

# Changing the Debate: The Ideas Redefining Britain



*ResPublica*

## About ResPublica

*ResPublica is an independent, non-partisan UK think tank founded by Phillip Blond in November 2009. We focus on developing practical solutions to enduring socio-economic and cultural problems of our time, such as poverty, asset inequality, family and social breakdown, and environmental degradation.*

*Our research combines a radical, civic philosophy with the latest insights in social policy analysis, economic modelling, behavioural economics, management theory, social psychology and technological innovation to produce original, implementable solutions. We would like to foster new approaches to economic inequality, investment and group behaviour, so that the benefits of capital, trade and entrepreneurship are open to all. We believe that human relationships should once more be the centre and meaning of an associative society, and that we need to recover the language and practice of the common good. Our work seeks to strengthen the links between local individuals, organisations and communities that create social capital.*

*We have had demonstrable success with innovative research that has been seen to make an impact on the policy landscape. Our reports have received widespread acclaim from policy-makers and practitioners, the media, and politicians from both sides of the political spectrum. We regularly host events and discussion forums that facilitate debate and extend our outreach. ResPublica is also a membership organisation, offering personal membership packages as a means for interested and like-minded individuals to engage with ResPublica in a way that is tailored to their own interests. The ResPublica Business Network is a programme for our organisational stakeholders, as a platform for elevated engagement with ResPublica and fellow network members with the common goal of innovative policy debate and solutions.*

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## Foreword

by Phillip Blond, Director, ResPublica

Perhaps for the first time in thirty years politics is changing. The old orthodoxies of left and right are still dominant, but they are no longer hegemonic. Beneath the surface the tectonic plates are shifting; boundaries are blurring, and ideologies are returning to first principles, creating a new terrain that is slowly beginning to emerge.

This essay collection assembles some of the key thinkers defining this new political space, exploring the ideas emerging as the new centre-ground and setting the scene for what we hope is to come. This is not a centre of compromise; rather, it is one characterised by a radical and revivifying approach which seeks to reject the dominance of prior models, and which places individuals, families and communities at its heart. Despite a difference in approach and indeed disagreement in its realisation, all authors subscribe to a new political and economic order; one in which the marginalised can truly participate and the poor liberated from the cycle of welfarism and market exclusion.

We have hit tough economic times, which have come to affect those in our most disadvantaged communities the most. This calls us to re-evaluate the way in which we conduct our business, understand the market and drive growth – an economic vision embodied in this collection. ResPublica Fellow Diane Coyle, for instance, reflects on the almost inevitable economic short termism of politicians, the historic absence of any values base underpinning our economy, and speculates as to whether the introduction of the new Office of Budget Responsibility will give George Osborne the space to pursue a newly moral approach to the role of Chancellor. Cautioning against complacency in the face of continuing economic hardship, Will Hutton identifies the need for a national plan for growth based around a revolution in innovation driven by what he describes as a “good capitalism” animated by the desire to generate genuine wealth for the whole of society. Further, Lord Layard here highlights the radical changes that will be driven by the adoption of measures of wellbeing, proclaiming an end to wealth-creation as the goal of life and government.

Such values must also be partnered with an economic rendition of the principle of subsidiarity: the grounding of the economy in the community that it serves. Toby Blume makes the case, in line with the wider localism agenda, for the devolution of financial power to localities and citizens, calling for a new model of economic localism to support political and social reform and reconnect capital to place. This must also be coupled by the breaking up of the banks, as ResPublica Fellow, Margareta Pagano, continues to argue, focusing on the agenda for reform that will genuinely prevent our current problems returning with even more disastrous consequences.

Intermediary institutions that break the current financial and economic mono-culture are vital to this task. Our Fellow, Indy Johar, writing with Joost Beunderman, rejects the notion that there is an inherent conflict between big and small within our economy; rather, they identify a key challenge for society as one of finding effective interfaces to bridge the divide. They call for a re-crafting of the boundaries between business, state and community, and perhaps a new Festival of Britain to celebrate the ways in which Britain is building on its deep civic heritage and associational traditions to take the lead in defining a fresh economic and social model.

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This ambitious aim must also hold other sectors to account, calling for action to finally bridge economic and social divides. John Hayes, Minister of State for Further Education, Skills and Lifelong Learning, for instance, highlights the role of education as a transformative means to empower people to take on opportunities, and advocates a rethinking of approaches to education at all levels to meet the changing needs of individuals and society. This is also a vision sought for by Lord Freud, Minister for Welfare Reform, who in this collection outlines how we can reconnect people to the labour market, make work pay and push the debate about welfare on far further than has been seen since the time of Beveridge. Guardian commentator, Zoe Williams, couples the issue with the Early Years' resilience, arguing for a child poverty strategy that broadens the approach beyond simply household finance. Social mobility cannot be improved through redistribution alone: it requires a stock of social capital and the institutions that can foster it, linked in with the wider economic needs of the community.

Further, if we are to rebalance the British economy, a creation of new pro-social business models is needed and from this a renewed understanding of our public services must be carved. Manifestly we must create a new outlook; one that, as Steve Wyler argues, moves us away from the 'command-and-control' reflex of the statist left and instead returns to notions of self-sufficiency and co-operation, producing nothing less than a reinvention of Robert Owen's New Moral World for the 21st Century, based around community self-reliance and control, where social justice is combined with economic prosperity through human-scale solutions.

This can be achieved in new business models of co-ownership, mutualisation and social entrepreneurship. Ali Parsa, the head of one of Britain's largest employee-owned health providers, considers what the UK's budget deficit means for the Big Society, and healthcare in particular, finding the roots of our crisis in the separation of ownership from production, and the statist and neo-liberal barriers to market entry. Further, Ed Mayo describes the election of the Coalition as an earthquake in political terms, precisely because it has upturned expectations and perceptions around which party is genuinely the party of mutualism and asset distribution, and the one best able to rebalance the economy for all members of society.

The devolution needed, and indeed already occurring, with regard to economic and business models has been predominantly applied to the rising localism agenda. The Localism Bill has opened up incredible opportunities for neighbourhoods around the country, as Greg Clark, Minister for Decentralisation, emphasises in this collection, putting power back where it belongs: with people. There remain areas in which further impact can be achieved. The environment is one of them. On this, Roger Scruton calls for an approach to environmental affairs that reflect the genuine concerns of community – the local food economy, green belts, town planning, the countryside and architectural heritage. Like many authors in this collection, he sees hope in emerging, community-led activity, which independent of Government delivers the outcomes it seeks. Continuing on this theme, David Green here argues for the role of communities as real drivers of and investors in a new localised environmental agenda, de-carbonising the way in which the country produces its energy through bottom up engagement incentive and investment. All of which has profound implications for the structure of today's energy institutions and the market which they shape.

The collection also represents the chartering of a new territory in terms civic participation and social innovation. Lord Wei argues for the need to re-open civic space – a project that he emphasises is not

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just for one parliament, but for successive administrations too, beginning with the critical role that government and other actors have in creating and enabling 'civic entrepreneurs.' Focusing on this theme, Cliff Prior reflects on a year of transformation for social enterprise, in which it stepped out of the shadows of dependency on the state, developing a new identity based around the blending of social and financial returns. He identifies new opportunities for social enterprise arising from the loss of community trust in the ability of both state and business to deliver, and the transformation of our relationships with business – from previously passive consumers to contemporary co-creators.

And finally, the new settlement needs to cultivate character and civic virtue. Archbishop Rowan Williams rightly determines this as central to the Big Society agenda and the necessary pre-condition for any civic revival to flourish. Extending this thesis ResPublica Fellow, Professor Roger Steare, argues a similar case for those in executive positions, debunking the modern corporate assumption of self-interest and seeking to reintroduce morality and empathy back into the workplace. After all, in any project to renew society, the social must come first. In this regard, association and gift exchange is the true foundation of politics and economics; a recognition deepened and extended by ResPublica Fellow Professor John Milbank who leads us beyond the sterile debate between 'left' and 'right', proffering instead an alternative political language and space for human realisation.

ResPublica is a forum for debate and ideas. This essay collection is an outlet for the many voices that have, over the past year, come together under a single vision: one that is convinced of the bankruptcy of preceding positions and seeks instead a return to local free association as the true deliverer of a 21st century 'bottom up' revolution that can nurture both economic and social capital and in turn transform the lives and outcomes of people's communities and neighbourhoods. As is clear from the essay contributions, the 'Big Society' is the 'Good Society': it transcends short-term politics, demanding instead a shift in approach from both left and right. We hope that this social vision is one that both sides of the political divide find compelling, as the ideas in this collection belong to an ideal that will shape the agenda well beyond this government and the next. Both conceptions, however, are themselves subservient to their realisation – they may yet fail or succeed. Our task is to ensure that on both the practical and the conceptual level the possibilities contained in this collection can begin to form the fundamental policy architecture of a new and enduring economic and social settlement.

*N.B.*

*I would like to thank all of the authors who have contributed to what has become a lively and provocative response to the emerging political settlement. The possibility for serious and transformational debate is now with us; it should be welcomed and continued. It is within this paradigm that we can realise a commonality around which we can all differ and debate and in so doing we can take our ideas and innovative practices much, much further.*

1.

# A Turning Point

*Greg Clark*





The general election of May 2010 set numerous precedents. It delivered this country's first hung parliament in over 35 years; it led to our first coalition government in 65 years. One of the most remarkable changes of a remarkable election, however, is that it resulted not only in a change of parties in government, but in a fundamental shift in attitude towards the way government should use its powers.

For many years, the general trend in British politics was centralising. When faced with a problem, whether economic or social, politicians sought solutions by pulling on the central levers of power - statutory duties, guidance, targets and inspection.

Often they did so with good intentions, aiming to improve public services and guarantee minimum standards for taxpayers everywhere. But as the cumulative body of centralising measures grew year on year, the adverse effects of Whitehall micromanagement became increasingly evident. Centralism pushed bureaucracy further into public life; at the worst, central controls and targets undermined the very public services they were supposed to improve.

The Coalition Government came to office determined to make a definitive break. We set out a commitment not to hoard power, but to disperse it more widely across the country, with a historic transfer of influence and control from Whitehall to councils and communities, and from officialdom to the wider public.

### **The benefits of decentralisation**

Why decentralise? Centralism puts influence in the wrong places, seeking to apply stock solutions to communities that are formidably diverse in their needs and expectations. A single policy, on say boosting employment, devised in SW1, is unlikely to be so flexible as to meet the needs of central Newcastle and rural Cornwall at one and the same time.

But more than this, decentralisation offers a means to increase prosperity, allow for the personalisation of public services and make a more vibrant and more democratic Britain.

First, decentralisation supports the more effective use of public resources and wider economic growth. An excess of central control leads to a poorer use of public cash, with money wasted through micromanagement. For example, the Lyons Review cited that the National Audit Office estimated that the overall cost of monitoring local government was in the region of £2bn each year<sup>1</sup>.

Second, a culture of target-setting has progressively undermined the discretion of frontline professionals. One of the notable moments of the 2005 general election campaign came when a voter unable to make a non-urgent GP appointment more than two days in advance, as a result of Whitehall target-setting, expressed her frustration to the then Prime Minister. It was just one example of a much wider trend of a culture of centralism leading to public servants chasing Whitehall targets, rather than listening and responding to individual needs.

Third, Britain has always derived its strength from the ingenuity of individuals and communities, not largely from the actions of government. Centralisation stems from the assumption that people cannot be trusted to make sensible decisions in their own best interests, and so need a firm hand: yet telling people what to do is often counterproductive. Consider the reaction to housing targets in Regional Spatial Strategies. These led not to a new wave of housebuilding, but to resentment, in many parts of the country, at what was perceived as imposition from Whitehall. Conversely, giving people the opportunity to play their part in local life on their own terms can capture their enthusiasm and entrepreneurship for the good of the local community and the country.

### **To achieve a more decentralised Britain, government has powerful role to play**

It is one of the ironies of the position we find ourselves in today that, so entrenched is the centralised approach in our public services, it will

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<sup>1</sup> National Audit Office response to Sir Michael Lyons's Inquiry into Local Government, March 2006, para 12

## A Turning Point

take the exertion of significant determination by the central state to transfer influence and control to a local level.

Over the past year, the Government has begun to pass control to local authorities, and to place new powers in the hands of communities and their representatives. As I set out in my “guide to decentralisation”, published in December 2010<sup>2</sup>, there are six essential actions that the Government is taking to change the balance of power in Britain today.

We are lifting the burden of bureaucracy by, for example, radically reducing the burden of targets and inspection on local authorities. In the Localism Bill, currently before Parliament, we are seeking to give communities and their elected representatives new rights to do things their way, and exert greater influence over local decisions: most notably, a new “general power of competence” will make it easier for councils to act in innovative ways in response to local residents’ needs. And we are increasing the local control of finance by reducing the ringfencing of grants paid to councils.

These examples are drawn from local government, which has a crucial part to play in achieving a transfer of power to local level; but decentralisation is not the exclusive preserve of any one minister or part of government. Far from it. Pushing down power is the key to reforms across a whole range of services. In education, for instance, we are encouraging new providers of public services by paving the way for a new generation of academy schools. In health, we are increasing transparency by giving patients the information they need to exercise greater control of the health services they receive.

One year on, we are taking stock of progress. We are assessing which parts of government have

done most to decentralise power. By working with departments to assess progress, we are encouraging a different mindset, so that policy-makers faced with a new challenge do not immediately reach for those central levers of power.

Overall, from our early findings, it is clear, on the one hand, that a significant change has begun; on the other, we need to go further still over the next year and beyond to make the most of this turning point in the relationship between government and people.

Looking ahead, I hope and expect that the effects of our reforms will be to change some of the default positions in the way we organise our public services and civic life.

### **1. There will be many more opportunities for local communities to do things differently**

Decentralisation is predicated on the belief that good ideas abound in our communities. Everyone should have the opportunity to put forward their ideas for improving services, not exclusively those in power and authority. Of course, some enlightened service providers open up opportunities to engage with and influence commissioners and providers. But this good practice is far from universal. We believe that communities should not be left to rely on the magnanimity of service providers, but have the right to demand the chance to influence the services they receive.

Through the Localism Bill, we are introducing such a right in some specific circumstances. The “right to challenge” will make it easier for social enterprises with a bright idea for how they could deliver a local public service better than it is currently done the right to pitch their idea to commissioners, and expect to have it taken seriously. The “right to buy” will allow local groups who want to take over an important local building and facility - such as an old local pub or meeting hall - when it changes hands - extra time to put together a credible bid to do so.

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<sup>2</sup> Decentralisation and the Localism Bill: an essential guide; December 2010  
- <http://www.communities.gov.uk/publications/localgovernment/decentralisationguide>

The introduction of such rights should, I expect, lead to a wider shift in culture, a change in the default presumption. Communities should be able to expect to influence all kinds of local decisions that make a difference to their lives have the opportunities to initiate ways of doing things differently; service providers and commissioners should expect, as a matter of course, to involve and include local people in the design and delivery of services.

### **2. Public officials will increasingly look to their communities rather than to Ministers**

Second, decentralisation implies a changing role for public officials. For too long, a culture of centralism has encouraged officials to look to Ministers for approval, and to wait for clearance from the centre before working in new and innovative ways. In too many places, the response to innovative suggestions from local communities has been “is that permitted?” In the future, civil servants’ first response should be to ask themselves “how can we make that happen?”

In central Government, we have already founded a team of barrier busters, senior civil servants dedicated to helping community groups achieve their ambitions. We have set up a website – [barrierbusting.communities.gov.uk](http://barrierbusting.communities.gov.uk) – where community groups who want to do something for local people (whether it’s setting up a cycle path, or renovating the local park) and encounter obstacles (whether it’s an unintended consequence of legislation, difficulty accessing funding or the recalcitrance of local officials) can ask for advice and help. Our aim is to turn government upside down, and give to local groups the kind of support previously only available to government ministers.

This is, writ large, a foretaste of how the role of public official, in Whitehall and town hall alike, needs to change in the coming years: more visible, more accountable, more responsive to people’s needs.

### **3. Local democracy will become more vibrant.**

Decentralisation implies a significantly changed role for local government in all its forms. Progressively, over the course of a decade, local government has become too much the indirect agent of central government, straitjacketed by guidance and control. Decentralisation will enable local government everywhere to consolidate and strengthen its sense of independence. Local government has never been a single entity; there are many different local governments. As well as positive new powers for councils, and further reduction in the burdens of bureaucracy imposed by Whitehall, reform of finances will be key. Greater control over monies raised in the local area – through changes to the way business rates are administered, and the effect of such policies as the new homes bonus – will enable councils to become more self-sustaining.

As councils grow in independence, the role of the local councillor will be crucial. As the elected representative, answerable to local people, they will provide the vital element of democratic accountability. Greater discretion for the council will translate into greater opportunities for the councillor to effect meaningful change for local people. This in turn will make that role, already highly fulfilling, more attractive still.

### **4. There will be a more mature debate about local differences**

Putting people in control of public services will lead, inevitably, to a variation in how people want to do things. Traditionally, this has led to arguments against what are called “postcode lotteries”. But increasingly, decentralisation should mean that there is a greater appreciation of the converse argument – that the real “postcode lottery” is a monolithic, one-size-fits-all approach dictated by Whitehall which falls short of different communities’ needs and aspirations. Local variation should reflect conscious choices made by different people.

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These local differences allow for exploration and innovation, enabling providers to try out new ways of designing and delivering services. Not all will succeed; but where they do succeed, it will be easy for providers everywhere to adapt their good ideas to local circumstances. Compare this to the traditional provision and design of services by Whitehall: when a national scheme fails, it fails everywhere. A diverse, localised provision is ultimately more resilient. If decentralisation succeeds, we can expect a more mature debate about these risks and benefits.

### Conclusion

Over the first year of the coalition government, a long-term and meaningful change has begun, putting power back where it belongs. I labour under no illusion about the challenge ahead if we are to keep up the momentum, changing the culture in public service, and winning the argument that responsibility must follow power.

But I have confidence in the strength of the case for decentralisation, in the ability of public officials to understand and put into practice a new way of doing things. We will continue to support and challenge colleagues in Whitehall, in local councils and the voluntary and charitable sector to make the most of the opportunities presented by the wider distribution of power across the country: and together we will make the beneficial outcomes of decentralisation last for the long term, strengthening democracy, revitalising public services, and underpinning our prosperity as a nation.

*The Rt Hon Dr Greg Clark MP is Minister for  
Decentralisation*

Greg would be keen to hear your views at:  
[decentralisation@communities.gsi.gov.uk](mailto:decentralisation@communities.gsi.gov.uk)

# 2. Character, Civic Virtue and the Big Society



*Rowan  
Williams*

# Character, Civic Virtue and the Big Society

*I intend in this essay to reflect a little on the implications of our current discussions around the 'Big Society'. My hope is to suggest ways in which it can be a vehicle for serious rethinking of our national (and international) priorities at a time when some of our conventional pictures of left and right in politics are under question. This certainly doesn't mean that we should see it as a sort of halfway house between different sets of principles. I believe that the possibilities are more radical than that, involving the development of a new set of principles – or perhaps, as I shall also be suggesting, not so new after all. A politics, national and international, of local co-operation and 'mutualism', rooted in a sense of political virtue and appealing to human empathy – this is, as far as I can see, a large part of what my religious faith has always looked towards. That faith will be shared by some but not all in this audience; I hope that what I say will have some resonance with those who do not begin where I begin, and may even suggest that there is some significant intellectual and moral capital to be discovered in the world of theology as we seek for ways forward for a society currently facing the likelihood of pretty high levels of anxiety and disorientation.*

## 1. Opportunities for the Big Society

The theme of the Big Society has found its way into a wide range of contexts in the last year or so. Reactions have been varied; but we should not be distracted from recognising that – whatever the detail of rationale and implementation – it represents an extraordinary opportunity. Introduced during the run-up to the last election as a major political idea for the coming generation, it has suffered from a lack of definition about the means by which ideals can be realised. And this in turn has bred a degree of cynicism, intensified by the attempt to argue for devolved political and social responsibility at exactly the same time as imposing rapid and extensive reductions in public expenditure. The result has been that 'Big Society' rhetoric is all too readily heard by many as aspirational waffle designed to conceal a deeply damaging withdrawal of the state from its responsibilities to the most vulnerable.

But cynicism is too easy a response and the opportunity is too important to let pass. As the financial crisis of the last few years became more serious, a good many voices were being raised to say that the traditional map of British – and indeed global – politics had become obsolete. The apparently irresistible advance of largely unregulated financial transaction had been tolerated by left and right because of its apparent ability to secure high levels of individual prosperity and a satisfactory, if not exactly spectacular, tax income to support national defence and welfare. It had, of course, done little to liberate struggling younger economies or deeply indebted countries, but a modest degree of government-to-government aid, allied with exhortations and some conditionalities around more transparent governance, was part of the routine expenditure of administrations in the developed world.

But this had in effect loaded the responsibility for both individual and social welfare on to a set of feverishly active but very fragile instruments and had to a greater or lesser extent shaped the fiscal possibilities for elected governments. Thus it had also vastly increased the actual insecurity of both individuals and societies: variations in the financial market had the potential to change the value of the savings and pensions of millions. And when those variations became substantially more feverish than usual as a result of an accumulation of reckless debt-trading, the result was dramatic, and its longer effects are now dictating policy on health, education and much more.

Strictly economic remedies and alternatives of various sorts have been much discussed. But along with this, there has been a more clearly *political* response – political in the sense that it asks questions about the proper location of power, about where the levers of change and control lie in society. And this in turn generates a crucial set of questions about political ethics or political virtue: if we need to explore where power lies, we need also to explore what we want power to *do* and why. It is in this context that discussion has been developing about – for example – the proper definition of wealth and well-being, about individual and communal goals, about the sort of

human character that is fostered by unregulated competition and a focus on individual achievement, and about where we derive robust ideas of the common good and the social compact. It is in this context that the 'Big Society' theme has to be understood.

## 2. Character and empathy

'Character': another term that is easy to treat cynically, because we readily associate it with caricatures of clergy and schoolteachers talking about 'character-building' activities – i.e. usually unpleasant or strenuous things that no normal person would actually want to do left to themselves. But there is a growing recognition that we do after all need the language of character and of virtue; and no amount of exhortation to pull our weight in society (big or otherwise) is any use without some thinking about what kind of people we are, want to be, and want others to be; what are the habits we want people to take for granted, what are the casual assumptions we'd like people to be working with?

We have as a society allowed those habits and assumptions to drift steadily towards a preoccupation with the individual's power to maximise choice, so that 'freedom' comes to be defined as essentially a state in which you have the largest possible number of choices and no serious obstacles to realising any of them. And politics has accordingly been driven more and more by the competition to offer a better range of choices – a marketising of public discourse thoroughly analysed by many observers in the last decade or so. But as our current debates seem to indicate, we have woken up to the fact that this produces a motivational deficit where the idea of the common good is concerned. It is interesting that part of the repertoire of a certain kind of reactionary journalism is the abuse of 'bleeding-heart' liberals or reformists or whatever; as though the idea that *empathy* might be a proper driver of action and change is automatically laughable.

The point about empathy is that it implies a particular kind of emotional awareness. It lets us know that what we feel is not just a private affair: communication with others is possible

because emotions can be shared in language and imagination. And the conclusion is that I am able to learn more about myself from others – to have my horizon extended by listening to the words of others, to develop a sense of different possible worlds and different ways of understanding or seeing myself.

What I feel, and my capacity to externalise what I feel, are not the end of the story – arguably not even the beginning of the story. They must lead into a real mutuality of concern. And 'character' is one of the words we use to describe what happens when we begin to construct a serious, long-term account of who we are as persons, in conversation with others, instead of staying within the territory of what we think we are sure of – our own felt life – and assuming the absolute priority of this in our policies or decisions.

There is now a substantial literature on the development of emotional intelligence, some of which has thrown into sharp relief the ways in which social and relational signals in early life can create long-term distortion of the capacity for empathy, sometimes, it is argued, in ways that are neurologically traceable. And, if we pursue the connections within this research, empathy is linked with the capacity to inhibit those unquestioned emotional responses that can, unchecked, result in wreckage; with the capacity to see an integrated picture of the environment in which immediate emotional response is not everything.

Iain McGilchrist's bold and wide-ranging writings on the functions of the hemispheres of the brain make the point very forcefully that a culture in which one kind of cerebral function is disproportionately privileged over the other – where analytic functions predominate over more holistic perspectives – is in some trouble. If we live in a milieu where a great many signals discourage empathy and self-scrutiny, and thus emotional awareness, we shall develop habits of self-absorption, the urge for dominance, and short-term perspective. Our motivation to change anything other than what we feel to be our immediate circumstances will be weak, because our sense of ourselves as continuous, reflective agents will be weak.

# Character, Civic Virtue and the Big Society

And the clear implication of all this is that without an education of the emotions – which means among other things the nurture of empathy – public or political life becomes simply a matter of managing the competition of egos with limited capacity to question themselves. It will amount to little more than the kind of damage limitation that arises when we have nothing robust to appeal to except universal entitlements.

## 3. Civic character and the Church

Back to the public questions with which we began. These thoughts about empathy are meant to underline the fact that the relocation of political decision-making from state to locality may be worthy or desirable in itself, but is doomed to failure unless it is accompanied by some sustained thinking about how character, and in particular civic character, is formed, and how a system of social relations can be shaped by the mutual recognition we have just been thinking about.

One modern writer said of the moral exhortations of Christian faith that they could not be understood just as simple and universal commands to which we said yes or no, because they presupposed a specific kind of human awareness that took time to grow; they were ‘addressed to people who do not yet exist’. The same might be said of exhortations to civic responsibility. It is at this point that we can see most clearly the connection between ‘Big Society’ language and those institutions that still prize and try to nourish character, above all the communities of faith, and very specifically – I make no apology for foregrounding this – the sometimes fragmented or marginal but still visible communities of the established Church, with its commitment to continue its presence in every locality in the nation.

The Church is frequently seen as a divided, fractious and inward-looking body, and there is far too much that makes this a fair assessment in many circumstances. But its central images and commitments rest on something very close to the empathic recognition that we have seen as essential to social vitality. The familiar language of the ‘body’

as a focal image for Christian community carries with it the acknowledgement that no one element in the social order can know itself accurately without knowing its dependence on others and also its responsibility towards others. Mutuality is written in. And whatever the routine perceptions of the Church in some vocal quarters of modern British society – dismissive, hostile, patronising – it remains true that it is still *expected* to behave in accord with this, and so to value in a particular way whoever comes to its doors.

I have a vivid recollection of sharing years ago in an event organized by the National Union of Mineworkers at a time of intense pressure and uncertainty, and being told by a very secular speaker on the same platform that I was there to remind others of all those who did not have the institutional solidarity of unions to support them and so depended on the solidarity offered by the Church – the elderly, the children, the disabled, those who had never worked, all who were beyond the arithmetic of social ‘usefulness’. It was a salutary insight into how much implicit theology there is in parts of our society to call the Church to account.

But for the Church to step up to these expectations, it needs to be a place in which the formation of character, the enabling of human recognition, is of first importance. And I would venture to say that this is its primary responsibility in the present context. It is right that the Church should be challenged – along with other civil society networks – to build the capacity of local communities to solve their problems. It is definitely not right for this to be a matter of hiving off moral questions to the private sphere. If the Church is in the business of building character and empathic maturity, it will be building the character of *citizens* – that is, of people who have the power to vote and thus in some measure to shape public policy.

There may be an attempt to delegate public responsibility for ‘welfare’ (I use this unhelpful word advisedly, as representing what seems to be the attitude of some to the question) to those who may be expected to feel the responsibility more acutely than some others. But if the Church is actually nourishing empathy, mutual recognition,



then it is nourishing people who will continue to ask difficult questions in the wider public sphere, questions – for example – about how the priorities are identified when cuts in public expenditure are discussed, about the supposed absolute imperative of continuous economic growth, or about levels of reward unconnected with competence in areas of the financial world.

### 4. Cultivating virtue

Both Church and other institutions such as the academy, when operating freely and confidently, and are understood for what they are in society, are committed to enabling what I have been calling ‘recognition’, the awareness of a common human location and task that limits our suspicions and our tendency to self-protection and allows us to compare with one another what it is like to be human – and so to clarify what we can and cannot do together.

A ‘Big Society’ programme that does not acknowledge the absolute importance of nourishing this recognition (which also includes nourishing trust in public life and its institutions) is a waste of time. If, on the other hand, it works with an awareness that good ‘localism’ can, with the right kind of statutory support and resourcing, play back into the debates and decisions of the national polity, it might yet achieve something remarkable.

The least happy outcome would be if the split between a moral private sphere and a pragmatic public sphere, virtuous ‘community’ and neutral ‘government’, were reinforced. The best outcome would be if the virtue of the local and voluntary genuinely inspired a different kind of national politics.

Thus, instead of hiving off the building of sustainable community to voluntary bodies (leaving central government to balance the books however they can), a localist agenda could revitalise pressure from below on government and statutory bodies to re-engage with a morally robust programme for the common good, nationally and internationally.

By a ‘morally robust programme’, I mean a realistic debate about taxation, about investment in a real not a virtual economy (i.e an economy that actually produces *things* and specific services rather than paper profits alone), about the appropriate rewarding of work in health and education, about the support offered in public policy to children and families, about the extent of commitments to the development of poorer economies and much else.

