter because they help establish economic credibility. It took Labour over a decade to re-establish credibility after the global financial crisis because it did not fully appreciate how much it had to do.⁵³ Economic credibility on borrowing is not simply about promising to follow some fiscal rules. The rules themselves are not science, and the OBR regularly publishes new forecasts. The result can be politicians and commentators arguing about relatively small differences in borrowing

projections which can disappear with the next set of forecasts. In any event, the Office for National Statistics periodically revises GDP data for past years which can change the picture, eg for net debt to GDP ratios. Fiscal rules are about providing certainty that the government is committed to sensible economic policy.

By including borrowing to invest in its net debt to GDP target, Labour risks limiting its ability to begin substantial investment at the beginning of its first term. This may have been essential to maintain credibility, particularly in the wake of the Truss period, but it does not challenge the economic orthodoxy which brought us austerity. In Labour's first term it will need to show it has a rigorous commitment to effective spending (with spending time limited and ceasing if ineffective) to create space for a new consensus on borrowing for investment spending to emerge. There do have to be clear constraints on borrowing for investment, to protect against a shift in sentiment amongst buyers of gilts: the investment projects and their management need to be credible too. Beyond that, current consumption as a proportion of GDP will need to fall, with people and businesses saving and investing more.⁵⁴ This will require Labour to make some tough decisions. If growth is stronger than expected, there will be pressure to increase current spending, but to avoid the UK being trapped in a doom loop the opportunity to raise investment spending should also be taken.

There are many investment needs; Labour will need to prioritise. Now

is the time to push through large infrastructure projects in transport and energy, a housing roll-out, and an agile and effective digital revolution across public services.⁵⁵ There should be an investment roadmap. Treasury rules need revision. We also believe small businesses should receive management training, incentivised by a tax credit. Private sector partnership will be vital, as will blended finance at scale. But if we think something should be financed by the private sector, the first question is: why is it not happening already? There could be very good reasons – perhaps it is not profitable, or does not align with investment objectives. Or, there could be actions the government can take to help, such as taking some risk, resolving planning issues, linking investment projects such as housing and infrastructure, or providing long term contracts, awards, or a clear sustained tax incentive.

A DYNAMIC MARKET ECONOMY AND INDUSTRIAL STRATEGY

A commitment to a dynamic market economy is essential but does not start with government spending or changes in legislation. It is a mindset. It is a recognition that growth does not come from central government allocating resources or regional committees deciding priorities. It understands that actions the government takes change market incentives, and people and firms change behaviour accordingly. It acknowledges that a stable tax system is necessary but not sufficient: to stimulate the “animal spirits” of business investment requires building confidence and trust

that, over the long term, rewards from (reasonable) risk-taking can be earned, even while ensuring that the taxpayer gains from government investment. It also understands that investments are not always successful; the challenge is to ensure that the taxpayer does not disproportionately experience losses.

Labour's commitment to growth and a vibrant economy is essential. In its embrace of 'securonomics', Labour has clearly rejected the bonfire of regulations advocated by some Brexiteers. The basis of securonomics is that, alongside national resilience, "the security and prosperity of working people is integral to the strength, dynamism and legitimacy of a market economy".⁵⁶ This reflects emerging thinking on both sides of the Atlantic. The chancellor maintains that industrial strategy will not be "the state picking winners and propping up uncompetitive industries" but "...working in genuine partnership with business to identify the barriers and opportunities they face. Working together to form an assessment of the industries which will be critical in determining our future – across our broad-based services strengths and our manufacturing specialisms, and being strategic about our real choices and our limits".⁵⁷

In government, Labour will need to be very clear what this means. A drift to practical corporatism should be avoided amid intense pressure. No UK government has declared as policy that it will pick the winners and keep uncompetitive businesses going – and yet plenty have done so, for reasons that seemed compelling or

urgent at the time. These reasons have included the perception that a business had a strategic role, or awareness it employed many people whose security and prosperity would be threatened if it closed. When the government acts in an ad hoc fashion it stifles innovation and wastes money. A power shift can occur, without corresponding responsibilities. Apparently essential industries today may be superseded tomorrow: if we want a market economy to work, we have to ensure the government does not try to second guess it. The clean energy transition is already driving innovation and could transform how economies work. The government should enable rather than predict. It should focus on actively and financially encouraging the ends and let the market – ie human creativity stimulated by competition and sometimes the public sector – work out the means.

A properly functioning market economy is not the same thing as giving business unfettered freedom. Businesses always operate within constraints and often define a social purpose alongside producing returns. Ultimately, the state and its citizens define those constraints. Since Labour was last in power, there has been an increased focus by businesses and investors on environmental, social, and governance (ESG) risks. There is a large body of work and experience on how these risks to long term returns can be mitigated, by investors, businesses, and governments, and how business governance and executive pay schemes can promote long term successful investment. Labour should

engage with this work to identify policies which can support responsible, and prosperous, businesses delivering sustainable returns, and explore how regulation and taxation can encourage collective action to address externalities, such as reducing carbon emissions.

There is much that can be done. Where competition is hindered or asymmetrical, domestically or internationally, the government can act to support business. It is in the UK's national economic interest to develop closer trade ties with the European Union. Trade deals should keep the end, human flourishing, in sight. A "mission" approach can unite government and business around key long-term goals.⁵⁸ Investment in infrastructure is essential and projects can be prioritised to open the way for private sector expansion. The Labour manifesto was encouraging in its commitment to a ten-year infrastructure strategy and reforms to the planning system. Access to finance can be improved with plans to substantially develop and increase the capacity of national, or sovereign, wealth funds in which citizens have stakes.

TAX

The UK's tax system is a legacy of distortions and decisions avoided. Reform is more straightforward on paper, because in practice there will be vocal losers. Labour's large majority means it can push through changes with time to show that they work. It should link them clearly to its values with an emphasis on inclusion as well as fairness. In broad terms, taxes should be

framed as a badge of citizenship rather than a penalty for earning income.

Simplicity, consistency, and stability should be key, with closer alignment between income and capital gains taxation. There should be further shifts from taxing labour towards taxing externalities and unearned economic rents.

Inevitably, wealth taxation creates losers, while political parties have been reluctant to create electoral hostages to fortune by interfering with the structure of inheritance tax, more often reducing liabilities.⁵⁹ British social attitudes surveys indicate that voters are less convinced about the case for inheritance tax. Nonetheless, politicians have a responsibility to make a principled case: taxing earned incomes is less efficient; the proceeds of a wealth levy could go directly to fund a universal endowment (see below); reforms encourage the rich to spread their wealth.⁶⁰ The Mirrlees Review of Taxation proposed replacing regressive taxes such as stamp duty and council tax with new levies on property.

A more radical idea, if not a new one, is that a land tax should be introduced to help maintain future revenues and potentially stimulate economic activity; a long transition period is required which is why action should begin sooner rather than later, but the eventual upsides could be significant.⁶¹

Tax incentives can encourage the energy transition but at some point, if this is occurring successfully, more substantial changes will be needed to maintain revenues e.g. as petrol and diesel vehicles are phased out.

There will be pressure to raise taxes further given pressures for more

spending. However, two considerations are important. First, sustaining historically high taxation is likely to require evidence of public sector reform and results. We believe hypothecated taxes can help here. Second, tax raising measures should not dampen aspiration and entrepreneurialism and so should be introduced in the context of a credible growth strategy.

BANK OF ENGLAND

Bank of England independence has been highly successful, helping to take politics out of interest rate decisions and providing an economic credibility anchor. Labour is right to reaffirm its commitment to Bank independence. There is no scientific reason why the inflation target should be CPI at 2 per cent, but arguments for raising it to some degree should have been made and won when inflation was nearer zero and inflation fears were limited – changing the target would send the wrong signal today, even if it would still maintain price stability while reducing temptations to overreact to price moves. The chancellor, in consultation with the Bank, sets the time horizon by which the Bank should get inflation to target. Once two years, it has been three for most of the period since independence, but there has been little debate about it. There should be an open review about what time horizon is appropriate, alongside an independent assessment of the impact of quantitative tightening, how Bank decisions can constrain government policy, and how the Bank can ensure its worldview is open to challenge.

SUPPORTING PEOPLE

The global financial crisis was an opportunity missed for governments to focus on the ends – human economic freedom and flourishing – even though fast action prevented a depression and mass unemployment. The pandemic demonstrated that jobs can be supported for a period. Ultimately, government intervention in recessions and crises should focus on keeping people in work, and even employing people directly. The government should be an employer of last resort. Labour policy to increase job security and minimum pay is welcome but must support business activity. Meanwhile, top-class education with lifelong opportunities will both improve individual security and economic freedom, and help keep the UK competitive. Economic reforms, whether fighting inflation or encouraging growth, should be combined with a clear “citizen’s stake” in their success. A sovereign wealth fund, together with stakes in venture capital investments, would provide a further mechanism to spread wealth across the nation.

WHAT IS THE END POINT?

HOW BRITAIN WILL BE TRANSFORMED BY 2035

- An attractive economy for investment, with a highly educated and motivated workforce, in which aspiration is encouraged and can be fulfilled.
- Fiscal policy which is clear and stable, and focused on promoting investment.
- Profitable businesses, with innovation supported and social purpose celebrated.

- A reformed, fair, and durable tax system which incentivises growth and employment.
 - The Bank of England affirmed in its independence, with a new consensus about how it responds to price rises and, subject to its inflation mandate, its impact on fiscal policy considered.
- People supported in employment, including the government being employer of last resort in deep recessions or crises, with everyone having a stake in increases in national wealth.
 - A more prosperous nation, with an inclusive economy which also funds first class public services.

