

## **Reclaiming idealism: Entrepreneurial socialism and the case for a new clause IV**

### **Speech to Policy Network**

**Rt Hon Liam Byrne MP**

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**CHECK AGAINST DELIVERY**

It's a huge pleasure to come and speak here at Policy Network.

As chair of the All Party Group on Inclusive Growth, I want to congratulate you on the imminent launch of the Centre for Progressive Capitalism

I'm looking forward to working with you, to watching how you shape the debate – and this morning I'd like to offer some thoughts to get you started.

Elections don't always electrify - but campaigns tend to clarify.

Mr Corbyn's victory has done both.

He's inspired thousands to join our party

And he's clarified some new political truths

His victory confirmed the new Labour Millbank-era of politics is over

It confirmed the moderates lost the argument

It confirmed we all need to rethink our picture of the world, our purpose in politics and our prescriptions for the future.

And that's what I want to talk about this morning.

## PICTURE

Let me start with our picture of the world.

If Mr Corbyn's election said one thing to the Labour family it was this:

We want the debate about injustice and inequality front of house, not somewhere lost in the wings.

As a party, we had stopped making big ethical arguments.

We'd become too tactical.

Too narrow in our appeal.

Too retail.

We weren't campaigning in poetry – we were campaigning in prose.

We stopped painting in primary colours.

And the result was no-one knew what we stood for anymore.

Some voters even said to me; 'we don't think you even know who you stand for anymore'.

Yet the tragedy was that around us, the world was being scarred ever deeper by the kind of gross inequalities in income, wealth and power that we were born to challenge.

You'll know the story as well as I do

- The richest five families in Britain now own more than poorest 12 million of their fellow citizens<sup>1</sup>
- We now live in a land where we're multiplying the super-rich and the super-poor.
  - The number of billionaires is up nearly 50% since before the crash – while 300,000 more children live in poverty.
  - Corporate bank accounts are full – while children's' tummies are empty.
- The gender pay gap still looms large
- Social mobility in our country is at best now flat – And while the UK's millionaires are now getting richer faster than anywhere else in Europe, our under 25's are the first generation in a century to be worse off than generation before them - more likely to live in poverty than pensioners.

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<sup>1</sup> <http://www.theguardian.com/business/2014/mar/17/oxfam-report-scale-britain-growing-financial-inequality>

This makes anyone and everyone who cares about injustice angry.

But the irony is – we're in some pretty good company.

Why?

Because we now know that inequality on this scale is not just immoral – it's inefficient.

- The World Economic Forum – of Davos fame – now says; the Washington Consensus is 'incomplete and unbalanced'.<sup>2</sup>
- Christine Lagarde, head of the IMF, talks of a new Gilded Age where 'excessive inequality has also become a problem for economic growth and development'.<sup>3</sup>
- Mark Carney, the governor of the Bank of England, says the social contract is now breaking down because: 'unchecked market fundamentalism can devour the social capital essential for the long term dynamism of capitalism itself'.

He's right: in fact, just 45% of people in UK and US now express confidence business – against 61% in China and 70% in India<sup>4</sup>.

Once upon a time we thought there was a choice between efficiency and equality – President Johnson's advisor Arthur Okun called it; 'the big trade off'<sup>5</sup>.

Yet everything I learned at the Harvard Business School, everything I learned starting a high growth, hi-tech dot com taught me that business does best when workers do well.

And now we've got the evidence to prove it.

Excess income inequality drags on growth and makes growth less sustainable over time – while lifting the income share of the poorest accelerates growth.

- The IMF now says if you decrease the standard measure of inequality, the Gini coefficient by 3%, you can boost economic growth by 0.5pc a year.
- The OECD now says if you increase inequality by 3%, then your growth slows by 0.35pc/ year for 25 years.

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<sup>2</sup> WEF 2015.

<sup>3</sup> Christine Lagarde, Speech, 17 June 2015

<sup>4</sup> Quoted Dominic Barton, Capitalism for the Long Term

<sup>5</sup> J Stiglitz, Rewriting the Rules, p.13

New Labour achieved so much in office. But, we all know it's time to call time on neo-liberalism. The old rules aren't solving our problems. The old rules are the problem.