And somewhere near the centre of these concerns might well be, in the immediate future, the urgent question of how we develop the proposals around a ‘Big Society Bank’ that have now been set out in the Government’s strategy for *Growing a Social Investment Market*, with the promise of capitalisation from ‘dead’ assets in bank accounts and a further injection of £200 million from the main British banks.

Such capitalisation will provide resources for projects developed with the help of specialist intermediaries. And one obvious challenge and possibility for voluntary bodies (including for this purpose the churches) is to assist in connecting visionary projects with the sort of advice and support they need to become ‘investment-ready’. This and other proposals for encouraging social investment have some real potential for allaying at least to some extent the feared social cost of the current cuts. This is one area where turning elevated aspiration into monetary reality may now be a serious possibility.

The mention of international development issues raises some further searching questions in relation to the Big Society vision. We are told that centralism is to be deplored and that the heart of true and transformative politics is the building of local capacity. As we have seen, this broad-brush position may need some qualification; but insofar as it recognises the dangers of directive centralism in creating a dependent rather than a creative political culture at every level of society, insofar as it gives a proper place to the development of political virtue in actual persons, it is a serious and attractive vision, which a Christian theologian has many reasons for

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applauding. However, it is just those reasons that will make the Christian theologian pursue the issue of global power relations as well as local.

If it is the case that the workings of the global market take power decisively away from local economies (and locally elected governments) there is a question to be asked. As things stand, the defenders of the globalised economy claim that it is only the operation of the market that will finally liberate local economies to lift themselves out of endemic poverty; and in theory they have much on their side. In practice of course, things are very different.

Both hidden and overt forms of protectionism are present; indebted countries have regularly been pressed to deal with their debts by accepting a particular style of liberal deregulation from international financial institutions, with the frequent effect of distorting a country's productive capacity and driving up the prices of essentials (though these drastic techniques are not quite so popular with the World Bank and IMF as they once were). Whatever the current system, it cannot reasonably be presented as one that delivers substantial decision-making power to local agents.

## 5. The position of power

The priority is to keep a clear focus on the need to guarantee that power in the global economy does not simply continue to flow towards those who are already secure and wealthy. What I am here arguing for is a thoroughly coherent account of what 'Big Society' ideals might mean, in such a way that the theme of a transfer of power is pursued at every level, national and global. One important thing to bear in mind is that we can easily be misled into thinking that the suspicion of centralism must involve a systematic hostility to state provision of services. But if we approach the question by way of thinking about where power lies, we have to consider carefully those areas in which local effectiveness can be sustained *only* by the broader public provision of infrastructure.

National transport networks are the obvious example; but the same principle applies to all those aspects of common life where justice requires us to avoid 'postcode lotteries' – in other words, those aspects of common life where national *parity of standards* guarantees that no-one's local liberties or possibilities are unduly limited by contingent local factors to do with prosperity, mobility, local natural resources and so on. In this light, there is no alibi for the state in securing equally excellence, so far as is humanly possible, through the national resourcing and monitoring of health care and education, not to mention pensions and disability provision, housing security for the destitute and the care of children in every context where they are present.

There would probably not be much disagreement about this, expressed in these terms; but we need to spell it out with the greatest possible clarity in the present climate. Localism does not mean the dissolution of a complex national society – let alone a complex international network of societies – into isolated villages. It means, for one thing, the familiar principle of 'subsidiarity', so important in Catholic social thought – the principle that decisions need to be taken at the appropriate level. But an implication of this that is not often enough brought out is that there *are* issues appropriately dealt with at state level – not least because local freedom to take effective action depends on such issues being addressed at more than the local level.

Similarly, pursuing the analogy with the international situation, local economies will not blossom and function as they might without attention to the terms of international trade and finance. It is vacuous to suggest that a national economy, once introduced to the saving truths of global capitalism, will at once begin to produce and spend and save its way out of poverty by its own efforts only. If it is entering an already slanted, protectionist environment, and still more if it has inherited unpayable debt contracted in the past, it will need something from the international instruments of finance to secure and strengthen what it can do. And, as already noted, even

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microfinance initiatives will need some measure of international regulation and quality assurance if they are to be long-term agents of empowerment.

We look for and, I hope are willing to work for, a society in which the bonds created by civil society groups, including very particularly the Church and other religious bodies, guarantee – so to speak – a thick-textured social life, in which people have many communal identities enriching their experience, from the more functional (like belonging to a credit union or a political party, a neighbourhood watch or a food co-operative) to the more imaginative and creative (a choir, a sports club, a Bible-study group). Out of those identities will come the energy and empathy to be ready to organise communities for mutual security and support.

At the same time, the world *is* getting ‘smaller’, not only in the sense that communications bring other people’s reality closer to us all the time, but in the sheer practical impact of changes elsewhere in the globe on local conditions, most particularly in economic matters. Unless we can think intelligently about what really does need doing and can only be done at national and international level, localism risks becoming a rather sinister programme in which every local community sinks or swims according to its immediate local capacity. This is not only a morally and theologically insupportable picture; it is also a wholly unreal one, given the more and more sophisticated kinds of interdependence that bind us.

The localism that is gaining traction at the moment reflects a deep impatience with what some would see as the legacy of Fabian corporatism – the belief that the state is invariably best placed to be the immediate provider of all services, with the result that what I called a moment ago the ‘thick texture’ of social life is impoverished, a proper civic pride is flattened out by a uniform bureaucracy, and ‘public service’ is reduced to the servicing of this bureaucracy. The reaction against this has been powerful in British politics since the eighties –

though it has been accompanied by a paradoxical increase in bureaucratic surveillance and control, through the vehicle of the regulation of various activities and the pressure for compliance with regulatory standards in areas where they were previously informal.

But this reaction itself has generated some damaging mythologies about state and community. The combination of a starry-eyed conviction of the market’s ability to maximise everyone’s welfare and a suspicion of professional vested interests produced not a localism of community and plural texture of belonging, but an attempt to squeeze all social activities into the terms of market exchange. Being a citizen was what guaranteed you the vote; being a consumer was what guaranteed you local and personal freedom. The Big Society vision, so far as its content can be teased out, seems to represent another and potentially more promising reaction, recognising the dangerously ‘thin’ account of humanity produced by this mythology. And the remarkable opportunity of this moment in political history is that it is possible to think and talk about a social model that is neither Fabian nor Friedmanite, neither statist nor consumerist.

My concern is that we use this opportunity to the full – and particularly that we do not treat the enthusiasm around some sorts of localism simply as a vehicle for disparaging the state level of action to secure the vulnerable, nationally and internationally. It is welcome that there is a concern to think about relocating power; but, as we have seen, for this to work well depends on being reasonably clear as to what you want power to do – which includes the ‘backwash effect’ of serious localism in re-energising national and international policy, to the extent that it is building real civic virtue.

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3.

# Co-operative or Not?

*Ed Mayo*



When an earthquake comes, it comes quickly. What takes longer is to gauge in the littered landscape what remains robust and what more must be pulled down. This is what I learn this month from Taka, Chairman of Seikatsu Consumer Co-operative, one of the most inspiring enterprises in the world. He says "the scale of the disaster must be one of the biggest natural disasters in our history. The reconstruction involves people in solidarity, cooperation and working together between Japanese and Asian friends." At the level of ideas, though, he includes nuclear power as one part of the policy landscape that should not now be restored. We need, he suggests, "a fundamental review of alternative ways of life. The world people has to learn that the life style and production style of the advanced countries including Japan have already been not sustainable through the fact of this disaster."

The formation of the first modern UK Coalition Government can probably be counted as a historic event on any political richter scale. But, inevitably, it is the events from 2007 to 2009 in terms of the collapse and unravelling of leveraged credit that represent the underlying, ground-shaking episode that we have lived through and to which politics and policy has to respond. Any party in power would have their ideas and philosophy tested as to what reconstruction needs to look like. What can be propped back up, what rebuilt with new stabilisers and what ought to be subject to more fundamental review?

The economic context has breathed life into debates on the role of the state and on the limits of the state. It has also opened up interest in different models of markets and of capitalism – with an interest in how to marry resilience and sustainability alongside enterprise and innovation. It is in this context that the role of co-operatives and mutuals has emerged as a central theme of economic philosophy and political strategy. The co-operative model is where a business is run for the sake of members rather than external shareholders. The UK has an outstanding tradition of mutuality. There are 4,992 co-operative businesses, owned by 12.9 million people – one in five of the population – and sustaining more than

237,000 jobs. This include the largest consumer co-operative in the world, the Co-operative Group. The overall sector has a combined turnover of £33.5 billion – around £644 million per week.

Research by the International Labour Organisation has suggested that co-operative and mutual banks both largely avoided the behaviours that contributed to the credit crunch and have emerged with strength from the economic uncertainty that has followed. The Co-operative Bank has been acclaimed the world's most sustainable bank and from Canada, the co-op Desjardins has been dubbed, by the financial press, as the bank for our time. More widely, whereas only 18% of people believe that companies are likely to behave fairly, the contrast with co-operative businesses, where the figure rises to 75%, is remarkable. Such research suggests that there is a wider consumer ferment in attitude and expectations in relation to markets and business post the credit crunch.

In the early years of the last Government, the everyday, working-class roots of the co-operative movement were seen as a handicap. "Cloth cap, not us," as one adviser to Tony Blair put it to me. But, after the credit crunch, how times changed! Tessa Jowell called for public services to be delivered by new co-operatives, in which users and staff were to have a say. And she launched an independent commission on ownership to develop new proposals on shared ownership. This is due, under the Chairmanship of Will Hutton, and with the encouragement of the new government, to report in October 2011.

But this rediscovery of mutuals by New Labour so soon after the credit crunch was very late in the day for its term of government. Around the same time, pre-election, the Conservatives had been preparing their own co-operative society, arguing for example for an upsurge of new food co-operatives. There had long been interest in co-operatives and mutuals from the Liberal Democrats and Green party. The Scottish Government had established a national Co-operative Development Agency, while the Scottish Parliament and the Welsh and Northern

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Ireland Assemblies were launching their own cross-party initiatives. As a result, the manifestos of all the political parties going into the 2010 election were the most co-operative friendly of any election post 1945. Like Fairtrade, which is powered by farmer and producer co-operatives in developing countries, co-ops have gained a halo of recognition and support across the political parties.

David Cameron, for example, promised that, under a new Government, he would “establish a Public Sector Co-op Service, which will have a full-time staff with the resources and expertise needed to provide guidance to every public sector body about becoming a co-op. It will act as a battering ram for the co-operative movement within government, and will help to transform the public sector, driving down costs and improving morale and productivity.”

This hasn’t happened as yet, but the Coalition Agreement included a range of linked commitments, to:

- bring forward detailed proposals to foster diversity in financial services, promote mutuals and create a more competitive banking industry
- explore opportunities for employee ownership in relation to postal services
- encourage the reform of football governance rules to support the co-operative ownership of football clubs by supporters
- encourage community-owned renewable energy schemes where local people benefit from the power produced
- support the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services
- give public sector workers a new right to form employee-owned co-operatives and bid to take over the services they deliver.

So how effective has the Coalition Government been in terms of harnessing the potential of co-operative and mutual models and where does this now go?

The most tangible progress has been made in relation to mutual options for Post Office Limited and for new forms of localism – both with legislative underpinning. The Big Society has allowed for an airing of themes around reciprocity and social participation, but what has been surprising is not so much the political debate for and against the Big Society, but just how marginalised within the Coalition Government itself, the actual programme of work itself has been. The encouragement for new mutuals in public services has likewise been presented as centre-stage, but the practical delivery, for example in terms of resources for guidance and business support, is a poor fraction of what is required to turn aspiration into reality. Inevitably, there was always going to be a gap between political narrative and policy translation. But what has been surprising is that, overall, around co-operation and mutuality, there is not just a gap between political rhetoric and policy reality but a gulf.

There are two reasons for this. The first is institutional, that Ministers are relying on a civil service that has never before been asked to engage with non-state traditions of self-help and mutual aid. They not only do not understand co-operative and mutual models, they don’t admit to it. At the heart of this is a Treasury that is a lame donkey when it comes to exploring market diversity and different models of ownership and enterprise. Whether it doesn’t fit their models or, more likely, their pre-conceptions, the Treasury record on co-operative enterprise is desultory. Bread and butter work, such as the enactment of already agreed legislation on credit unions and societies, introduced with cross-party support as a private member’s bill in the previous parliament, has been hopelessly delayed, by up to two years. A stream of working groups pull in co-operative experts, only to face delay and repetition from civil servants, who are well meaning but lack the time, support or knowledge to act differently. Years of

piecemeal change under the last Government, through hard-won private members bills to try to modernise the legal forms underpinning mutuals is simply accepted as good enough – including a wholly neglected and inefficient registration of new societies, which then creates problems for all when the regulators find that they have done it wrong down the line. It is not just Treasury though, but most departments. In Education, a co-operative model for academies in England was held up for months by civil servants who wanted to know if co-operatives could keep their membership closed rather than open (they can't) and leave aside a focus on values (they can't).

It should be as straightforward to start a co-operative as any other form of business – but we are a long way from this now. For example, new regulations around electronic communication, for example, were introduced as requirements in late March 2011, with just ten days for thousands of businesses to make significant changes to their marketing and communications. Because Treasury couldn't get its act together, it passed the buck and the burden onto business. No enterprise would dream of acting in this way and getting away with it. But Ministers are briefed that nothing could be any different to the way it is. What is needed is what has happened for the two other great corporate forms over the last decade – charities and companies – although it should be easier for mutuals, which is for a consolidating Act for Mutuals, drawing together the myriad of legislation to get the clarity and quality right. At present, co-operative societies have to link with around fourteen major pieces of legislation, many represented by a succession of piecemeal private members acts. The last act of consolidation for mutuals was around fifty years ago.

The second reason, also linked to pre-credit crunch policy myopia, is intellectual. The Coalition Government has not yet developed a sufficient programme of the policy 'means' that can give to life to some of its political aspirations. In the case of banking, it was depressing to see that, whereas the Coalition Agreement focused on

promoting 'diversity' in financial markets, this was removed as a goal from the original terms of reference for the Vickers Commission. As night follows day, the Commission then produces a report that almost entirely ignores the dimension of diversity of institutional forms and assumes that regulation should treat all banks as if they were shareholder-owned PLCs. For orthodox competition economists, the conventional policy framework can question market concentration and barriers to entry. But it doesn't yet consider markets as complex systems, where institutions may act on different incentives according to their ownership structure and culture, and where notions of diversity and resilience have value. This is not just about co-operatives and mutuals, but family-owned firms and micro-enterprise too.

The Coalition Government can't legislate for changes in economic thinking, but it can nudge policy-makers to reflect new insights. I argue that all regulators, for example, should have regard for diversity in the market and when legislative opportunities emerge, this should be integrated into their formal objects. We need to explore models for what I call a 'diversity index' that regulators and policy-makers could use across different markets to track progress over time in relation to taking advantage of the full range of enterprise and ownership models.

These two failings, institutional capacity and intellectual, can overlap of course. The risk around the take-up of the new framework on localism is not a lack of radical intent, but the practicalities of community action. This, after all, was the experience of the pioneering Scottish model of a community 'right to buy'. Civil servants invent procedures that they believe can help Community Land Trusts use the legislation, or that can help communities buy pubs that are struggling in their neighbourhood. But what is designed in Whitehall, particularly with an eye not to upset wider business interests, will not easily work in communities. Co-operative pubs, for example, have often been cited by Ministers as exemplars of the Big Society. But when the Department



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for Communities and Local Government pulled the plug on an extension for pubs of the highly successful village shops programme by the Plunkett Foundation, it was left with not even a fig leaf to offer communities faced with pub closure. It is still early days. We should expect, quite reasonably, that there will be a need to refine the localism model over time. To make localism and the Big Society work will take focus, patience and an ear for listening more systematically to community level enterprises.

The same is true for the programme of work on public service mutuals, where it is valuable to listen and learn from countries overseas that have made a success of new co-operatives. There are, for example, around 550 co-operative schools in Spain. In Italy, over 7,000 co-operatives provide social care, health and employment services in Italy – arguably the most extensive and successful programme of mutualisation anywhere in the world. The co-operatives have grown from 650 in number in 1985 and now employ over 244,000 staff and close to 35,000 volunteers. The success of co-operative schools in Spain and social co-operatives in Italy has come from creating a clear model, relatively straight-forward to implement in the context of procurement, with (in Italy) reduced rates of taxation and (in Spain) long-term contracts, that has allowed staff and users to come together in co-operative enterprises in order to improve and innovate around the services on offer to people in need.

A review by Jonathan Bland of the lessons from overseas for public service mutuals has recently been published by Co-operatives UK. Jonathan concludes that the “key ingredients include: specialist business support; clear co-operative and mutual models; participative governance of the new mutuals; organisational forms that can be recognised in procurement; long-term commissioning; solutions for taxation constraints when moving from state to becoming a non-state mutual; links to the wider co-operative and mutual business sector; and an openness to user involvement as well as employee ownership. The UK policy context does not emerge particularly

well from this comparison and this must form something of a reality check. However, it is early days for the new programme and, with political will, there is scope to accelerate action and to tackle obstacles that may arise.”

In the UK, the most significant mutualisation proposed by the Coalition Government is that of the Post Office. This has been developed outside of the Cabinet Office framework and, interestingly, has taken account of some factors sidelined in the main programme – such as the benefit of a user voice in monopoly situations where handing services over to staff alone carries significant risk in terms of incentives. In November 2010 the Department for Business Innovation and Skills (BIS) published its report ‘Securing the future of the Post Office in a Digital Age’. This report examined the challenges faced by Post Office Ltd. It suggested that the current ownership structure may be holding the business back as it poorly aligns the interest of its different stakeholders. The Postal Services Bill, introduced in Parliament, enables the separation of Post Office Ltd from the Royal Mail Group and allows for it to be mutualised in future. What the Bill does is to specify conditions which must be met by any mutual wishing to take on the running on the company, and sets out the purpose of the mutual, which it states should exist to act for the public benefit.

With colleagues, I have been working with BIS, Post Office Ltd and its stakeholders to explore options around mutual status. This has recognised that converting into a mutual involves not just a wholly new set of governance arrangements, but something more fundamental. Exploring a mutual option is not a cosmetic exercise, but an opportunity to renew the core relationships within the overall business, to set them in a new context of co-operative ownership. Without a sustainable business model, mutual or otherwise, there will be no long-term post office network. But mutual models could represent an opportunity for the kind of relationships that can make it more likely that the Post Office will succeed.



## Ed Mayo

These are examples of policy at pace. All governments tend to learn by doing. It is just that for some, the learning comes too late. The Coalition Government has been active, almost hyperactive, on so many fronts that it can then create its own barriers to learning, as it has neither the time nor the capacity to reflect and then act on what it finds. The truth is that self-help and state action are at the very opposite ends of the spectrum of social action. The case for learning what works and what does not therefore is all the more urgent. Co-operatives are independent businesses, but as with any other form of enterprise, they need the right environment to thrive. Co-ops need a fit-for-purpose legislative environment and they need recognition in key areas of economic and social policy. The intentions are clear – with a strong set of commitments in

the Coalition Agreement – and the recognition is right, that we need a more diverse and pluralistic economy and that where people can band together more easily to form co-operatives, we are better able as a nation to share prosperity and reduce inequalities.

Earthquakes happen. It is how you decide to rebuild that shapes what impact they have, for better or for worse, over time.

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# 4. Well-Being and Action for Happiness

*Richard Layard*



A fundamental cultural change is underway in Britain: we are beginning to think that the purpose of life and of government might be the well-being of the people rather than the creation of wealth. Similar subversive ideas are growing in other rich countries, but they are more advanced in Britain than elsewhere. Everybody now knows that we are no happier than we were sixty years ago, despite massive wealth-creation. So politicians of all parties talk about well-being, including the Prime Minister. And there are civil service divisions that deal with it, and policies that can be traced to it.

But even in Britain the idea lacks a clear philosophical focus, and a corresponding cultural organisation to promote it. So let me talk first about those two issues, and then look at the current political scene and ask how well it matches to the challenge.

## Philosophy

We are talking about nothing less than the purpose of human life. In the 18th century Enlightenment in Britain and the USA there were two key beliefs.

- The first said that the best state of society was where there was the most happiness and the least misery. That was the fundamental proposition of political philosophy – the lodestar for government. As Thomas Jefferson said, “The care of life and happiness is the sole legitimate objective of government”.
- Corresponding to this was the basic proposition of moral philosophy – that the right way to live is to create the most happiness and the least misery that you can in the world around you. That was the lodestar for moral action.

These ideas were never accepted by all thinking people and they appeared difficult to implement if we knew so little about the causes of happiness. But due to major scientific progress we now know a lot more. And, equally important, the old religious sanctions for morality no longer convince most Europeans and there is a desperate need

for a rational, secular basis for morality – and for a political philosophy consistent with it. So the two ideas I have described should be the basic foundations of 21st century culture.

But there are critics – some friendly fire and some less friendly. So let me quickly discuss nine issues.

**What is happiness?** Happiness is a feeling and there is a spectrum running from extreme happiness at one end to extreme misery at the other. Happiness is feeling good and enjoying your life and wanting to go on that way. Unhappiness is feeling bad and wanting things to change. We are interested not in temporary highs but in the total of each person's happiness in life.

**Why is happiness uniquely important?** We can list all kinds of goods we value: health, freedom, accomplishment, wealth and so on. But for each we can ask why we value it, and we can have a reasoned discussion. For example, health is good because sickness makes you feel dreadful. Or freedom is good because oppression makes you feel awful. But if we ask why it matters if we feel bad, there is no answer. It is self-evident. It is basic to the way we are, as humans. This was why the Enlightenment thinkers, including Jefferson, thought as they did.

**But won't talk of happiness encourage selfishness?** On the contrary, both propositions say the exact opposite. They say that because everybody wants to be happy, everybody's happiness should count equally when we are deciding what to do. So in Action for Happiness we ask members to pledge to try to create as much happiness and as little unhappiness as they can in the world around them.

**But isn't this utopian?** I don't think so. There are two sides to our nature – there's certainly an egoistic side but there's also an altruistic side which enjoys helping other people. When people do good, they feel good, and brain science confirms this – the brain 'lights up' in the same areas as when people get other rewards like chocolate.

# Well-Being and Action for Happiness

So the job of culture is to promote the altruistic side over the egoistic side. Unfortunately our excessively individualistic culture tends if anything to do the opposite. But cultural trends can be reversed. The 18th century was increasingly individualistic, while the 19th century saw increasing social responsibility. We don't want a new Victorian era based on the fear of hellfire. But we do want a culture of greater caring based on reason and on the new science of happiness, which provides so much more evidence on what really makes people happy.

**But isn't happiness a by-product?** J.S. Mill argued just this, and of course we should not be asking ourselves if we are happy all the time. But we certainly should think a great deal about whether other people are happy – they won't become happy if we think of their happiness as a by-product. And sometimes, if we're discontented, we should think about how we could become more contented ourselves, and use some of the evidence to become so.

**But what about fairness?** How exactly should we think about other people? Where does fairness come in? Fairness is about the way in which happiness is distributed. If we care about fairness, we should pay more attention to reducing misery than to increasing the happiness of people who are already happy. This point was overlooked by Bentham, but it should apply to us individually and to the practice of government.

**The role of government?** Governments have of course always been interested in lots of things besides economic growth. They have been concerned with the relief of misfortune and with producing peaceful, civilised communities. But it's now more obvious than before that a happier society will require government to care increasingly about the values which children acquire in school, about mental health and more generally how people behave to each other.

When the first edition of my book on happiness came out, it attracted mostly favourable reviews, but two were very critical. One was called The

Bureaucrats of Bliss and the other The Happiness Police. But putting happiness first would never lead to a police state because freedom is one of the basic determinants of happiness.

**But can happiness be measured?** It can. You can ask people how happy they are and you will find that their answers are well-correlated with what you would expect, both with likely causes of happiness (like finding a job) and likely consequences (like quitting one). They are also correlated with what your friends report and with objective measurements of electrical activity in the relevant parts of the brain.

**But is happiness fluffy?** No. It is the basic aspiration of every human being. It is what we most want for our children. And it is the theme of much of the world's greatest literature.

So the two propositions with which I began have strong philosophical foundations. What do they imply for the actions of individuals and of government?

## Individuals

It is best to start with individuals, because unless individuals have good values it is difficult to see why they would elect a government that acted well. So we want individuals to derive their happiness as far as possible from contributing to the happiness of others. As Aristotle saw so clearly, people will only behave virtuously out of habit – because this is the way you have grown up to behave from an early age. It is also much more likely if you belong to an organisation of like-minded people committed to the same way of living and drawing strength from it. That is why Geoff Mulgan, Anthony Seldon and I have launched a movement called Action for Happiness. As I write, the movement is only one week old but it already has 12,000 members from 99 countries. There is clearly a hunger out there – people who feel that life could be better if collectively they dared more often to express their better selves.

Our hope is they will form local groups, with common beliefs which they discuss and which they put into practical action in whatever way makes sense to them. Thus the movement's website offers 10 keys to happier living (fundamental principles) and 50 actions on which groups can draw in deciding how to implement their beliefs. For each action an evidence base is provided, which shows what improvements it may lead to. The actions run from very private, like learning to meditate, to actions in your family or your workplace, to actions within the realms of community and politics.

The movement is totally non-political, with members from all parties and none. But, if we want a happier society, some things have to be done by governments.

### The role of government

If a government is to promote happiness and reduce misery, it needs an information base. It needs to measure the happiness of the population – not the average, but the full range of happiness and misery. And then it needs to understand the causes of these outcomes. This should become the chief mission of the Economic and Social Research Council. Under Margaret Thatcher and Keith Joseph, wealth-creation was made the Council's central focus. It should be replaced by well-being.

And then this understanding needs to be applied to policy choice. This means a radical re-casting of policy analysis. At present the main method is cost-benefit analysis where benefits are measured in pounds, based on willingness-to-pay as shown by revealed preference in the presence of choice. But this method cannot capture the outcomes of most forms of public expenditure like health, law and order, child protection, elderly care and poor relief, since choice throws little light on how people value better health, safer streets, happier children, and more contented elderly and deprived people. For these objectives the outcome must be measured in terms of changes in happiness and misery. To devise these methods is now a major challenge.

### Britain today

So how does our situation in Britain match to this challenge? We are doing well, compared with most other countries. Our central government departments for domestic policy have well-being divisions, though their voice is not always decisive. Our Cabinet Secretary is a passionate supporter. Many of our local governments are equally interested and three of them participated energetically in the Young Foundation's Local Well-being Project. And in 2009 the Office for National Statistics adopted the measurement of well-being as one of its three main areas of development, partly in response to the impressive leads in this area from the OECD and from President Sarkozy. Ministers agreed with this initiative.

At the political level, party leaders of all three major political parties support the importance of well-being. It is a non-party-political issue – and in all parties there are also many critics. But one must pay particular tribute to David Cameron for his stalwart advocacy of the idea. In 2006 he made a famous speech in which he said, "It's time we admitted there's more to life than money, and it's time we focussed not just on GDP but on GWB – General Well-Being". Since becoming Prime Minister he has officially requested the ONS to measure the well-being of the nation in an authoritative way and to include the results in the nation's "official statistics". Britain will be the first country to do this; and the results will begin coming out in Summer 2012.

When he launched this initiative, the Prime Minister said "We have got to recognise, officially, that economic growth is a means to an end. If your goal in politics is to help make a better life for people – which mine is... then you have got to take practical steps to make sure government is properly focused on our quality of life as well as economic growth." No other head of government has gone further towards establishing the quality of life as the objective of his government.

# *Well-Being and Action for Happiness*

## **Conclusion**

For fundamental political debate, this is an exciting time. The old mantra of wealth-creation as the goal of life and government is over. The new gospel of well-being is there to be adopted. Action for Happiness is happy to play its part. But it is up to the political class to make it a reality.

*Lord Layard is Director of the Well-Being Programme at LSE's Centre for Economic Performance. His book *Happiness: Lessons from a New Science* has sold 125,000 copies in 20 languages.*

# 5. A New Moral World: The Lost “Socialism”



*Steve Wyler*

## *A New Moral World: The Lost “Socialism”*

Nowadays the term socialism usually implies a command-and-control political system in which the state takes centre stage, nationalising land and other natural resources, directing manufacturing and commercial activities, and using wealth produced by the people to provide them with goods and welfare services according to their needs.

However, the original use of the term, at least in England, was very different, and indeed was wholly opposed to the notion of a dominant controlling state. The first documented use of ‘socialist’ in the Oxford English Dictionary is in a letter in *The Cooperative Magazine*, London, November 1827. There it referred to the ideas propagated by Robert Owen and his followers that society should consist of a federation of self-governing and largely self-sufficient communities: ‘villages of co-operation’.

Robert Owen had originally put forward his vision of co-operative villages in 1819, in response to the devastating economic downturn that succeeded the Napoleonic wars. He proposed that society should be transformed into a series of communities, with an ideal population of 800-1,200. Each was to be self-supporting and their members would be engaged in various branches of manufacture and agriculture. There should be enough land to supply the needs of the village, and to produce a surplus allowing trade with other communities.

Owen’s belief in the force of rational persuasion made him confident that capital to create the first communities would come from industrialists, landowners, parishes and counties, and groups of farmers, mechanics and tradesmen. However, the immediate reaction of the establishment was disappointing. While Owen found several influential supporters including the economist David Ricardo and Sir Robert Peel, he also encountered vehement opposition from others including Wilberforce and the Chancellor of the Exchequer. An attempt to establish a select committee to get the plan underway was heavily defeated, by 141 votes to 17.

