BUILDING THE NEW ECONOMY

Power, Brexit, gender, tech

The IPPR's Commission on Economic Justice published its final report, Prosperity and Justice*, on 5 September 2018. Based on two years of research, and led by a group of twenty-two Commissioners from across business, trade unions, activism, churches and academia, the report is a uniquely authoritative statement of an emerging new paradigm in British economic policy. The report sets out an analysis of the deep-seated problems with the UK's economy, and offers a transformative plan to 'hard-wire' justice and sustainability into Britain's economic model. Michael Jacobs was director of the Commission, and Carys Roberts one of its principal researchers.* Renewal *caught up with both of them to discuss the politics of the report: its scope, aims, omissions, and underlying sensibilities.*

'For us, it's very important that it isn't just people on the left who have welcomed this report'

Michael Jacobs interviewed by Florence Sutcliffe-Braithwaite

Theories of change

Florence Sutcliffe-Braithwaite: This is a hugely ambitious report, making a large number of interlinked recommendations which together add up to a plan to fundamentally transform how our economy works. So my first question is: how do you go from this report to getting a version of it implemented?

Michael Jacobs: This is obviously the most important question! And in general it's a difficult one for think tanks. Think tanks play a very specific but limited role in what you might describe as a theory of political change. Mostly, they do some research, publish a report, hope that some people read it, and then move on to the next thing. Effectively they throw their products into the world, and then hope that they swim – and of course in practice most of them sink. We need the Commission's report to be different. And IPPR does indeed have a theory of change underlying the report, which we shall be trying to implement over the next few years. Essentially this involves attempting to shift the whole nature of the debate about the economy – and to do so in a way that captures almost all of the centre ground plus its left and right wings.

We talk in the report about the 'paradigm shifts' that occurred after 1945 and 1979. After 1945 people on the right as well as the left accepted the Keynesian revolution. And similarly, after the free market revolution of the 1980s, the left as well as the right (not all of it, but certainly the governing left, the Labour Party) came to accept a lot of the Thatcherite settlement. Ten years after the financial crash it is clear that the economy is simply not working, and nor is conventional economic policy (as we show in the report). So today we need another paradigm shift. And we want our narrative and policy agenda to form the basis of that shift.

So for us it's very important that it isn't just people on the left who have welcomed this report, but people right across the political spectrum, from John McDonnell to the *Daily Mail*. We're delighted that McDonnell has described it as a new Beveridge Report, but part of the theory of change here is that we want to change the *whole* conversation; we need the report to seep into every political and economic policy debate. Our strategy now is to embed the report in public debate, and to take it out to the wider public with events across the country, so that when people ask, 'well what can we do about the economy?' there's a reference – a blueprint – here to give them an answer.

The crucial thing that this report argues is that there is an alternative. It presents a coherent narrative, and a coherent set of policies. That's why we did a Commission, rather than just writing a report. By getting the Archbishop of Canterbury, the General Secretary of the TUC, the managing partner of McKinsey, a community organiser for Citizens UK and all the other people who are on the Commission to produce the report, we gave it huge credibility and authority. It's hard to rubbish all those people at once. And that's of course why it got so much publicity when it launched.

Active state and open markets

FSB: Can you say something, then, about the main thrust of your recommendations?

MJ: The core messages are very simple. First, the economy isn't working. Secondly, you *can* reform an economy in fundamental ways. Thirdly, a fair economy is a stronger economy. It simply isn't the case that you have to trade-off growth and equality, or prosperity and justice. But, fourthly, you don't create justice simply through redistribution; you have to hard-wire it into the way the economy works. You need to change the structures of the system: in corporate governance, the labour market, the ownership of wealth and housing, the role of the state and private sector, the tax system, and the conduct and institutions of economic policy. And in each case this requires, fifth, a redistribution of power.

And that's why I think the report marks a significant leap from New Labour's economic policy. That largely aimed to redistribute the fruits of an economy whose fundamental workings were left unchanged. Towards the end of the Labour government we experimented with a bit of industrial strategy, but by and large we didn't change the structures of the economy. Indeed we even further deregulated parts of it, including the financial sector. And then we tried to redistribute the fruits. We did that quite successfully, slowing down the growth of inequality, and vastly improving public services. But the underlying engines of inequality and poor economic performance were not changed. So the model we are putting forward now says that we need to hard-wire justice into the functioning of the economy. It's a much more interventionist strategy.