Neo-liberalism isn't working. So we need to end neo-liberalism.

That, ultimately, is why new Labour is over.

In its day, it was an incredibly successful political project.

For much of our time in office, we achieved an extraordinary triple: employment, productivity and wages all grew together for the first time<sup>6</sup>.

We lifted a million children out of poverty and all but ended poverty for pensioners.

But while we held inequality in check – almost uniquely in the Western world – we didn't throw it into reverse.

We pursued a classic Crosland-like approach

We fostered growth, remained neutral about where it came from; we taxed it; and we redistributed it, through transformative investment in public services and the gigantic growth in tax credits.

The Tories of course don't care for these things

And now we live in a world where next year, the top 1% of the world will own more than the rest of us put together<sup>7</sup>.

*The richest 85 families on earth own more than the poorest 3.5 billion on earth.*

That's why I love Jeremy Corbyn's passion for challenging inequality.

That idealism unites us.

It's why he's not a Trot – and I'm not a Tory.

It's why we're both in the Labour Party.

There is much he campaigned on that we agree on.

'Tax justice', rebalancing the fiscal burden, 'welfare efficiency', industrial policy, a green plan and devolution.

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<sup>6</sup> The employment rate in fact hit a record high (since records began in 1971) and wages rose for over a decade. Only two other countries in the OECD managed this - Ireland and Australia.

<sup>7</sup> Oxfam: <http://www.oxfam.org.uk/blogs/2014/03/5-richest-families-in-uk-are-wealthier-than-poorest-20-pc>

But I worry Peoples' QE – or printing money when the economy is growing - nationalising too much, and spiralling public spending risks failure.

I think there's a better, safer, faster way to challenge the inequality we both hate.

But we've got to start by asking ourselves where did it all go wrong

### **WHERE DID IT ALL GO WRONG**

I think we now know the three basic causes of inequality.

At first we thought it was all about what economists calls 'skill biased technological change'.

In essence those with skills do well in this new knowledge economy. It is as Mark Carney puts it, a good time to be 'famous or fortunate'.

If you're low skilled, you're unlucky – because you now compete with wages far lower elsewhere.

In fact, the ILO says low skilled wages in some of Britain's competitors are 12 times lower here than in Britain. The result? Over half of adults in Britain without skills are out of work.

This was at the absolute core of new Labour's analysis, and it inspired important policies from 'education, education, education' to our goal of getting 50% of young people to university.

But now other causes are becoming clear.

Thomas Piketty has offered us new insights, with his now famous formula,  $R > g$ ; in other words, the rate of return to capital tends to outstrip the rate of economic growth – so increasing levels of inequality become inevitable.

But just as important as Joseph Stiglitz argues in the seminal 'Rewriting the Rules'<sup>8</sup> institutions matter - and right now they're broken.

What we're seeing today is not inevitable.

It's not some natural order.

It reflects CHOICES with made in the new bargain with business struck by the neo-liberals in the 1980s and adapted by new Labour in the 1990s.

Neo-liberals said: deregulate, cut taxes and break down walls to free trade.

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<sup>8</sup> <http://rooseveltinstitute.org/rewrite-the-rules/>

In return, the Conservatives expected business to produce great jobs – and wealth to trickle down.

And on the left, we hoped we could turn up the redistribution so the trickle-down of wealth became a torrent.

But guess what?

These institutions which we built – free trade, deregulation, low tax, shareholder value enshrined in company law - have created a global super-league of companies bigger than countries that are no longer honouring the deal.

These corporate gargantuans dominate the new commanding heights of the global economy.

As Peter Nolan at Cambridge University has shown,<sup>9</sup> since 2000, some 2,500 billion dollar mergers, worth in total some \$4 trillion, have created a new global super-league.

A handful of firms now monopolise the aircraft industry, the world's auto business, the world's mobile telecoms infrastructure, pharmaceuticals, beer, cigarettes, aero-engines, computer chips, industrial gases, soft drink cans.

They're able to profit from great rents in intellectual, physical and financial capital.