CHAPTER 4

A STRONG SOCIETY

The Social Democratic Party of Sweden depicts the good society as a ‘people’s home’. The party’s motto is that ‘secure people dare’. It is a recognition that to make the most of individual freedoms at the heart of modern society, we need a cornerstone of security and safety. Yet there are many strains on the social fabric which undermine individual aspirations and weaken communities. These often result from the repeated failure of governments to address long-term challenges from social care reform to building more affordable homes.

A strong, cohesive society has a number of dimensions. Paramount are decent public services that afford individuals and families collective security throughout their lives. The core priority is to tackle the problems afflicting the National Health Service. Dissatisfaction with the NHS contributed to the defeat of the Conservative government. Improving the NHS will be a central mission of the Labour government.

Another feature of the good society is giving parents confidence their children will enjoy better economic prospects

and quality of life than they did. That means investment in education alongside access to higher education, making it affordable for young people to go to university or obtain new skills. A succession of Social Mobility Commission reports over the last decade exposed the dominance of a narrow elite in the ‘top jobs’. Labour must demonstrate it can open up opportunity in Britain. As such, the party needs to show it will face up to the long-term challenges confronting Britain.

INHERITANCE

The most shocking social policy legacy relates to the extent of poverty and inequality in the UK. A child is far more likely to grow up in poverty than in other Northern European countries, while the percentage of households with children living in poverty has risen dramatically since 2010, among the highest in the developed economies. Britain has lower earnings mobility than other advanced nations.⁶²

As a result, children are more likely to inherit the economic status of their

parents than in Canada, Australia or the Nordic states.⁶³ The intergenerational transmission of inequality is reflected in educational achievement. The class divide in educational attainment is growing according to recent research. Sustained cuts in welfare benefits, poor parental employment prospects and lack of educational qualifications have fuelled the transmission of poverty between generations.

The OECD found that UK spending on public services helped to alleviate inequality, yet the welfare system has become less redistributive, despite the growth of targeting towards poorer groups: poverty in Britain casts a long shadow.⁶⁴ Recent governments embraced the concept of social mobility. Yet few children had their life-chances transformed. The Covid pandemic shone a light on the extent of health and social inequality in today's Britain: mortality rates were highest in areas of overcrowded housing, low-paid service employment, and high social deprivation.

This point is linked to the persistence of structural disadvantage in poor neighbourhoods, undermining incentives to acquire educational qualifications and employment. It also relates to the dominant culture and social attitudes: the persistence of class hierarchy reinforced by bastions of privilege, notably the public schools and the House of Lords. The life chances of young people in white working-class communities in the former industrial regions, as well as other ethnic groups, notably Afro-Caribbean boys, has continued to decline. Today,

educational performance is worsening in economically marginalised regions as gaps widen, risking the entrenchment of intergenerational disadvantage.

A striking example is that, according to data provided by UCAS, in Barrow, Cumbria, 13 per cent of school-leavers apply to university compared to 70 per cent in Wimbledon in south west London. Meanwhile, the pressures on the welfare state are changing. The ongoing revolution in the labour market and gender roles has thrown open the future of work and family life.

Public services over the last decade have been damaged by austerity. Surveys highlight that public satisfaction with the NHS has reached an all-time low. Elsewhere, a shrinking public sector workforce and underinvestment in infrastructure has led to deteriorating standards in the courts, prisons, probation, the fire service, the Border Force, tax collection, museums, libraries, and food safety. In schools, spending has fallen dramatically: as a result, pupil/teacher ratios are rising. Among the worst social policy decisions of the Cameron government was the closure of Sure Start children's centres. Meanwhile, local government budgets have fallen by more than 40 per cent in real terms since 2010–11.

The capacity of the British state has never looked more depleted. In the 2010s the civil service reached its lowest headcount since the second world war. Numbers began to rise following the Brexit referendum, but remain low by historical standards. Many talented civil servants have departed and relationships between ministers and officials

have deteriorated. The cultural aversion to involving citizens in policy decisions has continued.

The Covid-19 crisis exposed central government's overreliance on procurement of key services from the private sector. It is highly likely that Labour will inherit the impending catastrophic collapse of at least one key public service, whether a prison, a failing private sector train company, a bankrupt local authority, or a higher education institution.

After 15 years of cuts, there is a recognition that the new government should adopt an 'invest to save' approach. Resources should be directed towards services that reduce long-term cost pressures, notably through prevention and 'personalisation'.⁶⁵ For instance, there is an overwhelming case for investment in the early years to tackle the root causes of disadvantage. Upfront investment will reduce pressures in the 'looked after children' sector: the market for children's social care is broken as a consequence of financialisation and private equity.⁶⁶ Elsewhere, more effective social care would keep older people out of hospital, helping to alleviate NHS funding pressures. 'Invest to save' is also vital in the criminal justice system: an effective approach to tackling drug addiction and alcoholism would reduce the overall rate of offending.

APPLYING VALUES:

TAWNEY'S PERSPECTIVE

Tawney was a strong believer in the good society centred on community, duty and reciprocity. He emphasised that the progress of both national

economies and individuals in realising their potential depends on the collective security afforded by political and social institutions. The bureaucratic machinery of government cannot solve every social and economic problem: societal progress depends on the contribution individuals, civil society and communities are willing to make.

In 1942, William Beveridge set out an enduring vision of a modern welfare state in Britain that would eliminate the 'five evils' of want, ignorance, squalor, disease, and idleness. Beveridge's approach was to combine collectivism with democratic freedom and individual responsibility. A more recent report argues that our welfare state must continue to be based on an ethic of contribution and mutual responsibility.⁶⁷ We agree. As Tawney recognised, we need public services and welfare institutions that enhance collective security, create a path towards a more equal society, and enrich individual freedom.

BUILDING-BLOCKS OF A 10-YEAR PROGRAMME

THE NATIONAL HEALTH SERVICE

Given the structural pressures, universal public services will only remain fiscally viable if there is greater emphasis on improving outcomes through effective early intervention and prevention. Yet performance has been declining. A recent report by the King's Fund thinktank noted that: "The UK performs substantially less well than its peers – and is more of a laggard than a leader – on many measures of health status and health care outcomes."⁶⁸

The UK has the second highest ‘disease burden’ among the G7 countries with a high prevalence of obesity, although it performs better on smoking cessation.⁶⁹ Meanwhile, the number of working age adults reporting a mental health condition has risen by 530,000 since the Covid-19 pandemic.

Demographic and social changes mean that health spending is likely to rise by 3 per cent a year in real terms up to 2040 according to the OBR. Yet pouring in more money will not be enough to safeguard the institution, given changing demographics and new demands stimulated by improvements in medical technology and treatment. Since 2019, NHS funding has increased by 12 per cent while the number of doctors and nurses has grown by 20 per cent; yet the number of elective procedures has increased by just 2 per cent.⁷⁰

It is essential that policy focuses on tackling the causes of ill-health, both physical and mental. This must be a whole of government responsibility reaching into each Whitehall department. The public acknowledge that greater urgency and radicalism will be needed in taxing consumption of processed sugar and harmful foods. We know that the West is confronting an ‘obesity crisis’: diet and physical inactivity contribute to 47 per cent of diseases alongside 60 per cent of deaths globally; there has been a significant growth of childhood obesity over the last 30 years.

Worryingly, the rate of health improvement in the UK has slowed since the 1990s, not least due to rising

health inequalities and the impact of the Covid-19 pandemic. More optimistically, there has been a marked improvement in ‘health consciousness’: the public are more willing to invest in healthy lifestyles, marked by a decline in smoking, while older citizens are conscious of the importance of physical wellbeing which may reduce the long-term costs of healthcare.⁷¹

For decades, policymakers have emphasised the importance of preventative healthcare. The IPPR, for example, has found that if the UK matched its European peers on avoidable mortality, there would have been 240,000 fewer deaths between 2010–2020. Prevention helps to reduce long-term health costs and ensures improved outcomes for patients. Yet most services are designed to alleviate disease and remedy ill-health when it has already taken hold. The NHS has been in ‘survival mode’ for over a decade, despite the dedication and relentless hard work of staff. The barriers to instilling a preventive model focused on early intervention are enforced by the centralised nature of health service delivery alongside the dominance of acute hospitals in England.

The NHS needs to be liberated from producer interests. Improvements in treatment require much greater ‘personalisation’ – that is, care which is responsive to the individual needs of patients delivered through strong relationships between staff and patients.⁷² In some cases, it will need greater diversity of provision through managed competition with alternatives to the main NHS care provider.⁷³

In addition, as the recent Hewitt Review recommends, health budgets going towards prevention should rise by at least 1 per cent over the next five years, alongside an increase in the public health grant and greater cross-government collaboration in order to improve the efficacy of early intervention to strengthen long-term health outcomes. The creation of integrated care systems affords an opportunity to strengthen collaboration through local partnerships.

Thinktanks such as the Tony Blair Institute for Global Change contend that digital technology and generative artificial intelligence can reduce health costs and significantly improve productivity and patient outcomes by emphasising diagnostics and prevention. However, technology alone will not be sufficient, especially without an understanding of what it is for and a reinvention of healthcare provision; and there has to be far greater investment in infrastructure and staff capacity.⁷⁴

The health service must promote rapid adaptation: after abandoning the damaging Lansley reforms, the previous government lacked a coherent approach to overhauling the NHS that matched the ambition of the Darzi Plan, which advocated greater use of GP-led provision through ‘polyclinics’, alongside specialist centres of excellence for treating chronic conditions. As a result, the NHS is still too focused on acute hospitals: £89.5bn is currently allocated to hospitals, 63 per cent more than to social care, mental health services, GPs, and community facilities combined.⁷⁵ The number of full-time equivalent GPs has fallen by 5 per cent since 2019–20.