So we argue uncompromisingly for a more active state. There are a whole range of ways we think the state should shape markets, many of them using independent or semi-independent institutions, like a national investment bank, regional economic authorities in England, and so on. But we *also* argue that we need much more open markets. The digital sectors which now dominate our economy are fantastically concentrated; eight out of ten of the major consumer markets are dominated by a small number of companies; the audit companies – 'the big four' – dominate that field, and so on. We need to open up those markets, and use the state to create greater openness and competition. So we argue for open markets and an active state, and we don't see a contradiction in that. This is a distinctive feature, I think, in the way we approach the policy agenda.

FSB: This framing nicely gives the lie to the very common narrative that markets exist in a 'natural' form, and the state needs to keep out. It makes clear that the state is *doing things* to create these markets anyway.

MJ: Exactly – we're drawing on the work of many economists, like Mariana Mazzucato, who have written about this. Indeed I've also written on this subject in the past, reconceptualising the relationship between state and market. Those two things are often placed in counterpoint to one another, but that's a complete misunderstanding of markets. In any advanced economy, markets always have states involved in them. The question is: what is the state doing? whose interests is it supporting? which way is it directing and shaping the activities of the private sector?

In arguing for a more active state, we argue not just for a change in the *size* of the state but its *directionality*. As a society we face huge challenges, which we lay out in the book: the environmental crisis (not just climate change, but a wide set of environmental impacts); an ageing society facing huge social costs; the massive implications of artificial intelligence, automation and biotechnology. The state should not just be saying, 'we need a larger economy' and intervening to achieve that, but should be pushing and guiding investment into solving those problems. There's a role there for the state in *shaping* markets.

One of the tragedies of the last forty years is just how much capital has gone into the financial sector. It has earned huge profits, but some of them have been earned by doing what Adair Turner, when he was head of the Financial Services Authority, famously described as 'socially useless activity'. Not all the sector's activity was socially useless, of course, but far too many of its products weren't contributing to a better society. Rebalancing the economy away from the financial sector and towards more socially productive activity is one of the goals of the report.

We need to make the case for an active state not just in policy terms, but intellectually, so that people can no longer get away with the argument that there's too much state 'interference' in what would otherwise be 'free' markets. The prime minister still felt able last year to talk about being in favour of free markets, even as she was proclaiming an industrial strategy based on the complete opposite conception. That argument has to be defeated.

Enemies and villains

FSB: That brings us to the subject of enemies, which you largely avoid in the report. You talk about the major economic shifts over the last thirty to forty years, but you avoid saying exactly *who* did these things. You make the point that 'technological change is estimated to have caused at least half the decline in the labour share in advanced economies in the last four decades'. So what about the other 50 per cent? And who determined who owned that technology in the first place? Do you not want to talk about enemies because you think that's divisive and unproductive?

MJ: If I were critiquing the report, I think that would be a good line of attack. But it also brings me back to our theory of change, and what we want the report to achieve. There's no question that a huge number of the changes in the economy that have occurred over the last forty years, many of which have been very damaging, arose through deliberate decisions by the powerful – in financial markets, businesses and government. There is an account of that forty-year period which could identify the enemies, the moments at which power was used to defeat other people's interests. And, in other circumstances, I might make that kind of case myself.

But in a report of this kind, we wanted to show why the results of those decisions were so poor for so many people, for the economy, and for society, in a way that allowed many of those who might be made uncomfortable by this analysis (including some who might be implicated in it) think, 'actually, they're right'. The report is intended to be written in a very 'reasonable' style that is meant to bring as many people with us as possible. Apportioning blame is not a good way to get broad consensus. And in a sense that wasn't the function of *this* report, with *its* group of commissioners, who were drawn very broadly. We wouldn't have got many of those commissioners on board with that more combative kind of analysis.