Too few of these companies are behaving themselves – and they're fuelling our unprecedented income inequality.

Misbehaviour #1 is that too few of these firms are thinking long term – and creating the great jobs that pay ordinary workers well.

Why? Because they're thinking short term, not long term.

This isn't just my analysis.

Listen to Larry Fink, CEO of the world's largest asset manager BlackRock who's declared;

“More and more corporate leaders have responded with actions that can deliver immediate returns to shareholders, such as buybacks or dividend increases, while underinvesting in innovation, skilled workforces or essential capital expenditures necessary to sustain long-term growth.”

Larry Fink is right.

Instead of investing cash, firms are either hoarding it – or shedding it.

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<sup>9</sup> <http://www.polity.co.uk/book.asp?ref=9780745660783>

Total pay-outs have risen from 10% of total internal cash flow in 1979 to 60% today - in 2014 that was £100 billion in share buy-backs alone<sup>10</sup>.

And that still leaves, a mountain of cash in the bank.

In fact, UK corporates today are sitting on an incredible £522 billion in cash<sup>11</sup> - that's 25% more or £100 billion more – than at the end of 2008.

Misbehaviour #2 is that firms are simply not sharing the fruits of growth with workers.

- In Britain, ordinary workers are producing more – but they're not getting paid for it.
- Since the turn of the millennium output per hour increased by 14.7% - yet medium wages are up just 8.4% from April 2000 to April 2014<sup>12</sup>.
- Meanwhile since 2009, pay for the top has boomed.
  - FTSE CEOs now earn 120 times more than the average full time employer (compared to 47 times in 2000) – that's £3.34 million/ year by the way.

I'm here today to say this simply cannot go on.

Because think of what will happen if it does.

In 2050, when my kids are my age, global wealth will have almost tripled — to a staggering £210 trillion.

Our over-riding task must be to ensure that half of this new wealth doesn't go to the top 1% again.

Can you imagine a world where over £100 trillion is controlled by just 1% of the world's population?

Look at what happens in grossly unequal societies – countries like South Africa; where social trust breaks down; where crime spirals; where the rich live in gated communities cut off from the society around them; where the poor die younger; and where the richest have the freedom to abuse their economic power.

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<sup>10</sup> See Andrew Haldane, 'Who Owns a Company', 22 May 2015

<http://www.bankofengland.co.uk/publications/Documents/speeches/2015/speech833.pdf>

<sup>11</sup> The historic data series can be accessed at the following link: <http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=NKJZ&dataset=ukea&table-id=3.3.9>

<sup>12</sup> Productivity figures in real terms Q2 2000 to Q2 2014. Median hourly wages of employees in real terms (deflated by CPI) increased by 8.4% from April 2000 to April 2014. Source: House of Commons library

Where workers work hard, while others get rich.

And now realise, that's what's beginning to happen here.

The story of Peter Simon, owner of Monsoon is a morality tale for our times.

He is, I hear, a nuisance neighbour.

But he's just trying to build a palace by knocking five multi-million pound homes together – and yet he won't pay his staff the minimum wage<sup>13</sup>.

Palace builders have become poverty makers.

This isn't the kind of country I want to live in.

I'm here to argue today that this neo-Liberal model of the last 30 years should be consigned to history.

And a new era of 'progressive capitalism' or what I want to call 'entrepreneurial socialism' should now open.

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<sup>13</sup> Read more: <http://www.dailymail.co.uk/news/article-3291385/Monsoon-boss-worth-600million-upsets-west-London-neighbours-knocking-FIVE-houses-one-form-palace-complete-massive-mega-basement.html#ixzz3ptxA5SaM>



## RENEWING OUR PURPOSE

It's with this picture of the world in mind, that I think we should renew our purpose - and our view of the equality that we seek.

Now for much of the post-war period, the Crosland model has held sway:

The idea that we seek an equality of opportunity, and that we deliver it by fostering growth, taxing the proceeds and redistributing wisely.