### **New Harmony**

In November 1824 Owen turned his sights towards America. With \$135,000 of his own money he purchased an existing colony in Indiana capable of housing 800 people. New Harmony, as the colony was renamed, would become the model for a ‘New Moral World’. Owen was determined that New Harmony should exert an educative force not just on its own inhabitants but on society at large. The key was to attract scientists of the highest calibre and in this Owen was remarkably successful. In 1826 William Maclure, a wealthy Scottish geologist and educationalist, sent out his private library, philosophical instruments, and collections of natural history. Accompanied by a party of eminent scientists the collection travelled to New Harmony by boat from Pittsburgh - a ‘boat-load of knowledge’.

### **Early co-operative communities**

Owen’s ideas and activities in the United States stimulated a series of further experiments. Some were ill-conceived and quickly vanished, but all contributed to a growing pool of skills and knowledge. In Spa Fields in London in the 1820s Owen’s followers took steps to research and measure social impacts. In 1834 a letter was published in Owen’s magazine the *New Moral World* proposing a ‘Floating Co-operative Community’ which was to be moored on the Thames, where it was thought the inhabitants would be safe from the extortions of retail traders, lodging-house keepers, and gin shops. In the same year it was reported that community coffee-houses existed in London.

Owen himself suggested that the government should purchase the new railways and the land by the side of them up to six miles wide so that communities could be established as the railways developed, thus capturing increased land value for public benefit. The suggestion was, unfortunately, not acted upon.



The most promising of the early Owenite experiments was at Ralahine in County Clare. In 1831, an Irish landowner John Vandeleur persuaded an Owenite socialist Thomas Craig to establish a co-operative society on his estate of 618 acres at Ralahine in County Clare. The aims of the New System, as it became known at Ralahine, were to acquire common wealth to protect members against the evils of old age and sickness, to achieve mental and moral improvement of adults, and to educate children. A local currency, based on time credits, was introduced, and all members of the community over the age of seventeen took a share in the division of profits. The estate prospered, new machinery was bought, and the first mowing machine in Ireland was introduced.

After two years the experiment collapsed, when the landowner Vandeleur lost his possessions through gambling, and because he had retained ownership of the estate (the community paid an annual rent) the land was seized and the community was evicted. Nevertheless, Ralahine remained a beacon of hope. Seventy years later Alfred Russell Wallace praised its practice of self government: 'it was found that the most ignorant of labourers were sometimes able to make suggestions of value to the community . . . it shows that sufficient business capacity does exist among very humble men as soon as they have the opportunity of practising it.'

### Co-operative trading

The Owenite experiments gave birth to a movement of co-operative stores. In 1827 Dr William King became convinced that a co-operative shop could provide the money to finance a community, and set one up in Brighton for this purpose. This was the beginning of the co-operative shops movement. Just three years later it was reported that already 300 were operating across the country. Many of these early co-operative stores failed, but in 1844 new life was imparted into this movement by a group of 28 weavers and other working people who set up 'The Rochdale Society of Equitable Pioneers' opening a small grocery store in Toad Lane, selling only unadulterated goods.

Famously, they invented a new form of business, whereby the customer became a partner in the rewards of mutual endeavour: they refused to give credit to customers, but for the first time paid them a share of profits (a 'dividend'). The Rules of the Society became a model for others, and within a decade there were nearly 1,000 co-operative stores operating on similar principles across the country. It is often forgotten that, as with the earlier co-operative stores, one of the main aims of the Rochdale Pioneers was to create self-supporting communities, on land which they themselves would own.

### Socialism re-defined

Many of the early co-operative community experiments failed, often as a result of lack of investment, weak management, and hostility from established vested interests. As a result, many social reformers looked towards action by central government rather than local communities to establish common or mutual ownership.

For some the way to achieve this was through universal suffrage and political control of Parliament. For others the route to "socialism" was through armed insurrection and mass revolution. But either way the goal was to seize power at the centre and direct the resources of the nation, through machineries of command and control. Marx and Engels wanted to use the term socialist rather than communist in their 1848 manifesto, but realised it would have created a confusion with the Owenite version, still current at the time, though soon to be overshadowed by the Marxist usage and a little later by that of the Fabians.

The Fabians constructed a model of socialism which they claimed could be achieved through a programme of nationalisation and delivery of welfare services directed by national government, with some tasks delegated to local municipalities elected by the people, but with effective control in the hands of those who knew best, the professional classes. A long way indeed from the original socialist vision that working people could live

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and prosper in self-governing and co-operative communities, where they exercised ownership and control.

## **An unextinguished tradition**

The core concepts embodied in Owen's Villages of Co-operation were never entirely extinguished, and were revisited generation after generation across the last 150 years, in the attempts by pioneering trade unions in the Potteries and in Sheffield to create socialist land colonies, in the Land Plan and the five settlements established by the Chartist leader Feargus O'Connor in the late 1840s; in the model villages built by industrial philanthropists such as Titus Salt, George Cadbury, Joseph Rowntree, and William Hesketh Lever; in the anarchist colonies established by enthusiastic if incompetent followers of Kropotkin and Tolstoy; in Henry George's land value taxation proposals; in the visionary Garden Cities of Ebenezer Howard; in the university settlement movement which built the case for universal pensions, social work, independent advice centres, and a national health service; in the farm colonies founded by George Lansbury as an antidote to the hated Workhouse system; in the Right to Dig campaign which established a nationwide allotment movement which survives to this day; in the Land Settlement Association and the Brynmawr Experiment set up in response to the Great Depression of the 1930's; in the pacifist communities during the second World War; in the community self-help social action centres of the 1970s; in the community enterprise movement embodied by development trusts from the early 1990s.<sup>1</sup>

All of this, in all its variety, represents one continuous broad narrative, which at its heart resonates far more with the community-led, localist, co-operative model of the original Owenite socialism than with the state-led, centralist, directive model that superseded it.

## **Social communities of the present**

So, now, as we stand again at a time of economic and social turbulence, can this tradition point us towards a newly revitalized socialising vision, and begin to define the elements of a New Moral World suitable for our time?

The experience of Locality, and the movement it represents, which includes 600 independent community organisations across the UK, suggests that there is still plenty of vigour in the two-hundred year-old Owenite ideas and values. The community organisations in membership of Locality are multi-purpose, operating in some of the poorest neighbourhoods in the country, controlled not by the state, nor by the private sector, but rather by local residents. They engage in a multiplicity of actions, encompassing health centres, sports facilities, arts programmes, creative industries, youth services, family support, advice services, education and learning, employment, business start up, micro-credit schemes, shops and pubs and post offices, affordable housing schemes, renewable energy, and so on. They operate always at a human scale, whereby the social capital which flows from the connectivity of personal relationships is combined with economic wealth creation. In many ways they represent the first wave of civic entrepreneurs identified by Nat Wei in his essay later in this collection.

This is a movement which is flourishing in both urban and rural settings, in areas of unrelieved deprivation, and also in areas where poverty and wealth are close if uneasy neighbours. The movement is growing rapidly: across the Locality membership there are now £750m of assets (land and buildings) in community ownership, and an enterprising culture which generates £200m earned income a year, with surpluses reinvested for social good. Operating in marginal economies abandoned by private markets, and where the public sector has, all too often, failed, these community 'anchor' organisations are demonstrating that it is indeed possible to create wealth in such communities, and keep it there.

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<sup>1</sup> A History of Community Asset Ownership, Steve Wyler, DTA 2009

### Towards a New Moral World

Could there be a better time to question business as usual? We live at a time of mounting dismay at forms of welfare dependency, which, at great cost, keep those people who are least well off in conditions of impoverishment. At the same time there is widespread popular revulsion against corporate greed, a greed which jeopardized the whole banking system, and for which a whole generation will have to pay.

Owen's New Moral World cannot of course translate directly into our times. There needs to be a process of reinvention. But many of Owen's beliefs, in the transformative power of learning, in community self-reliance, in gender equality, in social justice combined with economic prosperity, in human-sized solutions, remain good starting points.

The recent experience of Locality and the many like-minded organisations we work with, suggests that the elements of a New Moral World for our times, may include, in part at least, the following:

#### *Capitalising the poor through community ownership of assets*

Transferring assets from public and private ownership into community ownership, through independent community vehicles, using associative and mutual models, "can when properly directed and organised, capitalize both civil society and the bottom 10 per cent of society which currently has negative net wealth."<sup>2</sup> The introduction of a Community Right to Buy and a Community Right to Build, in the 2010 Localism Bill, is a step in the right direction. The scale of future asset transfer is likely to range from the very small to very large, from village pubs to the port of Dover, from the corner shop to the Humber Bridge. Furthermore, the popularisation of asset ownership through Community Share issues, enabling citizens,

including those on low incomes, to have a direct financial and ownership stake in the assets which matter most in their neighbourhoods, holds great potential, as recent work by Co-ops UK and Locality suggests.<sup>3</sup>

#### *Transformation through community enterprise*

At present, cuts in public services are hitting disadvantaged communities hardest, leaving great numbers of people with neither the support they need nor the opportunity they crave. Leaving aside the debate about whether the speed of public spending cuts is motivated by political ideology or economic necessity, the forward agenda needs to be focused far more on transformation. How can we engage with the ideas, creativity, and the practical and entrepreneurial skills of communities, of user groups, and indeed of those public servants and people in the business world who are capable of being mobilized for public good – to change how things are done for the better, even within limited resources? Combining the best of business (its inventiveness, its responsiveness to customer demand, its ability to grow markets, its focus on return on investment) with the best forms of social action (the engagement of whole communities, dealing with people on their own terms, making a stand against discrimination and social injustice) is what distinguishes the most successful community-based social enterprise. This is the transformative business model of the future.

#### *A new social contract with the financial sector through community re-investment*

In the United States the Community Reinvestment Act has created, in effect, a social contract between the banks and the people, requiring banks as part of their licence to operate to provide finance and other services equitably to all sections of the community, or if not to make amends through support for credit unions, social lenders and the like. As Toby Blume explores in more depth

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<sup>2</sup> To Buy, to Bid, to Build: Community Rights for an Asset Owning Democracy, Steve Wyler and Phillip Blond, Nesta and ResPublica, 2010.

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<sup>3</sup> See <http://www.communityshares.org.uk/>

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elsewhere in this collection, this has had a massive impact, producing a flow of \$3trillion from banks to the poorest communities in the United States. It is a disgrace that there is not something equivalent in the UK, and it is difficult to see how there can be an acceptable social settlement until this is achieved.

### *Communities in control, and a new role for national government*

What would the world be like if power, resources, and decision-making were really to be decentralised to the local, to the neighbourhood level? At present it is perhaps too easy to dismiss local decision-making, particularly at the level of parish councils and neighbourhood forums, as incompetent, narrow-minded, and prone to social intolerance. But if the local assembly, in whatever form it takes, really mattered, would communities really leave things to the petty and mean-spirited, or would those who can command a broader vision and bring greater competence come to the fore? Certainly, the experience of Locality, in some of the most challenging communities across the country, is that the more that power and resources are devolved, the more the latter is likely to be the case. Moreover, if there really was localism, then the role of national government could be defined far more narrowly, above all to serve as a final safeguard, if all local efforts fail, against abuses of power, threats to individual liberty, dangers to public safety, or unbridled corporate greed.

This agenda is not the exclusive property of the Right nor the Left, and indeed within all the main political parties there are some people who would enthusiastically support these ideas, and others who would bitterly oppose them.

Would it be easy to accomplish these changes? No, of course not. Those who own the nation's assets, who occupy the centralising institutions, who make decisions and control resources, will not relinquish them simply in response to rational argument, as Robert Owen discovered two hundred years ago. It will require extraordinary political leadership, combined with a mass mobilisation of ordinary citizens, to create the necessary movement for change.

And yet, as we have seen in recent years and across the world, dramatic changes can and do take place. The current Government has set some wheels in motion, with the Localism Bill, with the decision to train 5,000 community organisers, for example. Our task now is to maintain momentum, keep the pressure on, and help people understand that a New Moral World is indeed possible.

*Steve Wyler is Chief Executive of Locality and a Fellow of ResPublica.*

# 6. Changing Lives by Changing Life Chances



*John Hayes*

# Changing Lives by Changing Life Chances

Inequality is the inevitable consequence of a free economy in a free society. The tensions to which this gives rise are both mitigated and ameliorated by social mobility, so, popular acceptance of the prospect of advancement through effort and skills is essential to social cohesion. Unequal societies with rigid social divisions are hard to defend, and likely to fragment.

Since Disraeli pronounced that it was on 'the education of the people that the fate of this country depends', Conservatives, understanding that education is at the heart of social reform, have advocated and advanced measures designed to unlock individual potential and expand opportunity.

Today, increasing participation in higher education has become an important focus of efforts to provide educational opportunity for everyone. But, while this ambition is widely shared, the uncomfortable truth is that rather than increasing opportunity across society, the expansion in university education over the last 30 years has cemented social division. Opportunity for some has not led to opportunity for all.

In 2005 the Sutton Trust found that people born in 1970 are less likely to have moved between social classes than those born in 1958. Behind this change has been a rise in educational inequality. Young people from the poorest income groups increased their graduation rate by just 3 percentage points between 1981 and the late 1990s. That compares with a rise of 26 percent for those from the richest 20 percent of families.

The clear conclusion reached by the authors of the Sutton Trust report is that 'the expansion of higher education in the UK has benefited those from richer backgrounds far more than poorer young people.'<sup>1</sup> It's still more dispiriting that a follow-up study by the same authors found that social mobility has not

improved and remains as low for the those born in 1985 as it was for those born in 1970.<sup>2</sup> In 2008 a Cabinet Office report was forced to conclude that 'broadly, social mobility is no greater or less since 1970'.<sup>3</sup>

Despite rhetorical posturing, the last Labour government's failure to expand opportunity was, put generously, disappointing. Their failure in this respect was confirmed by one of their own former Minister's - Alan Milburn, in his report 'Fair access to the professions', found that "Britain remains too much a closed shop society" and that "the UK's professions have become more, not less, socially exclusive over time".<sup>4</sup>

Even though Labour spent over £2 billion a year on programmes designed to promote wider access, the participation rate of working class students increased by just 1% between 1995 and 2005/2006.<sup>5</sup> And, still worse, the improvement rate was on the decline. In the previous nine years, participation by working class students actually grew at a faster rate.<sup>6</sup>

Part of the explanation for their failure was Labour's misinterpretation of what widening participation really means and how best it can be achieved. Becoming convinced that the cause is rooted in low aspiration, Labour Ministers ignored the advice from their own inquiries which showed that the real problem lies elsewhere. When he was Business Secretary, Lord Mandelson emphasised that 'everyone should be able to aspire' to a place at university, ignoring the evidence that shows that this is precisely to what more than half of young people from poorer backgrounds aspire.<sup>7</sup> It is not that people don't aim to progress to higher forms

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1 Jo Blanden, Paul Gregg and Stephen Machin: *Intergenerational Mobility in Europe and North America: A Report Supported by the Sutton Trust*; Centre for Economic Performance, April 2005

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2 *Recent Changes in Intergenerational Mobility in the UK: A Summary of Findings*; Sutton Trust, 2007

3 *Getting on, getting ahead*, Cabinet Office, November 2008

4 *The Panel on Fair Access to the Professions*, Alan Milburn, 2009

5 Higher Education Statistics Agency, *Performance Indicators*, 2005/06; Dearing Report.

6 *Dearing Report*, Chapter 7: Widening Participation in higher education

7 Lord Mandelson speech 'Higher Education and Modern Life' Birkbeck College, 27/7/09

of learning, rather than the wherewithal to make their ambitions a reality is wanting.

What people often lack is the information and support they need to make the choices that lead to higher learning, and many are denied the flexible provision that they need to fit learning with the patterns of their lives.

To fulfil their aspirations young people need the support of professional advice and guidance to know what they need to do in order to reach their goals. Yet evidence suggests the support many young people have been receiving is poor. The previous Government established the Connexions service as a one-stop-shop for advice to young people back in 2000, yet Alan Milburn's inquiry on social mobility reached the damning conclusion that 'throughout our work we have barely heard a good word about the careers work of the current Connexions service.'<sup>8</sup> The inquiry recommended that professional careers advice should be located in every school and college – a proposal consistently ignored by the then Labour government.

In contrast, this government is introducing the first all-age careers service, accessible from September this year, which will provide seamless support to young people as they make the transition to adulthood. We believe in access to universally recognised, community-based impartial advice and guidance about education and career options. Our mission is no less than to empower people – from wherever they begin – to reach their life and career goals.

The pitiful progress of attracting working class students into higher education is also the result of a narrow minded view that a one-size-fits-all, three year full-time degree course – taken straight after leaving school – is the best option for everyone.

If we are to encourage more people from disadvantaged backgrounds into higher education, we must look at how it is delivered. What matters

is how, where and when people can study. It's time to face the fact that much of the past expansion of higher education has been more of the same kind of people studying in the same kind of way, and that we will not make progress until we recognise that rather than making people 'fit' university life we must enable universities to 'fit' the circumstances of more potential learners. Through greater diversity of provision, higher education can serve social mobility by offering various access points to learning and by changing our assumptions about different modes of study. We must give more people the chance to participate in a way, at a time and at a pace that fits their lives.

When all is said and done, fewer young people from working class backgrounds go to university because far fewer of them apply than their middle class contemporaries, in part, because of the structural rigidity and absence of good advice that I have described. Far from proving discrimination, the evidence suggests that applications are treated with admirable fairness. A report for HEFCE, based on an extensive review of the available research, found that, if anything, the universities admission processes favour applications from working class candidates.<sup>9</sup> Again this is, in part, a product of the typical offer being poorly suited to underrepresented groups. What might be achieved by all is exemplified by the good practice of some, notably Birkbeck College and the Open University.

We must revise outdated assumptions about the pattern of higher education. Full-time study is difficult for those in work or with families; and the financial burden of living away from home is heavy for those from low-income groups. Though the style of a typical university education is a world apart for some people, it does not follow that the experience of higher education has to be. The Open University paradigm must touch more lives, perhaps through a partnership between that great institution and our excellent FE colleges.

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<sup>8</sup> *Unleashing aspiration*, Op cit.

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<sup>9</sup> Source: Gorard et al, *Review of widening participation research: addressing the barriers to participation in higher education*, A report to HEFCE by the University of York, Higher Education Academy and Institute for Access Studies, July 2006.

## Changing Lives by Changing Life Chances

Given their accessibility, emphasis on part-time study and vocational orientation, the evidence suggests that HE programmes offered by further education institutions attract a larger proportion of students from non-traditional backgrounds than those offered at university. Moreover, colleges are proving to be significantly more successful in attracting students from low participation neighbourhoods onto foundation degree programmes than universities.

Different lifestyles necessitate different learning experiences; such as part-time courses, community based, modular and distance learning. Through changed modes of learning we can change the chances of thousands of potential students; we can build bridges between aspiration, HE admissions and achievement. It is time to see more HE provision in FE colleges, more part time students, and more adult learners improving their existing skills or developing new ones.

Opening up the higher education market necessitates supply side flexibility. We need new entrants to the market including private providers. Which is why we are looking at the possibility of awarding bodies granting degrees, and why we will facilitate greater collaboration between FE and HE, as colleges are uniquely placed to serve those whose lives do not fit traditional forms of university learning. They are characterised by localness, accessibility and flexibility - their proximity to non-traditional students' homes and workplaces enables an easy reach to the under-represented, drawing from across social classes, ethnic groups and the age range.

My strong support for adult and community education is inspired by an understanding that it stimulates progressive learning, often leading to employment. The previous government's complicated funding system discriminated against adult and part-time learners - we are simplifying and streamlining funding to increase opportunity where it was previously stymied. The adult education movement was not born of Government, but of the people. And its primary accountability today should be not to Whitehall, but to those it serves.

Our mission is to tap the large pool of potential adult learners from non-traditional backgrounds that remains largely unexploited. The Labour Force Survey shows that there are around 6 million adults (20% of the workforce) with Level 3 as their highest formal qualification. These are not only people who left school with 2 or 3 'A' levels but also adults with advanced vocational qualifications such as RSA and City & Guilds, BTECs and trade apprenticeships.<sup>10</sup>

Of course, for others, the first barrier to higher education is reached before they even think of applying to university. We will not succeed in providing opportunity for all while forty thousand sixteen year olds leave school every year either functionally illiterate and/or innumerate. An effective access policy must begin in the classroom, raising standards, achievement rates and life chances. That's why we are giving schools more freedom to decide how to teach, including refocusing on the core subjects and ensuring that there is proper assessment of a child's ability throughout their time at school.

For too long, vocational learning has been seen as the poor relation of academic study, and if we are to truly broaden access and increase social mobility we must raise the comparative status of practical learning so that is the equal of an academic education. Rediscovering the worth of practical skills and the value of craft is vital for our future economic prospects - we must aim to build an advanced economy with a foundation of high-level technical skills.

We know that Apprenticeships are valued by learners and employers alike and there is clear evidence that they will support out growth ambitions by fuelling productivity and powering competitiveness. The government is already expanding the number of apprenticeships by 250,000 over the next 4 years - the most Britain has ever seen. We will continue to focus on expanding the number of Apprenticeships while making them as cost-effective as possible. The recent Wolf review

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<sup>10</sup> Professor Alison Fuller: *The 'new' widening participation in HE: involving 'ordinary people'?*, Presentation, March 2008.



## John Hayes

singles out Apprenticeships as playing a central role in enhancing our skills base, leading to sustainable economic growth.

Simultaneously - to elevate the status of practical learning - we are developing higher level apprenticeships valued in the workplace, and trusted by employers. But we must also rediscover the aesthetic of craft; it's place in building purposeful pride. In this spirit we will publish the achievements of apprentices, introduce award ceremonies, and foster alumni networks. For this government knows what its predecessor never grasped; that invigorating practical accomplishment is not just an economic imperative, but also a vital part of a big society in which all feel valued because each feel valued.

Ministers now are determined to expand opportunity for millions of Britons, drawing on the evidence from home and abroad which shows that flexibility is the key to broader access. The prejudice, held by the bourgeois liberal elite, that the only

form of accomplishment that matters springs from academic prowess is incompatible with a society that works. For if we want to give everyone the opportunity to reach their potential, we must be serious about practical tastes and talents by recognising their value as a path to higher learning.

Only a social order in which all can realise opportunity through education - the engine of economic mobility - deserves to be called socially just. Refocusing on broadening participation through a vision which challenges orthodox assumptions about modes of, and access points to, learning is dependent upon an understanding that participation alone is not enough - who studies, where they come from, and where they end up, matter too. Conservatives will not be content until, to paraphrase FE Smith, all with stout hearts and sharp minds have their chance of glittering prizes.

*John Hayes MP is Minister of State for Further Education, Skills and Lifelong Learning.*

7.

# Innovation, Innovation, Innovation

*Will Hutton*



We are living through an extraordinary economic gamble. The UK recovery is incredibly weak – whether benchmarked against our own past or the experience of other countries. The National Institute of Economic and Social Research recently released its current economic forecasts. They make very sober reading. It will not be until 2013 that output in Britain will return to the levels of 2008 – a five year long recession. The US and most of Europe will have completed their recoveries long before then.

It is even longer than the early 1930s, but at least that was to be partly compensated by strong economic growth from the mid 1930s onward buoyed by a combination of new technologies and companies exploiting the growth in demand behind the tariff wall created to protect goods produced within the British Empire. The Baldwin governments built tariff walls, created cartels, compelled banks to support industry and invested heavily in R and D – an industrial policy. There is no such prospect in the 2010s.

Britain today is disfigured by a dysfunctional financial system, massive personal debt, vast amounts of capacity in industries predicated on the flourishing of a now non existent consumer boom and incredibly squeezed living standards. In response we need a genuine plan for growth – no stone unturned in the quest to support firm formation and expansion.

To propose cutting the budget deficit by between 1.5 and 2.0 per cent a year for four years after the near collapse of British banks with private debt levels exceeding three times national output offends every first principle of Economics 101. Cut public demand while private demand is under pressure and economies stagnate. Capital investment in the public sector will be running £30 billion a year below the levels of 200/11 – and this in a country where the infrastructure is already chronically weak

In these terms the Coalition chatter about not leaving huge public debts to our children or Britain “maxing out on its credit card” is unadulterated rubbish – and while this can be expected of parts ( but not all ) of the Conservative party better

could be expected from the Libdems - the heir to Keynes. I would expect my children to congratulate us on borrowing at today's interest rates to invest in the infrastructure that will make the country more prosperous and global warning less likely – and accelerate a recovery that is so stuttering. Especially as public debt levels in Britain have been higher for two hundred of the last two hundred and fifty years.

But along side this Britain needs an innovation revolution driven by a good capitalism animated by the desire to generate genuine wealth – a far cry from what we have. We need to devise a new way of making our living in the world because the big bet on big finance, property and construction over the last decade didn't pay off. A wave of new possibilities driven by science and technology is creating fantastic opportunities, but if we do not seize the moment we risk becoming an economic backwater. Britain has to create a national innovation system by increasing investment in research, disseminating new technologies, building great young companies, promoting open access and competition, mobilising finance and revolutionising its approach to education, training and learning. In other words, it has to do nothing less than rethink its whole approach to capitalism in order to unleash a flood of productive entrepreneurship.

This will mean rethinking how ownership is discharged and companies innovate and grow. The City of London must be recast from top to bottom. It will mean creating a pool of workers who are prepared to accept more risk and actively manage their careers in an era of churn and change. The knowledge economy is the future, but this is not just about science, technology, digitalisation and the onward march of creativity. It is about helping the British to become authors of their own lives. It is a revolution of the mind.

It is not all gloom and doom: there are assets on which to build if we had the will. For example Cabinet Office research under the last government shows that in computing and information services, printing and publishing, business services, pharmaceuticals, plastics, transport and aerospace,

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Britain possesses a 'revealed comparative advantage' – a greater share of world markets than might be predicted. As much as 30 per cent of output and 21 per cent of employment are in these 'leading-edge' sectors, and another 12 per cent of output and 10 per cent of employment in what the Cabinet Office call 'specialising sectors' – such as electrical machinery, paper and pulp, and electronic components – where companies are specialising to survive.

The problem is that none of this is large enough. The Cabinet Office also described a big 'pedestrian' economy, which represents 25 per cent of output and 34 per cent of employment. Moreover, the financial services sector, for all its revealed comparative advantage, is vastly too big and is now shrinking. Banks and financial services constitute a fifth of the membership of the FTSE 100, far outranking innovative, high-value-added, non-financial companies like Rolls-Royce, Cobham and GSK. One sobering statistic is that manufacturing output in 2009 was 2.7 per cent below the level reached in 1974. When Labour came to power in 1997, it was 8 per cent above the 1974 level. In short, financial services were allowed to become far too large; and innovative non-financial business, for all its strengths, is far too small. More proactivity and determination are needed to create a growth strategy and innovation architecture that will allow a wave of non-financial firms to start up, survive and grow in a way that Britain has not witnessed since the war.

What to do? The coalition's rhetoric can not be faulted. It is whether it is still in thrall to the notion that states and governments cause more harm than good, and so disables its capacity to mobilise. However, after the rescue of the banking system – and of our economies – such propositions cannot be advanced today. We need to dispense of the notion that the innovations and knowledge needed to drive the knowledge economy occur organically in disembodied free markets as random light-bulb moments in the minds of individual scientists, technologists and entrepreneurs. The better conception is that, far from being lone actors, entrepreneurs interact and depend upon

the cumulative stock of knowledge, the quality of the institutions that populate any economy's innovation architecture, and the capacity to achieve the production scale necessary to capitalise proportionally on their creativity.

Britain has not been good at thinking in these terms. Labour's reactions were reflexively to spend and if not to own and plan then to direct and steer – or to do nothing at all to prove its pro-business credentials. In the last twelve months of New Labour in government, led by Business Secretary Peter Mandelson, there were the first signs of a new and creative interventionism. On the right too much Conservative thinking, though, is as reflexively of the unthinking right as Labour's is of the left. Business Secretary Vincent Cable comes from a different tradition – the largely buried "social liberal" tradition that recognises the co-dependence of public and private. This, after all, was the argument of British liberal thinker Leonard Hobhouse, an early exponent of the thesis that individual wealth is principally the consequence of the 'sum of intelligence' that civilisation places at any individual business's disposal; even a century ago this was important – now it is indispensable.

But this collectively acquired knowledge does not just happen, argued Hobhouse. It has to be produced, funded, disseminated and freely available to anyone who wants it. All of this can be achieved only by governments taxing, spending, creating research and learning institutions and upholding the rule of law. Without the state's involvement, the rate of acquisition of knowledge will be radically lower and the pace of wealth generation much slower. In *Liberalism*, published in 1911, Hobhouse explained that taxation was 'just compensation' – the state's due desert – for this crucial social contribution to wealth creation, rather than a means of income redistribution. It is a view of the world that is badly in need of rediscovery. Innovation, as history demonstrates, is not about individual acts of genius in free markets but on closer examination is really the "sum of intelligence" delivering what it must at any moment of time. For example, Alexander Graham Bell did not patent the first telephone. Rather, the now-unknown Elisha

Gray beat Bell to the patent office by three hours, on 14 February 1876. Moreover, an Italian immigrant called Antonio Meucci had declared his invention of a 'voice telegraphy device' fully five years earlier, but he had lacked the \$10 that was required to register his work. So the telephone would surely have arrived with or without Bell, because the Hobhousian sum of intelligence in the mid-1870s could clearly deliver it. The same could be said of the theory of natural selection, the discovery of DNA's double helix and even the theory of relativity. Most of the legal disputes over patents take place because two inventors arrive independently at the same conclusion; and this happens because they both have access to the same stock of knowledge.