The new government requires an intellectually coherent and persuasive reform agenda in health. Darzi recommended that, ‘services should offer greater patient control, choice and local accountability’. Experience indicates that ‘quasi-market’ reforms with care allocated according to market pricing are unlikely to be effective, not least because collaboration between NHS organisations is undermined.⁷⁶

Yet it is possible to have managed competition in the NHS without allocating care according to markets. The aim should be contestability and diversity of provision with primary care providers purchasing the best care possible on behalf of patients. What is vital is ensuring there is alternative not for profit as well as private sector provision alongside the NHS public sector provider to drive efficiency, innovation and personalisation of care. After all, the mixed economy is a feature of most Northern European healthcare systems.

The mixed economy in health should be underpinned by an NHS constitution with guaranteed rights of access and standards for patients and users. As the former MP, Tony Wright argued, such rights: “Start with the user, not the provider, and spell out what service entitlement exists in as precise a way as possible. We should develop published public service guarantees for all services, together forming a citizen’s handbook of entitlements”.⁷⁷

Ministers have to incentivise productivity improvements, particularly in the NHS, to square the circle of rising costs and expectations. Technology should help to ensure a more seamless and

convenient journey for patients through the healthcare system. It is right that when a patient cannot be treated within a guaranteed period, there should be a right to go elsewhere for treatment, paid for by the state if necessary.

Yet reform cannot merely be a structural process. The concept of “social productivity” focuses on how the quality of services can be improved by harnessing the capabilities of citizens.⁷⁸ In a society where individuals are more knowledgeable and better educated, the organisation of public services must be reimagined. The paternalism of post-1945 provision is no longer tenable. There should be less focus on formal structures and institutions; a greater concentration on shared value and social productivity; and increased scope for ‘co-creation’ of services through healthier lifestyles and improvements in mental health.

We argue below that devolution and decentralisation have the potential to promote integration of health and social care, ensuring that services are rooted in the needs of individuals and communities on the ground.

Finally, the question of funding for the NHS cannot be avoided indefinitely. Although we believe that tipping more money into the NHS is not in itself a credible long-term solution, self-evidently additional spending and investment will be required over the next decade. The previous Conservative government’s decision to cut employee NI contributions from 12 per cent to 8 per cent depleted the funding base of the NHS and public services. The central issue in British political

debate has been the illusion that voters can enjoy Scandinavian quality public services – which the NHS is currently not achieving – with American levels of taxation.

We propose a reformed social insurance system, with hypothecated funding for the NHS collected through a dedicated levy. According to the Institute for Fiscal Studies, a rise of 1.25 per cent in employee National Insurance (NI) contributions and employer wage costs could generate an additional £14bn per annum for the NHS. Strengthening the connection between citizens and the taxes they pay involves specific tax rises tied to extra funding. While the Treasury is resistant to so-called “hypothecation”, Conservative governments have introduced the apprenticeship levy for training, and a rise in vehicle excise duty to fund road repairs. The difficulty of relying on increasing NI contributions is that the burden falls on current workers, often those earning lower or middle incomes. A solution is to merge tax and NI so pensioners pay NI on their income.

If possible, there should be a cross-party approach. Many issues, not least the inadequate funding of public services, have become so intractable they require substantive cross-party agreement to break the deadlock, although Labour should not hesitate to use its large majority if other parties seek to block change.

SOCIAL CARE REFORM

Among the pre-eminent social policy issues in Britain in the 1980s and 1990s was pensioner poverty.

Yet in the context of an ageing society, the challenge is increasingly the inadequacy of social care that prevents older people from living fulfilling and independent lives. Underfunded social care is a scandal that has created anxiety and misery for millions of families, and is an abject failure of politics.

More positively, medical advances are slowing the ageing process: living a long and relatively healthy life will increasingly be the norm by 2030. It is possible that the incidence of cancer, heart disease and Alzheimer's will fall over time (although more people will be living with other chronic diseases), leading to lower demand on acute healthcare systems but a major long-term rise in the elderly population and the demand for social care.

It is incorrect to construe those of pensionable age as a burden on the state. The capabilities of the "active retired" will be vital for addressing cost pressures, not least through work that older people do in caring for others and contributing to their community, as well as enjoying a fulfilling retirement. In many Western countries, the traditional retirement age is increasingly irrelevant, as growing numbers return to the labour market. This pattern of "non-retirement" results from a desire to remain physically active, together with concerns about affordability given the inadequacy of pension provision. The decline of defined benefit pensions has led to a shift of risks to the individual. Retirement pensions need to become more generous for those on low to middle incomes; for example, the Fabian Society proposes increasing the

minimum contribution for a workplace auto-enrolment pension to 12 per cent of earnings through higher employer contributions.⁷⁹

While care provision was traditionally viewed as less important, it is obvious that the structural pressures on the NHS will not be alleviated without improved funding and organisation for social care. The Fabian Society has recommended a National Care Service with increased ministerial oversight of quality, standards and cost. We also need improvements in affordable care home provision, and better options to care for people at home. The Dilnot report published in the early 2010s offered a similar pathway to reform. Dilnot's approach is augmented by recent proposals from The Kings Fund which has argued that an adequate system of social care requires additional funding through taxation and national insurance. It says "whole place community budgets" should be introduced to end the separation of NHS and local authority care budgets, thereby achieving the best outcomes for citizens.⁸⁰

As The King's Fund highlights, future governments have three options: draw on general taxation; establish a hypothecated national insurance or inheritance tax fund; or switch spending from existing resources. Given the taxation burden, it is unrealistic to believe that social care can be adequately funded by rises in income tax alone.

The most plausible approach emphasises redirecting spending. As the Institute for Fiscal Studies (IFS) points out, government allocates funding for free

TV licences and public transport that benefit all pensioners, including the wealthy. The IFS calculates that levying NI on the employment income of those of pensionable age, restricting TV licences and winter fuel allowance to those on pension credit (as the government proposes), levying capital gains tax at death, reducing the generosity of the tax-free pension lump sum, and restricting tax relief on pension contributions to the basic rate would raise a total of £12.3bn per annum, more than an inheritance tax levy which would only raise an estimated £4.8bn.⁸¹ Not all of these elements need be implemented to achieve an improved funding settlement for social care.

Sustainable funding will enable long-term improvements to the care system, delivering better outcomes for users while upgrading the pay and conditions of staff. We need a new push for quality and minimum, decent, standards for care homes and care in the home, with the government actively enabling and driving this provision. This should be a key mission for Labour, driven by a cabinet member.

Nevertheless, an ageing society makes state-funded provision alone an inadequate response to supporting increasing numbers of older people. Social care does not have to be wholly state-provided but should be augmented by communities and civil society organisations that provide opportunities for older people to socialise, undertake meaningful activities and mix with others, including different generations: for example, citizens and groups that help others should be rewarded, accessing time-banks where

they receive benefits in kind, thus putting reciprocity at the heart of the social care system. People could ‘save’ time towards an additional ‘personal public holiday’ alongside annual leave.

It is sobering that access to end-of-life and palliative care, for the elderly and others, is so inadequate and so reliant on charitable donations. Such care ensures that the human dignity of us all is upheld.

THE FAMILY

To emphasise the importance of families in raising children, public policy should do all it can to help support parents and grandparents. Grandparents cement the inter-generational function of the family. Increasingly, grandparents play a vital role: one study for the Childcare Trust found that 85 per cent of grandparents in the UK provide some assistance with childcare. We propose that the recently introduced reform that enables grandparents to claim National Insurance credits for looking after grandchildren under the age of 12 should be made more generous and more widely publicised. In addition, the UK should follow Sweden and enable parents to transfer a proportion of their parental leave allowance to grandparents in the child’s first year. A growing proportion of grandparents are working later. They should not have to choose between looking after their grandchildren and continuing to enjoy a fulfilling career and good work/life balance.

THE WELFARE STATE

Labour’s aims must be ambitious: to rebuild a ‘cradle to grave’ welfare system

that provides security to families and individuals in a society that has radically changed since the Beveridge era. Economic shocks, notably the Covid pandemic and soaring energy prices, exposed the vulnerabilities in the UK's structure of social protection. Labour needs innovative social policies that restore confidence in the founding principles of social security, while ensuring individual and community resilience. As the historian and cross bench peer Peter Hennessy avers, there is a 'duty of care': the state owes obligations to its citizens while requiring responsibility in return.

We know that the structural pressures on welfare spending in the UK are rising. For example, increasing working age inactivity is adding £6.8bn per annum to the welfare bill. The labour market participation rate for those above school leaving age in the UK is still 0.7 per cent below the pre-pandemic level, which in turn undermines the rate of economic growth.

Abolishing the two-child benefit cap would be an important step in reducing child poverty, although at a cost of £3.4bn according to the Institute for Fiscal Studies. But removing the cap is not a credible anti-poverty strategy on its own; for example, there is an adult in work in the majority of households where a child is living in poverty, underlining the importance of tackling the causes of low pay. Moreover, Persuasion UK has shown that a majority of voters in seats that Labour won believe that welfare is already too generous, despite 15 years of cuts.

A modern welfare state has several core functions. First, it must provide

a guarantee against the threat of long-term unemployment and worklessness. The government's role should be to provide work as an employer of last resort, particularly for young people and the low skilled who are at risk of marginalisation from the labour market.

Second, the state must provide incentives so that individuals take steps to protect themselves from economic insecurity, by saving for periods where they may be out of work and for retirement through a lifetime savings account or employment insurance as the Fabian Society outlines.⁸² An ageing society means that pension costs will likely be £23bn higher in the UK by 2027–28.⁸³

Third, those in work should be supported to maintain their economic dignity through a rising minimum wage and a package of workers' rights designed to make work pay. No-one who works hard every day should end up in poverty. Yet the vast majority of those in receipt of welfare benefits in Britain are in employment.

Given fiscal constraints, we need an imaginative rethink of what the welfare state provides. The most influential research focuses on the case for social investment which shifts the emphasis from passive income redistribution to "jobs, skills, and homes" through "switches" of spending. We concur that spending on housing benefit should be redirected into affordable housebuilding programmes.⁸⁴ Likewise, invalidity benefit expenditure should be shifted into training and education programmes that enable individuals to re-enter the labour market.