I just don't think this makes sense in the 21st century West where three basic power failures now afflict us:

- Today's state has little power against the 2,400 companies that control so much of global wealth; the nation state now struggles to tax enough to turbo-charge the trickle down of wealth
- Second, individual workers – often contracted out – have little power against the company, especially when in the UK, just 14% of the private sector workforce is unionised
- Third, as writers like Owen Jones have argued persuasively, the working class is now so fractured – that it lacks the power to mobilise political majorities behind its interests in conflict with either the company or the state.

The implication is that redistribution – while important – confronts new limits.

It will often be weaker than we would like.

So what's more important now is empowering individuals to flourish, to pursue a sense of vocation, to live a life they have reason to value.

It's why I don't think it makes sense anymore to argue simply for equality of opportunity.

We are surrounded by opportunity.

The question is whether we have the power to pursue it.

This is the great insight of Amartya Sen, who for me has done more than anyone in the last decade to advance the ideas of Mill and Rawls.

In his magnificent book *The Idea of Justice*, Sen makes the case that the greatest goal in politics is to try and equip people in society with a range of capabilities to live a life that one has reason to value.

Sen argues that for change to be meaningful we must deliver better equality in these capabilities or 'substantive freedoms' – what I would call powers.

His argument tells us that both income and opportunity might get you to the starting line in life, but without capabilities, you will only get so far down the track, stopping perhaps a long way short of your ambitions or indeed your potential.

This emphasis on capability is vital.

It recognises that we must break out of a confined and contorted debate about simply 'equality of outcomes' and the thin notion of an equal place at the starting line of a race that is ultimately fixed.

As Sen put it to me a few years ago;

“If many things are open to me I have opportunity to do them if only I could, but if I’m illiterate and education has been neglected [then] I might not be able to use that opportunity.”

This is the challenge for my constituents in Hodge Hill

Too many simply lack the power to pursue their ambitions.

So I’m in politics to build a nation of powerful people

And before I left government I asked my civil servants to examine all of our public service targets and translate them into a handful of basic powers we want to see in the hands of citizens.

It’s a fascinating list;

1. To survive and have good health;
2. To be skilled and knowledgeable
3. To have a good job which brings in a sufficient income;
4. To have a decent place to live;
5. To be free from fear or attack;
6. To have a strong, supportive family life;
7. To be part of a strong, active community;
8. To have a healthy, sustainable natural environment;
9. To be able to move around and access different places easily;
10. To have aspirations for the future.

What we should seek in the Labour party is an equality of these powers between our citizens.

This is the basis of a new civic rights movement, and today I’m publishing my Treasury research for the first time.

It's a powerful idea that connects us not just to our past, but to a much older, deeper tradition of the common good – something Pope Benedict talked about in *Caritas in Veritate*.

Because if I want a society in which my rights flourish, then I must ipso facto want a country where your rights flourish;

That means I need a society where we honour the common good where we honour each other as people of value – not means to an end.

As Pope Benedict put it;

‘[The common good] is good that is sought not for its own sake, but for the people who belong to the social community...To desire the common good and strive towards it, is a requirement of justice and charity.’

It's an idea that is shared across Eurasia, indeed, it has its echo in ancient Chinese concept, of *datong* or ‘great harmony’ for *tian xia* - ‘all under heaven’<sup>14</sup>

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<sup>14</sup> See Peter Nolan, Karl Marx, Capitalism, Globalisation and Communism, University of Cambridge

## **PRESCRIPTIONS**

This brings me to my prescriptions for the future.

My approach is simple.

I want to maximise the honour, the agency, the power of the individual in a country where each of us works together for the common good.

I call this **entrepreneurial socialism**...

Expecting, encouraging, urging the individual to use their abilities to the full - that's the entrepreneurial bit

Building a society where each of us are contributing to the common good and a country that makes it easy to flourish. That's the socialism.

## **ECONOMY**

My starting point is the world of work. Why? Because it's fundamental to our power to flourish

Today we face a world which some call the Second Machine Age, where technology could will all but eliminate routine work whether its blue collar or white collar<sup>15</sup>.

To flourish in this new era, we need an economy producing many more good jobs – and I'm afraid our neo-liberal economy is simply not producing them.

In fact we're now losing the war for the world's good jobs.