Obviously, the entrepreneurship beloved of the political right remains important. Each individual innovator will face specific uncertainties in commercialising his or her innovative advance. There will be unexpected, unanticipated and unbudgetable delays and problems, all of which must be surmounted. Even if the driver of wealth generation is the general stock of knowledge, the role of individual entrepreneurs and inventors at the next, developmental stage remains crucial. The key point is that a step change in innovation will involve both the flair of the entrepreneur with the inherent strength of the wider innovation ecosystem. This requires a blending of traditional left and right conceptions of wealth generation that is a far cry from both the hysterical hymns to individual entrepreneurship that are sung by right-wing ideologues and the distrust of private business that comes from the left.

Tellingly, the great entrepreneurs tend to be keenly aware of the importance of interdependence and are consequently modest about their own efforts. Warren Buffett, for example, readily acknowledges his debt. 'Society is responsible for a very significant percentage of what I've earned,' he writes. 'I really wouldn't have made a difference if I were born in Bangladesh. Or if I was born here in 1700 . . . I just got lucky as hell . . . Stick me [somewhere else] and I could say I know how to allocate capital and value business. But they'd say, so what?' Bill Gates Senior develops the theme:

*Success is a product of having been born in this country [the United States], a place where education and research are subsidised, where there is an orderly market, where the private sector reaps enormous benefits from public investment. For someone to assert that he or she has grown wealthy in America without the benefit of substantial public investment is pure hubris.*

Nobel Prize-winner Herbert Simon reckons that nobody can attribute more than 20 per cent of their earnings and originality to their own efforts; the rest builds on the collective intellectual legacy.

In the next decade we will need public action to continue to build and swell Hobhouse's 'sum of intelligence', design the innovation architecture in which entrepreneurship can flourish and ensure that entrepreneurs receive the due desert for their efforts. Only in this way can productive entrepreneurship flourish and capitalism yield its promise. Cable's Business Department recognises this truth, but is struggling to turn it into effective policy – constrained as it is by the wider grim deficit reduction programme and the prejudices of some – but not all – of his Conservative colleagues. Science and Universities minister, for example, David Willetts is an ally. There are some intriguing and important moves – the launch of a national network of technology transfer institutes, the defence of the science budget together with Technology Strategy Board and the concern about excessive takeovers. But there is also the wreckage of the network of Regional Development Agencies, which even Cable conceded was a little Maoist. Above all there is not a common understanding across the Coalition government of how innovation happens and the Hobhousian co-dependence between private and public that drives it. Without that, there is nothing to mobilise around – just the prospect of years of weak economic growth and stubbornly high unemployment.

*Will Hutton is the Executive Vice-Chair of the Work Foundation. These are edited extracts from his book, Them and Us. The paperback edition is published on June 15th 2011.*

# 8. The Future of Localism Must be Economic

*Toby Blume*



The policy agenda has shifted significantly since the general election with a consensus emerging across all the main Parties on the need to devolve power to localities and to give citizens the tools to play a more active role in civil and civic life. And whilst there are differences over how best to address the immediate fiscal challenges in the short term, the direction of travel appears to be generally accepted.

If we are now witnessing a more ambitious attempt to place power in the hands of citizens, then it is critical to ensure that communities are given the appropriate opportunities to determine what happens in their area. Big Society and Localism - or more significantly, the principles that underpin them, if those particular labels are not universally supported - focus predominately on social and political reform. We have seen moves to reform public services and stimulate social action which are welcome. However to truly empower localities you also need to devolve economic control to communities. Wealth retention and creation, poverty and income inequality, asset building and resilience are central to the challenges that local areas face and intrinsically linked to the ambitions of localism. In many instances (and particularly in more deprived communities) these are stubborn, complex and deep-rooted issues that have not been successfully addressed despite waves of regeneration and renewal programmes from successive governments.

If we are to realise the ambitions of the political consensus on community empowerment and devolution, we need a new model of economic localism to support political and social reform.

### **The case for economic reform**

To date, none of the main political parties have provided a clear and compelling narrative on economic reform. There are signs that the government have dipped their toes in to the waters of economic localism, with the establishment of Local Enterprise Partnerships and the Regional Growth Fund, but these are fairly limited when set

against the ambition of broader social and political reform. We may yet see further progress being made with the review of local government finance but even this is too limited in its scope to transform our macro-economic architecture. Economic reform must be the focus of the next phase of localism if the ambition to transform the relationship between citizen and state is to be realised.

If we aspire to give local areas - and communities - more control over what happens in their areas, then we must ensure they have the proper levers to do so. Social and political reforms are wholly interrelated and mutually-dependent on economics. If our economic architecture is designed for an older, more centralised, way of doing things, then our efforts to build locally-determined solutions will at best, be inhibited and at worst completely stymied by a lack of control over our local economies.

Economic localism is not, however, solely a means of achieving other political objectives. It is an essential response to the shockwaves that have swept through our communities as a result of events like the global banking crisis and environmental disaster. If we are to avoid the huge pressures that these shocks create on local areas, it is increasingly important to ensure our communities are more resilient and better able to withstand external shocks.

### **Reconnecting capital to place**

A good example of how a centralised economic architecture causes problems is the contraction in access to capital, and financial service provision more generally. The fallout from the global banking crisis is well documented, but one of its lasting effects is the tightening of access to capital, particularly for SMEs. Since the financial crisis, government, business and civil society have almost constantly been bemoaning the problems of access to capital to support enterprise. Part of the problem with our banking system is the consolidation we have seen over recent years, with banks becoming ever larger global institutions. The risks of these

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institutions deemed by some to be 'too big to fail' have become more or less unmanageable and they have also become ever more distant from local areas.

Banks have become ever more reliant on formulaic risk-modeling process to take decisions about loans that are frankly unable to take account of subtleties that people understand (at least until we develop genuine artificial intelligence). Once upon a time a local bank manager would have known the person applying for a loan, understood the market and have made a pretty good assessment of someone's ability to repay. Risk-based loan pricing creates a perverse incentive for banks to make riskier loans – since they attract higher rates of return and therefore greater profits.

A more localised banking system – which is common in other countries but we don't have in the UK – provides a way to connect surplus capital with productive purpose (for the mutual benefit of savers/investors and borrowers). That's what banks were set up to do. How many of us that have private pensions really know where our money is invested? Even if you take care to choose the funds you wish your savings to be invested in, in broad terms, you're unlikely to know which companies or areas you're putting your money into. Perhaps, if there were stronger links between capital and places, it might even encourage people to save for their retirement – if it were to change the way we look at pension funds as more than 'something for when I'm old' and be seen as an opportunity to invest our surplus capital in enterprise.

## **How to deliver economic localism**

It's important to distinguish between specific programmes or policies that can be locally implemented in order to support local economies, with the economic infrastructure, or architecture, that governs the way our economy is organised. Progress is being made in some policy areas where local authorities and their partners can support the local economy. Local energy production is one example, with plans to reform feed-in tariffs and reduce some of the obstacles to community-based microgeneration. And there are also a number of

small providers of financial services – credit unions and community development finance institutions – who are successfully linking capital and place. However these examples happen in spite of the current economic architecture, not because of it.

If we are to respond to climate change, peak oil and global financial crises, as well as the opportunities for localism then we need a system that encourages, rather than hinders, this type of provision. It is the need for radical systemic economic reform that is most lacking at present in our political discourse and which is my focus here, rather than wide range of activity we can undertake to strengthen local economies.

The idea of devolving control of local economies is not new and the UK has a long tradition of economic localism, despite its current absence. Regional Stock Exchanges – one idea that would offer significant support to reconnect capital and place – were in existence in the UK up until 1973, when they were absorbed into the London Stock Exchange. In fact the Liverpool stock exchange operated up until 1991. At their height, in 1914, there were 22 stock exchanges across the UK in places such as Bristol, Halifax and Cardiff. The idea, which was a Liberal Democrat manifesto pledge at the last general election, would help improve the supply of affordable capital from local investors to SMEs. Given the huge variation between regional economies, it is surely no longer appropriate to think that a single entity can effectively reflect markets and serve needs.

Local areas also need to be given wide-ranging power over taxation, in particular Income Tax, where local needs and capacity are very different and ought to be reflected in practice. By giving local areas greater control over revenue raising and taxation, they will be far better equipped to reflect differing local needs (not just between local authorities, but also at a neighbourhood level). With this power local areas would be able to use tax incentives more effectively to stimulate enterprise in deprived areas and reward local economic benefit. Other ideas to support economic localism that might be woven into our economic architecture include Local Enterprise Funds and Bonds,



internalising the environmental costs of activity (in procurement and in taxation) and reframing competition laws to favour the development of local economies. The introduction of a locally determined Land Value Tax to replace Council Tax and Business Rates, like that proposed by the Green Party<sup>1</sup>, would also benefit local economies and reflect their differences. This would have the added advantage of creating a deterrent against speculative development and land-banking, which stifles regeneration. The introduction of a general power of competence for local authorities may mean that councils will be able to take this agenda forward, but this route risks being too piecemeal and inconsistent. And I do not accept the argument that localism is inherently inconsistent, as central government sets the framework for localism to operate within, which should establish consistent expectations and standards.

### Transforming banking into a driver of economic localism

A key barrier to economic localism at present is the state of our banking sector. Whilst more localised stock exchanges will help connect capital to places outside London, we also need to see far greater appetite for radical reform of financial services regulation. Aside from the small, though potentially significant, community banking sector, we have hardly any local banks in this country - unlike in the past. Most of our Building Societies have de-mutualised and a succession of mergers and acquisitions has seen our retail banking sector consolidated into an oligopoly. The barriers to entrance for new banks are so high that despite repeated calls from successful governments (and Parties) for 'more competition' within the banking sector, little progress has been made.

Local financial institutions offer (like other local businesses) considerable benefit to the area – as the well evidenced LM<sup>3</sup> methodology<sup>2</sup> has shown.

They recycle a significantly higher proportion of capital and retain more wealth within an area than national or multi-national institutions. Banks, with their very specific role as brokers of capital, have an even greater significance on local economies and it is crucial that we create the necessary regulatory framework and infrastructure for this to flourish.

There is huge potential to grow the currently small and immature community banking sector – credit unions, community development finance institutions and microfinance providers. Credit Unions and CDFIs account for only a tiny proportion of the financial services sector as a whole. In 2007 the value of the entire CDFI sector was less than 10% of Royal Bank of Scotland's profits in the same year<sup>3</sup>. We should also be careful not underestimate the time and investment needed to get close to universal coverage of community-based financial service provision.

One of the most effective ways to stimulate the growth of local community-based finance provision – as evidenced by the US experience – would be to introduce legislation along the lines of the US Community Reinvestment Act (CRA). In addition to encouraging more socially responsible banking, the CRA has led, albeit indirectly, to substantial private sector investment in community lending. The US Treasury's research estimates that for every \$1 of public investment into CDFIs, \$27 of private finance has been leveraged<sup>4</sup>.

The growth of the community finance sector was a positive but wholly unintended consequence of the CRA. Despite widespread misconception, all the CRA does within the US banking regulatory system is require banks to report on how they are serving local communities. These reports are then rated by the regulators, with an excellent rating affording banks certain permissions or privileges. The consequence of this has been to create a commercial incentive for banks to improve their

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1 See: <http://policy.greenparty.org.uk/ld>

2 For example research by new economics foundation in Northumberland found that every £1 spent locally was worth 400% more than £1 spent outside the area. (see <http://www.neweconomics.org/press-releases/buying-local-worth-400-cent-more>)

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3 CDFI's 2007 'Inside Out' survey measured CDFI assets and loan portfolios at £856m. RBS posted pre-tax profits of £9.2bn in March 2007. (see <http://www.cdfa.org.uk/wp-content/uploads/2010/02/Inside-Out-2007.pdf>)

4 The CRA After Financial Modernization: A Baseline Report, US Treasury (2001)

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performance in serving deprived communities, as the benefits that come with the top rating are greater than the costs of achieving that mark.

The reason this has indirectly led to substantial investment in local community finance institutions is because the banks have deemed it easier and more efficient to support these institutions than to serve that community directly. So, rather than have the expense of setting up a branch in a community, they put their money into local provision. This approach could easily be adapted to the UK - taking account of the very different context, but retaining the underlying principles.

### **Unlocking latent resources within communities**

The ambition that underpins the localism agenda – for communities to have control over what happens in their areas – provides real opportunities

to address deep-rooted social problems. However without redesigning the fundamentals upon which our economy is based we will continue to undermine the efforts of civil society, local authorities, private sector and communities to deliver local benefit and improved outcomes. The future of localism must focus far more on economic reform and provide local people with the levers to take advantage of emerging opportunities.

*Toby Blume is the Chief Executive of Urban Forum*

# 9. The Coalition and the Environment



*Roger Scruton*

## *The Coalition and the Environment*

In opposition David Cameron made encouraging remarks about environmental protection and its place in conservative political thinking. He acknowledged the fundamental truth, that conservatism and conservation are connected not merely etymologically but also politically. For a long time we have been bullied by left-wingers into thinking that conservatism is another name for the interests of big business, and that big business puts present profit before the long-term good. And in opposition David Cameron seemed determined to show that those statements are nonsense. Conservatism, he rightly perceived, denotes the attitude that we all share, which is the desire to look after what we know and love, and to ensure its survival.

However, the Coalition's programme for government addresses environmental issues that have been placed on the agenda largely by the left. Matters that trouble conservatives – the local food economy, Green belts, town planning, the countryside and the architectural heritage – are not widely seen as environmentally significant, since they are dismissed by left-leaning Greens as concerns of the 'middle classes'. But it is the middle classes – in other words, those with a home and commitment to home – who have the greatest stake in a shared and sustainable environment, and what matters to them matters to all of us.

David Cameron promised, in opposition, to rescue planning procedures from the 'regional' bodies set up by New Labour, and to return them to local communities. But the recent budget proposes to streamline the procedures and simplify them in favour of the applicant. This is surely a step backwards – another example of the surrender to economic interests that is the main obstacle to a coherent environmental policy. There are few success stories in environmental politics, but one of them is the 1946 Town and Country Planning Act, which saved our countryside from destruction by ribbon development, and helped to prevent the suburbanisation that has blighted the towns of America and made it impossible to manage an ordinary life without driving for two hours a

day. There are conservatives who are suspicious of planning controls – planning, they think, is a dirty word, signifying government interference in matters that ought to be the citizen's concern. But there are two kinds of planning – that favoured by the left, in which government initiates and controls the process, and that favoured by conservatives, which encourages enterprise but which constrains and limits what can be done. The Coalition rightly recoils from the first kind of planning; but it does not seem sufficiently to recognise that this increases the need for the second kind.

The Coalition has taken a firm stand against airport expansion, and I thoroughly commend its attitude, since there is a real political cost attached to penalising any form of transport. Travel has to become harder, more expensive and more unpleasant if the world is to regain its equilibrium. However, the Coalition also promises a high-speed rail network, and remains silent about roads – which have surely proved far more devastating in their environmental impact than any other form of transport. Since taking office the government has been unswerving in its support for the high-speed rail link between Birmingham and London, and ministers have even used the derogatory 'nimby' word to dismiss those who oppose the scheme. Ever since Ruskin the point has been made that we destroy our environment not by living in it but by speeding through it; but that is an unpopular thing to say, and I suppose the Coalition can hardly be blamed for not saying it.

The bulk of the government's proposals relating to the environment concern energy and the threat of climate change. There is an important question of balance here, which I am hoping the government will one day address. The panic over global warming (whether or not founded in scientific truth) has been used to divert all attention towards the search for 'clean energy'; and towards global treaties, the main effect of which would be to punish the West for sins that can no longer be rectified. Not surprisingly the treaties remain unsigned or ineffective, and meanwhile the local, soluble problems go unaddressed. As

things stand there is no hope of reducing emissions without recourse to nuclear energy, and the Liberal Democrats have, for whatever reason, made opposition to nuclear energy one of their defining policies. (I suppose they have to define themselves in some way.) All other solutions seem to me to be fraught with insurmountable difficulties, or to be phony, in the manner of wind farms, which are neither clean nor efficient, and which are in any case a form of aesthetic pollution.

People on the left don't on the whole mind aesthetic pollution: this too is a blow against the middle classes. But it is the most serious of all impediments to a conservative environmental policy. By undermining people's love of country and their sense of peaceful settlement, aesthetic pollution destroys the motive from which real stewardship springs. It brings about a transfer of environmental problems from the people to the government, which then confiscates the solution and makes a mess of it. And while on this topic, what is the government proposing to do about light pollution? The adverse effect of this on wildlife, on sleep, on the charm of both town and country, is widely known. Since the Coalition's programme rightly emphasizes the importance of wildlife corridors, habitats and bio-diversity, it would be a natural step to recognize that our native species are in need of darkness too.

But this leads to the real question concerning wildlife: who, in the past, maintained and protected the habitats and corridors, and who destroyed them? The answer goes to the heart of the conflict between socialists and conservatives in our country. Habitats, hedgerows and bio-diversity have been maintained by small-scale resident farmers, by country sports and by the associations of volunteers, such as the Anglers Conservation Association and the Game Conservancy Association. They have been destroyed by agribusiness and socialist planning, by the subsidies offered to absentee landlords by the Common Agricultural Policy and by the loss of the local food economy and the small farmers who depended on it – a loss accelerated by the favouritism bestowed

by successive governments on the supermarket barons. Hedgerows and habitats don't look after themselves: they are an obstacle to agribusiness and an offense to the utilitarian mind-set. Stewardship will only revive if those who reside in the countryside are once again given the motive to look after it, which is why the Coalition is right to put the repeal of the Hunting Act on the agenda, if only at the bottom of it. But that measure should be integrated into a wider agenda, which is to lift the burden imposed upon our environment by the subsidies and regulations which stand in the way of our natural desire to maintain it.

David Cameron is right to insist that conservatism is about rescuing society from the state. For state solutions are rotten with unintended consequences, are operated by bureaucrats who escape the net of accountability, and are in the long run simply ways of augmenting the growing list of state dependents. The 'big society' is another name for Burke's 'little platoons'; and if any problems admit of social solutions – solutions conceived and executed by volunteers, acting for the common good – environmental problems are first among them.

Conservatism therefore means trusting people to act for themselves, while creating the incentives that will permit them to do so. It means respecting small-scale local initiatives, facilitating the culture of volunteering, and lifting the burden of regulations that prevent people from taking responsibility for themselves and for those who matter to them. Many of our environmental problems are the direct result of the burden of health and safety regulations which impede every small scale initiative. I am glad to know that the Conservative Party contains people who murmur against these regulations. But it would be nice to know that someone was prepared to do something about them. For instance, the regulations that require so much of our food to be packaged at source, and which have so augmented the mountain of non-degradable packaging that there is not a corner of the kingdom where it isn't accumulating in unsightly heaps.

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The problem of plastic pollution is surely fundamental to environmental politics. The Coalition's Initial Programme promises to 'work towards' a zero waste economy, and shows some awareness of the problem. But there is waste and waste. Some degrades and leaves the world undamaged. But some accumulates. The real problem is not waste as such, but the packaging that immortalises it. This problem can be overcome only if the supermarkets are confronted with another kind of regulation: not one that permits them to transfer their costs (in the form of immortal rubbish) to future generations, but one that compels them to meet the costs of their actions themselves, for example, by selling unpackaged products, or by using bio-degradable wrappings. Confronting the supermarkets is not something that politicians are very good at. New Labour sprinkled peerages and knighthoods on the supermarket bosses like confetti, in the hope of retaining their support. But to tackle the environmental destruction wrought by the modern food economy the supermarkets have to be opposed, not appeased. This means that they must be seen for what they are, as businesses which have no attachment or loyalty to the places where they operate, and whose primary interest is in externalising their costs. A real market economy is one in which costs are internalised by the participants. As things stand the supermarkets, which are the by-product of a massive regime of hidden subsidies and government sponsored externalities, are not sustainers of the market economy, but parasites upon it.

Ministers have yet to speak out against the kind of out-of-town development which favours the supermarkets over the local shops, and which can strike a town dead from one day to the next. They have yet to draw attention to the environmental degradation that results from regulations that impose disproportionate burdens on small shops and small farmers and which favour supermarkets and agribusinesses. I am confident that David Cameron is, at heart, a Tory of the Burkean school, who prefers small things to big things, personal relations to impersonal organisations, and honest

accounting to the habit of passing on costs. But I hear none of this from the Ministry of the Environment – not yet, at least, but only pleas in favour of GM crops, and the usual protestations of commitment to 'renewable energy'.

Of course, being in a coalition is not easy. But the Environment Ministry is a Conservative fiefdom and an opportunity has arisen to show that conservatism is about conserving, not destroying. I look forward to the time when Zac Goldsmith, now a conservative MP, and a leading light in the battle for the environment, is brought into the new government, even if only in a subsidiary rôle. His courageous defence of conservatism as the right approach to environmental politics, his accumulation of knowledge and expertise during his years as editor of *The Ecologist*, and his learned and well-argued book (*The Constant Economy*) which entirely refutes the callow utopianism of the Left-leaning Greens – all these have earned him an honourable place in the environmental movement, and in the hearts of conservatives of the younger generation.

One thing is certain (and Goldsmith has done much to argue the point) which is that the environmental agenda has to change. Of course we must reduce carbon emissions, and of course we must strive to obtain treaties that unite the nations around that goal. But the real need is for a rebirth in ordinary people of the motives that lead them to take care of things around them. This means freeing them from the bureaucrats, lowering the cost of private initiatives, and lending support to the volunteers. It means supporting those who wish to protect near and cherished assets from the global entropy. Above all it means taking a stand against those who would off-load their costs onto future generations, and whose actions erode the natural impulse to look after what is ours. I believe there is a growing awareness that the environmental agenda must be rescued from the global activists. People are more disposed to accept that comprehensive edicts imposed from above should be replaced by small scale local initiatives shaped from below. But without the help of government those

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initiatives will be impeded by the vested interests, and without a new approach to regulation the incentives will not be in place that encourage people to take on the task of stewardship for themselves.

One way to do this is for the government to search for citizens' initiatives to which it can give indirect support, by changing the regime of regulations, or by encouraging local Members of Parliament to play their part and to report back to Parliament. Initiatives like the Campaign for the Protection of Rural England's 'Stop the Drop', towards a proper deposit system for plastic bottles, or the 'Pack it

in' campaign working to enforce existing laws on packaging, or the various volunteer groups under the aegis of the Wildlife Trusts – all such initiatives could benefit from government support. And by this I mean support offered in a conservative spirit, not with a view to controlling what is done, but with a view to channelling the activities of concerned and responsible volunteers into cogent legislation, when the need for it has been properly shown.

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10.

# Civic Entrepreneurship and the Big Society

*Nat Wei*





2010 was a turning point in the debate about the relationship between citizens, institutions and the state. Whatever your view on the Big Society, there can be no doubt that it has entered and shaped public discourse and the principles that underpin it are now part of the mainstream of politics: that idea that government should no longer be the monopoly source of solutions in life (the end of statism), and that in future citizens, communities, and institutions should be more involved and able to share responsibility on issues people care about closer to home - through social action, decentralisation, and more open and plural services. Driving it is a realisation that the inevitable trends that come with an ageing population and lower tax base will limit the ability of current models of state and society to meet ever increasing demands for services, and a recognition that many of our most chronic social problems need shared rather than just government action to solve.

Big Society, however, will not be built overnight. It will be a multi-decade long endeavour, with three overlapping phases. The first phase has only barely begun: one in which the task has been and will be to make government more an enabler rather than an obstacle to autonomous community action, whether as a source of bureaucracy, volatility, or financial dependency. The longer term third phase will involve a wider culture change in society towards citizens weaving civic engagement into their daily lives as many now do with social media. In the interim, in the second phase which is now begun, we shall see the rise of what I term the civic entrepreneur and of civic entrepreneurship.

### Introducing the civic entrepreneur

Civic entrepreneurs operate at the nexus between the public, private, social, and citizen sectors. They can come from one or more sector but have as their highest goal the pursuit of the common good, and seek to make it easier for other citizens to participate in that goal by creating platforms (whether digital, or physical, or institutional) for civic action - what some have already labelled civic applications or "apps". The civic entrepreneur is an extension and evolution of other types of entrepreneurship and can co-exist alongside them. The public entrepreneurs

advocated recently by Andrew Adonis, the growing movement of social entrepreneurs, and socially responsible business entrepreneurs whether in large corporates, start ups or small and medium sized enterprises can increasingly be seen as playing similar or complementary roles.

As opportunities emerge from government (in the form of new powers, policies, and legislation designed to empower citizens) the civic entrepreneur takes it upon him or herself to help translate the technical and complex into applications that are more simple and easy to use, which are shaped by what citizens care about (eg their hobbies, passions, and skills) rather than the categories used by the state or other bureaucratic institutions. What sets apart a civic entrepreneur from a standard social, public or (socially responsible) business entrepreneur is how they break out of their silo and directly involve citizens in the process of the value creation (design, commissioning, delivery, review), in ways that can sometimes cut across the various sectors themselves.

The Good Gym, for example, offers a new model of volunteering by focusing on the positive experience of the volunteer, in the hope that it will increase the number of people stepping up to give time. Its founder Ivo Gormley considered how people's exercise routines could be motivated by social action in order to provide elderly local residents with a friendly visit, and the runner with a purpose to their exercise.

The scheme pairs up runners (athletes) with an isolated member of the elderly community (coaches). During their weekly run, the athlete then incorporates a visit to their coach, often bringing a newspaper or snack, and in return receives some motivational advice. The concept has since been expanded to include other community help; locals can submit civic jobs, via a section of the website called 'FixUp' that they need doing, such as box moving in a community centre or shifting soil to an allotment, and the task is completed on one of the monthly group runs.

The project is currently piloting in Tower Hamlets in the East End of London, but there are expansion

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plans including ideas for franchising, in response to interest from people wanting to set the scheme up where they live. They have ambitions for a fully interactive site, where runners can store and access run data, and to provide a tailored service so people are matched with jobs and tasks in their own area, which can potentially be used to generate funding. One of the biggest issues facing Good Gym now is a surplus of volunteers with a steady growth of people signing on due to the flexible model. Thus it is also currently looking at collaborating with other enterprises with similar objectives who may be sort of volunteers.

This is a model of volunteering which unlocks untapped energy and creates a motivation for social action is an innovative yet practicable example of how to turn social potential into social capital. In future it should be even more scalable as a result of phase one reforms from more streamlined and less onerous CRB requirements, referrals from newly freed up healthcare practices (to boost their pool of elderly coaches), and potentially more diverse streams of funding from local budgets, local authorities, as well as social investment. Ideas such as this will help bring the Big Society into fruition, but challenge our traditional categories of what is public, private and voluntary.

## Platforms for change

At their best, civic entrepreneurs like Ivo will create different kinds of platforms that enable citizens to interact with each other and the state and institutions to help improve their own lives and those of people around them. These platforms will come in different flavours:

- Citizen portals (e.g. Your Square Mile) – tools to enable citizens to discover what is around them, and what they could get involved with based on their available time and resources
- Funding platforms (e.g. Seedrs, sponsume, zopa) – peer-to-peer funding platforms to generate equity of funding for projects, with financial and non-financial benefits to investors
- Volunteering platforms (e.g. Leap Anywhere) – tools that make it easier to get involved in local projects, and to capture your skills and learning for prospective or existing employers

- “Gbay” – various platforms that make it easier to use government assets and spaces, and to book them, potentially with differentiated prices based on time and type of organisation planning to use them
- Donation platforms (localgiving.com, the Big Give, We Fund, give as you live) that enable citizens to give money based on different criteria and around different activities such as shopping online
- Procurement platforms – tools that make it easier to see what contracts are available, especially so that smaller firms and social organisations can also bid
- Spending platforms – tools that make it easy to see what money is being spent by government on what projects, and to compare across regions
- Collaborative consumption platforms (Landshare, ecomodo) – tools that make it easier to come together and share, swap and collaborate to use transport and bicycles, land, skills
- Timebanking platforms (Southwark Circle, Care Credits, Camden Shares) – tools that help scale and make easier to use platforms for sharing skills and earning time credits.
- Feedback platforms (Pownum, Quiet Riots) that enable citizens to voice their opinions and suggest improvements to public, private, and voluntary brands which can in turn help hold them to account alongside regulation and contracting rules
- And many more still to be documented in future - ResPublica Fellow Indy Johar’s recent Compendium for the Civic Economy, which he reflects on elsewhere in this essay collection includes a huge selection of examples of this growing field of innovation

## Supporting civic entrepreneurs

What can we do to support civic entrepreneurship? The answer depends on who you are. For government, the task is to get behind civic entrepreneurs, reshaping the state to keep up with and enable their innovations. At other times, the task is to remove obstacles that stand in their way, intervening only when failure occurs, and evolving

Chapter 11 bankruptcy style processes to quickly sweep up any resulting fallout and move on to alternative providers with minimal disruption where possible to end user services. Another opportunity is to simply connect civic entrepreneurs with each other and other parties who can help them with resources, skills, and networks.