A more compelling strategy would be to fund a universal capital endowment, a stakeholder grant initially set at the level of £25,000 bestowed on every adult citizen. This could be funded by an annual 2 per cent levy on unearned income from assets, property, wealth, inheritance and capital gains, encouraging the diffusion and spreading of inheritance.⁸⁵ Among the advocates was the philosopher, Thomas Paine, who outlined proposals for, “a national fund, out of which there shall be paid to every person, when arrived at the age of 21 years, the sum of 15 pounds sterling”.⁸⁶ In a previous era, progressives believed that equality of ownership was necessary for a “self-governing society” of independent citizens.

The capital endowment would be available to every young adult in Britain for investment in a deposit to purchase a home, fund higher education, undertake an apprenticeship, or start a new business. The grant acknowledges the legitimate claim of each individual to a stake in the nation’s wealth.⁸⁷

Taxing wealth and asset-holding to fund a universal endowment is a radical proposal, but it would have the advantages of reducing long-term reliance on the insurance mechanisms of the welfare state while encouraging a vibrant economy in which wealth is widely dispersed and rewards flow to the most productive sectors. It is recognised that liberal market economies, notably the United Kingdom and the United States, have traditionally taxed property, housing and land at lower rates than income, advantaging those who own unproductive assets;

a new political economy should focus on democratising access to capital, housing, land and education.⁸⁸

At present, young people from the wealthiest families have private endowments to buy a privileged education, claim a stake in the housing market, and establish their own business without incurring major risks. According to John Hills there are “long lasting advantages for children from wealthier family backgrounds and for those who are able to accumulate assets in early childhood”. There have been continuing warnings about the emergence of a ‘hereditary meritocracy’ in Britain.

Educated parents use selective schools (including moving home to access the best schools), cultural enrichment, social networking and the accumulation of cultural capital to reinforce advantages. Those with less wealth and fewer assets struggle to access opportunities. The danger is a “lost generation” living in economically disadvantaged areas, lacking qualifications, losing contact with employment, trapped in a cycle of financial hardship and despair. Not surprisingly, wealth inequality and the decline of income mobility have led to increasing resentment against political and financial elites.⁸⁹

In contrast to the post-war decades where rising prosperity dispersed wealth across generations, parents fear their children’s living standards and opportunities will decline. A universal endowment would help rebalance the distribution of opportunity, enabling young adults to adopt a long-term perspective about what they need, avoiding decades of hopelessness and

“quiet desperation”.⁹⁰ An endowment might appeal to “small-c conservative voters”, a vital element of Labour’s electoral coalition, by emphasising reciprocity and a “something for something” culture, enabling young people to get their foot on the ladder while taking responsibility for their own success.

The universal endowment should be accompanied by measures that assist individuals to share in the nation’s wealth.

First, the current shortage of affordable housing increases social resentment and is a barrier to families fulfilling their aspirations. Young people are compelled to rent for long periods, particularly in London and the South-East, while market rents have been rising quickly. A centre-left government needs an agenda to extend home ownership, introducing more sustainable finance and credit while expanding the availability of land to dramatically increase supply of affordable housing. The UK’s dysfunctional housing market has meant that buy-to-let investment significantly outperforms the construction of new homes: 45 per cent of land with planning permission in London is owned by those with little or no intention of actually building housing. As such, the system has been geared towards buy-to-let investment rather than investment in the construction of new and affordable homes.⁹¹

Experts argue that more flexible planning laws are insufficient: building more new and affordable homes has to be profitable. The 1961 Land Compensation Act ought to be reformed, enabling,

“city region authorities to acquire land at closer to use value in conjunction with their own land in dedicated housing zones. This will make the market more efficient, ensuring that the rewards of innovation and hard work flow to all firms and workers in a city region rather than to those who own property assets”.⁹² As well as building homes, there ought to be tough regulation of the private rented sector, curbing excessive rent rises and improving security of tenure.

Second, in technologically advanced economies, a growing share of productivity growth accrues to the owners of capital. Alongside encouraging diffusion of technology, governments should establish public venture capital funds that take equity stakes in technology businesses and make periodic “social dividend payments”, supplementing income and preventing gains from new technology to be accumulated only by private investors.⁹³ Funds would be raised by the government issuing gilts in the financial markets.

Third, inequality should be tackled by focusing on the primary distribution of income through labour market and public procurement regulations that promote a living wage and curtail exploitation; spending on measures, such as affordable childcare, that increase employment participation; promoting flexible working to engage “hard to reach groups”; using competition policy to prevent consumer exploitation in purchasing commodities such as food and energy (for example, tackling predatory pricing of low income consumers by energy companies); and

expanding the coverage of occupational pensions to make them affordable for those on low incomes. This is a strategy for a new “Anglo-Social” welfare state.

EDUCATION AND SCHOOLS

Improving the quality of school-based and post-compulsory education is now considered to be among the most important levers available to centre-left governments in pursuit of both economic efficiency and social justice. If the Attlee government’s focus on reform in the 1940s was bringing industries into state ownership, today governments that seek to reduce disparities in income and wealth between households and individuals need to pursue effective education policies. As Paul Johnson notes: “There is a strong and persistent correlation between children’s educational outcomes and the social and economic circumstances of their parents. Children start school with very unequal levels of cognitive development, closely associated with their parents’ social class and income, and those inequalities persist through the school and post-school education systems.”⁹⁴

Early intervention by age five through high-quality childcare and early years provision is critical to ensuring all children are equipped to learn before they arrive at school. Researchers for the Institute for Fiscal Studies found that New Labour’s Sure Start programme: “generated substantial benefits for disadvantaged children throughout their education, helping to close the disadvantage gap in attainment. The return on investment in integrated

early-years services that are given the resources to reach those most in need can be very large.”

The IFS confirmed that children from poor households, particularly from ethnic minority backgrounds, who accessed Sure Start centres did significantly better at GCSE – boosting their results by three grades – while the programme generated cost savings, particularly by reducing the rate of NHS hospitalisations. The new government should introduce a revamped Sure Start programme at a cost of approximately £2.5bn according to the Coram Family Centre, in part funded by reducing pension tax relief for the highest earners.

There is an urgent need for additional childcare places, especially in areas of England where childcare is in short supply. The existing commitment is that all three and four-year-olds and roughly a quarter of the most disadvantaged two-year-olds will be eligible for a part-time free entitlement place.⁹⁵ The Department for Education has estimated that meeting this commitment will require an additional 85,000 childcare places.

Nevertheless, research indicates that only one in three councils are able to meet local demand for childcare. The Joseph Rowntree Foundation (JRF) highlights that childcare providers are closing because new places are not adequately subsidised. As JRF recommends, the government needs to fund places ‘at cost’ while effectively regulating the childcare market to address quality, pricing and workforce pay through a system of ‘social licensing’. Providers would

need to meet designated standards to receive public funding. JRF estimates it would cost £250m to ring-fence local authority budgets for local childcare markets, although the bill for addressing workforce pay is likely to exceed £2bn for already hard-pressed local authorities.⁹⁶

Meanwhile, the importance of investment in school-age education is emphasised by research highlighting the disparities in socioeconomic advantage exacerbated by the pandemic. Professor Michael Marmot demonstrated there is a 17 per cent gap between the proportion of children in the most and least deprived deciles that achieve five A*-C GCSEs. Sixteen-year-olds eligible for free school meals are 27 per cent less likely to get five good GCSEs than their more advantaged peers.⁹⁷ It is still the case that in some parts of England, fewer than half of sixteen-year-olds attain five A*-C GCSEs while the number of young people not in education, employment or training (so-called ‘NEETs’) has been rising.⁹⁸

The OBR calculated that schools required an additional £1.25bn a year to deal with the aftermath of the pandemic, yet they only received £1.8bn billion *over three years*. A further £11.4bn of capital investment is required to maintain the school estate in England.⁹⁹

The new Labour government should urgently address declining standards in schools by ending large class sizes, revitalising the stock of school buildings, and updating the national curriculum. Funding remains critical. The IFS has shown that the gap between average private school fees and state

school spending per pupil has more than doubled since 2010: in 2022–23, average private school fees across the UK were £15,200 in today’s prices (net of bursaries and scholarships). This is 90 per cent higher than state school spending per pupil, which was £8,000 in 2022–23. In 2009–10, the gap was approximately 40 per cent or £3,500.¹⁰⁰ The government’s decision to levy VAT on independent school fees is necessary to raise additional funds for teacher recruitment in the state system. Ending exemptions and charitable tax relief would raise an additional £600m.

Labour plans to spend an extra £450m to recruit an additional 6000 state secondary school teachers, but this amounts on average to only two additional teachers per school. In 2023–24, secondary school recruitment in England reached only 51 per cent of the national target of 23,360.¹⁰¹ There needs to be a recruitment premium for teachers working in the poorest localities, while the new government was right to accept the Pay Review Body recommendation of a 5.5 per cent pay increase for teaching and NHS staff.

As a pathway to reform, we argue the Starmer government must incorporate the lessons of the London Challenge enacted by the previous Labour administration. The London Challenge meant that secondary schools in the capital went from being the worst to the best performing across England. The approach combined “experimentation on the ground, and rapid feedback and learning by advisers and officials, with strong project management across different strands of policy”.¹⁰²

The education service in England has witnessed more innovation than many other public services, yet it remains attached to a traditional model of curriculum design and pedagogy. The gains from technology have yet to be realised. There should be a wider overhaul of the curriculum with a greater emphasis on creative and cultural subjects, and an approach that equips young people with the skills they need to succeed in work and life, whatever they decide to do.