In China, a Red Tech Revolution is transforming the country.

Within the next two years, China will become the world's leading science spender.

Its science budget - already over £130 billion - will outstrip Europe this year or next, and overtake America by 2019.

Five out of the world's top ten internet firms are already Chinese and firms like Alibaba, Tencent, Baidu, Xiaomi and JD are all bigger than eBay.

The country has now spawned more than a dozen 'unicorns' - start-up firms with a value of over \$1 billion

For two centuries, the west has created the world's best jobs - boosting incomes and living standards for millions of families.

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<sup>15</sup> <http://secondmachineage.com/>

But a historic shift is now underway. The best jobs of the future may soon be, not here, but in the East<sup>16</sup>.

Across China, small and medium sized tech companies will create more than 150,000 jobs for graduates alone in 2015 while some 129 High & New Technology Industrial Development Zones create another 500,000 jobs more

That's more than three times more than Britain.

And this will surprise you: three quarters of the jobs created in the knowledge economy since 2010 are in management consulting – *while the number of advanced manufacturing jobs has fallen.*

So what is to be done?

Well, in his leadership campaign, Mr Corbyn proposed many things on which we agree; 'tax justice', rebalancing the fiscal burden, 'welfare efficiency', industrial policy, a green plan and devolution.

But I worry that Peoples' QE - printing money - renationalising things and spiralling public spending risks failure.

But if Labour's moderate don't think this approach will work, then we need to show a better way that will. A better way to challenge the inequality we all hate.

So this morning, I'm setting out the basis for what you might call an Alternative Economic Strategy.

I think it's a better way, based on re-writing the rules for the Bank of England, for our financial markets, for company boards and the OBR, for our schools, for our science-base, and for our social security system.

Let me take each in turn....

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<sup>16</sup>.

## **Pro-growth monetary policy and financial markets**

**First**, I think it's time to review our framework for **monetary policy**.

I don't think we should pursue inflation-fuelling Peoples' QE – and I think the jury is still out on targeting growth in nominal GDP, as some have advocated.

But I do think it's time to look again at the Bank of England's monetary policy objectives set out in the 1998 Bank of England Act.

These state the Bank's objectives to - maintain price stability; and subject to that, support the economic policy of the Government, including growth and employment objectives.

This set-up means the Bank of England's Monetary Policy Committee has a growth objective – but it's deeply subordinated to the price stability objective.

In the circumstances, I wonder whether it's time to look to the US – specifically the 1978 Humphrey Hawkins Act known as the Full Employment and Balanced Growth Act which establishes both price stability and full employment as twin goals of the Federal Reserve Bank.

*Furthermore, I think we can achieve a high-investment economy without Peoples' QE – but with a host of changes to deliver more patient capital markets.*

Today, our asset owners are simply too short term.

Our pension funds need to change.

They are far too fragmented.

The largest three funds manage some £50 billion – that's half the size of the top three in Australia – and a quarter of the size of the top three in Canada.

They're very different to the kind of 'super-funds' in Chile or Australia which have become such important investors in domestic infrastructure.

What's more pension fund trustees define fiduciary duties far too narrowly - often hiding behind risk-averse legal advice – and triennial valuations which I'm afraid encourage a very short term performance focus.

We should change this.

But pension funds and institutional investors only own some 15% of UK equities.<sup>17</sup>

Our challenge is that our investors today don't think long term – because they don't invest long

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<sup>17</sup> Andrew Haldane, *ibid.*

term.

In fact, the average length of time owning a share is down from 6 years in 1950 to less than 6 months today.

Yet they still control the company.

So we should give more rights to those who want to own the firm long term.

We should consider the kind of rewards now offered elsewhere for long-term asset owners.

In France for example, the *Florange* law introduced last April automatically gives shareholders holding shares for more than two years double voting rights;

A similar law has passed in Italy;

In the US, companies are adopting 'proxy access' giving long term shareholders the right to appoint directors.

'Dual class shares' would allow us to go further - enabling the original founders and early venture capital supporters to control voting power.

They've become de rigeur for the hottest tech initial public offerings, from Facebook and LinkedIn to Zynga and Groupon.