Interestingly, however, our Commissioners *were* happy to talk about power, and this was, in a way, the compromise the report makes – it is neither a very sharp, pointed analysis of why those decisions were taken, whose interests they were taken in, and who took them, nor a completely bland kind of 'agentless' description. We don't succumb to the latter. We argue that relations of power in the economy have become seriously unbalanced. We argue, for example, that power has become unbalanced between management and workers: workers don't have enough bargaining power, which is one of the reasons wages have been stagnant even while we've had near full employment. The giant corporations are exercising too much market power, to the detriment of smaller firms, entrepreneurs and new entrants, as well as to consumers, workers and suppliers. We argue that the wealthy have too much power in the economy and in politics relative to those who have no wealth. That Westminster has too much power relative to the English regions and the nations of the UK. And, *overall*, that the outcome of market forces has too much power over economic outcomes relative to the community as represented in the democratic process. By making the argument that power is absolutely key to understanding both our problems and how to address them, we're acknowledging that these things are highly political.

Brexit and globalisation

FSB: To what extent are the plans you set out achievable within the EU, with a softer Brexit or with a no-deal Brexit?

MJ: Firstly, the Commission didn't take a view on Brexit, for the simple strategic reason that we would have just been drawn into the mess that is the current Brexit debate. We also made a point of having Commissioners who were on both sides of the referendum debate, to ensure our report wasn't considered the view of one side or the other.

Any form of Brexit is going to make implementing the policies we recommend more challenging, simply because the economy is going to suffer dislocation. But there is nothing in what we propose which would be made technically impossible either by Brexit or by remaining within the EU. We don't buy the argument, for example, that an active industrial strategy is prevented by the EU. Most countries in the EU have active industrial strategies; state aid is pretty flexible. We also argue that trade policy is now, largely, not about tariffs but about regulation. We emphasise that there is a real risk of new trade agreements (for example with the US) lowering regulatory standards, on the environment, consumer rights, labour rights and so on. That's a real danger of a Brexit in which the UK is out of a customs union.

But, in principle, the things that we need to do to create a fairer and more sustainable economy can be done inside or outside the EU. Even if they would be made more challenging by Brexit, we need to do them whatever happens.

FSB: Implicit in the report is, I think, the assumption that globalisation can and should continue, and that Britain should not argue against globalisation but for globalisation with stronger regulation.

MJ: I think I would characterise it slightly differently. In one sense, globalisation will clearly continue: the growth of the world's economy is being driven by countries in the east and south of the world, and that is going to continue (not least, through population growth). So the weight of global trade is going to continue to shift east and south, and the UK will have to find a way of being competitive in those circumstances.

At the moment globalisation is not continuing in the way that it did between 2000 and 2008; we've not had another huge upsurge in trade and foreign direct investment as a proportion of global GDP, but clearly we have to live within the context of globalisation.

But the report resists the complete integration of the UK economy into a globalised trading and investment pattern in which we're at the mercy of global forces. We argue for stronger domestic production and domestic supply chains; for example, we note that British manufacturing is very heavily import-dominated, and we think that its supply chains should be more domestically based – *not* via protectionism, but by strengthening the capacity of our domestic industries to enter those supply chains. We argue that innovation strategies should be trying to capture greater shares of global markets, but also for stronger domestic manufacturing and high-tech services bases.

So we do not argue for a more open or integrated economy; in a sense, we argue for a slightly *less* integrated economy, but one which inevitably has to operate within the patterns of global demand it confronts.

FSB: So there's a bit of economic nationalism, but it's through industrial strategy, not tariffs?

MJ: Precisely. And not just nationalism, but localism. One of the policies which can have a very important impact in areas that have been 'left behind' by globalisation is what is sometimes known as 'community wealth building'. This is the localisation strategy also known as the 'Preston Model', in which local authorities, the National Health Service, universities and other 'anchor institutions' with large procurement budgets spend more of those budgets within their local and regional economies. In this way, local economies are not left at the mercy of national and global forces; they are protected, not by protectionism, but by building up local firms' capacity to participate in supply chains. And there's now good evidence that it can be done.