It is particularly difficult to tackle educational inequalities given that advantaged parents will quite legitimately use resources to maximise their children's educational advantage.¹⁰³ In areas where state provision is perceived to be poor, parents who can afford to will naturally use financial means to help their children. But the goal should be an excellent state school in every locality, with tutorship available. To tackle the dominance of a narrow elite, more far-reaching measures will be needed. The "top" jobs in Britain have been monopolised by the privately educated: "39 per cent of the cabinet, 34 per cent of the chairs of companies listed in the FTSE index and 44 per cent of media columnists are privately educated".¹⁰⁴ It is an illusion that Britain is an open meritocracy.¹⁰⁵

Ministers should make an emblematic commitment: all state school pupils gaining 'ABB' grades or above at A-level should gain automatic entry to a Russell Group university. As such, there should be a guaranteed place at a good university for children living in the poorest wards in England who

attain decent A-levels as part of a wider overhaul of the higher education system.

HIGHER EDUCATION

The UK is a high-skilled knowledge economy. It will need more graduates with transferable cognitive skills in the next 20 years. Yet UK politics has been animated by the fear that children are less well-off than their parents, and that university education is an increasingly costly luxury that brings few discernible benefits. Many young people have unsurprisingly become dissatisfied with the prevailing settlement. The promise of mass higher education appears not to be realised as too many graduates struggle to access professional jobs. This is symbolised by the fact that the housing market is out of reach for many.

Resolving the immediate financial crisis in higher education will not be easy. For example, it is estimated that tuition fees would need to rise from £9,250 to £12,500 a year to be worth the same in real terms as they were in 2012.¹⁰⁶ The new government needs to address the urgent problem of rising student debt and hardship.

The best long-term financing option is a graduate levy. According to the Institute of Education, the levy would require 2.5 per cent of taxable income for employed graduates in England aged 20–64 who received a subsidised education from an English university. It is estimated that the levy would yield approximately £3.6bn to £3.7bn in annual tax revenues (at 2016 prices) more than double the annual loan repayments made by English-domiciled graduates in that year and approxi-

mately a third of the cost of providing tuition to students in England.¹⁰⁷ A graduate levy would be an upfront cost to the Treasury, but it is the most efficient and equitable solution to fund HE.

We propose that the revenue raised from a graduate levy should be accumulated in a dedicated National Higher Education Fund insulated from Treasury control to ensure that resources flow into the university sector. In the meantime, a higher education reform agenda is required to reduce regulatory bureaucracy while promoting greater choice and diversity in the range of courses provided by institutions. Yet there is much more to post-compulsory education than universities. Labour needs to harness Skills England together with investment in FE colleges and apprenticeships to strengthen skills acquisition and give greater flexibility to learners and employers. As the Labour peer Richard Layard has shown, a growing proportion of apprenticeships in England go to older workers. Yet research demonstrates that the returns to rigorous apprenticeships are higher for younger workers. Layard argues that a proportion of the apprenticeship levy should be ring-fenced to provide more high-quality training places for young people.¹⁰⁸

MIGRATION AND NATIONAL IDENTITY

To attain a good society, Labour must be willing to address issues with voters that many consider contentious, including the impact of migration. Immigration is unfortunately still a 'toxic and divisive issue' in the UK.¹⁰⁹ Research by Persuasion UK highlights the divide among Labour-voting constituencies

in 2024 between those who believe migration 'enriches society', and those who argue the level of immigration is already too high. In fact, only 20 per cent of constituencies in this survey have a 'pro-immigration' majority.

The divide is not surprising given that the evidence cuts both ways: the Migration Observatory has shown that EEA nationals contribute more to public services than they take out, for example. On the other hand, rising migration in parts of the UK can increase housing costs, particularly in areas of economic disadvantage where affordable housing is scarce.

Migration is necessary to address labour market shortages, but leads inevitably to concerns about numbers: the rate of immigration into the UK has more than doubled in the last 30 years.¹¹⁰ There are fears that in some places, the expansion of infrastructure and public services has failed to keep pace with population growth, while too little was done to prevent undercutting by enforcing the national minimum wage.¹¹¹ The Migration Impact Fund created in 2009 was effectively dismantled by the coalition government.

Nonetheless, the rapid pace of population change means that western countries are likely to need more rather than fewer immigrants unless technology develops sufficiently: to sustain the working-age population at current levels will require higher levels of net immigration; a decline in the size of the working-age population would greatly constrain GDP growth.

Yet more needs to be done to improve integration if we are to have

a truly cohesive society. There is continuing evidence of racism in Britain exacerbated by problems of separation and segregation.¹¹² The community cohesion expert, Ted Cante, coined the term 'parallel lives' to characterise the growing problem of people no longer meeting and interacting with others not like them: while 54 per cent of Britons have contact with people 'not like them', 44 per cent do not.

Nine out of 10 'White British' people report that their social networks are predominantly 'white' (although there is likely to be significant variation across the country). As such it can be, "very difficult for the majority of citizens to challenge their own perception of others".¹¹³ Cante highlighted problems in the education system due to schools becoming more segregated with less scope for critical thinking in the national curriculum, increasing the risk of young people becoming susceptible to 'fake news' and myths peddled on social media. Anxieties about Islamist influence and extremism are rife: a global society apparently exacerbates resentment and polarization.

It is important to acknowledge that on many indicators, communities in Britain are relatively well integrated. We are not 'sleep-walking to segregation' or witnessing widespread 'Balkanisation'. The director of British Future, Sunder Katwala, has emphasised the importance of 'common citizenship' based on efforts to tackle social inequality, removing the barriers to more equal life chances while building a shared society. It is striking that the wave of far-right riots

in the summer of 2024 occurred in seven of the 10 most deprived areas in England, many of which have asylum seekers located in temporary government-funded accommodation.¹¹⁴

Even so, the risk is that the UK becomes less attractive to prospective highly skilled migrants. The European continent is a popular destination, but the focus of migration flows may shift to more stable Latin American and Asian countries like Brazil and Malaysia. Countries that are able to sustain high levels of ethnic diversity within relatively cohesive communities are likely to achieve an economic and social premium. There is a strong rationale for investment in diversity and community cohesion.¹¹⁵

Controversially, Britain could face the prospect of having to compete for immigrant labour as the global labour supply reduces as a proportion of the global population, against the backdrop of rising community tensions. The UK is a country where, "problems of social exclusion have persisted for some ethnic minority groups and poorer white British communities in some areas are falling further behind"¹¹⁶ Integration needs to be managed to ensure that Britain remains a hospitable and attractive environment with adequate social bonding and bridging.

CRIME AND DISORDER

In the last 30 years, the left has focused attention on the growth of crime and social disorder. The fear of crime undermines the basic fabric of the good society. Crime has been falling in recent decades in much of Britain. Yet voters

throughout the country are concerned about rising criminality, particularly violent offences. Physical crime blights local communities: burglary, car-related theft, drug-related crime, and vandalism. Crime is another dimension of inequality: those living in the poorest households and most deprived neighbourhoods are most likely to be victims.

It remains a stark fact that one in five fear that they or a close family member will be a victim of violent crime. Scotland has recently witnessed a dramatic rise in drug-related deaths. A lack of amenities for young people in England has led to escalating antisocial behaviour and, more worryingly, the growth of knife crime.

The pressure on prison places in England and Wales is now acute. It is predicted that demand for places will increase by another 12,000 by the end of 2025. Yet people want to live in communities where duties and responsibilities are upheld. The emphasis in government policy should be on re-establishing neighbourhood policing with dedicated teams focusing on the needs of local areas and communicating with residents.

The breakdown of trust between police and local communities, particularly in London (given the poor reputation of the Met among ethnic minority groups and women) and the big cities, is another major concern. We need reforms that re-establish throughout Great Britain the tradition of policing by consent, including greater efforts at recruitment to the police from ethnic minorities.

A SMARTER, SERVING, STATE

The trends in technological and other innovation we have described provide new opportunities for the public sector to provide more personalised services with a better experience, and better outcomes, for the citizens who pay for it. Public sector IT procurement does not have a great history. Grand projects have tended to cost billions and fail, while piecemeal innovation is too slow and subject to budget changes. Central direction is required here, starting with the objective being not greater efficiency – important though that is – but treating people with dignity and enabling them to flourish and exercise control over their lives. At the same time, use of personal data needs to be better controlled and genuinely accountable via an independent body acting as a data trustee alongside the individual.

WHAT IS THE END POINT? HOW BRITAIN WILL BE TRANSFORMED BY 2035

- No old person languishing on a hospital ward, and a social care system that enables us to live with dignity throughout our lives.
- A society committed to good health outcomes supported by a well-funded reformed NHS which improves “healthy life expectancy” and narrows the life expectancy gap between high- and low-income households.
- Rebuilding a welfare state that offers support and security at every stage and age of life.

- Halving and eventually eliminating child poverty in England, with a particular emphasis on early intervention and support.
 - An excellent state primary and secondary school for every pupil in England.
 - An affordable university or apprenticeship place for every young person.
- Improving the confidence of society in the police and criminal justice system.
 - Reducing anxieties around immigration and promoting integrated communities.
 - Breaking the link between childhood destiny and what we can achieve in life.

CHAPTER 5

A NEW AND BETTER POLITICS

Traditionally, Labour governments have focused on the social and economic agenda. Spending political capital has to be prioritised. Yet this risks neglecting the broader health of politics and the imperative of constitutional reform. Democratic politics is vital to good governance which, as the Covid pandemic taught us, is the difference between life and death, stability and disorder. As previous chapters elaborated, to govern well in the current environment, centre-left administrations need to take difficult, at times contentious, decisions. That requires the consent of citizens and their active engagement in the processes of politics and governance.

In recent times, politics has been perceived as broken. Record numbers are disengaged from political institutions. In some parts of the country, only a minority actually votes. The degree of alienation from the core values of liberal democracy, not just in the UK but much of the western world, is alarming.