They're allowed in the US and on the Continent. Why not here?<sup>18</sup>

Finally, it's surely time to accelerate the creation of a huge new capital market for impact investment, PRIORITISING the changes Sir Ronald Cohen has called for in his report for the G8 social investment Taskforce.

\$45 trillion of investment is already guided by UN principles for responsible investment. \$10 trillion is invested in Socially Responsible Investment.

We need to build on this now, and introduce reform that could unlock globally \$1 trillion in impact investment funds.

There's a huge prize to be had here. In the UK, social sector organisations are already 5% of GDP – but in some countries, it is 10% of the workforce.

In France for instance, 2.3 million people work in the social and solidarity economy; in coops; in mutuals, in impact-driven business.

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<sup>18</sup> Sergey Brin and Larry Page issued 2 classes of shares, with Class A having ten times more votes than Class B so Brin and Page ended up with 37.6% of votes for 3.7% shares. Glazers did it for Manchester United which is why they floated in NY and not London.

We could turbocharge this in the UK with a US-style Community Reinvestment Act to unlock investment for enterprise in high unemployment communities like mine.

### **Pro Long term Corporate Governance**

Now, if capital becomes more patient, the quid pro quo is that corporate leaders have to use the money effectively – and fairly.

As the former head of McKinsey, Dominic Barton, has declared; ‘board aren’t working’<sup>19</sup>.

The challenge we face is that the business community fell prey throughout the 1980s, to the idea of ‘shareholder value’ – the notion popularised by Milton Friedman, that the purpose of business is profit. Full stop.

Now, as Andrew Haldane explained this summer, the idea’s rise to primacy was long – dating back to the Limited Liability Act of 1855.

But it was Labour that enshrined the idea in law in section 172 of the Companies Act 2006, which says,

‘A director of a company must act in a way he considers in good faith would be most likely to promote the success of the company for the benefit of its members as a whole’.

They must merely ‘have regard’ to wider stakeholders. Like customers. Or workers. Or creditors.

I think we know that today’s corporate governance laws aren’t working in the national interest.

They’re not helping us think long term, or maximise investment, or pay our workers fairly for what they do.

So it is surely time for a review of corporate governance where we create the freedom for managers to think long term - that means giving greater weight to those who can't diversify their risk away: creditors, and workers past and present.

We might even go a step further and insist that directors have a fiduciary duty to declare the purpose of their business – and enshrine a fiduciary duty to maintain that purpose in the company’s proceedings. Along with, I’d suggest, reporting on how they’re doing closing the gender pay gap.

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<sup>19</sup> Barton and Wiseman, Where Boards Fall Short, Harvard Business Review, Jan-Feb 2015



**My second big proposal is on fiscal policy: to change the way our budget watchdog, the Office Budget Responsibility works.**

We are surely right to ponder a less aggressive fiscal timetable, with a different balance between tax and spending rises.

But if we really want to learn the lesson from our history, we have to look again at our policy for fiscal policy.

The truth is, as Yvette Cooper explained during her leadership campaign, we *were* running a small fiscal deficit before the crash – because quite simply the tax receipts we expected failed to come through the door.

This is **the** key weakness in our fiscal policy. And it's a weakness that's hurt George Osborne too.

He has delivered 11 fiscal statements – and he's missed his tax forecasts in 8 of them.

Between 2010-11, his forecasts tax receipts were upto £74 billion out.

I think we need to strengthen Parliament's oversight of the nation's taxes. It's been our undisputed right since the Civil War.

I think we need an OBR that's much closer in design to the Congressional Budget Office

As the OBR's Robert Chote argued that "by international standards, the OBR has a relatively narrow remit".

Crucially, we need to ensure the OBR can publish more regular estimates on tax revenues, providing more information to the public about whether forecasts are accurate and for Ministers to explain their spending decisions more regularly than now.

The Danish, Dutch, German, South Korean and Swedish watchdogs all comment on employment, growth and other structural policies too. The US Congressional Budget Office looks at labour markets, employment and climate change.