These partners could be private, social, or local public sector institutions, or simply large numbers of citizens themselves. Increasingly, many organisations will find it benefits their goals to involve and support civic entrepreneurs to build new kinds of relationships with citizens, whether to help coproduce public services, or create new forms of collaborative consumption, or to harness citizen energy locally in delivering a charitable or social mission. And where the state can no longer act alone even to support civic entrepreneurship, opportunities abound for public, private, and social organisations to help collectively address their needs in terms of resources, leadership, and accountability.

But it is also we the people, as individuals, as citizens who can play a role by helping to support civic entrepreneurs, by engaging in the platforms they create, by encouraging rather than dismissing their efforts. Some civic entrepreneurs will not succeed at first, but those that do can be supported to try again, to refine their ideas and platforms, and over time to generate scale, impact, and sustainability.

### Summary

The Big Society parallels the development of the Internet and takes from it many ideas which it then applies to the way societies can be organised and power within them distributed. The Internet itself was at one time seen to be a passing fad, but today powers much of the world and is transforming aspects of business, the state, and the social sector as well as millions of peoples lives. As with the Internet, the first phase of Big Society will be a highly technical affair, involving legislation and structural policy change. It was not only until the arrival of technology entrepreneurs such as Bill Gates and Steve Jobs that the complex newly decentralised power that was the university-based Internet became assessable in platforms that people could

interact with more easily, such as windows and the apple operating systems and interfaces - initially via personal computers and now increasingly through mobile and other network devices.

So too with the Big Society, civic entrepreneurs will play a critical role in taking the complex new opportunities coming from government, business, and the social sector as the latter increasingly find they have no choice but to release hitherto centralised powers, making them accessible to the ordinary citizen and smaller organisation. For those entrepreneurs who embark on the journey, the rewards that motivate them alongside the common good will vary - in some cases they will be financial, others social, and still others a sense of achievement from working closely with the public sector to help improve its effectiveness; and many cases it will be one or more of the above.

Ultimately, civic entrepreneurship is necessary because Big Society is about much more than government action alone, even in relation to actions designed to help foster the Big Society themselves. Only by harnessing the energy and ideas of the early adopters, the civic entrepreneurs, will we be able to progress beyond the theory and political discussion that has prevailed to date, and move to the next stage of real local action, built on what has happened before (or Big Society 1.0 - that which people refer to when they say they have been doing it for ages) but also newly liberated and empowered by government, business and the social sector so that the process of taking control over our lives together becomes easier, faster, and better (Big Society 2.0). Until one day the culture itself changes as millions of people do things differently because of what civic entrepreneurs enable them to do using the tools they have created just as the Internet today now allows us to do, and we begin to see Big Society pour out from the world of the think tank and the political columns and into daily life, through sports, or arts, or our other interests through the platforms they have given to us and to the world (Big Society 3.0).

*Lord Wei is the former Government Advisor on the Big Society.*

11.

# The Year the Future Started to Fight Back?

*Diane Coyle*



In the mid-1980s, one of my tasks in my first job as a junior economist in Nigel Lawson's Treasury was to check the details being published in the Budget Red Book. It was quickly made clear that the requirement was proof reading rather than commentary on the economic sense. I was getting a useful lesson in practical political economy. It was the era of monetary targets, and they were all growing so fast as to be embarrassing. The solution was to create a new monetary aggregate with a slower growth rate. And the goal for fiscal policy was a balanced budget 'in the medium term'; with large borrowing requirements, the solution was to extend the 'medium term'. Indeed for every Chancellor of the Exchequer - before and since - short-term political imperatives have consistently beaten long-term economic ambitions. Gordon Brown started promisingly with his Golden Rule, and genuinely believed in prudence but, by the time he left office, the UK had a structural budget deficit at the end of a period of strong growth and before the additional fiscal costs imposed by the banking crisis.

Has this changed with the election of the first Coalition government for 65 years? The interesting question is not whether or not George Osborne is cutting the right areas of public spending by the right amount. The nation's leading macroeconomists disagree profoundly with each other about that, suggesting the economics profession collectively doesn't know the answer. No, more interesting is the coalition government's signal of commitment to a long-term fiscal goal through the creation of the Office of Budget Reform. Politics can and should never be entirely removed from fiscal policy, but the voluntary creation by a Chancellor of an institutional check on his action, with the potential for enormous political embarrassment should he fail to deliver an economically sustainable budget deficit, is an important milestone.

One reason it is so important is that the UK's fiscal position is even worse than the headline figures suggest. In addition to the 'official' deficit, and in addition to the shuffling of PFI projects off the official balance sheet, there are uncounted implicit burdens on future taxpayers. These are the result of

a welfare, health and pension system designed for a fast-growing and youthful population, when our population is growing slowly and ageing quickly. Economists know that the unsustainable is never sustained, and there are indeed already some reforms in place to reduce the extent to which we're paying ourselves pensions at the expense of our children. The UK has gone further than other leading economies in raising the state retirement age, for example. Even so, it is significant that in the OBR we now have an institution that will give all future governments an incentive to ensure the future is accorded due weight in fiscal decisions.

More tools will be needed if policies are to be better geared towards delivering economic sustainability, in its widest sense. The chasm in the government's finances is only one way in which the unsustainability of the economy run the way it has been has become apparent. Another is the array of environmental pressures, not just climate change but of resource use, congestion, biodiversity. Less obvious, perhaps, but no less serious is the question of social sustainability in a society marked by the greatest inequality for a century, and the growing isolation of the rich and poor from any sense of shared community and experience - this in an economy shaped by intangibles and dependent on high levels of trust.

Achieving greater sustainability is a long-term issue. In a democracy, short-term pressures on politicians are inevitable. The spread of online media such as blogging and social networking are only intensifying the hyper-populism, at the same time as providing more thoughtful citizens and commentators with access to a much wider range of information and engagement. So combining the increasingly pressing need for a longer-term policy outlook with mounting pressures in day-to-day politics is going to be a challenge. Responding to it will require three elements.

One is institutions, of which the OBR is one example. Institutions are the generic name we give to forms of social organisation with some life of their own. They pool our individual decisions into a collective outcome and take us beyond today into

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the future. They can therefore act as commitment devices enabling decisions to be taken for the greater good. They are places where compromises are made and consensus or at least agreement reached, and that includes compromising on our own interests for the sake of the future. It has become a commonplace that 'good' institutions are needed for the economy to thrive but it is far from clear what makes an institution effective.

For example, it is obvious that we – the UK, the world – do not have good institutions for developing and implementing climate change policies. Existing institutions have become discredited, for good reasons, and popular attitudes to the issue in many countries may be diverging rather than converging. There is next to no chance of a global political settlement on a global question in these circumstances. This is why recently a group of leading environmental economists urged national governments to go ahead with their own policies, rather than wait for another international treaty.<sup>1</sup> But in the end, there will need to be international agreement, and it will not happen without the creation of a politically legitimate and effective institution that will take account of the interests of the future.

In addition to institutional reforms – covering all the aspects of policy in which sustainability into the future is an issue – better measurement of the state of the economy will be needed. By this I do not mean the fashion for measuring 'happiness' or 'well-being'. In this I would differ from the position advocated by Richard Layard, elsewhere in this collection. A better approach, to take due account of the quality of life, is to collect and publish an array of indicators to supplement the conventional economic figures. Australia's Statistical Office does this each year in 'Measures of Australia's Progress', an annual survey of a range of indicators selected through a public consultation. The approach was recommended by the Commission led by Nobel Laureates Amartya Sen and Joseph Stiglitz for President Sarkozy.

Better still would be the systematic and regular collection of statistics on the nation's wealth – a comprehensive national balance sheet. Measuring wealth or assets would be to measure the legacy we leave for future generations. If the nation's comprehensive wealth (including natural and human resources as well as financial and physical capital) declined while GDP rose, we would know we were consuming the future to maintain our own lifestyle at the expense of our children. The concept of comprehensive wealth, along with the practicalities of implementing it, is in its infancy. But it is much more important to put statistical resources into this than into banal happiness surveys. We could be happy as anything while destroying future prosperity.

The final necessity concerns our collective values. This is not territory into which modern economics normally strays, although for Adam Smith morality and the organisation of the economy were inseparable. One of the many side-effects of the financial crisis, however, has been to alert even the most technocratic of modern economists to the part values play in making the mixed market, capitalist economy work well. The vocabulary of morality – 'greed', 'purpose', 'value' – has re-entered the debate after decades of managerialism.

This is timely for many reasons. One is the tension between the human 'fairness instinct' and the rise in inequality to match its historic peaks. Britons have not been rioting in the streets but that does not mean that income inequality at such levels is sustainable. Inequality has complicated, inter-linked causes, including the social conditions many children are born into and the inadequacy of early schooling in many areas. But few people would have any hesitation, I think, in describing top bankers and executives as greedy, or in condemning the spectacle of very rich people going to great lengths to avoid paying a little extra tax. There are underlying economic trends accounting for some of the increase in inequality, as the computer and internet revolution has put a genuine premium on certain skills. However, the boardroom pay explosion does not reflect skill and merit alone. Simply, they got away with it for a long time.

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1 'Thinking Through the Climate Change Challenge', [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1786808](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1786808)

In this area, the coalition government has failed to walk the talk. It has taken brave steps to reform welfare and schooling, to address the problems at the bottom of the income scale – it is not clear at all how well they will work but reforms are certainly needed. But the government is retreating from significant reform in banking, in the face of intense lobbying, and has not openly tackled the excessive pay question in other areas. Commissioning Will Hutton to report on public sector pay gaps was a sensible move, but real change will depend on what happens in the private sector. In the end, it might be a question of top executives rediscovering their sense of shame, not least because of what so many of their fellow citizens think about them – or even their sense of belonging to the same community as the people who live around them.

A second reason the open debate about morality in the economy is so timely is that a sense of greater purpose is actually fundamentally important for economic performance. The growth performance of many leading economies, including the UK, has been disappointing in the aftermath of the crisis and disappointing over a longer period too. With our ageing population and expensive healthcare, pensions and social security, growth needs to improve. Expectations are vital in the process of growth. Simply put, people need to know what they are working or investing for; expectations affect incentives. This has been a truism of growth theory for a long time, with the result that growth is understood to be 'self-fulfilling'. Low expectations lead to low growth. But this is only now being linked to the wider question of what, then, does determine expectations about the future. They only have some traction over current activities if we care about the future.

Do we care? This is the big question for any government. What is its legacy going to be? Making sacrifices today for the sake of tomorrow is a difficult political sales pitch, and more difficult the further towards the next election we go. Already the coalition government might feel it has done enough to stir controversy in a number of contested policy areas. But on all sustainability fronts, from environmental to financial, there is much more to be done.

In thinking about the political economy of reform, I have become obsessed by the Victorian era. By the middle of the 19th century, this country was in the throes of a technological revolution, facing unprecedented social shifts, gripped by uncertainty and the fear of change even though objectively more prosperous than it had ever been. In these circumstances, Victorian Britons built the infrastructure we use today, constructed the civic buildings, libraries and museums, explored the world and expanded the frontiers of science and the arts, and developed the legal and social institutions shaping the economy for the next century and a half. They could only have built on a hundred year horizon because of a belief in progress and a sense of personal responsibility. It is encouraging, in a way, to have seen the coalition government's apparent willingness to bear some short-term unpopularity. All the western economies face unappealing trade-offs, and making those choices is uncomfortable in a democracy. However, the consequent political choices need to be measured in the literal sense of guided by a wider range of economic statistics. They need to build an adequate popular consensus, above and beyond electoral partisanship, and credible institutions such as the OBR are one way to do this, though there are other approaches to ensuring long-term choices have legitimacy. Above all, politicians, in Westminster and the devolved nations alike, and members of all parties, can help the future secure its toehold in the current debate by believing in it.

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# 12. David, Meet Goliath - Goliath, Meet David.

## New Interfaces Between the Micro and the Massive

*Indy Johar &  
Joost Beunderman*





Whilst there has been much talk recently of how local people should be at the heart of improving places and economies, too little is said about the accompanying change that is needed in our 'massive' state and corporate institutions. Clearly, big vs. small is too easy a contrast. The truth – and the real need for institutional reform – lies not so much in the middle as in the interface. Get this right and Britain could build a new constructive edge. We need to re-imagine the boundaries between business, state and community and unleash the cumulative power of 'micro' agency.

The long-ruling orthodoxy of classical economics always posed a direct contradiction to John Donne's meditation that "no man is an island, entirely of itself...". Starting with Adam Smith, welfare-maximising has primarily been seen as a matter for individuals as the core constituent of societal prosperity. Over time, prevailing interpretations of Adam Smith's work lost sight of its moral and institutional richness to favour more singularly his take on the market mechanism. As a consequence, economic man emerged ever more powerfully as a conceptually atomised rational needs-satisfier whose enlightened yet deeply individual self-interest brought well-being to all. Margaret Thatcher in that sense merely reiterated a shared classical understanding when she famously posed that "there is no such thing as society", allowing only for individual men and women (and their families).

The lived reality of economic life, of course, is different. Over the course of the 20th Century, the real organising unit – the dominant economic actor enabling rational individuals to organise themselves and be effective at achieving the sum total of their individual needs – was the corporate entity, whether private business or the corporate state. The mirror image of an atomised human ontology was the economic or bureaucratic behemoth, which inevitably displayed tendencies to hegemonic behaviour, whether through monopolistic/oligopolistic market conduct or through the authoritarian tendencies that can be detected in nearly all state systems. Growth

and competition through scale efficiencies and centralised command and control became the dominant logic – at the same time limiting the very individualism upon which its claimed economic model was founded.

The state increasingly mirrored such business behaviour. The ascent of public choice theory, which put the assumption that we tend to compete rather than be collaborative, and that we are selfish rather than altruistic has extended beyond economic theory to dominate approaches to public service reform. One result is the kind of inspection, incentive and market based reforms we've seen over the past decades, even as rhetoric of user-centred and participation-based service design and delivery took centre stage. However, slowly but surely, there has been some chipping away at this Goliath-like 20th century orthodoxy – both in theory and in practice. For example, key traits of classical economics like the thesis of perfect rationality – full information and sound judgement as individual behaviour paradigm – have been enriched by insights into behavioural economics. A more complex understanding of how economic development can depend on deep historic and cultural regional path dependencies has been generated by evolutionary economics. Greater understanding of the life of institutions and commons has been mapped out by new institutional economics. All these models shed light on other aspects of economic behaviour, including less reductively rational ones.

As divergent as these fields are in terms of focus and application, what they have in common is a focus on cultural, social, cognitive and emotional factors, challenging the idea of the rational, atomised individual as paradigmatic starting point. The fact that the 2009 joint Nobel Prize winner Elinor Ostrom focussed particularly on the institutions that allow us to share common goods without depleting them is telling: she put constructive cooperation, not competition alone in the spotlight, asking questions about how we evolve ways to enable collective action. Key to this is a realisation that behaviour is not

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always based on short-term economic profit – sharing, investing together, organising and solving problems can be part of rational economic behaviour if properly understood over a longer time-frame. Time again, for example, it has been shown that ‘rational’ atomisation leads to over-harvesting of the commons, whereas a deeper set of pro-associational and deliberative structures such as improved (face-to-face) communication leads to mutual agreements that are economically beneficial in the long run.

Similarly, in the daily life of business, massive corporations have increasingly found that Fordist assumptions of scale economies needed to be complemented, if not completely inverted. Certainly at the level of consumer products, giant-ism has long been dead, replaced by the customised and indeed by the participative. In his ‘New Capitalist Manifesto’ Harvard Business Review blogger Umair Haque poses that this is just the beginning, as the disruptively better businesses of the 21st Century are increasingly not just selling customised products but building participative platforms for others where the public can contribute as well as consume – whether Lego, which enables kids to upload their designs for the company to build and for others to download and modify, or the fashion company Threadless, whose business model is centered around people uploading designs for T-Shirts which get voted on by their peers in order to decide what gets produced. What they show is that Goliath’s success may well lie in the interface with the small, and in a new form of associating itself with the deeper aims of people rather than just pushing goods. Nike, for example, has set up a peer-to-peer community enabling already over 1.2 million people to become better runners. These strategic moves go beyond the cynical in that they enable better outcomes as well as improved sales; Haque, along with others such as Don Tapscott and Anthony Williams in their 2006 book ‘Wikinomics – How Mass Collaboration Changes Everything’, concludes that it is the radical openness and collaborative notion of such ‘value conversations’ instead of the one-sided value propositioning of the past that will push innovation

– seeing that mass engagement is not at odds with strategic business muscle but that David and Goliath can walk together.

Thus, both theory and (at least some aspects of) practice have moved to a situation that increasingly recognised deep roots and economic role of people associating with each other – whether through business innovation, local culture or purpose-driven networks, the social has been put back in. Equally, over the last two decades politics now whether left or right, has clearly shifted towards reinvigorated notions of associationalism, focussing on the role of organised citizens instead of reifying either the market or the state as paradigmatic constituents of well-being. A very Elinor Ostrom idea, as her work showed precisely how often neither the market, nor the state are the most appropriate mechanism to make decisions about how to manage common interests. And of course, as for example Amartya Sen remind us, Adam Smith himself was much concerned with these questions too – arguing for institutional diversity rather than for an unfettered market.

What this suggests to us is that there may well be a need to update our model of the individual as both an economic and political being, and develop economic and institutional approaches that recognise and enable a more open form of connectedness. Such a model need not pre-scribe people’s identities within fixed communities, but rather emphasise their dynamic networked nature as social animals in open patterns of associating and collaborating around particular causes. A model, therefore, that recognises the middle ground between massive and small as crucial for the effectiveness of both economic and political life, as a way of enhancing innovation and sustainable value creation along with the meaningful freedoms that people can enjoy to be the authors of their own lives.

The associational individual will be a co-investing actor, participating, co-producing and increasingly taking an active stake in the creation of new shared wealth. We recently collected a series of

examples of this emerging behaviour shift in a collection that we call the 'Compendium for the Civic Economy.' The book shows that, from citizen-built edible public spaces and member-led supermarkets to new communities of practice for social entrepreneurs, and from locally funded superfast broadband and self-commissioned housing to peer-to-peer ride sharing websites, collaborative economic development trajectories are becoming ever more powerful as a force that improves local economies in places, generating better outcomes, deep value and financial benefits not just in economic terms but also socially and environmentally – in ways that accrue to local people, society and future generations.

Across these examples, it is the energy, purpose and inventiveness of a new breed of civic entrepreneurs that is driving change – but always coupled to new ways of generating mass participation of local people not just in processes but also in participative products, creating tangible financial gain for those involved. What is also remarkable is that these civic pioneers are not just found in the now deeply fashionable world of social entrepreneurship – rather than being a sector specific issue, we concluded that it is a type of behaviour that can be found across the private and public sector too. Thus we define the civic economy as a fusion between the agility of 'business 2.0' (the new organising principles alluded to before) and the growing civic purpose amongst a wide range of individuals and groups, in whichever sector they happen to be working.

The public sector in particular faces a challenge where it comes to responding to this, and generating the fertile ground for civic entrepreneurship: Goliath does not quite see eye to eye with David. And that is because it has trouble navigating the middle ground between its own corporate scale and the variegated scale of individual citizens be they public service users, strong-voiced local activists or potential micro-investors. For example, a recent discussion at the Social Innovation Park in Bilbao, Spain, participants debated why it is impossible for individual citizens

to invest in their local street lighting. After all, it's necessary – as there is a huge challenge to make energy efficiency savings for which the public sector currently lacks the capital – as well as technically possible – there is no problem in principle with distributed systems – and also potentially a good investment – it was suggested that pay-back times for an individual investment would be less than 5 years, after which micro-investors would enjoy a return that far outstrips paltry interest on savings accounts. The conclusion was that it's primarily a challenge of interface, in particular a challenge for the public sector to generate a system as agile as the Kickstarter funding website or the Apple iPhone Apps store that can accommodate and account for micro-contributions – configuring a new market based on socialised potential and shared outcomes.

The meeting of massive and the micro requires different modes of behaviour. The pioneer entrepreneurs and activists we found in our research were more powerful when they found true partners in the state and private sector. But that required a willingness to align purpose, open up to joint venturing, and a respect for what citizens can contribute at a micro level whether time, money, know-how built up over a series of entrepreneurial ventures, or people's local reputation and networks.

The co-design and co-production debates that have grown under the last Government too often remained stunted in the language of engagement and consultation without creating platforms for genuine co-investment. For the corporate state genuinely to open up, a much greater degree of porosity is required, and our book shows how this could happen in a range of fields: procurement (as shown by an NHS hospital catering team that breathed life into existing legislation to procure food sustainably by actively reaching out to local farmers); commissioning (for instance, the case of Brixton Village, where the local authority's moment of genius was not to claim the lead in regenerating it but instead to connect the market owners to a group of talented social entrepreneurs); market

## *New Interfaces Between the Micro and the Massive*

regulation (witness the battle of local internet providers and energy generating villages to enable self-provision in a regulatory field aimed at facilitating large scale providers); frameworks for micro-finance (in reality, micro-bonds already enabled some innovative workspace projects... and now the FSA needs to catch up), preferencing players that create greater social value (the town of Tübingen in Germany explicitly preferred self-builders and self-commissioning groups over developers when allocating housing plots). All these are questions of interface – of building or evolving new institutions within our economy that make practical sense of the ontology of the collaborative individual, facilitating the open association of people with peers in order to build new shared prosperity through generating new common assets or sharing the resources we have more effectively. This is true, we would argue, not just for a reforming state but also for institutions like Housing Associations, for instance: in both cases, what this points to is that regeneration and local economic development trajectories may well be less dependent on massive new capital investment or massive new legislation, but should actually focus on subtle changes in practices and frameworks – again, the building of the kind of liberating platforms that already are starting to unleash citizen action across the economy.

Already, peer-to-peer lending Zopa has now arranged £100 Million of P2P loans for their customers across the UK; and a housing association in the Midlands is working with the to build a social enterprise support platform to enable micro initiative through so-called ‘fiscal sponsorship’, building on the work of pioneers such as the US based Tides Foundation. These are momentous changes, changing the very finance infrastructure of this country. A next step, the ‘nationbuilder’ web platform could revolutionise the way local leaders and entrepreneurs to build their own base of support for a wide range of projects, whether financial or otherwise. These are the kinds of platforms and institutions we need to invest in – the thick, inter-personal platforms and support infrastructures that we really need, instead of the

monolithic Regional Development Agencies that were the corporate state’s interpretation of ‘thick institutions’. Instead of the simplistic physical infrastructures they all too often focussed on (the business parks, the road widening projects), the smart and complex interface-based new cornerstones are precisely the ones that Umair Haque’s disruptively better businesses are already building giving them a competitive edge over their peers who are still stuck in outmoded ways of thinking and doing.

Speaking of competitive edge – there is an additional point here. Creating effective and durable interfaces between the massive and the small – growing the institutions and working cultures that genuinely unleash collaboration and co-investment – may well be the next source of advantage for Britain – not in the sense of a zero-sum economic development gain, but in leading the innovation frontier at a time when our global institutions are in dire need of reform – hence we suggest it should be called constructive advantage instead of focusing competitiveness. In evolutionary economics, much attention is paid to how positive working cultures in regions can enable them to prosper over the long term and withstand economic shocks. The highly innovative craft industries of the so-called ‘Third Italy’, the cooperative structures of the Basque Country (where businesses are moreover deeply vested in collaborative chambers of commerce) and the regionalised finance structures in German states are all examples of economies that irrespective have been resilient to shocks and generated significant shared wealth. But evolutionary economics also points to moments when disruptive technologies can create ‘open windows of opportunity’ enabling regions or nations to build new economic trajectories. And there is now such an opportunity for Britain: both to build on the deep roots of its civic economy – grounded in the proud civic and associational traditions originated in the 19th Century – and to seize the opportunity to and reinvent (and reinvest in) them for the 21st Century. Goliath, meet David – and enjoy the conversation.

## *Indy Johar & Joost Beunderman*

In sum, if we are to re-build the institutional economics of places, we need to root that around associational and collaborative actors, whose collective behaviour has already built new shared assets like Wikipedia that have quickly taken on a natural role in daily life. And, finally, we need to make manifest how this changing ontology will imprint itself onto the world – how, rather than a world of corporate state and business, this creates a world of distributed action. In New York, A Festival

of Ideas for the New City was held in early May 2011, showing how the small grain of a wide range of projects, debates and parties together could build a different city. Isn't it time we similarly invented a new Festival of Britain?

*Indy Johar is co-Founder of 00:/ Architecture and a Fellow of ResPublica. Joost Beunderman is an urban geographer and urban designer, also of 00:/*

13.

# Putting Energy in the Big Society

*David Green*



David Cameron has defined the Big Society as creating communities with “oomph”. Indeed, at its boldest it could well usher in a shift in power from the state and politicians, to local people and the communities in which we all live. But what does this mean for energy policy?

Could communities become the real drivers of a new localised agenda designed to decarbonise the way in which the country produces its energy and the way in which it is used. In the vision of the Big Society, more and more of us could be our own energy producer and our own energy reducers – with profound implications for the structure of today’s energy institutions and the market which they shape.

Significantly the Prime Minister made an early pledge that the Coalition would be the “greenest government ever” and it is pushing forward this commitment at a pace through fundamental changes to the energy market, feed in tariffs for small scale renewables, and similar support for renewable heat, as well as the rapid rollout of smart meters. Central to all this is the Green Deal, enabling householders and businesses to access a package of energy efficiency measures at no upfront cost.

This overall programme, alongside the refreshed obligation on energy companies to deliver significant energy saving in the homes of their customers, is ambitious and exciting and could potentially set out a clear energy focus for the vision of ‘The Big Society’.

### **Active and engaged communities**

Communities are already starting to get together to decide on the energy future for their locality, delivering their vision through local partnerships and social enterprises.

In Cumbria, six wind turbines were built by a developer and sold to local communities through the Baywind Energy Cooperative. Indeed, through making use of innovative tax breaks for such enterprises a number of other similar schemes are now underway and many others could follow.

The Hockerton Housing Project in Nottingham created self-sufficient eco homes, powered by wind turbines and solar energy in a project driven by a small cooperative and funded by the Co-operative Bank.

In Brighton & Hove, a group of social entrepreneurs, partnered with Brighton University, the city council and a national environment charity, Environmental Protection UK, to set up a network of individuals, community groups and businesses under the Brighton & Hove 10:10 brand, working together to cut carbon emissions by 10% in 2010. That engagement is now being built upon, and is evolving into an ambitious programme to deliver energy services and meet other sustainability goals throughout the area.

In Aberdeen, the council has taken the lead, and through its own local enterprise, Aberdeen Heat and Power, is already delivering the benefits of low cost Combined Heat and Power (CHP) to many residents – just as has taken place in Southampton, Sheffield and Birmingham.

### **Benefits of community action**

Projects like these illustrate the potential power of communities, and form a foundation for the localism agenda that is enshrined in the Coalition’s Programme for Government and its commitment to support to the creation and expansion of mutuals, co-operatives, charities and social enterprises, and to enable communities to have a much greater involvement in the running of a variety of local services.

A recent report from the Sustainable Development Commission suggested that neighbourhood-based approaches to energy, environment and sustainability can yield 20-30% increases in participation. The report also emphasised how such initiatives have the potential to improve the local economy through the creation of local ‘green’ jobs and skills development.

# Putting Energy in the Big Society

When a community has a clear idea of what it wants to achieve and is able to have a say in what is delivered to meet local needs, there is much stronger 'buy-in' to ideas and action. Longer term this can encourage us all to more actively manage our energy use – especially when people begin to make improvements to their home, often encouraging neighbours to follow suit and exercising the gentle social pressure that pushes forwards more radical change.

Such thinking rests behind British Gas' Green Streets programme, a unique experiment in which communities were invited to bid for a share of £2 million in funding to invest in innovative energy projects able to save, generate and engage. Communities have been competing head-to-head for the title of "Britain's most innovative green community" with a £100,000 prize to spend on a local environmental project of their choice.

David Cameron recently visited one of the communities in Tackley, Oxfordshire and said: "This is the Big Society in action. I have been supporting this project from the beginning and it's great to see the people of Tackley and British Gas working hard and getting results, which are cutting energy bills and generating clean, green energy."

## Policy to support community action

All too often, as consumers we do not always know what energy improvements we can make or have insufficient information on which to make an informed choice. Sometimes we just consider the costs, the hassle, the disruption, much more than we do the benefits we might later enjoy. The Green Deal needs to turn this on its head – and community-led action can help to drive this.

The right incentives need to be in place – for individuals, businesses and communities. Direct subsidy is one option, but not the only option. There is mileage in a raft of other incentives linked to the energy performance of a property such as a council tax or stamp duty rebates with tougher standards to prevent private landlords from renting out the most inefficient properties.

The success of the Green Deal will depend on how it motivates consumers to act and drives demand for the measures it is there to support. Community action needs to be at the heart of the Green Deal with financing mechanisms to help communities to invest in projects such as local renewables, district heating, connection to the gas network and community wide energy efficiency programmes.

Localism, with its aim of giving greater freedom to local authorities and empowering communities to act to meet local needs, presents a real opportunity for local people to take control of their energy futures. Encouragement and support will be needed though, to ensure that progressive voices in the community are heard as clearly as those who wish only to protect the status quo.

## The challenges for Government

The Coalition is clearly keen to support communities in which people are engaged and empowered.

Introducing incentives, reducing barriers and ensuring the important services that the market is unlikely to provide will all be important, as will steps to support projects devised and implemented at community scale. One example is the introduction of the Renewable Heat Incentive, of course, which may make more community based options – like Combined Heat and Power – increasingly attractive.