In this climate, the Starmer government has to show that it is leading a United Kingdom, healing the wounds

of the fractious Scottish independence and Brexit referendums and better connecting people with politics, in particular by decentralising power and, with it, accountability. Labour must demonstrate that it can address the “English question” posed by the transfer of competencies to Scotland and Wales in recent decades. What happens at Westminster should not override the importance of radically devolving substantive economic and political powers to English ‘city-regions’. Starmer has rightly sought to reconnect Labour with the burgeoning sense of English identity.

INHERITANCE

Politics in Britain is currently in significant disrepute. The recent report by the National Centre for Social Research, *Damaged Politics*, found that “trust and confidence in governments are as low as they have ever been”. The research revealed that in the UK, 45 per cent would ‘almost never’ trust governments of any party “to place the needs of the nation above the interests of their own political party” while 79 per cent believe

the present system of governing Britain could be improved 'quite a lot'. It also revealed that 53 per cent supported changing the electoral system to ensure it is 'fairer to smaller parties' and 49 per cent are in favour of some form of devolution to England.¹¹⁷

The National Centre for Social Research concludes that voters "are at least as distrustful of government and politicians as they have ever been. And they are inclined to think that democracy works less well in Britain now than it did in the past". That finding is hardly surprising: in recent years, the reputation of Britain's political institutions has been severely tarnished. The handling of the UK's departure from the European Union and the mismanagement of the pandemic highlighted the problems of a centralised, power-hoarding 'elective dictatorship'.

Since the 1990s, disengagement from the political system has increased markedly, although citizens have become increasingly involved in 'non-traditional' political activity epitomised by the rise of new social movements. Membership of voluntary and charitable organisations has continued to grow, alongside the emergence of social and consumer activism. Yet confidence in the media, parliament and the political system has plummeted to new lows. According to a recent British Social Attitudes Survey, less than one in 10 people trust their politicians, although they tend to have greater confidence in their own member of parliament.¹¹⁸

Trust in Whitehall and Westminster declines the further away citizens live from London.¹¹⁹ As Gordon Brown's

commission on the UK's future reported: "Trust in UK central government is among the lowest in the 40 OECD developed countries, and the lowest by far of the G7. And the downward trend over time is even greater in the United Kingdom. Ten years ago 50 per cent of Britons said that they generally trusted central government – now only 35 per cent do. This is not mirrored by low trust in state institutions in general; British people trust the police, the civil service and local politicians as much as the citizens of most European nations – the problem is the hostile sentiment towards government at the centre."

Since the early 1980s, there has been a marked rise in the number of UK citizens who agree with the statement that 'people like me have no say in what government does'. Not surprisingly perhaps, 'those with the highest incomes have always felt most represented by the government... high-income and high-education groups have generally felt far more listened to over the past few decades'.¹²⁰

This is a context in which "British citizens...feel less represented by politicians and policymaking than they did several decades ago and large gaps remain across educational and income groups in terms of perceived legitimacy of government."¹²¹ In recent elections, there are disturbing signs that voters are turning away from liberal democracy, leading to the unprecedented fall in turnout. Voters have shifted in growing numbers towards support for anti-establishment parties, notably the UK Independence Party (UKIP), and latterly, Reform UK.

Meanwhile, the UK's role in the world has diminished. Declines in defence spending have made it a less effective partner and reduced its scope for unilateral action in the national interest where allies are not supportive. Diplomatically, Brexit and the hard version adopted has been a negative, while pressure on public finances has reduced the role of international development spending.

APPLYING VALUES:

TAWNEY'S PERSPECTIVE

RH Tawney was a firm believer in the principles of democratic citizenship alongside the preservation of individual rights and liberties. In his 1944 essay *We Mean Freedom* Tawney argued that the expansion of the collectivist state should not imperil democratic freedoms. He acknowledged that flourishing democracies are active democracies in which citizens are willing to engage in politics, not least by voting in elections, and increasingly by being willing to participate in the policymaking process.

Inevitably, we need reforms of our institutions to sweep away anachronistic privilege, while at the same time building the democratic culture that Tawney advocated in the 20th century. As the philosopher, GA Cohen, remarked: "A change in social ethos, a change in the attitudes people sustain towards each other in the thick of daily life, is necessary for producing equality." We need greater political and social equality alongside economic equality. We also need a shared conception of common citizenship necessary to achieve a more cohesive society.

BUILDING-BLOCKS OF A 10-YEAR PROGRAMME

CONSTITUTIONAL REFORM

Given the decline of faith in politics, constitutional reform is hardly a panacea for tackling apathy and disengagement. Yet to change the political culture, there has to be continuing reform of our political institutions. There must be more effective scrutiny of decision-making in Whitehall and Westminster alongside modernisation of the House of Lords, voting reform, radical devolution in England, and further opportunities for citizen engagement.

In 2022, the Labour party published the report of its Commission on the UK's Future chaired by the former prime minister, Gordon Brown. The report was an attempt to initiate a wide-ranging debate about the UK's constitution and the state of contemporary politics in the wake of Brexit. The report makes innumerable criticisms of the British political system, which is viewed as among the most centralised in Europe, rooted in the top-down approach to politics enshrined in the Westminster system.

The Brown Commission concluded that citizens felt disenfranchised and poorly represented by the existing political settlement, a predicament that the Brexit referendum has done little to resolve. Indeed, Brexit has merely compounded the problem of disconnection, raising expectations that citizens can 'take back control', while in practice centralising decision-making in Whitehall and Westminster.

HOUSE OF LORDS REFORM

Much of the commentary on the Brown Commission focused on its proposals to replace the House of Lords. The report calls for the Lords to be remodelled as a Chamber of the UK Regions and Nations. There has been much criticism of the idea, not least among current members of the Lords and the political establishment.

Yet the continuation of the House of Lords is not a secondary issue in British politics. The Lords reinforces a damaging strain of privilege in Britain's political culture. It is a costly institution in which the majority of members barely participate. Proposed reforms such as introducing a retirement age of 80 and abolishing the seats for the remaining hereditary peers are to be welcomed.

Even so, we believe that the ultimate goal should be a reconstituted Chamber of the UK Regions and Nations with a limited number of members largely drawn from national parliaments and devolved institutions in England, alongside appointed members. The function of the Chamber would be to advise on, and where necessary propose revisions to, major parliamentary legislation. It would be another countervailing force against endemic centralisation in the UK.

VOTING REFORM: COMPULSORY VOTING

In its recent manifesto, Labour proposed that citizens would have the right to vote from the age of 16. More radical reform of our voting system is surely needed. Given the

alarming decline of electoral turnout at the last election (the lowest since the second world war according to the Institute for Public Policy Research), the current extent of disengagement, and the worrying mood of anti-politics (which has helped to drive support for UKIP/Reform), there is a compelling case to move to compulsory voting. Non-voting is another dimension of inequality. We know, for example, that young people and those from low-income households are less likely to vote.

Studies have shown that compulsory voting has several beneficial effects. It encourages citizens to engage with the democratic process, while it compels parties to make an appeal across the electorate rather than micro-targeting groups within the population.

Moreover, in countries where citizens are required to vote, there has been a sustained rise in turnout with near universal participation.¹²² The measure affirms that voting is a civic duty, akin to jury duty, while helping to rebuild trust in democratic institutions. Such a change would feel, initially, like a big step for the country, and should be accompanied by measures that make political participation more worthwhile. Ultimately, this should include electoral reform to ensure constituency votes count while avoiding outcomes that produce directionless coalitions. The effectiveness of government can be held to account both via a more proportional voting system and more healthy democratic institutions at regional level.

DECENTRALISATION AND DEVOLUTION IN ENGLAND

Policies which ensure people have meaningful, established, stakes in what goes on in their areas and communities will be an essential compliment to a government more active and willing to take long term strategic decisions, for example on issues such as clean energy and housing. Labour's plans to promote devolution with new powers for local areas are encouraging; both tax-raising and fiscal powers should be passed to local areas, and local people should have a greater say over the decisions that affect their lives, whether at work, over housing, or pressing issues in their neighbourhood, alongside a fair system of local government finance that supports less advantaged areas.

Yet a new government still needs to invest in the capacity of combined mayoral authorities and local governments, which at present struggle to develop their own infrastructure projects and programmes to improve the physical fabric of communities and high streets, and can lack finance and investment capability and experience. Devolved authorities need project management and financing support from the centre.

Ultimately, there must be reform of central government and the functioning of our political system. It is not simply about passing down power to local authorities. Any viable governance project for England requires a strategic and capable centre. The centre and the local level must collaborate to solve complex problems at the appropriate spatial scale, not least by utilising the growing political clout of city-region mayors.

Reforms must include increasing capacity for joining up, alongside prevention and early intervention. Evidence should be used more effectively, improving the capacity for genuine deliberative policymaking with citizens.

Localism also requires local government funding reform; constitutional representation in a reformed second chamber; and the enshrining of localism principles in statute. The centre of government cannot realistically be dismantled. Yet it needs to become more strategic and far less controlling if English localism is to succeed in the future.

The evidence is that the states which have done best in responding to challenges such as Covid-19 have effective multi-level governance systems. Governments that are either highly centralised or decentralised tend to be less effective in delivering positive outcomes for citizens.

Over the last 40 years, the UK's centralised system of governance has created economic and political fault lines. Spending on services by local councils has fallen by 31.9 per cent since 2009–10.¹²³

Given recent history, it is difficult to see how the UK's geographical inequalities can be tackled without devolving more power. Devolution, particularly at a regional scale, can help drive economic growth, spatial development, and the more effective management of public services.

Since 2014, central government has pursued a model of English devolution, accompanied by directly elected mayors. Yet the extent of devolution remains

limited. The thinktank, Onward, has noted that the mayor of the West Midlands controls 0.4 per cent of revenue spending compared to 84 per cent for central government, although there are plans to delegate more financial autonomy in the near future. Sixty per cent of the population of England is now covered by some form of devolution. City-regions are an important innovation. Yet there is a compelling case for larger regional units to complement combined authorities.