Our new OBR should make recommendations and comments on the fiscal impact of employment, growth and other structural policies.

Crucially, we need the OBR to start telling us each year, what would be the steps that would most likely close the tax gap.

We simply can't leave this to the Chancellor of the Exchequer anymore.

### **Pro-science investment**

My third proposal is to boost pro-science investment to strengthen our universities.

We know from the work of Mariana Mazzucato and others, that public investment in science ‘crowds in’ private sector spending<sup>20</sup>.

Indeed, the data from around the world suggests that £1 of public funds levers in £2 of private investment.

The return-on-investment has repeatedly been shown to be substantial – science investment is an economic winner.

It generates stable real-economy growth and tackles our energy, environmental, health and societal challenges

And frankly when, other successful economies are working to a 3% science target, we are at risk of being left behind if we don’t match the best of our competitors.

As the Royal Society puts it so eloquently, unless we grow smarter, we will grow poorer.

### **Pro-enterprise revolution**

Fourth, we need to be *the* pro-enterprise party in Britain.

As someone who started a successful tech firm before I came into Parliament, I passionately believe that encouraging people to start their own business or social enterprise is quite simply one of the most effective ways of democratising wealth creation – and if we want a fairer, more equal society we should be doing everything in our power.

I think that means, introducing enterprise education in every school for every child; expanding the Start-Up Loan programme, and using government procurement to help new businesses scale up.

I will have more to say on this next spring, when I publish my history of British enterprise, told through the lives of ten great entrepreneurs, from Dick Whittington to John Spedan Lewis.

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<sup>20</sup> <http://marianamazucato.com/the-entrepreneurial-state/>

## A pro-future welfare state

Finally, let me say entrepreneurial socialism, will need a very different kind of welfare state.

An American friend of mine explained why a couple of months ago.

The welfare state, he said to me, simply no longer works in the 'gig economy'

Now what's the gig economy I hear you ask?

I had to check myself

Nick Hanauer and David Rolf<sup>21</sup> gave a good description in Democracy this summer.

It's an economy where workers can find themselves on a zero-hours contract without employment rights, perhaps forced to top up their wages driving for Uber, or picking up odd jobs through TaskRabbit, or renting out a spare room with AirBnB – balancing the bills at the end of the month with a credit card – perhaps never earning enough to pay back the average £44,000 in student debt.

Many of today's self-employed find themselves in this position – and though they pay lower national insurance contributions, they also lose employment rights, employer contributions to [auto-enrolment] pension, contributory jobs seekers allowance, along with statutory maternity/ paternity/ adoption/ sick pay<sup>22</sup>.

By the end of this parliament, 4.2 million people may find themselves in this position.

For workers in this position, the welfare state simply doesn't allow for the acquisition of human, financial and physical assets, otherwise known as skills, pensions and a house.

### So what's needed is a philosophical shift from Beveridge

Today, working people don't feel the welfare state works for them.

In a recent poll for the BBC, 70 per cent said they believed the welfare state is one of Britain's proudest creations – but 64 per cent said the benefits system does not work well in its current form.

The contributory principle that made the system so popular when Beveridge reported, has been reduced by Iain Duncan Smith to a 'rounding error'.

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<sup>21</sup> Nick Hanauer and David Rolf, Shared Security, Shared Growth, Democracy, Summer 2105

<sup>22</sup> Social Security Advisory Committee, Social Security Provision and the self-employed, Occasional Paper, No 13, September 2014

On average today, someone in their 50s who has worked all their life has paid in over £100,000 in national insurance.

And yet when they need extra help there's nothing there.

I simply don't think that's fair – and today I'm writing to Frank Field, as chair of the DWP Select Committee to ask him to launch an enquiry into how we revive the contributory principle.

I have an idea for where we start.

When Beveridge created the welfare state, it was designed to minimise disruption to earnings; replace your income, if you fell ill, or became pregnant.

Now we need something more.

We need a system that doesn't just minimise disruption to earnings – but a system that *helps maximise potential of earnings* – by enabling you to retrain and re-educate as the world of work changes.