Local authorities can also play a strong role. Local plans that invite communities to help shape and deliver their own energy futures are part of this potential. So too is information and engagement, the provision of support services, finance and delivery partnerships.

A striking example is the Birmingham Energy Savers Programme, launched by Birmingham City Council in January 2010 as one of the Labour Government's 'Pay As You Save' pilots. This transformational programme led by the local authority, uses a public-private partnership with an aim of refurbishing over 200,000 properties by 2026.



## David Green

During the first phase, Birmingham City Council generated £41,000 from Feed-in-Tariffs, which was then used to fund a second phase – retrofitting social housing. In May, their cabinet agreed a third phase, which includes a £100,000 15,000 home retrofit that aims to generate income from Feed-in-Tariffs as well as attracting private investment.

In Birmingham, success has come in part because local people feel connected to the scheme, they like being part of a club, and they are energised by the idea of doing something positive, creating better lifestyles and good jobs in the community in which they live.

### Big Energy Society?

Active local communities, local workforces and engaged local organisations have the very real potential to deliver significant benefits in terms of buy-in, take-up, behaviour change and regeneration.

Local partnerships can help promote behaviour change, make energy efficiency improvements and cuts to carbon that lead to reduced fuel bills.

Jobs and income can be generated through energy efficiency projects and the installation of renewable technologies.

Existing projects, coupled with a Government strategy that supports not just the principle of what communities are doing but is shaped to give practical help, show how effective local partnerships, bringing together business, local authorities, community groups and schools, and that engage us all as householders, neighbours, residents of local streets, towns and cities, could achieve even more.

With this the 'Big Society' can become the source of the vibrant action needed to really respond to the challenge of climate change.

*David Green OBE is Chief Executive of the UK Business Council for Sustainable Energy*

# 14. The Power of Love in Business: Getting Your Humanity to Work

*Roger Steare*



Testifying before a US Congressional Committee in 2009, Dick Fuld, the former Chairman and CEO of Lehman Brothers, explained that the reason he was paid US\$310m in the year before Lehman's collapse was because the board compensation committee had approved these payments. Whether it was right or fair for him to receive this compensation were questions he avoided answering. Morality was left at home and empathy placed to one side.

Do business leaders leave their humanity behind when they come into work? Our own research into Moral DNA<sup>1</sup> published in 2010 by PWC, has clearly demonstrated that the male dominance of executive leadership in business has diminished humility and empathy in the workplace. But not, it seems, because they are inherently bad people. To the contrary: they have over time become subjected to the modern 'command-and-control' corporation which cultivates bad practice and oppresses moral questioning, revealing a vastly incomplete representation of 'humanity' itself.

Scientific research is now offering new insights into the nature of human morality. We are an empathic species. Born out of love, we survive and prosper by caring for each other. Once our basic needs are met, our well-being is determined not by how much more we can get, but by how much we share with each other. On the basis of this evidence, we must challenge some fundamental assumptions about business - as well as economics, politics and society. If we are so much more than self-interested rationalists, then how can we bring the enduring, universal moral values that underpin family and friendship, into business?

### **New insights into morality**

So how can an understanding of morality help us redefine the purpose of the corporation as a sustainable human community of belonging, rather than a mechanism for utilitarian self-interest? As an undergraduate, I was privileged to study the

History of Western Philosophy with the late Lord Conrad Russell, son of Bertrand Russell. We studied Plato, Aristotle, Aquinas, Bentham, Mill, Kant and all the great philosophers. But looking back, we never studied any female moral philosophers. This is simply because until the twentieth century, they simply didn't publish as philosophers. They just carried on being wives, mothers, aunts, grandmothers, friends and neighbours. They didn't write about moral philosophy, they just lived it.

Today we are now beginning to understand morality through the scientific disciplines of neuro-philosophy, moral psychology and social anthropology. This descriptive ethics is providing us with some powerful scientific evidence of the nature of what is good. Patricia Churchland's "Braintrust"<sup>2</sup> is an excellent study into the neuro-science of morality. In summary, she argues that we are born out of love. We survive and grow because others love us and we love them back. We see this in family, friendship and community. We reinforce our sense of family, friendship and community through social learning and social decision-making. In short, we can show how and why family, friendship and local communities have survived as functioning forms of human association for at least 15,000 years. And when it comes to work, we must understand that most human beings on this planet work for small, family-owned businesses, many lasting for generations. In contrast, the form of human association known as the joint-stock corporation is less than 250 years old and has yet to prove itself as sustainable.

Churchland's evidence begins at the molecular level. Adrenaline, cortisol and testosterone are powerful hormones that help us to survive in a hostile environment. They enable us to fight or flight and to handle high-levels of stress for short bursts. However, in excess, they can act as toxins. And if the business workplace is a command-and-control, fear driven environment, then it becomes, de facto a toxic environment.

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1 [http://www.pwcwebcast.co.uk/dpliv\\_mu/Trust\\_the%20behavioural%20challenge\\_Oct%202010.pdf](http://www.pwcwebcast.co.uk/dpliv_mu/Trust_the%20behavioural%20challenge_Oct%202010.pdf)

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2 Braintrust: What Neuroscience Tells Us about Morality, Patricia S. Churchland, Princeton University Press, 2011

# The Power of Love in Business

On the other hand, oxytocin and vasopressin are powerful hormones that stimulate social bonding and empathy, which is why oxytocin is sometime referred to as the “hugging” hormone. Oxytocin is present in both genders, but is found at much higher levels in women. Its effects on behaviour have been widely studied including experiments on male investors<sup>3</sup>. Having inhaled an oxytocin spray under medical supervision, the short-term trading results were not as high, but sustainable value measures over a longer period were significantly higher, as participants began to trust each other more. We should also consider that most traders in the world are women, whose simple livelihoods depend on creating and sustaining trust through buying and selling food and craftwork in local markets.

In addition to brain chemistry, we are also understanding more about brain physiology. In very simple terms, our basic survival mechanisms (self-interest) occur in the reptilian complex. In business we can see and understand this behaviour in the phrase “snakes-in-suits”. Logic and reason is processed in the neocortex, the size of which sets us apart from all other species. Take these two together, the reptilian and the neocortex and we can see the neurological foundation for the political and economic philosophy of “rational self-interest”.

But what’s missing in this picture? The answer is the mammalian limbic system and the functioning of “mirror-neurons”. These physiological structures, together with the effect of hormones such as oxytocin, enable us to care for each other, to empathise with each other, to put others first and to love one another.

The moral psychologist Carol Gilligan has also been researching this missing link in our humanity. This “ethic of care” which she first described in 1981<sup>4</sup> is a human quality which we have also been measuring in our psychometric tool, the ethicability® Moral DNA Profile since 2008. We have so far built a database of over 50,000 people in 162 countries. We measure the Ethic of Obedience (reptilian fear), the

Ethic of Reason (neocortex logic) and the Ethic of Care (limbic emotion and empathy). The results, as reported by PWC, demonstrate that the Ethic of Care is dominant in those occupations which give us life, such as motherhood, farming, healthcare, education and charity. It is sadly much less in evidence in those occupations where machines dominate, such as big oil, utilities and technology; and in those businesses that prosper by selling us things we want but don’t need, hence the epithet, “snake-oil salesmen”.

## From Self-Interest to Self-Destruction

In “The Corporation”<sup>5</sup>, lawyer Joel Bakan makes the powerful case that the modern joint-stock corporation would be diagnosed as “psychopathic” if it was human. Our own research strongly suggests that this is not only because of the legal form of the corporation, but also because this psychopathic culture tends to promote sociopathic behaviours in its leaders. As noted earlier, senior executives and main board directors score significantly lower on humility and empathy than human norms. In his recent book, “Zero Degrees of Empathy”<sup>6</sup>, psychologist Simon Baron-Cohen also demonstrates that all sociopaths and psychopaths display low to zero degrees of empathy. He also shows that the converse is not necessarily true, that low to zero degrees of empathy do not necessarily make us psychopaths. This gives us hope that sociopathic leadership behaviours can be reversed.

This is certainly the case in the recent study by Jim Collins, “How the Mighty Fall”<sup>7</sup>. In it he debunks the myth of corporate success, proving beyond doubt that most joint stock public corporations are bound to fail sooner rather than later because of serious moral and psychological flaws in leadership behaviours and culture. He identifies five stages of destruction that closely match our diagnosis of sociopathy. They are, in his words: hubris born of success; undisciplined pursuit of more; denial of risk and peril; grasping for salvation; and capitulation to irrelevance or death. However Collins also

3 <http://www.nature.com/nature/journal/v435/n7042/abs/nature03701.html>

4 In a Different Voice, Harvard University Press, 1982

5 The Corporation, Joel Bakan, Free Press, 2004

6 Zero Degrees of Empathy, Simon Baron-Cohen, Allen Lane, 2011

7 How the Mighty Fall, Jim Collins, Random House, 2009

demonstrated that corporate self-destruction can be reversed at any one of these stages. This too has been my experience.

### The Power of Love in Business

If the diagnosis of the corporation is psychopathy, what's the cure? Surely it must require time, resources and big changes?

The good news is that whilst the required changes can be tough to accept, they are also simple and can transform leadership behaviours and culture quickly. First, the Board and senior executives must ask themselves and their business some searching and difficult questions, which are explained in more detail in the PWC paper referred to earlier. "Why does our business exist?" is a good place to start, followed by "How do we sustain our economic purpose?" But the most important existential questions are: "Is our business a caring human community?" and "Do our customers, colleagues, investors and our local communities truly care about our business and each other?"

In order to ask and answers these questions, both leaders and followers must transcend the command-and-control, fear-based bureaucracies of the past. We must also discard the myth of rational self-interest. It has no basis in science and it is not a sustainable business or economic philosophy, unless of course, you are psychopathic.

This isn't wishful thinking. There are an increasing number of studies that are beginning to measure the positive impact of "empathic leadership" on business performance. Daniel Goleman's research on emotional intelligence has also looked at six key leadership styles<sup>8</sup> and compared them with broad measures of corporate success. The least effective style is what he calls the "Coercive" style, typical of our North Korean style command-and-control dictatorship. However, the first, second and fourth most successful leadership styles were based in part on empathy.

In my current work, this approach is now being adopted right now in two global corporations with a combined market value of over £200bn. Empathic leadership, mutuality and community is now being incorporated into leadership development and culture change programs across their global business communities. The leaders of these businesses have found the courage to stop trying to fix systems and processes and to fix themselves. They are looking in the mirror to confront their Moral DNA. They are implementing social learning and social decision-making programs both for leaders and followers in their businesses. They are dismantling command-and-control, fear-driven bureaucracies and replacing them with democratic, speak-up, listening cultures. They are discovering immediate positive impacts on their businesses as customers, colleagues and investors are drawn to this trustworthy and engaging approach to business.

They are developing the power of love in business and getting their humanity to work<sup>9</sup>.

### Postscript

Recent scientific insights into human morality have implications not only for business, but also for economics, politics and society. If we are indeed an empathic species, then we must question many widely held theories. My head, as well as my heart tells me that the ResPublica ethos of mutualism and communitarianism is closer to empathy than the rational self-interest that distorts our economic, political and social thinking. The language of "economic growth" is both unsustainable and illogical in a closed eco-system. Adversarial politics is inconsistent with the power of social dialogue and social decision-making. Yes, there is a dark, selfish, greedy shadow-side to each of us, but I believe the power of love and humanity can transform economics, politics and society as well as business.

*Professor Roger Steare FRSA is a Fellow of ResPublica and Corporate Philosopher in Residence at the Cass Business School.*

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8 Leadership That Gets Results, Daniel Goleman, HBR, 1998 and 2008

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9 The Power of Love in Business – How to get your humanity to work" by Roger Steare will be published in December 2011 and is available for pre-order on [www.amazon.co.uk](http://www.amazon.co.uk).

15.

# It Was the Best of Times

*Cliff Prior*



It was the best of times, it was the worst of times. Dickens has it right for 2012: wisdom and foolishness, belief and incredulity, hope and despair. This has been a year of intense contrasts and experiences for people involved in social enterprise.

For a decade we have seen heavy government investment in developing a quite specific type of social venture – mainly asset locked but enterprising, often public service facing, backed by substantial national and regional grant funded infrastructure. It achieved a great deal in bringing the concept of social enterprise into political and civil society recognition, and in creating a critical mass of practice. It drew established charities into more enterprising behaviour as well as bringing in new entrants. But to many, it looked too much up to government and not enough out to the markets, it was too narrow and dependent a base to show the true potential of social venturing.

In the last year, much of that government backed infrastructure has been swept away. There has been a rush to change business models, switching from government grants to services for members, forming mergers, partnerships and deals. The pace of change has been extraordinary, in some cases proving impossible. But other parts of the support sector have stepped forward – corporate involvement has leapt ahead, not just for CSR but for direct business value; the social investment sector has moved from a scattering of experiments to a sense of being a sector, with specific functions and roles; and social entrepreneurs have created new market based models to support the sector – often still embryonic, but highly innovative.

It is a more of a lurch than a considered shift, but even so a significant step in the journey from experimentation to scaling up, and starting to look like an ecosystem of support.

For the front line, the social ventures themselves, it has been similarly mixed. Many who rely on public service contracts have faced a promise of future opportunity but a struggle to survive cuts and the decision making paralysis that preceded them. Some have hunkered down, trying to outlast the lean

times. Again, new entrants have come to the market from all directions – public service spinouts, start up social entrepreneurs, businesses turning social and charities turning enterprise. Some sectors have done spectacularly well, for example recycling and clean energy. Others face contraction or collapse, their beneficiaries left to fend for themselves.

All of this is short term: the traditional “year zero” approach of a new administration, a set of specific changes for individual organisations. It has come, of course, at a time of recession and deep public spending cuts. That has made the transition painful. It has also made the pace of change challenging for all and unmanageable for some. But it has also created space for new entrants and new approaches, and as ever recession is a fruitful time to start a new venture just as it is difficult to sustain an existing one.

Underlying the short term storms are longer term changes, some trends which looks to be more profound and permanent.

Social enterprise is a response both to lack of trust in business which is purely for private gain, and to a lack of confidence in traditional charity approaches to solving rather than just palliating social need. For decades we have had a binary view of non profit and for profit, almost a saints and sinners view. It is a separation which allows the public to trust that their charitable funds will not be abused, but at the same time it incentivises caution rather than the risk taking which may be needed to secure lasting change. Younger people seem to be more tolerant – even excited – by the blending of social and financial. There is a growing sense that a balanced combination is possible. It is not clear how solid this change is, nor whether it would outlast a major scandal. But for the moment, it seems to foreshadow a real change.

Social enterprise is also a response to loss of trust in government. The expenses scandal drove that deeper, but probably more influential is the sense of waste and bureaucracy in a big government that seems remote and overbearing. People no longer believe that there is a government solution to every problem.

## *It Was the Best of Times*

We live in an era of co-creation. We use travel agents less, put our own holiday packages together from websites. We take the shell of Facebook and create our own profiles. We expect choice and involvement in every aspect of life. Government has been slow to wake up to this. Social enterprise has been quicker.

Co-creation is at its extreme with social entrepreneurship. The Global Entrepreneurship Monitor tells us that around 1.7m people in the UK lead some kind of social or community venture – anything from a local Scout group to running a major social enterprise. Around 238,000 are trying to start one. Some 635,000 have done so in the last 3 to 4 years. This is an extraordinary depth of leadership for social value.

From our experience at UnLtd, the majority are motivated by personal experience – they try to solve a problem they or someone close to them have experienced. It is authentic leadership, a grassroots phenomenon, something which seems to have been part of our culture for many years. So the question – is it growing in terms of the numbers of people involved, or the scale of impact achieved, or is it static or in decline?

We do not have robust statistics on this, but the anecdotal experience is that people are increasingly inclined to step forward as the solution and start their own social venture. There is rather more evidence to support the idea that a higher proportion of new ventures are focused on social rather than purely financial goals. As social entrepreneurship is usually motivated by anger or grief, we would expect more of it in times of recession and cuts.

But longer term, my hunch is that this is a further element in the change to co creation, the idea you can simply act for yourself. It is just no longer tenable for governments to think they can work out the solutions to all needs and specify how they should be delivered: people want the space to help make their own world.

Social entrepreneurship is vital to a good society. It builds social capital and the networks that bind communities together for common cause. It creates social benefits and economic ones too. It is the seedbed of social innovation. Of course not everyone creates profound change and most social entrepreneurs lead small community ventures, just as most business entrepreneurs are sole traders or small companies. But some go on to scale, and without this constant supply of new talent and ideas our civil society would stagnate.

Social entrepreneurship at the community level also inspires others. It can create a sense of optimism and possibility in disadvantaged communities. It provides the bottom rung of a ladder in a way that large scale charities, let alone government, cannot.

So is this the Big Society? Does it say the last year's political focus has been on the right lines? Well yes and no.

If the mass movement of social entrepreneurs are the core of Big Society, we need to start from their motivations and experiences. What are the barriers that stop people getting started or growing their venture? What would inspire more people to try? What would be the most useful supports?

Some of the lottery distributors have focused on this approach. The Big Lottery Fund is creating a 10 year trust to help the most disadvantaged communities create community capacity – including community entrepreneurship – as well as launching a people powered change programme. NESTA have their neighbourhood challenge. At the other end of the spectrum, NESTA have supported the development of social venture intermediaries and laid the ground for the Big Society Bank, and BIG have supported a venture scaling challenge and the replication of successful models.

Government have looked to system change – barrier busting and deregulation, tax incentives and simplifications for giving, changes to public procurement rules to give smaller social ventures a chance. Surprisingly for an administration with



a devolution agenda, they have also introduced some valuable but top down schemes – community organising, national citizen service.

But the timing of these moves alongside widespread cuts in the civil society infrastructure of the UK has left people bewildered and angered. How can we expect more volunteers when volunteer centres are closing? How can we expect more social venture start ups when support programmes are cut back?

And the narrative has focused on a Big Society mantra when all the evidence is that most people who act for social benefit do so for small – ie personal – reasons. Big Society is a myriad of small actions and personal motivations. The label made it sound like something else to what we see around us, a government demand for action rather than enabling and celebrating the actions people want to take for themselves and often do. Somehow it did not connect with the sheer numbers and sense of fulfilment of the social actions people already take.

We do not yet know how this will pan out in reality, but the politics of Big Society certainly became toxic, even for the social entrepreneurs who looked closest to it. Between the cuts and the sense that all existing support agencies were seen as the problem not the solution, the mood around Big Society soured. As the new financial year starts, the tone is changing – much of the pain of cuts has been taken, and the news is now coming from new ventures and survivors – a brutal view but an honest one.

So where are the new possibilities, and the barriers to further development?

The starting point has to be inspiring more people to start. Most people have no idea of social entrepreneurship so do not even know what support to ask for let alone how to find it. We have to get this out into wider public consciousness before support can become more accessible. There are several possibilities. We could work through community groups and other places people would naturally turn, and link up with institutions which can act as a bridge such as colleges, social landlords and faith

groups. Support providers can bring their offers together in a more navigable way. Corporate and media connections offer the chance to improve awareness and understanding.

Next comes making it easier to start. Reducing the barriers is crucial. We still have a situation where it is easier to do bad than good, where it is easier for a teenager to start a youth gang than a youth club. Regulation and fear of liability is a major blockage. Reducing, simplifying, and packaging up the bureaucracy of social entrepreneurship would enable far more start ups. As Indy Johar notes in his essay, ideas like the Tides model from the US, where a charity acts as “fiscal shield” so that start ups do not need to create their own organisation until they are ready, or a simple start up legal form from which people can go on to create charities, social enterprises or businesses later.

Many community level entrepreneurs value a place to meet and network with others. As Steve Wyler highlights, earlier in this collection, community anchor organisations and hubs can offer great value. Networking events can also help.

For social entrepreneurs scaling up their venture, there are two major blockages. First is the early stage social investment. The first seed funds for all ventures usually come from personal credit or the traditional “friends, family and fools”, and organisations like UnLtd help too. Beyond that, the £50k to £200k zone of angel finance is largely missing from the social venture sector. The Big Society Bank promises investment but probably on a fully recoverable basis – and the angel stage requires both greater risk and more investment readiness preparation than this will offer.

The other challenge is the route to market. Every start up looking to grow needs to find its first significant customer or equivalent – whether that’s a retail outlet, a public service contract, or a major donor for a charity. All these are tricky. There are few places for customers to “choose social”. Public service commissioning is often so slow that start ups run out of cash before hitting success, and tenders require

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armies of form fillers which favour established big players. Charity giving is increasingly dominated by the big brands. Each needs a different approach to solve the problem, and it is good to see new ideas emerging – new rules on public procurement requiring prime contractors to work with smaller partners, online retail platforms for social enterprise products and services, interest from a new group of major donors in more enterprising approaches to social value.

A successful future for social entrepreneurs and the ventures they create requires a whole system approach. It's about the people, the environment, and the enablers. It is absolutely not to say that social entrepreneurs and start up social ventures can do everything on their own, or to abrogate the legitimate authority and environment shaping role of government. We need to start from this rounded conceptual approach, starting from the reality of what motivates social entrepreneurs and what holds them back, the reality of how our regulations hit social ventures, and the support that makes most difference.

We also need to recognise that much social change is led by people who are angry at the status quo, and to expect the next few years to be a rough ride. Social entrepreneurship is at heart about a sense of self confidence and capability to act, to make the world you live in a better place. It is about a sense of “agency”, a belief that you can make a difference, that other people you respect are doing it too, and that it is both good to do and will feel good to do. A society where people believe that they and the people they know can make a difference is going to be a much better place to live. It's certainly where I want to live.

*Cliff Prior CBE is Chief Executive of UnLtd, the largest provider of support to social entrepreneurs in the UK.*

# 16. The Big Society and the Deficit: New Solutions for Healthcare



*Ali Parsa*

## *New Solutions for Healthcare*

For the Coalition Government elected in 2010, the immediate challenge appeared to be the burgeoning budget deficit. The problem was so pressing that many argued the Government must not allow itself to be distracted by lesser skirmishes. Why sell the Big Society, overhaul the public sector or reform the NHS when there's a deficit to deal with? A key question is therefore whether the deficit represents a cause or an effect. I would suggest that the UK's budget deficit represents the effects of a more systemic challenge, and that the Big Society agenda is the key to providing the radical solution that are required to meet it.

### **The Big Society and the budget deficit**

The relevance of the Big Society agenda depends on your answer to this question: was the financial crisis incidental or structural? It is now well documented that the crash came as a result of two simultaneous phenomena. On one hand, financial institutions over-traded credit they should not have had. On the other, the state over-spent a budget it did not have. The central question is whether these actions were exceptionally careless or structurally inevitable.

I believe the latter. The structural problem lies in a curious state of affairs in our Anglo-Saxon economy, where the people who work in our enterprises and generate economic value now cumulatively hand most of that value to the state in taxes and to financial institutions in pensions, savings, interest payments and insurance. These economic intermediaries over time have used this wealth to take control of over 90% of society's productive assets. As a result, those who work in our enterprises and create value - those who understand and serve their customers - now have little ownership, and therefore control, of those enterprise's destiny. Ownership and control lies predominantly with geographically and emotionally remote state machinery or financial institutions. While this model may function adequately day to day, problems arise when the short term interests of these institutions diverge from the goal of long term sustainability in the enterprises they control.

The pernicious effects of this state of affairs in the UK can be seen in the Cadbury factory saga. The financial institutions who owned the factory acted in accordance with their interest, which is enshrined in law as their fiduciary duty to generate the best outcome for their financial shareholders - in this case by selling the institution to the highest bidder - yet in so doing they destroyed the long term interests of the enterprise and the people who worked there. Whilst this act provided short-term relief for fund managers, ultimately it left society poorer. State ownership can have similarly devastating consequences. In Mid Staffordshire hospital, patients suffered and died in large numbers because the interests of ministers - politics, foundation trust status and short term targets - took priority over the day to day interests of patients. Neither event would have happened if those who had an interest in the long term sustainability of their institutions had a level control or input in the short term decisions.

The UK is almost unique in concentrating so much power in the hands of the Big State and Big Finance. In Germany, the Mittlestand, small and medium size business that are family or locally owned, make up around 30% of the economy. Think about the restaurant sector in France. Most eateries are family-owned and have been for generations. In Northern Italy, nearly 40% of enterprises are employee-owned. In the USA, the entrepreneurial sector controls much of the economy and its growth. All of these countries, have struck a better balance between those on the front line and remote state and financial intermediaries. In turn, all of these countries fared better than the UK in the recent crisis, notwithstanding structural challenges of their own.

If in our country we have created a unique structural problem in the divergence between the short term interests of remote owners and the long term sustainability of the institutions and the people whose livelihood depends upon them, it follows that out of the crisis comes the opportunity to address that conflict. Of course, the state and financial institutions have essential roles to play, but the route to long-term sustainability lies in a

more balanced approach where control is shared in equal measures between civil society, the state and financial institutions.

This will require a big power shift towards the doers and the users in our enterprises. Under the last Labour administration, the state accounted for 40% of GDP on average. Today, that number is 53%. That means simply reverting to the average expenditure during the Labour years will require a massive 20% shift in the size of the state's share of our financial wealth. Consider the opportunity this could create for civil society, entrepreneurs, and small dynamic businesses to create simpler, better and smarter value solutions. The potential is huge, but the task is massive. Such a significant transfer of power will not happen without fierce resistance on one side and unbending determination on the other.

The same rebalancing is necessary in Big Finance. Financial institutions must evolve to allow other stakeholders greater control and ownership in the enterprises that they own. As they do, the evidence is clear that they will maximise their returns by unleashing more productive and better incentivised workforces. This model of shared ownership and profit distribution between owners and the professionals who contribute to wealth creation is the system by which financial institutions themselves are run. Finance professionals should embrace the expansion of that model to the rest of the economy. They know better than anyone the benefits of offering a workforce autonomy, complexity and a direct relationship between results and rewards. The result will be a more balanced economy and society.

### **The Big Society and the need for NHS reform**

As people made their predictions about the new Government's fortunes this time last year, few anticipated how prominently healthcare would feature in the first year of Coalition politics. Yet in the context of the structural problems exposed by the financial crisis, the imperative for healthcare reform is inescapable. In the last decade alone,

expenditure on healthcare went from 40 to 110 billion pounds. But hospitals became less responsive to the needs of patients as power became concentrated in the hands of government bureaucracy at the expense of frontline professionals and the patients they serve.

The Government have initiated four planks of reform to shift the balance of power back towards patients. First, by giving patients the chance to choose the best treatment, regardless of who provides it. Second, guaranteeing that choice through economic regulation. Third, getting patients the information they need to make an informed choice. Fourth, guiding patients in that choice by giving their family doctor the paying power to shape services for them.

It is not simply the demands of an ageing population, expensive medical technology and increasing expectations which make change inevitable. There is a more fundamental need to re-engineer an industry which has become unsustainable. In any professional service, value is defined as quality relative to price. In healthcare, quality is defined as clinical outcome plus patient experience. This equation provides a tool to assess the value of UK healthcare. The conclusion is stark. In little over ten years, the denominator of the equation – the cost of healthcare – has tripled, from £37 billion to nearly £120 billion, whilst the nominator – patient experience and clinical outcomes – has undoubtedly improved, but no where near the same three times. As such, the stark, dispassionate economic truth is that we have seen a massive destruction of economic value in the largest sector of our economy.

Few dispute that this trajectory is unsustainable. Even in the maelstrom of NHS debate, amidst the prophecies of revolution, chaos and the destruction of our national religion, no-one has disputed the reform imperative. Perhaps the most commonly repeated comment from Coalition politicians on the big NHS debate is 'no change is not an option'. The good news for the Coalition is that we have been here and solved this problem before. In

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the 1940s and 1950s, we redressed unsustainable food distribution and production, in the 70s we did it with manufacturing, in the 80s we did it with financial services, the 90s with technology. It is now time to do it in our public services, especially healthcare.

### **How are unsustainable industries re-engineered?**

Much academic effort has been spent researching the drivers behind innovation that re-engineers unsustainable industries. The conclusions are encouragingly simple. Study after study has shown that the vast majority of innovation comes from new entrants to a sector rather than incumbents, be they public or private. A University of London analysis of UK manufacturing in the 1980s showed that 80 per cent of innovation and productivity increases were the result of efficient new entrants entering the industry and inefficient incumbents losing market share and eventually exiting. Therefore it was not British Leyland that made our automotive industry more vibrant, but new entrants such as Toyota and Nissan. Think about the transformations that have taken place in the IT sector through highly successful innovations originating from a stream of new entrants.

From 1988-93, barriers to entry fell away as expensive mainframes were replaced by cheap PCs. As networks of PCs became the dominant IT architecture, mainframe manufacturers logged \$20bn operating losses. None of them were able to adapt their business model to compete in this new era of technology, yet disruptive innovators such as Intel, Sun, Microsoft and Dell were creating extraordinary value. In turn, none of these organisations were able to do what Yahoo did. And yet, Yahoo did not do what Google did. Google did not do what Facebook did. Facebook could not achieve what Twitter achieved. Each new entrant has innovated to advance open source technology in a way that has revolutionised human interaction. I will make a prediction: none of these established names will create the next big thing in IT. I'm confident making this prediction because history has shown one unfaltering truth about innovation:

it does not happen because you ask incumbent organisations to become more innovative. Innovation happens because barriers to entry are removed and the prime law that "the intelligence of many is superior to the intelligence of a few" is given the chance to produce results. It happens when all sorts of people are encouraged to provide a whole variety of solutions, and where the best and most appropriate can be adopted by unprejudiced recipients according to their specific needs.