An objection to creating regional government is that it adds another layer of bureaucracy. Yet it allows an effective structure of strategic subregional government. That would mean bringing several combined authorities together into a single regional body. We recommend devolved powers in many cases comparable to the national governments of Wales, Northern Ireland and Scotland to include health and social care alongside education; housing; and transport.

Another objection is that regional government risks the establishment of political fiefdoms. Where one party is in power and dominating the structures of power for many years, and does not engage sufficiently with those it purports to represent, complacency, incompetence, and even corruption can result. This can be followed at some point by electoral revolt as voters seek to rout the incumbents, but often as a vote against politics in general. Local government consultations with residents can be so inadequate, powerless, and poorly communicated that they undermine local democracy. A healthy

institutionalised distribution of power and accountability is therefore essential.

There is another challenge: evidence has shown the devolved governments are vulnerable to producer capture.¹²⁴ Although comparing NHS performance over time has become increasingly difficult, the devolved countries have tended to perform worse on the limited comparisons that can be made, as Gwyn Bevan has shown.¹²⁵ For schools, the OECD's Programme for International Student Assessment (PISA) shows that performance of 15-year-olds (in mathematics, reading and science) is better in England. The key advantage of such "federal" assessments is that they enable comparison between different policies to enable learning about "what works".

Since devolution in the late 1990s, we have had 'natural experiments' with different systems across the UK. Yet without a federal institution to oversee arrangements for reporting performance across countries, we are limited in our capacity to learn, while our citizens lack the information they need to put pressure on governments to remedy shortcomings.¹²⁶

A federal institution would require each devolved government to collect data and follow common definitions, ensuring that performance can be compared and lessons learnt. That would not stop the different parts of the UK from having different priorities or pursuing diverging policies. The development of performance monitoring at the national and regional level in Italy offers a useful model for a UK-wide constitutional settlement.¹²⁷ This arrangement assumes

full devolution to the regions within England combined with effective scrutiny of use of public money and performance in running services.

As importantly, devolution can replace silo working locally, as outlined in Chris Naylor's account of the transformation he led as chief executive of Barking and Dagenham. The borough moved from a traditional welfare model of silo working (professional experts formulating solutions to need) towards a holistic preventative system designed to meet individual aspirations. Regional government has the potential to develop place-based systems, integrating health and social care while developing post-compulsory education as central to economic growth.¹²⁸

As a recent report on "left behind neighbourhoods" argued, there needs to be a "community-focused, people-centric and locally-minded approach" to devolution.¹²⁹ The evidence indicates that in disadvantaged areas, social infrastructure is as important as the physical renewal of buildings. Work on "left behind neighbourhoods" focuses on how the government can work alongside the voluntary and community sector to improve outcomes and conditions locally. It is important to emphasise "building capacity within communities to ensure they have a seat at the table and the ability to take a lead in making decisions over what happens in their local area".¹³⁰

Making devolved regions accountable for services, and reorganising central government to deliver missions that span current Whitehall departments, should have a long-term transformative impact. That includes moving staff from

working for ministers in traditional functions in Whitehall to the devolved regions with responsibility to make place-based governance effective.

There is inevitably a trade-off between *central* government redistributing to less advantaged areas, and the importance of giving incentives to localities to drive economic growth by keeping a greater share of tax revenues.¹³¹ Future governments need to ensure stronger incentives for local areas to improve economic performance, while ensuring redistribution of resources to the most disadvantaged neighbourhoods. Devolution can be a countervailing force against inequality as long as there are well-designed fiscal arrangements.

FURTHER OPPORTUNITIES FOR CITIZEN ENGAGEMENT

Finally, restoring trust in politics and democratic institutions will require us to identify opportunities for citizen engagement alongside the revival of representative democracy. Decentralisation is part of the answer since it provides avenues for citizens to become involved in decision-making in their local area. Of course, citizens' assemblies are hardly a novel idea. Yet they have proved effective alongside a broader approach to consultation and participation in decision-making.¹³²

There is a compelling rationale for focusing in particular on engaging young people, while encouraging devolved and local government to pioneer new approaches to participatory decision-making.

There should be much greater transparency, building on initiatives

to make government data available to citizens. For example, civil service analysis and research findings should be published in order to inform political debate with an exemption in place for highly confidential advice provided to ministers. Participatory budgeting helps to give people a stake in local priorities. Recent research has shown that inclusive political institutions are vital for sustained economic growth and prosperity.¹³³

FAITH IN BRITAIN AND THE IMPORTANCE OF CIVIL SOCIETY

Although its demise has been predicted many times, organised religion remains strong. Almost 6 in 10 people in England and Wales identify with a religious group.¹³⁴ Although the proportion of people identifying as Christian has fallen from over 70 percent to 46 per cent (27.5 million) in the past two decades, this is still significant. And there are approximately 3.9 million people of Muslim faith, 1.0 million Hindus, 0.5 million Sikhs and 0.3 million Jewish citizens. The proportion living out their faith in some way, such as through church attendance, will be much lower, but faith communities remain an important source of identity and belonging.

It is faith communities that have maintained support for radical political causes in Britain, including the fight against poverty. The Labour party was founded by people whose Christian faith and values led them into politics.

Politicians can make the mistake of regarding faith ‘communities’ as another constituency to win over. This approach

seeks to highlight positive contributions to community life, identify asks, and assure the constituency that it is being listened to. Yet faith is a worldview and not always a private matter. For many, it involves living out faith values in the wider community, such as caring for the poor and campaigning on key issues such as global poverty. And for many, faith is exercised in the public square, seeking to persuade others of their worldview’s validity. There can sometimes be overlaps and contrasts with political parties’ expressions of values. We cannot expect faith groups to sign up to every current core belief expressed by the Labour party. Politicians need to be relaxed about working with people who have common aims and who are supporting the common good, even when they do not agree with them on some fundamental issues. This is a sign of a healthy democracy.

Attention has focused on the importance of “active citizenship”, working with faith communities. This entails strengthening bonds within neighbourhoods, alongside bolstering the relationship between citizens and government. When the government works with any group there needs to be a building of mutual trust and responsibility: the government must be open and agile when engaging with different groups; groups themselves must be open and responsible, and when state funding for services is received, they must offer them to all while being open about their values and beliefs, not imposing them on others. The ethics of belonging, shared identity, and national community need to be actively sustained and cherished by the state.

It is striking that during the Covid-19 pandemic, more than 750,000 people in Britain volunteered to support the NHS. These efforts need to be built upon in the coming years. A flourishing civil society needs strong families in which individuals are encouraged to contribute to the common good.

ESTABLISHING A CREDIBLE FOREIGN AND SECURITY POLICY

Following Russia's illegal invasion of Ukraine, Britain had to confront Putin's aggression. Post-1989 assumptions that became embedded after the end of the cold war are losing their relevance. Complacent politicians have been reminded of the importance of NATO and the transatlantic alliance.

Yet Britain cannot rely exclusively on the United States. There will need to be a pan-European strategy for defence and rearmament. If the UK is to increase defence spending from 2 to 2.5 per cent of GDP, that will require an additional £13bn a year, and more is probably required.¹³⁵ This is the new reality and a new but necessary constraint on spending for domestic needs. We might wish the world was less dangerous but wishing and hoping is not a defence strategy.

The commitment and heroism of our armed forces personnel and veterans is a source of national pride and gratitude. There is a fundamental problem however. The defence establishment seems unable to effectively identify future security risks and military needs, and cannot manage procurement but instead wastes billions of taxpayers' money while maintaining an illusion

of effective defence. The Public Accounts Committee reported that the MOD "has made little impact in its efforts to change its longstanding cultural resistance to change or criticism".¹³⁶ This is the coffee we should wake up and smell; it is an enduring scandal that Labour must address.

There are many examples, all with multi-million or billion pound implications. A few illustrate the point. The UK has two aircraft carriers, but it appears insufficient ships in practice to form even one carrier group and maintain other commitments; we rely on allies.¹³⁷ Our destroyers could not use their weapons systems in warm water and have been out of action for long periods for modifications and maintenance. All Astute class hunter killer submarines, required to defend us against Russian nuclear submarines, are currently out of service at the time of writing.¹³⁸ Hundreds of millions were wasted when the army procured Ajax fighting vehicles but changed specifications unrealistically – even after being advised against by the National Audit Office – with prototype vehicles reported to damage the hearing of our soldiers.¹³⁹ The army has been reduced in size but somehow remains under strength. We have too few effective fighting vehicles or tanks or, the Ukraine war shows, drones. We have insufficient munitions to fight a war or defend our territory longer than a few days or weeks.¹⁴⁰ The RAF is too small and its role is poorly communicated, probably even to itself. Our infrastructure and institutions remain vulnerable to cyber-attack.

If our public finances were in a strong state and the security risks were less urgent, we *might* decide to live with such a state of affairs, as we have for decades. But they are not and we should not. In a mission-driven government, this has to be a core priority. If we want security *and* better funding of public services, something must change. Piecemeal reform of procurement will not work; given the security situation, a separate department with its own cabinet member is required, as in the first world war. And, of course, to avoid painful spending trade-offs we need to build a more prosperous economy.

The war in Ukraine and the war in Gaza and wider Middle East conflict demonstrate that foreign policy is not a matter of obvious “common sense”. Labour’s focus on working together with allies is fundamental. Events around the world affect the UK, often with many direct community links and sympathies: the government needs to be clear how it thinks about the national interest and international cooperation even where people will disagree. This is the move from opposition, where domestic politics can be about demonstrating international credibility, to leadership when in government.