Right now we're falling behind social security systems around the world in countries like Germany, Japan, Canada, and America which have far far better systems for supporting older workers back into jobs<sup>23</sup>.

I think there's a model from Australia that we should be looking at;

Don Nutbeam, former vice chancellor of Southampton, had a great idea; introducing lifetime maximum study loans which individuals can use at any stage of their working lives to support a degree, or a post-grad course, or an apprenticeship, or re-training.

For the first time we could transform education opportunities for those who missed out on higher or technical education when they were younger – and need to boost their skills.

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<sup>23</sup> Germany offers higher rates of support for older jobseekers, whilst Japan offers specialist offices for older jobseekers with placement services to help older jobseekers with specialised support for those who used to be in managerial, professional or technical positions in so-called 'Talent Banks'. Canada, on the other hand, is exploring a training grant for older workers looking to develop new skills. Businesses can claim up to £9,500 to train workers for an existing job or a better job at an eligible training institution. In America, under the Obama administration's Ageing Workers Initiative, they have developed services to support and train older workers

## OUR NEW APPROACH

So what I've talked about today is a new approach to how we tackle one of the definitional challenges of our time:

You might even call it, a new Alternative Economic Strategy.

I want a new fight for an equality of power between the citizens of this country.

I want a new approach based on re-writing the rules for our economy to deliver;

- Monetary policy focused on full employment and financial markets focused on the long term, with corporate governance that listens to workers' voices
- Stronger parliamentary oversight of fiscal policy – especially how we close the tax gap;
- A renewed science policy better funded to explore blue skies and encourage investment in innovation;
- A sharper focus on encouraging entrepreneurs who down the centuries have made history by inventing the future;
- Social security reform to restore the contributory principle and enable workers who've paid in to reskill and reskill again over the course of their long careers.

The final word I want to offer, is how we present this to the people.

Do we offer an approach based on class war or building common cause?

I think you can guess where I stand.

I think there are reformers right now across the business community who want to reconnect wealth creation and social justice.

I think these are the reformers who want a renaissance in the extraordinary lost tradition of business genius epitomised by George Cadbury, William Lever, John Spedan Lever and Anita Roddick, all of whom set out to change the rules of the game and share the wealth they minted.

The kind of entrepreneurs, who built prototype of the welfare state, from technical education to pensions, to model villages and towns, to profit-sharing — or co-partnership.

Entrepreneurs who created businesses as John Spedan Lewis once said that were “not only something to live by [but]... to live for”.

I think this approach is so important we need to hard-wire it into our aims and values.

And that's why today, I publishing what I believe should be a new statement of aims and values for the Labour Party; a new Clause IV.

## THE NEW CLAUSE 4

Idealism and anger at inequality and injustice unites every single one of us in the Labour Party.

I think it's time our Party's aims and values reflect it.

Down the generations, it's that unity of purpose, a determination to listen to the better angels of our nature, that has powered our Party in its mission to change the country for the better.

In July, we marked a quiet anniversary.

It was twenty years ago that Tony Blair won the vote at Methodist Central Hall in London, to modernise Clause Four, to drop out old declarations in favour of mass nationalisation – and embrace the modern mixed economy.

But let's be honest. In our thirst to build an election-winning machine, there was something we left out.

Today's Clause Four doesn't even mention the word 'inequality'. Of course, we fudged it. We talked about 'wealth in the hands of the many and not the few'.

But as the old saying goes: we need to say what we mean, and mean what we say.

And that is why I applauded Yvette Cooper's proposal to re-write to re-write Clause 4, the aims of values of our party and put the war on inequality centre-stage.

Today, I'm writing to Angela Eagle, chair of the National Policy Forum to propose a new Clause IV and ask how our party can debate it.

It was the great George Orwell who once wrote, "The world is a raft sailing through space with, potentially, plenty of provisions for everybody".

Today we are wealthier than ever. And yet in my home city, four out ten children grow up in poverty.

We're in politics to create a world that is fairer and more just.

That is why our aims, our values, our credo must say explicitly:

The Labour Party's purpose is to create a more equal society.

Britain needs to know where we stand.

Determined to win the future.

But with the best ideals of our past.

ENDS