### **Where will new solutions emerge from?**

Returning to healthcare, the case seems clear. Power is a zero-sum game. That's why the route to a sustainable NHS lies in giving patients and the clinicians who know them best control over decisions and budgets. Control will unleash the frontline to deliver innovative solutions that re-engineer the UK healthcare industry. By dismantling the establishment of Strategic Health Authorities and Primary Care Trusts, with their vested interest in the status quo, we can unleash innovative and disruptive ideas. These ideas will thrive because they will not first need to seek the permission of those who did not do the inventing, or are about to be disrupted.

In Circle, an employee-owned social enterprise that forms the largest partnership of clinicians in Europe, we have seen what can be achieved by giving the doctors and nurses who know their patients best the ownership and control to innovate on behalf of their patients. Our new facility in Bath is the first Norman Foster hospital in the world. Hospitality services are designed by the team that brought Mandarin Oriental into the UK. Food is delivered in partnership with Daylesford Organic, and prepared daily by a chef from a Michelin-starred restaurant. All of this is available to every NHS patient at tariff prices. Or consider what the 1000 NHS seconded staff in our Nottingham day-surgery hospital achieved when we gave them the freedom and responsibility to redesign services for their patients. A 22% productivity gain in a single year. Patient outcomes improved to four

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times better than the national target. 99.6% patient satisfaction. 90% staff satisfaction. This is the type of patient experience, clinical outcomes and productivity gains that are possible when we unleash the creative talents of the doers and users in our enterprises.

The Coalition is at a crossroads with the current 'pause' in their NHS reform programme. They can choose to protect inefficient practices, processes and providers on the basis that it is they and the investment already put into them that matter most. Or they can hold their nerve and press ahead to create an environment that actively promotes new solutions, irrespective of where they come from. Whilst working to rebalance our economy and develop a more sustainable growth model,

they have a window also to rebalance our society by decentralising power and empowering the doers and users at the frontline. Our hope is that they seize their moment, and empower many new entrants to deliver innovation that transforms the value equation in UK healthcare. For too long, remote intermediary institutions have locked the frontline out of decision-making and stifled their creativity. The country that pioneered the first blood transfusion, the first antibiotic and the first universal health service should still be a place where it is irresistible for the best talents to offer the boldest solutions.

*Dr Ali Parsa is co-founder and Managing Partner of Circle Health Partnership*

# 17. Putting the Pieces Together: The Government's Plans for the Future of Welfare Reform

*David Freud*





When all the pieces are fitted together in 2014, we will finally start to see the emergence of a coherent welfare system.

The foundations for our current welfare system were laid more than 60 years ago on the back of overwhelming public demand for a fairer society. This demand was underpinned by William Beveridge's famous 1942 Report, a publication so popular that people queued outside Her Majesty's Stationery Office to get hold of a copy.

Today, enthusiasm for welfare has turned to despair. The British public has become accustomed to seeing its hard-earned money wasted on ineffective employment programmes and benefits that seem to create inactivity rather than provide routes out of poverty.

Welfare budgets have rocketed in the last half century. My department, the Department for Work and Pensions, now distributes an astonishing £200bn each year – the kind of figure that represents the entire GDP of countries like Belgium, Greece and Austria. Yet we still have almost two million children growing up in a household where no one works – one of the highest rates in the whole of the EU – and 5 million people stuck on out of work benefits.

Since coming into office last year the Coalition has been working hard to turn this round, looking to tackle the root causes of a growing dependency on welfare that is sapping the country's economic activity, draining its taxpayers and undermining the health and resilience of those trapped in its confusing web. Despite the considerable scale of the restructuring we have embarked on, we have made sure that support remains in place for the most vulnerable and those with the highest support needs.

Right at the start we knew that radical strategies were needed to achieve the transformation we need. Those strategies are most evident in two particular areas, where we have introduced new and distinct ways for a Government to achieve outcomes.

The first strategy represents a philosophical turnaround in the way we think about the benefit system. We are aiming to rebuild a sense of self-reliance among those who have been turning to the state as a first resort. It must be plain and simple for people to better themselves by earning their own money. The current system, where financial support is provided in an incomprehensible way, seems almost designed to sap the independence of recipients.

The second way we are transforming the system is through our approach to services designed to help people back into the labour market. This is an area in which it is possible to plough endless sums to little effect. To ensure real accountability, we have introduced a rigorous payment by results model to ensure that the supplier takes the risk. This way money is only spent when it is likely to have the outcome required – in simple terms, a job. This kind of discipline should make sure that an effective, competitive industry develops to help those groups who have up to now been left high and dry.

The process is already well underway, with the Welfare Reform Bill now being considered in the Commons providing the foundation for many of the reforms. The restructuring consists of a series of interlocking reforms that together are designed to change the way people think about their relationship with the state and to recreate a culture of independence and self-reliance. In particular it is built on the fundamental insight that employment is a key building block in building people's sense of purpose, worth and health.

Accordingly our reforms all reinforce the work ethic. The Universal Credit, which will replace most working age benefits, will incentivise work, while the largest welfare to work programme this country has ever seen, the Work Programme, will provide intensive support for people to enter the job market and stay there. At the same time, housing reform will reduce the barriers to leaving dependency. Our plan to reassess 1.5m people who are absent from the labour market because of illness or disability, which is now under way, will

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reduce the number of people locked out of the economy, while we are exploring, in our review of sickness absence, how to stem the inflow into long-term inactivity.

Here I will look ahead to how we believe these reforms will play out over the next few years, up to 2014.

### Simplification and making work pay

At the heart of the changes we are making is the Universal Credit, designed to simplify the system and make sure that work always pays. By 2014, all new claimants will be entering Universal Credit and will see the benefits of a clearer, more streamlined system. At the same time some current claimants – those out of work and benefit recipients closest to the labour market for instance – will have started to be transformed over to Universal Credit. Universal Credit will remove many of the traps and disincentives in the current system that keeps people on benefits when they could be working. No longer will out of work customers worry about taking a couple of weeks of low paid work, as they won't need to claim a whole new benefit. Families will have more flexibility to balance work and caring responsibilities, without needing to stick to a specified number of hours. Many people will be able to keep more of their pay, as the highest marginal deduction rates are reduced, and will see more easily the effect of their work choices on their total income.

Universal Credit will also provide a modern streamlined service which will make it easier for people to understand and get their entitlement. Customers will have more flexibility to update their award details – online at 2am if they want to – while those who would rather talk to someone can do so.

Over time we expect Universal Credit to lift almost one million people, including 350,000 children, directly out of poverty, simply through the restructuring of benefit payments and greater take-up due to its simplicity. In addition the job incentive effect will significantly reduce the number

of workless households, adding a further boost to poverty reduction.

### Reconnecting people with the labour market

As we improve incentives to work we must also look more closely at the support for those we expect to move into employment. That is what we are doing with the new Work Programme, which is the next step in our welfare plans, providing a completely new approach to supporting people back to work.

Last month we announced the 18 private and voluntary sector organisations named as preferred bidders for the Work Programme. They are investing £580 million into the Work Programme. Each provider will be paid by results – with more for those who get the hardest to help off benefits and into work. This model will, I am sure, be the blue-print of how Government procures its services in the future. Alongside the 18 preferred bidders, almost 300 voluntary sector organisations will be subcontracted as part of a massive national programme starting this summer. Groups such as Mencap, the Citizen's Advice Bureau, the Prince's Trust and Action for Blind People are all going to be involved in delivering the Work Programme.

By 2014 the Work Programme contracts will be in steady state, providers will have fully embedded their operations, learnt from their early days experience and our expectation is that they will be providing a consistent and quality service. We anticipate by this point that performance will have ramped up over the life of the contract and providers will be achieving the performance levels as set out in their tenders. Performance management of contracts will be strong, and providers will respond to this. Prime providers will continue to invest time and effort in ensuring that their supply chain is active and relevant in supporting our claimants.

Alongside the Work Programme, we are pressing ahead with our plans to reassess all claimants still on Incapacity Benefit. Under the current system people can be stuck on benefits for years without

ever being offered any support to return to work or ever having their condition assessed to see if it has changed. Latest statistics show that 75 per cent of people who apply for Employment and Support Allowance (ESA) are continuing to be found either fit for work or stop their claim before completing their medical assessment. The figures not only highlight the urgent need to reform the welfare system, but also why we are right to press ahead with the reassessment of those on old style incapacity benefits which was rolled out across the country last month. Early figures from the trials in Burnley and Aberdeen show some 32% of IB claimants are fit for work.

We have also substantially improved the Work Capability Assessment (WCA), which determines whether someone is fit for work. An independent reviewer, Professor Harrington, made a series of recommendations which are all being adopted as the first WCAs of incapacity benefit claimants in the full nationwide reassessment gets under way. By 2014 the IB reassessment will have been completed and around 1.5m incapacity benefit claimants will have gone through the process. Those who are assessed as capable of work will be moved onto Jobseeker's Allowance and receive the tailored help and support they need to get a job. Those assessed as having limited capability for work will be moved to Employment and Support Allowance and will be placed either in the Support Group or the Work Related Activity Group. Those in the Support Group will be receiving a higher rate of benefit as they are assessed as having the most severe health conditions or disabilities. And those in the Work Related Activity Group will be receiving the tailored help and support they need to get job ready.

### Reforming disability and sickness support

While we have to take steps to put work back at the heart of the system, we are also putting in place reforms to the current system of disability and sickness support so that it works better for claimants and taxpayers alike.

We have recently held a consultation on our plans to introduce a Personal Independence Payment (PIP) to replace Disability Living Allowance (DLA). DLA is long overdue for reform and has not really changed since it was introduced in 1992. We are committed to helping support disabled people live independent lives and we need to make sure the benefit is fit for the future and ensure that the £12 billion spent every year goes where it can help those facing the biggest challenges in leading independent lives. Throughout the consultation process disabled people, their families and disability organisations told us that that DLA gives essential support to many people but we also heard a lot about the flaws in the current system. DLA is confusing for people to understand, based on unclear criteria and often resulting in inconsistent awards. They also told us that the claim form is too long, complex and dependent on having someone who knows the process to help fill it out. Indeed, 130,000 of those who were first awarded DLA in 1992 have never had their needs reviewed so we have had no way of knowing if their award is right or not. Indeed, the last thorough review of the benefit in 2004/05, found that £630m – or more than 11% - had been overpaid because of changes in customers' circumstances. PIP will change this and will also enable disabled people to be sure they are getting the support that is right. The views expressed through the consultation will be reflected in any changes we make. The changes which will focus on disabled people getting the right levels of support to lead full, active and independent lives and ensure we deliver a fairer and more consistent benefit.

Alongside reviewing DLA we are also undertaking a review of the current Sickness Absence procedures. I cannot predict the outcome of the Sickness Absence review as David Frost and Dame Carol Black, who are jointly heading up the process, are only half way through their investigations. We know that many workers, particularly the poorer paid working in SMEs, have little support during the 28 week period of sickness absence. Out of the 600,000 who are signed off sick for 4 to 6 weeks, some 300,000 flow onto ESA, so we understand

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just how important early intervention is. A key theme of the review will be ensuring that all main players understand their responsibilities in any future system, including ensuring that individuals, health professionals and employers recognise the importance of work and health and are incentivised to act in their best interests. It will provide an effective framework for managing sickness absence, reducing long term sickness absence and the number of people flowing onto benefits from work. In doing so it should reduce state expenditure by ensuring that people who have a health condition or disability are supported at the earliest possible stage to stay in or return to work as soon as possible.

### Getting to grips with Housing Benefit

The guiding principle behind the introduction on April 1st of new rules on Housing Benefit is that benefit recipients should face the same choices and constraints as non-recipients. That is designed to restore fairness between the two groups and to make it easier to move from the benefit regime into independence. The Coalition has capped housing benefit for private sector rents at a maximum of £20,800 a year. This is still generous, but represents a significant tightening of the previous lax regime which allowed a handful of recipients to claim the maximum of no less than £104,000. At the same time, the Government has changed the rules on Local Housing Allowance, limiting payments to the lowest 30% of rents charged in each area. These moves will help put a stop to the relentless upward ratchet on rents and deliver a fairer deal for hard-working taxpayers who have watched as Housing Benefit costs have doubled in cash terms since 2000.

The Housing Benefit bill already stands at £22bn per year and could rise to nearly £25bn per year by 2014/15 if we did nothing. However, with these changes, we will put a cap on costs, as well as making it far less likely we'll ever see any more stories of unemployed people living in luxury mansions in Chelsea they could never afford if they worked. Just as importantly, it will mean

that fewer people get caught in the benefits trap where, because rents are so high, taking a job makes them no better off because they lose over 95 pence of benefit for every extra pound they earn at any realistic level of income. Despite the scaremongering, these reforms are not designed to force people out of their homes. What they do is to make sure that benefit claimants have to make the same choices about affordability as everyone else. Inevitably, if the taxpayer is paying far too much for unsuitable accommodation, then some people in those homes may have to move. In practice though, only a tiny minority of people may have to move and many may see no change at all. Even then, it is likely that they will only move a short distance given the range of property expected to be available in or near the locations most likely to be affected. As such, the idea that these reforms will lead to a mass exodus from cities and towns across the country is nonsense. In practice we expect that landlords will reduce rents in many cases and we have encouraged them to take this step by offering to make payments direct to them for a period if they do so. And to help those who are affected, we have set aside an additional £190 million to cover transition payments to help people, especially the most vulnerable. All these measures will help ensure that the new financial year brings a fairer system that provides a better deal for taxpayers.

Over the next few years we should see slowing of the relentless increase in private sector rents, helped in part by landlords lowering their rent in return for direct payments. More changes will come into force in January 2012 when we will extend the upper age threshold for the Shared Accommodation Rate from 25 to 35 years. Again this does not necessarily mean that people will need to move, but claimants will have to make the same choices about affordability as those not on benefits and we expect work to be people's main choice to improve their income levels and help meet their rental costs.

Interestingly, our findings show that 36 per cent of single people between 25 and 35 years old claiming Housing Benefit in the private rented sector choose

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to share accommodation with others. Compare that to the 40 per cent of single people renting in the private sector and not claiming Housing Benefit who are sharing, and to the 32 per cent of single 25 to 35 year olds who live with their parents, and you will see that shared accommodation is a common choice for people of this age range.

We also want to make more efficient use of our scarce housing stock. It's unfair that people living in a property that is too large for their needs should do so at the expense of the taxpayer and we want people to make choices about size and location of their accommodation based on what they can afford when in work and not on the benefits they can claim. We estimate that approximately 670,000 homes are under occupied by working age households on HB in the social rented sector and more than 150,000 working-age households on HB in the social rented sector are over crowded. That's why in 2013 Housing Benefit for working age social rented sector customers will be restricted for those who are occupying a larger property than their household size and structure would warrant. At the same time, we will modernise the way Local Housing Allowance rates are set by doing away with

monthly uprating that does not fit with the annual uprating of other benefits. This will also help to exert downward pressure on rents and help us take the next steps towards the integration of housing support with Universal Credit.

### Conclusion

These reforms are designed to build a sustainable and affordable benefits system. They will enable us to provide a fairer deal for the taxpayer, continue to protect the most vulnerable, and put work at the heart of the system, back where it belongs. The Coalition Government has achieved a great deal in just a year of being in power. Our reforms are progressing at great pace and when all the pieces of welfare reform are fitted together in 2014 we will finally start to see the emergence of a coherent welfare system in place to meet the needs of Britain in the 21st Century.

*Lord Freud is the Parliamentary Under Secretary of State for Work and Pensions.*

# 18. From Buttonwood to Vickers and Back Again

*Margareta Pagano*



It was at the Buttonwood gathering of central bankers in New York last autumn that Mervyn King, Governor of the Bank of England, dropped his first bomb-shell. In his speech, entitled *Banking: from Bagehot to Basel, and Back Again*, the Governor gave his analysis of what caused the Great Crash of 2008.

This is what he said: "At the heart of this crisis was the expansion and subsequent contraction of the balance sheet of the banking system. Other parts of the financial system in general functioned normally. And we saw in 1987 and again in the early 2000s, that a sharp fall in equity values did not cause the same damage as did the banking crisis. Equity markets provide a natural safety valve, and when they suffer sharp falls, economic policy can respond.

"But when the banking system failed in September 2008, not even massive injections of both liquidity and capital by the state could prevent a devastating collapse of confidence and output around the world. So it is imperative that we find an answer to the question of how to make our banking system more stable."

The Governor went on to warn his prestigious guests that "of all the ways of organizing banking, the worst is the one we have today". He was right. It was a hugely significant, and largely unreported speech, in which the Governor went on to question the very nature of the fractional reserve banking system which has existed for centuries; the way banks take in deposits and then – in such cavalier fashion – lend them out for longer-term loans at higher risk; ie, leverage. In his own words: "For all the clever innovation in the financial system, its Achilles heel was, and remains, simply the extraordinary – indeed absurd – levels of leverage represented by a heavy reliance on short-term debt." And he added, that any solution to this must ensure that the costs of "maturity transformation" (the costs of bailouts) fall on those who enjoy the benefits – the bankers.

It was also a well-timed bomb as it was dropped soon after the Independent Commission on Banking was set up by the Coalition government

to look into the future structure and shape of the UK banking industry, and into its competitiveness. But it shouldn't have surprised those in the know since the Governor has been one of the most vocal critics of the industry since the crash, and one of the first among policy-makers to suggest that some sort of separation between the more 'risky' investment banking and retail deposit-taking should be introduced to curb the worst excesses of this leverage while protecting depositors. King has been careful not to call for a full split, but it has been quite clear from his subsequent speeches and comments that he doesn't believe a legal 'ring-fencing' would be sufficient.

Indeed, the idea to create the ICB is understood to have come from King originally, an idea he passed on to the Chancellor, George Osborne, and Business Secretary, Vince Cable, shortly after the election as the most neutral way of navigating a thorough investigation of the industry independent of the all powerful banking lobby.

Reforming the banking industry so that the UK is never again in a position of 'privatising the profits and socializing the losses' was integral to the Coalition agreement. And behind the inquiry are three fundamental issues; how to reform the structure of banks so that the taxpayer never again has to foot the bill, how to improve competition between the banks such as improving barriers to entry and how to improve lending to small business.

Among the politicians, Cable in particular had been particularly forthright in his criticism of the bankers, claiming that their actions had destroyed the economy and that the only solution was splitting out the 'casino' – or investment banks – from the retail arms.

Fast forward a few months to March this year, and this is what Mr King said next. In a wide-ranging interview with the Daily Telegraph, he went on to drop what can only be described as a couple of cluster bombs. He claimed the banks are still taking bets with other people's money, they are still trying to maximize short-term profit at the expense of customers, that the practice of banks paying

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out huge bonuses to their employees is highly questionable and that the failure to reform the sector could result in another financial crisis.

Mr King's criticism did not stop there. He went on to draw a contrast between manufacturing companies, which he said largely cared about their workforces, customers and products, and the banks, which don't. He said: "There's a different attitude towards customers. Small and medium firms really notice this: they miss the people they know," adding that over the past two decades, too many people in financial services had had thought "if it's possible to make money out of gullible or unsuspecting customers, that's perfectly acceptable".

And, answering his own question about why the banks want to pay bonuses, he said: "It's because they live in a 'too big to fail' world in which the state will bail them out on the downside."

Yet no one – not on Wall Street or in the City – has solved the too big too fail conundrum despite acres and acres of new regulations, including the much more stringent Basel capital ratio requirements and resolution processes being put in place. As King acknowledged: "We've not yet solved the 'too big to fail' or, as I prefer to call it, the 'too important to fail' problem. The concept of being too important to fail should have no place in a market economy." Once again, he was right.

This second bomb-shell was astonishing in many respects. It was extraordinary because, once again, King made his disdain for our banking system so clearly that this time there was no room for any other interpretation other than his total vilification of the country's bankers. If his words had come from a politician or trade unionist, you'd have been forgiven for wondering if they weren't just trying to whip up more public's anger towards the bankers for their own populist causes. And it was all the more extraordinary because from next year the Governor and the Bank of England will take back the task of regulating the banks from the Financial Services Authority.

It was also carefully choreographed. King's comments came shortly after the so-called peace pact, Project Merlin, which was drawn up between the UK's five biggest banks and the Government and was meant to draw a line under public hostility towards the banks following their promise to lend more and to mend their ways. I suspect his remarks were also made for maximum impact just as Sir John Vickers, chairman of the ICB, and his commissioners were due to publish their interim findings into the structure of banking. As you might imagine, King's comments provoked the usual outrage from the powerful banking lobby made up of the big five UK banks – Barclays, Lloyds Banking Group, Royal Bank of Scotland, HSBC and Santander – which retaliated by claiming that they had learnt from past mistakes, and that King was making mischief again.

But the big question now to ask is whether, for all King's shock and awe tactics, has he lost the battle? For, as predicted, the ICB's interim report, which was published in April, came to the conclusion that universal banks – those which like Barclays, RBS and HSBC, combine retail banking and riskier investment banking under one roof – should be allowed to "ring-fence", or "subsidiarize", their various parts.

On the surface, this compromise looks clever. The ICB has tried to find a solution which will appease the 'splitters', the politicians such as Cable, ex-Chancellors such as Nigel Lawson, ex-bankers such as John Reed of Citibank and economists such as Professor John Kay who have been arguing for 'narrow banking.' At the same time, the ICB's compromise, some would say elegant whitewash, is a victory for the banking lobby that has campaigned against a total split of retail and investment banking because, it argues, such a split will raise the costs of funding their capital, thus making their investment banking activities more expensive. Introducing a more strict ring-fencing will put up the costs for the banks – but about £5bn in total – but not as much as if they had to hive off their retail activities into new businesses with separate shareholders as we had in the UK before



the City's Big Bank in 1986, and which the US had from the 1930s until President Clinton repealed Glass-Steagall in 1999.

What we don't know, because he hasn't told us, is what the Governor thinks of this compromise from the ICB. But what is clear is that those who argue for a complete split and the introduction of a Glass-Steagall style separation, will now step up their campaign over the next few months to try and persuade the ICB that its made a huge error, and an error based on myths. As Liam Halligan, the Daily Telegraph writer and economist argues, these are myths promoted ruthlessly by the banking lobby. He warns: "Such myths needs to be uncovered if we are to avoid another early sub-prime type debacle." Halligan says the first myth is that Chinese walls work when, infact, experience shows they don't. "If this divide isn't emphatic and complete, investment bankers will inevitably keep levering-up retail deposits and taking ill-judged bets, while enjoying the security of a taxpayer-backed guarantee, precisely what got us into this ghastly situation."

At present, banks such as Barclays and RBS, use the deposits of their retail arms to leverage off to allow their investment bankers to take big risks and leverage up their trades. When the bankers make money, their businesses are run like co-operatives as they, the employees, take out most of the money as bonuses. When they lose, as they did in 2008, the state guarantees those losses because it was so terrified that the financial system would implode. Economists such as Halligan fear that the ICB's proposed 'ring-fencing' will allow this arrangement to continue as Chinese Walls always break under extreme pressure and because bankers will always find ways of circumventing regulation. The second myth is that if London goes it alone by imposing a full separation it would harm the UK's big banks since they would be uncompetitive compared with the world's biggest universal banks, thus committing "commercial suicide" as one Barclays director put it to me. But this is not necessarily the case.

Others who support separation, such as Nigel Lawson, and other senior City financiers argue the reverse – that by cleaning up the UK banking system, the UK would actually be strengthening it's financial credibility. Let's not forget there were 500 banks operating in the Square Mile even before Big Bang allowed banks to become all-singing, universal banks.

Professor Laurence Kotlikoff, the US economist who argues for even more radical reform with his 'limited purpose banking', goes further, arguing that London should take this opportunity to once again lead the world by being the first to restore credibility to the financial system – and it may even give us a competitive advantage. It's interesting to note that Kotlikoff's views have the ears of King.

There's another myth that needs lancing, and it's perhaps the most insidious. Those that argue most vociferously against splitting the banks claim that the financial institutions that caused the most trouble – such as Lehman Brothers, Northern Rock, HBOS and Royal Bank of Scotland – were not universal banks. In some ways, it's the most tricky argument to counter as technically they are right – only RBS was a universal bank - and each instance has its own root causes. But the point is that Lehman collapsed because it had taken on so much leverage with the other big commercial banks – it was the pus if you like, on a very large boil which lay festering at the heart of the banking system.

At the same time, Northern Rock got caught because it had been trying to behave as though it were an investment bank by borrowing and playing long in the wholesale markets. The collapse of Sir Fred Goodwin's RBS had more to do with personal ambition – it was his mania to turn RBS into one of the biggest banks in the world which was to blame. But Goodwin would have found it far more difficult to do so if he hadn't had the pressure from his investment bankers to keep maximizing profits, which meant he had to keep expanding the balance sheet.

## *From Buttonwood to Vickers and Back Again*

Even those who support a full split know that it's only part of the cure to making our banking system safer but it's a crucial one. There have always been banking failures and there were many over the last few decades when investment banking and commercial banking were fully separated but nothing as devastating as we have seen over the last few years.

There have been other changes to finance triggered by the crash and post the election that have merit – there is a now a much more open appetite for looking at alternative sources of funding such as co-operatives, credit unions and even a new Social Stock Exchange is being launched. Project Merlin has also spawned a new fund, the Business Growth Fund which the five big high-street banks have pledged to put £2.5bn to invest equity directly into small businesses, and the government's Green Bank, raising funds for investing in new clean and green technology, is due to take off next year.

On opening up competition within the banking industry, the ICB has taken the right route by recommending that Lloyds sell off more branches and will be proposing ways of reducing the barriers to entry to make it easier for new banks to be created – it can't be right that Tesco is the first new fully-fledged bank to be set up in a 100 years.

As the new Tory MP, Andrea Leadsom, and a member of the Treasury Select committee who is turning out to be a terrier on the back benches, points out, the number of banks has actually halved to 22 over the past decade while the gross assets of the big high street banks have increased almost four times. This must be changed. Leadsom wants the Government to take this once-in-a-lifetime

chance to introduce competition by making four to five new banks from the various stakes owned by the taxpayer through UKFI – stakes in Royal Bank of Scotland, Lloyds, Northern Rock and Bradford & Bingley. It's an excellent idea and one that the Chancellor, George Osborne, should look at carefully as he prepares to consider the ICB report this autumn.

Sadly, the latest proposals in the ICB's interim report, that banks should be ring-fenced and not split, is a missed opportunity. And it's one that appears to have been received with an uneasy acceptance by most politicians and policy-makers. Sir John and his four commissioners now have a few more months to continue talks with the industry and interested parties and they will be holding a number of public debates before deciding on, and presenting their final recommendations, to parliament in September.

It's too much to expect the public, however angry they may be about bankers, to get worked up enough to start barracking Sir John about such a technical issue at these public meetings. Instead, we need our leading experts and policy-makers who do support such a break-up to continue putting pressure on the Commission to take another look at the 'lite-touch' option of ring-fencing and to persuade them instead to go for the 'nuclear' one of splitting. We need the Governor to drop a few more bombs before it's too late, or at least tell us whether he believes the Chinese Walls are nuclear proof.

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# **19. Why Didn't Money Work? Resilience in the Early Years**



***Zoe Williams***

## *Resilience in the Early Years*

You might hear them referred to as Early Years or Foundation Years: both terms apply to the period in a voter's life from 0 to 5, a time when he or she can't vote, granted, but in all other respects is laying down the foundation stones of his or her citizenship, be they good or bad. This is a difficult area to approach, let alone extrapolate into a political theory, for two reasons: first, there is obviously an emotional charge in any discussion about children, especially in that classically guiltless pre-school phrase, and second, Early Years is itself euphemistic. It's not a direct euphemism, for one given thing; rather, since 1997, it has been a way of raising ideas – about equality, mobility, responsibility, civic fitness and duty, even good and evil – that, applied to adults, would be divisive and overtly political. Applied to children, these quantities are neutered; the very image of the child unites us all in benign disposition, long enough at least to have a conversation. The problem with this strategy, as successful as it was to start off with – and I do take it as one of the hallmark successes of the third way, and the way they did things – is that it was avoidant.

So, Tony Blair's child poverty targets must surely have been seen as redistribution through the back door, as perhaps they were: it is disingenuous to pledge to lift all children out of poverty by 2020, without mentioning that their parents, ipso facto, will be lifted out at the same time. It's clear that many did feel hamstrung by the rhetoric, and by the sheer impossibility of arguing against making life easier for children. There was a lot of nitpicking around the edges of these pledges, as people argued that the definitions of poverty encompassed too many households, and that no lasting purpose was served by lifting a child from one side of the threshold, to land them narrowly on the other side. That much came from, broadly, the right wing, but in fairness, anybody who didn't want to redistribute wealth without an open discussion about the principles of redistribution would have found plenty to argue with, during the Labour years.

That government sidestepped that conversation quite deftly. Instead of talking about poverty, they constantly tried to refine the connection between household finance and life-chances. They never threw up their hands and said the poverty itself was the causal factor. Instead, they examined the behaviours of different classes: was it because the poor didn't breastfeed? They didn't read enough to their children, they didn't have high enough expectations, they quarrelled more, they empathised less? And this was taken up across the political spectrum, as politicians of all stamps joined the debate about how to improve the mobility of poor children by specific intervention, as if the distinction of poverty were something strange and innate, that could never be tackled on its own, and could only have its symptoms managed.