On Brexit, 74 per cent of voters in the seats that Labour gained in 2024 believe that the UK should form closer economic ties to the EU, even if that means partial ceding of sovereignty, according to Persuasion UK. Recent research underlined that ‘the vast majority of regions in the UK have lost as a result of Brexit’.¹⁴¹ Brexit has helped to reduce regional disparities

but depressed national output by at least 5 per cent of GDP. Poorer areas have lost out, although less than more affluent areas. Yet in the round, we have all been hurt economically by EU withdrawal.

Labour must build a new relationship between the UK and the EU. The polarised debate between those who voted ‘Leave’ or ‘Remain’ is an anachronism. All sides accept that Britain has left. The task is to find a partnership that supports economic growth. It is right that the initial focus should be on strengthening the current withdrawal agreement. Yet over the course of the next parliament, all options should be on the table, including the UK rejoining a customs union or the EU single market. The priority is to safeguard British jobs and livelihoods.

WHAT IS THE END POINT? HOW BRITAIN WILL BE TRANSFORMED BY 2035

- Trust in British democracy restored by overhauling the House of Lords and reforming the system towards making voting in the UK compulsory.
- There will be a decentralised polity in England with all citizens living in places subject to significant devolution. Many parts of England will have larger regional bodies to drive economic development, housing, infrastructure, and public service delivery.
- There will be sustained efforts through participatory policymaking to engage citizens in the process of governance.

- Civil society throughout Britain will be re-energised, in particular through constructive partnership with government. That includes effective engagement with faith communities.
- The UK will have established a credible role in the world with a coherent foreign and defence policy, realised through a strategic alliance with the EU. Defence procurement will be removed from the Ministry of Defence to a separate department and cabinet member.

CONCLUSION

We contend that the Labour government should devise a strategy to break out from the economic and social stagnation of the last decade, aiming to govern for at least two terms. It can reverse the most damaging trends towards inequality and political disengagement that have ravaged our society in recent years and set the country on a path to progress. Labour must not squander this opportunity to reshape Britain.

We know that past Labour ministers developed a distinctive governing strategy:

- The Attlee government delivered public ownership, economic planning and the Beveridge vision of the welfare state to prevent a return to the mass unemployment of the ‘hungry thirties’.
- The Wilson government pursued modernisation, combining science with socialism to create a new Britain where equal opportunity would erode class barriers.
- The Blair governments sought to create a new marriage of economic

efficiency and social justice. Brown deployed government activism to prevent the 2008 financial crisis becoming a depression.

Today, we argue the centre-left must stand for a more equal society in which disparities in life-chances are progressively eroded, drawing on the core principles of liberal ethical socialism. In the words of the former Labour leader, Hugh Gaitskell, it is a radical creed that entails a loathing of social injustice, “of the indefensible differences of status and income that disfigure our society”.¹⁴²

Labour will lack the energy to govern in a cold climate unless it rediscovers not only the party’s radical cast of mind, but its ideological soul. *Radical ethical socialism* is a term that embodies that drive for reform, but driven by the principles of a liberal ethical socialism which holds high the equal worth of each citizen, exercising freedom and flourishing in communities, local and beyond.

Yet the strategy for governing must also change. Voters are intelligent citizens who want a conversation with the government. Trust means being up front with citizens about the scale of the challenges ahead but also addressing doubts about change and reform. Here we return to our four guiding principles:

- *Ideology*: Government must remain focused on a political narrative and goals unashamedly informed by the ideological values we have described. The Biblical adage that without vision “the people perish” remains apposite. Ministers must tell a coherent political story about what they seek to achieve in office, giving a sense of what values drive decision-making both long term and during crises.
- *Innovation*: Effective governments are prepared to take risks and enable innovation across society and the economy. Given the scale of the problems the UK faces, we need institutions that initiate radical experiments which can be scaled up.
- *Implementation*: This government will succeed or fail by how far it is able to deliver its commitments to the British people. Smart policy ideas mean little if they cannot be swiftly implemented. Effective delivery is crucial if voters are to maintain faith in liberal democracy.
- *Investment*: The government’s inheritance is weak because the public and private sectors have failed to invest. Ministers want to build a stable environment for investment. Yet to conquer the challenge of inequality and social division, a new

generation of public sector investment will be needed, supporting a dynamic market economy.

The party requires a governing strategy through which it can ratchet up the transformative scale of its programme. Labour needs a clear vision that responds to the challenges facing Britain’s economy and society. The fundamental imperative is long-term direction. In the Attlee years, Labour triumphantly delivered the commitments in its manifesto, Let Us Face the Future. Yet by 1951, the party’s trajectory was unclear and its vision uninspiring.

Starmer’s Labour party will face the same dilemma: it may achieve the five missions for government over the course of the next parliament. But what comes next matters: what is Labour’s long-term vision of the British economy and society? How far can the UK prosper outside the EU? Do we need a radical transformation of British capitalism, particularly in the light of the climate crisis? How does a party of the left combat rising inequality and polarisation in an age of insecurity?

Addressing these questions will be vital if Labour is to forge a viable governing project for the next decade. While ministers must enact decisively the reform agenda elaborated in the 2024 manifesto, it is never too early to begin outlining a second term programme of progressive advance. This is a task for the whole of the labour movement, not least the Fabian Society itself. There is not a moment to lose.

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We dedicate this pamphlet to the memory of Giles Radice, with whom some of these ideas were discussed.

The content, conclusions, and of course any errors, are the authors'. The content represents the authors' personal opinions.

ENDNOTES

- 1 Throughout the pamphlet, we use the terms 'United Kingdom' and 'Britain'. The argument is intended to apply to all four nations of the UK, although we recognise that in devolved matters such public services, responsibility lies with devolved institutions. Many of the proposals are relevant to Whitehall departments that oversee England.
- 2 Johnson, P, How is the tax burden at all time high when most of us are taxed so low?, The Times, 18 March 2024
- 3 Office for Budgetary Responsibility, Fiscal risks and sustainability 2023, OBR, 2023
- 4 Ibid
- 5 Beer, S, Golden Rules, Fabian Review, 2023
- 6 Wright, A, Socialisms Old and New, Routledge, 1997
- 7 Gamble, A, and Prabhakar, R, The New Assets Agenda, in Dench, G (ed.), The Rise and Rise of Meritocracy, Political Quarterly/ Blackwell Publishing, 2006
- 8 Freeden, M, The New Liberalism: An Ideology of Social Reform, Clarendon Press, 1978
- 9 Institute for Public Policy Research (IPPR), The Condition of Britain, IPPR, 2015
- 10 Kaus, M, The End of Equality?, Allen Lane, 1992
- 11 Cited in Wright, A, Socialisms Old and New, Routledge, 1996
- 12 Tawney, RH, Equality, 1931 (1964 edition)
- 13 Green, TH, Lecture on Liberal Legislation and Freedom of Contract, 1880
- 14 Tawney, RH, Equality, 1931 (1964 edition)
- 15 See Gurumurthy, R, Owen, J, Burns, A, and Norris, E, Mission-Driven Government, Institute for Government, 2024. Also Mazzucato, M, Mission Economy, Allen Lane, 2020, and Mazzucato, M, et al, Mission Critical, Future Governance Forum, 2024
- 16 Bevan, G, How Did Britain Come to This?, LSE Press, 2023
- 17 See George, David Lloyd, War Memoirs Volume I, Odhams Press, 1938

- 18 Margaret Thatcher's government understood this at least in part, with more robust anti-competition regulation and the 'Big Bang' deregulation of the City, for example.
- 19 See: the 1970s.
- 20 But the rationale for QE was linked to the potential for deflation. Though this was serious, there were other potential routes. There was the option of 'helicopter money' which would have given cash to individuals ie consumers. There was also the option of directly funding employment, which happened during the pandemic.
- 21 See Fry, E, Pittaway, S, and Thwaites, G, *Life in the Slow Lane: Assessing the UK's economic and trade performance since 2010*, Resolution Foundation, 2024. See also *Productivity in the UK: Evidence Review – First report of the UK Productivity Commission*, NIES, 2022
- 22 Labour seemed to believe in a 'Neo-Keynesianism' which essentially saw a role for state intervention to return an economy to a 'neoclassical' equilibrium, after which normal economic service would be resumed (and the state back off), whereas Keynes himself saw a more dynamic role for intervention in monetary policy and government-funded investment linked to employment.
- 23 An attempt was made by one of the authors in a Fabian Society pamphlet: Beer, S, *The Credibility Deficit: How to rebuild Labour's economic reputation*, 2011
- 24 Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2024. The OBR reports that data suggests its forecast has been accurate so far.
- 25 A previous rise in commodity prices shortly after the great financial crash, when money supply growth was subdued, translated into a drop in real incomes for households, but inflationary pressures remained subdued. See Beer, S, *What should the Bank of England do about inflation?*, *The Article*, 2021
- 26 The risks of higher embedded inflation had increased while interest rates remained unchanged. See Beer, S, *The Shock of War: Inflation and central banks*, *The Article*, 2022
- 27 With quantitative easing, the Bank creates money to buy (mainly) gilts. When it reverses the process, known as quantitative tightening or QT, the Bank sells gilts back into the market. This increased the gilts for sale in the market when the government also increased its borrowing. The Bank does not believe its decision to enact QT has raised the cost of borrowing (for the taxpayer) significantly – though the reason might be unexpected buying by foreign official sector institutions which could not be predicted, and cannot be assumed to continue, suggests Tomasz Wieladek (*Did the Bank of England Misunderestimate QT?*, August 2024, FT Alphaville). Under current arrangements it does imply a loss, which the Treasury has to fund putting further pressure on public finances.
- 28 In *Getting a Grip*, Fabian Review, Autumn 2022, Stephen Beer suggested the Liz Truss government would lead to higher interest rates, and lurching "between knee-jerk responses to the crisis and ideological commitments to cut taxes and spending while borrowing more." This proved correct but in a much shorter timespan than expected.
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