'The care crisis is an economic issue'

Carys Roberts interviewed by James Stafford, Lise Butler and Florence Sutcliffe-Braithwaite

Welfare and education

Lise Butler: The aim of the IPPR's Commission is 'Economic Justice'. But the report makes clear that it is not concerned with the welfare system, including more radical proposals like Universal Basic Income. Can the Commission on Economic Justice (CEJ) really live up to its aims without discussing the welfare system?

Carys Roberts: At the beginning of the project the CEJ had to define the scope of its investigation. It became apparent quite quickly that economic justice could become quite an imperial ambition across all policy areas, so early on we decided that welfare would be beyond the scope of the Commission. This was also a political decision. Faced with the question of whether we could get a group of more than twenty diverse commissioners to agree on something radical, we felt confident that we could get broad support for a radical economic agenda, but not for a radical welfare agenda. That's partly where that came from.

That said, what the report does do, which is quite surprising and quite pleasing, is broaden out the scope of economic policy to include a broad commitment to: the funding of child and social care; increasing taxes to properly fund public services; policies that shift norms about who does unpaid work; support for use it or lose it paternity leave; and reducing working time, from the perspective of addressing the care crisis. It's a big victory to have business leaders and union leaders coming together to say that these are *economic* issues.

Florence Sutcliffe-Braithwaite: I thought it was striking that education is not mentioned very much. Where do you perceive education as sitting within a model of society and the economy?

CR: In the 1990s this was the big agenda. Education was going to deliver equality of opportunity, which was going to deliver huge social mobility and everyone was going to be better off. But that this isn't what panned out. There are more graduates than ever before but that hasn't amounted to more social mobility. Lots of them are worse off than before.

We wanted to shift the emphasis from the supply side to how we create the demand for skills. The UK has had a huge supply of skills both from abroad and domestically, but doesn't seem to be translating those into better productivity and better outcomes. So instead we focused on industrial strategy and regional rebalancing, rather than skills and education.

There are a couple of exceptions. We argue in our industrial strategy paper for the apprenticeship levy to be broadened out into a skills levy, so that it can be used for a broader range of things, and also to focus on retraining for people affected by automation, in recognition of the huge transitional costs for those people. We did also do some research that isn't in the final report about the role of education, but in the end it wasn't part of our overall narrative.

FSB: There's also an interesting focus on business education. There's quite a lot of discussion about how bad it is in Britain compared to a lot of other countries, and the suggestion that it would be good if we did more, not just at MBA level, but also at a slightly lower tier.

CR: We propose a new body as part of the industrial strategy, particularly to help SMEs, who are the least likely to have seen productivity improvements. Obviously that's partly a question of technology adoption – and that's another thing that we think needs to be pushed through industrial strategy bodies – but it is also a question about management practices.

One third of UK firms haven't seen any productivity increases since 2000. The problem with productivity isn't at the top end, it's in the long tail of low productivity firms. And it also has a big gender element. The way we talk about gender and industrial strategy is often implicit rather than explicit, but our work is in part motivated by a recognition that low-paid sectors are dominated by women and have the lowest productivity increases. It shouldn't be regarded as given that you can't have productivity improvements in retail, care and all the sectors that women work in.

Only for the workers?

LB: One of the critiques of the post-war Attlee settlement was the extent to which the Beveridge Report was premised on the assumption of full (and, at the time, largely male) employment. The CEJ is similarly focused on how *workers* gain more economic power. Should left-wing economic reform focus so much on work and workers?

CR: Workers are extremely important stakeholders in the wealth that they produce, and shifting returns from the people who are currently profiting to workers is a good thing. It's not necessarily the best way to decrease inequality across society, but it is a way to give people their just deserts.

There are endless debates about whether the labour share of income is declining, but we do know that it is lower than it used to be, and there are trends – technological change and especially the rise of platform companies – which risk further decreasing the labour share of wealth. This necessitates looking at capital income.

If we spread capital not just to workers but to people who are not workers then you can start to reduce inequality. The natural extension of the inclusive ownership funds policy would be a citizens' wealth fund, which we propose in the report. If you have an asset-based Citizen's Wealth Fund in which everyone in society has a stake, then you get much closer to a model of redistribution which doesn't only redistribute to workers.