It would be unfair to say that this new direction was entirely the result of the Labour party's coyness around any hint of redistribution: even if that's how it started, it soon turned into something quite different, far more practical and less freighted, something of which that government is rightly proud. It is no surprise that Surestart is one of their few initiatives that they cite with unalloyed satisfaction: it wasn't and never would be as complex as the NHS, it never had the unshakeable taint of the old-school Leftie (unlike education), there was no dramatic implosion at the end (unlike the economy), but crucially, it appears to be so apolitical, so perfectly third way; it is the opposite of tribal politics, it is the sight of all society working together for its weakest (most adorable &c) members. There have been, since the first studies, question marks raised over the effectiveness of Surestart<sup>1</sup>, but it's testament to the purity of the idea that this put no dent in the affection in which the centres are held.

Besides, the conversation has evolved. When Iain Duncan-Smith and Graham Allen came from opposite sides of the house to co-write *Good Parents, Great Kids, Better Citizens*, a decade after

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1 <http://www.guardian.co.uk/society/2005/sep/13/childrenservices.politics>

the first Surestart centre had opened, it was with the same imperative: how do we better understand the specific challenges that children from poorer households face, that we can target interventions more successfully? They put the case more strongly than ever that the early years were where a person's opportunities and shortcomings were sealed, and argued forcefully that policy had for too long been directed towards outcomes – in criminal justice and health – and not prevention.

Duncan-Smith's Centre for Social Justice took this further, arguing that, while money may be the problem, it isn't the answer. £150 billion was spent by New Labour on tax credits alone, in the attempt to meet its child poverty targets, and the impact was disappointing. It was a classic shortcoming of that government, they'd set themselves a target – reducing child poverty – and even while it was being met (which it was, until 2008), that crucial leap where the target resulted in palpable improvements didn't materialise.

The new argument doesn't run counter to the New Labour one, but takes its signature manoeuvres (the attempts to find the behaviours of poverty that cause the problem, rather than attributing problems to poverty itself) to their logical conclusion. What are the hallmarks of dysfunction that coincide with poverty and lead to this early years damage, with its lifelong ramifications? A summary by the Centre for Social Justice concludes they are: worklessness, debt, educational failure, addiction but also family breakdown and lone parent family formation<sup>2</sup>. Instead of money, then, interventions should be staged into all these areas – work should be incentivised and that would help with the debt, frontline staff should identify problem families, tackle their addictions, teach them better parenting and, of course, marriage should be incentivised as well. There is plenty for the liberal left to object to, here, but rather than get tangled in very dated debates

about marriage incentives, it would be much more profitable to articulate an alternative vision for the early years. The work of the economist James Heckman<sup>3</sup> gives a more heartening reading of society's possible interventions with very young children. Concentrating not on the moral shortcomings of the poor, but rather on the ways in which disadvantage is effectively inherited, he conjures a model of society in which sustained, non-judgemental interventions can transform a child's prospects. The opportunities are immense, here. The question is, what should be the abiding principles of intervention?

First, we need what sociologists call an "inequalities imagination". The tendency in this debate is to take as law Rutter's 1999 statement about poverty and parenting: "Because poverty makes it more difficult to parent well, it is associated with a psychopathological risk, but the proximal risk processes mainly involve impaired family functioning, rather than economic privation as such."<sup>4</sup> This distinction, between general "impairments" and "privation" falls apart under any close scrutiny of what it actually feels like to live in poverty; what it's like to raise children in poor housing conditions, in areas where one feels under threat, what prejudices those children and their parents face, what stresses there are on the family budget and how this impacts upon the atmosphere, right down to the choices one might make in a supermarket, when one couldn't afford the risk of a child's capricious rejection. Teaching patience in a parenting class, or the five-a-day vegetable mantra in a lecture on nutrition, is an inadequate response.

I want to bring this down to the most domestic level: one often sees, in explanations of the link between poverty and lower academic attainments, a reference to Hart and Risley's longitudinal qualitative study in Kansas City, known as the

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2 [http://www.centreforsocialjustice.org.uk/client/downloads/2011182\\_CSJresponse\\_childpovertyconsultation.pdf](http://www.centreforsocialjustice.org.uk/client/downloads/2011182_CSJresponse_childpovertyconsultation.pdf)

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3 [http://www.youngfoundation.org/files/images/Personality\\_Psychology\\_and\\_Economics.pdf](http://www.youngfoundation.org/files/images/Personality_Psychology_and_Economics.pdf)

4 Rutter, 1999, p.121

## *Resilience in the Early Years*

“30 million word gap”. They monitored welfare, working class and professional families, in the way they spoke to their children. The headline statistic is the number of words heard, by a child, per hour, in the different families. But a secondary figure is this one: in the family on welfare, a child heard five affirmations and 11 prohibitions per hour; in a working class family, 12 affirmations and seven prohibitions; in a professional family, 32 affirmations and 5 prohibitions. Hart and Risley themselves go into the probable causes of this difference at some length, but the snapshot – that poor families admonish their children more often – has made it into political discourse without any discussion of why a family on the breadline might need more recourse to prohibition. But if you think about children under five, especially those under three who haven’t mastered cause and effect, they are destructive, they make unreasonable demands, they spill things, and they pursue these behaviours ceaselessly, unless they are asleep. So it is obvious why a family that cannot afford to repair its environment, that hasn’t the money to accede to consumer whims, that can’t endlessly replace drinks, that counts the cost of every wash, it is blindingly obvious why this family might need to say “no” far more often than an affluent family. And it is obvious, at the same time, that the answer is more money. The answer is not to teach these people how much more pleasant it is to say “yes”. It is so unusual to bring the conversation down to the brass tacks of how it is to actually care for a child that it feels almost vulgar to do so – but if you seek solutions at the level of the family, you cannot be afraid of the mechanics of the family, you can’t be afraid of conversations that sound domestic.

And the damage of poverty, naturally, extends far beyond the practicalities that one can count and visualise, into the very fabric of the way a child perceives itself, and its place within its environment (a criminologist once said to me in passing that an underprivileged child knows its status by the time it is a year old; a child of privilege doesn’t realise its status until it’s about eight). As the American theorists Isaac and Ora Prilleltensky point out: “Resilience must go beyond a phrase limited to

understanding how individuals cope with adversity. It must entail a challenge to the very structures that create disadvantage, discrimination and oppression. This is not to pile more responsibilities on people who already experience challenge in their lives... Professionals cannot stand back and hope that personal resilience will emerge from their therapeutic interventions alone”.

However, as vital as it is to remember and articulate the grinding practicalities of impecuniness, we still have to ask, baldly, why didn’t money work under New Labour? Or rather, why didn’t it work well enough?

There is an equality angle here: the concentration throughout has been to raise the standards of the bottom, in relation to the median. What this never tackled, and in fairness, never intended to tackle, was the ratio between the very bottom and the very top. There are people who dispute the impact of overall equality on society (as well they might, because these findings are so radical that not to dispute them amounts to a call for revolution). But if you take as a starting point the findings of Wilkinson and Pickett in *The Spirit Level* then you have to look at greater equality not just as a consequence but also as a necessary precondition to successful interventions in the early years. The authors largely leave aside the foundation years, except in a chapter on teenage pregnancies, and yet the figures are of arresting relevance. Every factor that interrupts the natural empathy a parent has for a child increases, across the board, in less equal societies – drug and alcohol abuse, mental illness, tiredness. This is the constellation of disadvantage that creates a challenging environment, which puts such a strain on the normal, bolstering human bonds upon which society relies.

Finally, there is a different perspective to be drawn in, from the field of resilience. Current discourse describes the trajectory of a child in very fixed terms: by the age of 5, patterns will be set for underachievement that can never be escaped. By the age of one, the foundation stones for

adult obesity and other pathologies are laid, by the age of three, delinquency as a precursor to adult criminality can be observed. Much of this is well-founded, and some of it exceptionally well-founded, in the Millenium Cohort Study. But the danger lies in a kind of fatalism, where ideas and policy that appear inclusive – demanding that every child be given the nurturing foundation years it needs to become a truly good citizen – are actually exclusive, demarking a very narrow policy window, outside of which the citizen has been damaged beyond repair.

You could call this a pre-emptive approach: resilience theory is more epidemiological, looking at people who have suffered profound disadvantage in their early lives and asking, where they did overcome it, how they managed to. Having evolved from practical as much as academic roots – indeed, its leading exponent in the UK, Professor Angie Hart, entered the field following her personal experience of adopting three profoundly neglected children – its tenets range from philosophical ideas about belonging, to very practical thoughts on healthy diet. These shifting sands, from theory to practise, can make it a bit of a rhetorical grapple. Furthermore, the word “resilience” has been co-opted into debates about the Big Society, as an aspect of adult well-being, or

to mean communities which look after themselves in the face of a shrinking state. Those are other conversations altogether. But to stick with resilience in its developmental sense, its crucial message as far as governance is concerned is that there is no family wreckage from which a person cannot be salvaged, and there is no point at which as society can throw up its hands, and consider its duty of care no longer viable.

We are in the enviable position in this debate of agreeing the same principles: we agree, across the spectrum, that it is unfair for a person's place in the world to be effectively sealed by the time they are five; we agree that government can meaningfully intervene and address this; we agree that equality is the desirable outcome. These are huge points of concord. But from the left, we must assert three principles: the importance of income; the importance of income equality; and the principles of resilience. Without them, the early years debate can look suspiciously like an argument that the poor simply parent less well than the rich, and the damage of poverty is irreversible; that is a dangerous position to accept, and a mistaken one.

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# **20. The Revolt of the Social Against the Economic and the Political: Reflections After One Year of the Cameron Coalition in the United Kingdom**

***John Milbank***





The last forty years or so in world politics might well be read in terms of the decline of the socialist left. Communism has largely collapsed or else drastically mutated. More surprisingly, social democracy has partially succumbed in its wake. For a time, indeed, the triumph of liberal capitalism seemed so complete that it raised once more the spectre of Hegel's 'end of history'. In questioning such an apocalyptic inevitability, the left still often assumes that the triumph of the neo-liberal right can only be tempered by a leftist resurgence. Yet if history is manifestly not at an end, and still conceals from us its destiny, this is not occurring because of any obvious recovery in socialist fortunes. Rather, the sway of market liberalism is being qualified by the intrusion of political polarities which do not readily fit into a left-right spectrum which is, after all, but the inheritance of French constitutional compromise in the wake of revolution.

These polarities concern variously the sacred versus the secular, the conservationist versus the technocratic, rootedness versus mobility, community versus individualism and the local versus the uniformly global. And above all they concern the juxtaposition of society (which tends to favour the first term of all the preceding polarities in every case) to the twin-headed hydra of the economic and the political.

The significance of the last year in British politics is that this new polarisation has now surfaced at the explicit heart of political practice – and perhaps for the first time in a western democracy. Initially, David Cameron (influenced by thinkers like Jesse Norman and Phillip Blond) started cautiously to suggest that both state and economy should be subordinate to social purposes and that, wherever possible, state services and even economic enterprises should be run in a 'social' fashion – that is to say in a way that augments the bonds of community and practices of reciprocity. This priority of the social therefore already implied an equally new priority of the ethically relational over against impersonal bureaucratic efficiency or the impersonal pursuit of mere profit. Therefore the re-naming of the 'big society' as the 'good' society by Labour was simply

a correct recognition that the entitlement of size was a consequence of the presumption of virtue. To the credit of its leader Ed Miliband, and some of its current theorists, most notably Maurice Glasman, Marc Stears and Jon Cruddas, Labour speedily saw that Cameron, had, perhaps unwittingly, but in any case equally to his credit, evoked the very core of an older, pre-Fabian and mainly non-Marxist socialism in a remarkably literalist fashion, by simply suggesting that it is the social that must come first.

But what does this priority really mean and what does it imply for the proper roles of both the political and the economic?

One can begin to answer this question in a negative fashion by asking how the squeezing-out of the social by both the economic and the political has operated in the modern world. This claimed exclusion is *prima facie* plausible to the degree that, in recent history, right-wing parties have tended to speak in the name of the economic and leftwing parties in the name of the political. The first tendency has argued for the unfettered rights of a formally levelled plane of commodity exchange; the second for the importance of a hierarchical bureaucratic organisation designed to maximise public utility and equality of opportunity. However, one can argue that this division was always more apparent than real: both left and right have been agreed that the only viable public goals are the secular ones of maximising material contentment and private liberty. In addition, though increasingly in a rather limp and incoherent fashion, they have sustained the post-Westphalian assumption that a major purpose of both the economic and the political is to augment the power of a people taken as a political entity, or the potentially military power of 'the state'.

What this has produced is a rather sterile oscillation between the claims of the economic on the one hand and of the political on the other. By contrast, the priority of the social can once more integrate and ground the economic and the political, in terms of a new ethos and practice of mutuality.

## Reflections After One Year of the Cameron Coalition

One of the most important prophets of such re-integration was the Hungarian émigré and friend of R.H. Tawney, Karl Polanyi. Polanyi recognised that in the era of ancient community, the economy was integrated first through the reciprocal exchange of gifts and later through a redistributive exchange of economic goods achieved through a sovereign tribal or political centre which distributed and redistributed benefits and favours. In modern times, by contrast, integration is achieved through the unplanned and seemingly accidental coordination of isolated individual needs and preferences. Polanyi suggested that this amounted to a 'disembedding' of the economic in the social order and a perverse re-embedding of the social in the economic. The result of this reversal is that the sheerly materialist and egotistical starts to be seen as 'fundamental', with the consequence (ruinous for an unbiased historiography) that all the higher and ideal motivations of human beings in the past now start to be read as mere ideological disguises for the self-seeking of the few rather than the many.<sup>1</sup>

However, like his 19th C predecessors, Polanyi was not seeking to wallow in mere nostalgia. He perfectly-well recognised that the spread of commerce had dislodged unjust hierarchies and impermeable local tyrannies. Yet at the same time he correctly considered that there was severe loss as well as gain involved here, and that with the passage of time disembedding engenders more terrible tyrannies than any known to the past. Therefore he hoped that we might yet achieve a balance between community and contract through a greater incorporation of 'free association' and just political distribution, in a manner that would respect group feeling and the common good and yet also advance the authentic reach of individual liberty – given that it lacks any real scope if pursued in isolation. Nor did he see the attainment of such balance as an entirely elusive conundrum. For like Robert Brenner and Benno Teschke today, or Polanyi's contemporary Carl Schmitt in Germany, he realised that the unbalanced dominance of

the economic over the social was no inevitability (as both liberalism and orthodox Marxism tend to assume) but rather the contingent result of the political, military and imperial triumph of the maritime Anglo-Saxon powers who were eventually able to impose extreme capitalist norms upon the rest of the world.<sup>2</sup> Yet even today, in Germany and Japan for example, we can see how the economy in those countries is relatively more embedded in the social order than it is the UK and still more the USA.

Why, however, should we regard the dominance of the economic and of economised and bureaucratised political power over the social as a negative development? In the case of the economic, this is because its disembedded mode rests (in practice and later in theory) upon an assumption of prevailing scarcity that prevents any attainment of stable equilibrium or any sane deployment of natural resources. This assumption of scarcity is made because the economic actor is seen (unrealistically) as an isolated rational calculator who tries to maximise her own desires which are regarded as being in principle random and limitless, though always publicly valid. Given such an anarchy and infinitude of desiring, it follows that there will always be competition for resources rendered scarce through the ever-renewed invention and reproduction of needs. To this one can add that capitalist actors will tend to engineer further scarcities through monopoly in the interests of their own power and profiteering.

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<sup>2</sup> Robert Brenner, 'The Origins of Capitalist Development: a Critique of Neo-Smithian Marxism in *New Left Review* 104, 1977, 25–92; T.H. Aston and C.H.E. Philpitt eds. *The Brenner Debate: Agrarian Class-Structure and Economic Development in Pre-Industrial Europe* ((Cambridge: CUP 1985); Benno Teschke, *The Myth of 1648: Class, Geopolitics and the Making of Modern International Relations* (London: Verso, 2003); Carl Schmitt, *The Nomos of the Earth: in the International Law of the *Ius Publicum Europaeum**, trans. G.L. Ulmen (New York: Telos, 2003). I agree with Gopal Balakrishnan that (despite some valid deflation of leftist Schmitt-mania at certain points) Teschke overlooks the convergences between Schmitt's position and his own with respect to the links between the development of capitalism and international relations. See his article 'The Geopolitics of Separation: a response to Teschke's 'Decisions and Indecisions'' in *NLR* 68, 2011, 57–72.

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<sup>1</sup> Karl Polanyi, *The Livelihood of Man* (New York: Academic Press, 1977).

However, nearly all economic actors are at once, albeit at different moments – and with crucially differing degrees of ownership of the means of production -- both producers and consumers. Thus the more power they attain as consumers in the temporary fulfilment of their desires, by seizing command of a larger segment of total wealth, the less profit will accrue to economic actors as producers and owners. For this reason the economic demands of consumers, and of workers as consumers, have to be periodically resisted. And yet inversely, if this resistance goes too far, crises of over-production, of redundant capital that cannot be invested (compounded by the extra-economic pressures of competition between nations) and of an imbalance towards finance capital incapable of any final material realisation tend to result. Thus 'capitalism' (meaning simply a market economy where the interests of capital dominate over the interests of people, and not a market economy *per se*) tends to engender an oscillation between 'Keynesian' and 'Friedmanite' phases, including 'bastard Keynesian' interludes, like the recent past, in which demand is shored-up by massive amounts of public and private debt. Such instability is detrimental both to small-scale business enterprise and to the lives of families and communities.

It can only be resolved if market exchanges in future come to include a constant negotiation of human as well as economic value. For if we seek to agree continuously collectively about the most fundamental and the most worthwhile types of economic goods, then scarcity can be transformed into surplus, and a greater possibility arises of achieving a relatively stable balance between production and consumption. So only on the basis of a just rather than an amoral market can we hope to exit from economically damaging cycles of oscillation between priority given now to ('Friedmanite') supply and then to ('Keynesian') demand.

The dominance of the political over the social is as undesirable as the dominance of the economic. And as already suggested, this is but another aspect of the latter dominance, because modern

politics shares the same formal neutrality as to ethical goals and pursues the same ends of augmenting material satisfaction and increased anarchic freedom for individuals. Accordingly, just like the market, it seeks to detach people from their immediate familial and local connections and to tie their private interests directly to those of governmental power and agency. As a result, all the elements of everyday life, such as nutrition, the pursuit of wealth and the handing over of knowledge through apprenticeship, tend to become depersonalised and detached from their natural association with community goals of collective and personal flourishing. Instead, they are understood functionally and instrumentally in terms of an impersonal pact between the state on the one hand and the private person on the other. In either case the tacit assumption is that merely an augmentation of power is being pursued by either party.

In order to bestow upon this public nihilism the trappings of legitimacy, it is assumed that the government should be 'representative' of the people – not, taken as they naturally are as situated in families, communities and corporate bodies, but rather as treated artificially in the aggregate of merely individual, isolated voices. For this reason, the 'sovereignty' of modern government is just as merely abstractly equivalent to the voices of all, as the operation of money and capital in the marketplace is abstractly equivalent to each person's silent choices. And just as the owners of capital claim to 'represent' the multifarious decision of private actors, so also elected 'representatives' claim to speak and act in the name of the people. In either case the abstraction of representation spells alienation and appropriation of their true social will.

What is the political alternative? One can argue that, just as production and consumption can only be balanced through the medium of a third element of discernment of common value, so also the expropriation of the represented by their representatives can only be avoided if both are continuously involved in a debate about the common good, rather than a mere attempt to

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identify and second-guess the mass will. This means that 'representatives' must see themselves as representing the objectively common good as well as the desires of the people, while the latter must periodically judge whether or not this good is being well represented. At the same time, the people should more directly seek for themselves to discern the common good through practices of directly participatory democracy, from whose experiences their leaders should constantly learn. Only in this double manner can one prevent processes of political persuasion degenerating into processes of political manipulation, as in the terrifying case of the Weimar Republic.

In my view the last year of UK politics has shown just the faintest glimmer of an albeit inchoate questioning within mainstream politics of the double dominance of economic scarcity and political representation. This has arisen simply through the new affirmation of the primacy of the social. But from where has this arisen and why should it imply such questioning?

In the first case one can argue that, if the primacy of the social is a natural fact as well as an ethical desideratum, then it is inevitable that its erosion will eventually produce a counter-reaction. Extreme capitalism has run into a new sort of crisis, exceeding the parameters of the cyclical oscillation between the needs of accumulation and the needs of demand, as already described. For its individualistic bias tends to erode trust, which is required in a tacit manner that exceeds the contractual even in a situation of supposedly pure contract, while it is required in a much thicker fashion between the collaborators who make up a firm. Loss of trust results in increased economic security in large-scale enterprises, a decrease in the confidence to innovate and an increased uncertainty as to the scope and location of likely consumers of any given product. Equally, it tends to augment the importance of the financial section of the economy which least of all depends upon trust, while weakening its organic links to the more materially productive sectors of the economy for whom trust remains more essential.

In the face of this development, there is now throughout western Europe and elsewhere a considerable (even if by no means incipiently hegemonic) growth in social enterprises, in mutual businesses, in cooperative ventures linking owners, workers and consumers, in hybrid firms pursuing both profit and charitable goals and in new 'quasi-guilds' (*compagnie delle opera* in Italy) of mutual support networks between companies who also uphold certain shared values of production and treatment of workers.<sup>3</sup> The common factor here is the qualification of sheerly economic motivation and the re-embedding of the economic in the social for nonetheless partially economic reasons that have to do with the pursuit of greater financial security. All the same, only a groundless 'economism' would rule out the idea that we are also witnessing a certain change in ethos – a growing desire on the part of many people to combine the pursuit of material well-being with honourable social service.

This new popular resistance to economic-political oligarchy, which has little to do with the traditional left, has tended to articulate itself in religious or quasi-religious terms. This is true of Islamic revolt from Iran through to the recent wave of Arabic rebellions. It is also true of evangelical activism in the USA that occurs increasingly on the left as well as on the right (while even the latter can contradictorily pursue communitarian as well as neoliberal goals in practice)<sup>4</sup>; the growth in political power of lay Catholic movements like *Focolari* and *Comunione e Liberazione* in Italy, and finally of the Saul Alinsky-inspired tradition of 'community organising' which has now spread from Chicago to London. Characteristic of all these phenomena is an equal suspicion of both financiers and the professional governmental classes. Thus they tend to favour not the normal 'representative' procedures of even local government, but rather a following of the spontaneous charismatic lead

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<sup>3</sup> See Luigino Bruni and Stefano Zamagni, *Civil Economy* (Oxford: Peter Lang, 2007).

<sup>4</sup> See Marcia Pally, 'Evangelicalism: why we hate it and why it works' on the web at [www.marciapally.com/Pages/evangelic.html](http://www.marciapally.com/Pages/evangelic.html)

of certain individuals who make 'proposals' in the name of the common good which then start to command a sufficient popular assent to result in action. If these actions are linked to inherited structures then it tends to be to 'social' formations like churches, mosques, synagogues, pubs, reading-groups or football clubs, rather than to 'political' ones.

Thus we are seeing the increased emergence both of 'civil enterprise' in the economic realm and of 'civil society' based activism in the political realm. It is the coming together of these two tendencies that is engendering in the UK the new sponsoring by the more visionary politicians of 'the big society' or 'the good society'. Therefore to read these phrases as indicating temporary and deceptive political gimmicks is entirely superficial – even though a large group of Tories no doubt regards the 'BS' as merely a new cipher for privatisation and cover for unnecessarily swingeing cuts in public services and will try to steer it in that direction.<sup>5</sup>

If a new 'revolt of the social' is indeed under way, then this is occurring because the social is more basic than either the economic or the political, whose modern suppression of the social is perverse and unnatural, even though this fact cannot set any necessary limit upon the continued future triumph of perversity. It is more basic because human culture, beyond mere animality, derives from an

assumed 'initial' offering of a material reality which is also a symbol by one or more human beings to others. If this offering or 'proposal' is received, then it enters into circulation and a community is constituted insofar as it understands itself as 'participating' in the ideal reality which significant material goods are taken to symbolise, and which enjoins on the community certain preferred behaviours.<sup>6</sup>

In this way, as anthropologically-attuned thinkers like Marcel Mauss and Karl Polanyi showed, the linguistic, the social, the political, the economic, the religious and the ethical were all originally inseparable and to some degree remain so, since this is the very logic of the human as such.<sup>7</sup> We are only 'bound together' through structures of mutual recognition mediated by things at once tangible and meaningful – which means imbued with a 'sense' that must be in the last analysis ineffable. This is why to remove all 'location' from people (yet more perhaps than removing their legal, political and moral status as analysed by Hannah Arendt) is to remove their humanity itself.

Socially-constitutive mutuality, which links the occupation of place to the invocation of transcendence, is not reducible either to formal contract or centralising control, because both things concern merely the instrumental combining of isolatable atomic units. By contrast, mutuality is pursued for the sake of human relationship as such, and this pursuit is the most basic human imperative.

Yet historically speaking the explicit and universal recognition of this 'primitive' primacy of the social, over against the later overlays of abstracted state and market (an abstracting which began already in antiquity) was only achieved through the Christian irruption which placed 'free association' for purposes of social harmony, mutual flourishing

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<sup>5</sup> Thus there is no question that in certain areas the Coalition is encouraging the delivery of public services by worker-owned and managed co-operatives and that it is encouraging the local control for local benefit of permanently crucial enterprises like the Port of Dover. One should welcome this development and yet at the same time remain concerned as to the possible future capture of such bodies by capitalistic firms pursuing only profit. However the issue here is not one of private versus state control, but of how to ensure the pursuing of goals of genuine public benefit by both private and state-run concerns – for often the latter are run in the interests of government and the market rather than the interests of the people. When it comes to the current UK health reforms, this implies the need to ensure that private suppliers of health – including drugs – must do so under certain legally-imposed constraints concerning the treatment of patients and within an ethos enforced by professional medical bodies. In the long-run the operation of such constraints plus a state-backed mutual insurance system for all would be a more socially radical option than the current 'nationalised' UK health service – as the examples of France and Denmark suggest.

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<sup>6</sup> See Alain Caillé, *Anthropologie du don: le tiers paradigme* (Paris: La Découverte, 2007).

<sup>7</sup> See Marcel Mauss, *The Gift: the Form and Reason for Exchange in Archaic Societies*, trans W.D. Halls (New York: W.W. Norton, 2000).

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and reconciliation beyond the scope of both legal enforcement and self-interested commerce, while also engendering the Church as the first transpolitical international society. It is for this reason far from being accidental that churches and other religious bodies are today at the forefront – both at home and abroad – of renewing civil society, which in its secular mode has scarcely proved capable of resisting the materialist depredations of an uprooted economy and politics. As even secular commentators like Simon Jenkins have suggested, the parish church is uniquely well placed to be the coordinating fulcrum of the new civil involvement. It may well be that in the new ‘social’ era it will be social and not political forces that will assume the leading political role.

But which specifically political force in the UK will have the courage to support and enable the new revolt of the social? It is currently impossible to say. On the one hand, the Tory party has been wedded for too long to the interests of high finance. On the other hand the Labour party has been wedded for too long to the interests of statism, ‘new class’ functionaries<sup>8</sup> and sectional unionism, and more recently has become too imbued with a spirit of cultural libertarianism. Yet one might venture that the former, Tory problem, is in all likelihood the more intractable, unless for a series of contingent and unforeseeable reasons (including the impact of personality) the Tories were to be fully captured by a ‘Red Tory’ vision. At present the emergence of a ‘Blue Labour’ hegemony within the Labour Party would seem rather more likely, if still a long way from achievement.

However, there is a more basic consideration here. The recovery and reworking of ancient community in renewed combination with modern freedom needs to include a certain renewal of a virtuous hierarchy that guides, inspires and educates, as opposed to the quasi-criminal elitism of money

and oligarchic control that we have at present.<sup>9</sup> Yet what is today more overwhelmingly and rightly regretted, with respect to the past, is the popular loss of local participation and a more widespread ownership of land and assets – augmented in Britain first by the dissolution of the monasteries and later by the (agriculturally deleterious) process of parliamentary enclosure. In this sense, despite the necessity of a ‘mixed constitution’, the bias always runs towards the democratic and the equal recognition and fulfilment of every human being. Indeed, Christianity itself, our central Western legacy, was always bending the antique tradition in this novel direction. In this sense one could argue that the irruption of the social against the sterile irony of ‘left versus right’, the political versus the economic, still proffers a radical alternative to the present that has a pronounced leftwards tilt.

Another way of putting this would be to suggest that the death of the socialist left is curiously making way for the rebirth of a more authentic Social-ism: ‘Unite and unite/For summer is a-come unto day’, as they sing in Jez Butterworth’s visionary play *Jerusalem*.<sup>10</sup>

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<sup>8</sup> This ‘new class’ was first identified by the late Paul Piccone in many pages of his journal *Telos*.

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<sup>9</sup> Raymond Geuss points out that Marx and Engels defended hierarchy in somewhat this sense against the French Revolutionary obsession with absolute equality in all respects. See his book *Philosophy and Real Politics* (Princeton NJ: Princeton UP, 2008), 78–79.

<sup>10</sup> Jez Butterworth, *Jerusalem* (London: Nick Hern, 2010), 45.



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