



## Where Next for Progressives? Progressive Political Economy

### Summary of the main points from Seminar 2 in ippr's *Where Next for Progressives?* series

In the second [Where Next for Progressives?](#) seminar, participants considered New Labour's take on the economy, how that economy now looks, and how progressives should approach it in the future.

This note covers the highlights of that discussion (although there was not unanimity on every point).

#### **New Labour and the economy**

Labour didn't get consumerism in the '50s and it lost the argument on freedom in the '80s. Conscious of this, in 1997, it chose the Anglo-American model above the European Social Democratic model. For many years the Faustian pact it struck with high finance worked well. The terms of the deal were that the financial sector would be regulated with a light touch and not taxed hard; and the government would rake in the money to spend on public services and tolerate the grotesque inequalities in which the bargain resulted: in Mandelson's phrase, New Labour was 'intensely relaxed about people getting filthy rich'. The financial sector for years became the cash cow for the public sector, and, in a way, we were all living off the City bonus culture.

The approach was to let the market rip, and then sweep up the debris afterwards through public services and limited redistribution via the welfare state, rather than to intervene in markets directly to stop them generating such inequality, low pay and related social problems in the first place. Big productivity gains in certain sectors were used to fund tax credits, benefits and services such as health and education.

But this approach could only take New Labour so far. Some industries flourished – defence, aerospace, pharmaceuticals, media, retail, and, of course, financial services. But all the while, labour lost out to capital – the share of capital going to wages declined – and the model failed to serve the working class. We relied on cheap commodities produced on the back of low wage Asian economies; developing in later years a structural deficit where the government spent more on services than it received in revenues; disguising high unemployment in some areas through incapacity benefit; using immigration to keep wages low; and failing to build sufficient

housing, coupled with easy mortgage lending, leading to extortionate house prices and rents.

All this came on top of fundamental changes to the foundations of Britain's economy – namely the shift from a manufacturing-based economy (which tended to constrain inequality) to a service-based economy (in which inequality is much less constrained). New Labour never really came to terms with the changed nature of this labour market.

New Labour rode the wave upstream, using some of the benefits it accrued to help those who were left struggling to swim downstream. It didn't try to fundamentally change the course of the river, so that all could benefit more evenly from its flow.

### **The economy now**

We are living in the middle of an economic Open Revolution: what matters is speed of response and innovation. Businesses are sourcing ideas from outside their company. Web technologies such as [www.innocentive.com](http://www.innocentive.com) are driving rapid change. Progressives need to recognise this revolution, seize it and run with it, striving to ensure the gains of the revolution are shared more fairly.

Ordinary people are bewildered by the seeming resumption of business as usual in the banking sector after the crash. They have bailed out the bankers while feeling acute personal insecurity in terms of their own pay and pensions. The same sense of injustice is directed at those on benefits at the bottom as the bankers at the top. The British sensibility towards the idea of anyone getting 'something for nothing' has given rise to a real antipathy towards those perceived as 'welfare scroungers' and towards economic migrants, and the tabloid press pours oil on the fire. The Labour Party risks being characterised as the Benefits Party, presiding over an increasingly complex and distrusted welfare state. People feel a strong sense of desert, which New Labour offended at both ends of the economic spectrum.

### **So, where next?**

Wherever progressive political economy goes next, it is likely to need a vision of growth consisting of a new approach to both wealth generation and industrial policy, making for a more balanced, more competitive, more equal economy. But the world owes no-one a living: all economies will be dependent on capturing key sectors. We need to figure out how the UK earns a living in the world to come. Progressives need to grasp the changing economic landscape, and make it work for everyone in the UK. This will mean better understanding the service sector economy, which will continue to be the biggest employer, not just crossing fingers and hoping manufacturing will come back. And tackling inequality is going to have to mean dealing with top incomes as well as those at the bottom of the scale.

There is a danger that in this dark place – recession, possibly double-dip, 'no money left' – that our collective imagination contracts. Progressives must not take as givens the economic orthodoxies of the past, but must instead turn open minds both to new ideas and to rich philosophical traditions that can be drawn upon. One such tradition is the radical liberalism of which James Meade was a primary proponent. He argued

for a partnership economy in which the nature of the firm is altered towards mutualism, democracy in industry and capital sharing power with labour; unearned wealth is taxed through wealth transfers, land values, capital gains and inheritance; a community fund is established, with the state acquiring assets across the economy; and a social dividend is paid, financing a system of basic income. Some of this may seem cloudcuckooland, and the way forwards has to be pragmatic. But to be pragmatic is to flex, bend and accommodate in order to reach towards the realisation of a specified utopia: we do need to know where we want to get to, however we try to get there.

Progressives should give serious consideration to the shortcomings of the status quo in terms of shareholder ownership and democratic accountability in business. Might it be possible to work towards 'own and spend' rather than 'tax and spend'? We need to find ways of incentivising more modest pay differentials, and be prepared to go for bolder labour market regulation, championing a living wage and questioning the highest pay.

But New Labour was always unwilling to make the case for equality of outcome. What would it take for this to change? What is there in egalitarian political philosophy that might connect with the public? What is the story? And can it be narrated in the dominant economist-speak of lists of figures, or do we need politicians to be better storytellers? Progressives talk a lot among themselves about equality, but the electorate thinks in terms of freedom. Trying to argue directly for equality is politically very hard. That is why Richard Wilkinson's thesis in *The Spirit Level* still lacks political argument and bite. The figures do not speak for themselves. We need to articulate the argument for equality more persuasively than we have, in ordinary language that speaks to individuals' lived experience and legitimate desire for autonomy.

In terms of particular policy areas, progressives need to think more about housing – both rented and owner-occupied – as a root cause of inequalities across generations and classes. Pensions too merit real reflection as an area where a sense of deep personal insecurity is rife. And workplace conditions must feature more in our thinking – which will mean seeing the unions as brothers/sisters in arms, not embarrassing relatives. Progressives may find more traction in these areas than in talk of 'wellbeing', which, as a substitute for cash or the concrete, holds little appeal for the 'have nots'.

'Doing equality' through public services and welfare can only take you so far. We had to wait for David Cameron to challenge 20:1 earnings ratios in the public sector. Progressives need a serious rethink. Essentially, labour needs to get a bigger share from capital without having to go via the state. But it is a major challenge to try and shift the economy from one based on a few sectors driving productivity, to a more balanced economy with growth and opportunities for more people. Changing a model of wealth generation within capital so it is more evenly distributed is much harder than letting wealth accumulate anywhere in the economy and using buoyant taxes and the state's coffers to redistribute it. Still, that is the challenge progressives now face.