James Stafford: Does the idea of a Citizen's Wealth Fund not tie you to the underlying power of capital, and assume a certain stability in terms of growth and profits?

CR: One of the reasons the report did not recommend a Universal Basic Income (UBI) based on a Citizens Wealth Fund, and instead recommend one-off dividends, is that we don't think a wealth fund should replace welfare. Welfare is counter-cyclical; the state does it well. The dividends we recommend would be a bonus, so that when huge profits are being generated, they are shared more broadly within society.

Having a sovereign wealth fund does not imply that the wealth it generates will be fairly distributed. That has to be ensured by building the institutions democratically from the outset, and making sure that the returns aren't all extracted and absorbed by wealth fund managers.

Care, time and relationships

FSB: The report does seem to come out against the very idea of a UBI, in its assertion that unemployment is bad for people's sense of self and long-term mental health.

CR: I personally do think that doing nothing is bad for most people's mental health, but that doesn't necessarily mean that 'unemployment' is bad, if people are engaged in other activities that could be useful and meaningful. The politics of a major commission coming out and saying that unemployment is good would not be viewed well: we feel that this is a topic that needs to be talked about sensitively. The way to deal with it is to say that work does give people meaning, but we should be talking about how to reduce working hours to give people more time for other meaningful parts of their lives as well.

LB: Is it possible to properly acknowledge or address care work through economic policy or through other forms of welfare policy?

CR: My ideal would be that there is universal care for anyone who wants it. Obviously when a care worker goes and visits someone, they're providing human contact, but it's quite a transactional relation. To me that isn't sufficient. Even in an ideal world state-provided care is still a service.

It's also important that family members can spend time together. The work that Helen Hester is doing on communal living, and the kind of opportunities it provides to share care responsibilities and resources is very interesting. Could we extend that to care for older people as well? But in an ideal world that would all have to be optional: we don't want to compel anyone to spend time with their families if they don't want to.

On a related point: the debate about reducing working time is frequently framed in terms of availability for care work. But it should be completely valid to want to have free time to do nothing, have leisure time and actually relax. Having fun is a valid desire!

In the medium term wages for care work is unlikely. But if you share care work then the negative effects are likely to be minimised. Taking time out to care has a massive impact on women's careers, women's salaries. If you reduce that, this harm will be reduced.

JS: Is there a risk that the structures of care are just devolved to the domestic sphere? Aren't there ethical tensions in encouraging and incentivising people to take on more care work?

CR: We wouldn't want to assume that families are going to take up the slack. There's been an increase in the need for care, and there are different sources for addressing that. The IPPR have previously proposed free personal care – trying to expand the universal coverage of social care. But people do want to care for their families. Caring doesn't have to be purely mechanical: it might mean spending more time with a lonely relative.

LB: Do you think the kind of ideas coming out of the CEJ and other circles have the potential to unite some of the more idealistic, humanistic, ethical ideas that have been floating around Blue Labour circles, like love and civic virtue, with a more concrete policy agenda that the left can get behind?

CR: It doesn't come from a Blue Labour perspective, but the report does seek to question what the economy is for and put that into mainstream debate. It's also shaped by the participation of the Archbishop of Canterbury, Justin Welby. There's a long footnote somewhere in the report about the Catholic conception of the common good. Welby wanted to talk about the economy in a substantive way which connects people's emotional lives and their material lives.

If I was to self-critique the report, I'm not entirely sure we follow through on the idea of a more humanistic vision of the economy, even though we talk about reducing working time and supporting the family. I think there's more work we can do to deepen that aspect.

The things that we say build on the IPPR's catalogue of work in this area, which argues that to resolve the current care crisis we're facing, you have to make time for people to care, alongside supportive social services. But when you design those things you have to do it so that men take their share. It was important to me that use it or lose it paternity leave got into the report. The natural follow-on from that would be looking at carer's leave, or disability social care.

In the first part of the report, there's a big section about the economy we want and what the economy is for. The economy isn't an end in itself; it's a means to have a high standard of living, with time for caring and relationships.

The CEJ report talks about love, which is unusual for an economic policy report.

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