

HOW TO MAKE A CAPITALISM
FOR THE MANY A REALITY

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Sir Norman Lamb

RADIX

THINK
TANK
FOR THE
RADICAL
CENTRE



RE-BOOTING CAPITALISM

A LIBERAL, PROGRESSIVE VISION
FOR DEFEATING THE STATIST
LEFT AND THE POPULIST RIGHT



"DOING WELL
IS THE RESULT OF
DOING GOOD.
THAT'S WHAT
CAPITALISM IS ALL ABOUT."

Ralph Waldo Emerson

"WE HAVE TO FIND A WAY
TO MAKE THE ASPECTS OF
CAPITALISM THAT SERVE
WEALTHIER PEOPLE
SERVE POORER
PEOPLE AS WELL."

Bill Gates

RE-BOOTING CAPITALISM

A liberal, progressive vision for defeating the statist left and the populist right.

Sir Norman Lamb

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ABOUT RADIX

Radix is a non-aligned think tank for the radical centre. We welcome people from all parties and none. We challenge established notions and work to re-imagine our societies. We focus our efforts on policy initiatives that can drive towards system change rather than putting sticking plasters on the existing system. Our goal is to work with you to revitalize our liberal democracies, re-define capitalism, and re-build community. We want all citizens to live securely, with dignity, be active participants in society, and be free to pursue their own interpretation of the good life.

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ABOUT THE AUTHOR



The son of Hubert Lamb, a leading climatologist, **Norman Lamb** studied law at Leicester University and, after working as a parliamentary assistant for a Labour MP, built a career as a litigation solicitor, ultimately specialising in employment law. He was partner of Steeles Solicitors and is the author of Remedies in the Employment Tribunal. Norman was elected to Norwich City Council becoming Leader of the Liberal Democrat opposition. He first stood for Parliament in North Norfolk in 1992. He was elected in 2001, and stood down at the 2019 general election.

In 2005, he was appointed Shadow Secretary of State for Trade and Industry, championing the case for employee share ownership in Royal Mail. In 2006, he became Liberal Democrat Shadow Health Secretary.

Following the 2010 general election, Norman served first as Chief Parliamentary Advisor to Nick Clegg, the Deputy Prime Minister, and then as Parliamentary Under-Secretary of State responsible for Employment Relations, Consumer and Postal Affairs at the Department of Business, Innovation and Skills, before he was promoted to Minister of State for Care and Support at the Department of Health.

Norman served as the Liberal Democrats' Shadow Health Secretary from 2015 to 2017, and has continued his campaign to achieve equality for those who suffer from mental ill health. He was elected chair of the Science and Technology Select Committee in July 2017. Norman received a knighthood in the Queen's 2019 Birthday Honours for public and political service, which noted in particular his mental health work. In November 2019, the Political Studies Association presented Norman with the Best Use of Evidence award in recognition of his Select Committee's work.

EXECUTIVE SUMMARY

The flaws in our model of capitalism have fueled a growing divide between the owners of capital and everyone else.

Nor can one disconnect the moral and the economic. The more the economic realm gathers to itself, the more questions of human destiny, right and wrong, become important.

Business cannot and should not operate in a moral vacuum.

This paper covers issues including the B-corps phenomenon, measuring the success of companies by one narrow yardstick, monopolies and mutual ownership.

BUSINESS CANNOT AND SHOULD NOT OPERATE IN A MORAL VACUUM.

It concludes that we need a series of new approaches to business and to the economy that allows everyone involved to share in the prosperity created. The old assumptions of the Fabian left, that you can tax society back into shape, no longer seem to be working. We urgently need to find ways that the economic system itself can find a better balance.

Conventional solutions may have reduced unemployment but they have tended to replace it with employment that pays too little. That is now one of the main drivers of poverty in the UK¹ and elsewhere. We have left other areas of the local economy untouched as we maintain sections of the population in subsidised dependence on low wages or zero-hour contracts.

CONVENTIONAL SOLUTIONS HAVE NOT WORKED. WE NEED A NEW ECONOMIC SETTLEMENT.

We need a new economic settlement that recognises the vital importance of health, and clean air, and a sustainable natural environment to supporting the local economy, and accepts that someone should be accountable for rebuilding them. A policy framework that accepts that prosperity matters and understands that the task of economics is to fan it into life giving everyone a stake. Margaret Thatcher enabled many people to buy their homes. But for others, nothing changed.

Now is the time for a more profound change - for ownership of a stake in the enterprise where you work to become the norm rather than the exception.

1. (https://www.jrf.org.uk/sites/default/files/jrf/files-research/uk_poverty_2017.pdf) p.19

Twelve recommendations to revitalise our economy and reboot capitalism for the twenty-first century:

- 1) Streamline the creation of employee owned businesses and the transfer of ownership of businesses to their employees, along with a programme to raise awareness amongst advisers and business owners.*
- 2) Set a new lowest rate of corporation tax, only applicable to those companies which share prosperity equitably with staff (either directly and/or through employee ownership trusts), recognising their right to benefit from success, helping to create a new enterprise owning democracy.*
- 3) Reform company law to widen and strengthen duties from the current narrow focus on shareholder value, introducing an obligation to define purpose and to consider the interest of not just shareholders but other stakeholders too. (See also RADIX paper Beyond Governance).²*
- 4) Set new 'Good Company' rules for public procurement setting clear requirements of business - based on the B-Corp concept with levels of requirement linked to size. No burdensome additional regulation - but based on enlightened self interest. Good, sustainable employers benefit. The public benefits. Public utility water companies should be required to meet set governance standards, following the lead given by Anglian Water.*
- 5) Devolve power radically, including over setting taxes, to our great cities and regions enabling them to determine their own destiny, empowering local innovation.*
- 6) Use the upcoming decampment from the Palace of Westminster to move our national Parliament to the North of England. Finally, the UK's economic and political capitals would be separated – and the country would be permanently rebalanced. That would create a Northern 'Powerhouse' in its most literal sense.*

2. See <https://radixuk.org/papers/beyond-governance-an-economy-that-works-for-everyone/>


- 7) *Use a Green New Deal to tackle the environmental emergency, delivering a regenerative economy which is supported by new investment in green industries, delivering new skills and jobs across the country.*
- 8) *Set tough new competition rules to challenge concentrations of power and wealth and to drive up wages, drive down prices and improve consumer choice. (See also RADIX paper Freedom to Choose).³*
- 9) *Strengthen competition regulators so they can deal with global tech companies and other concentrations of power effectively, to make sure that they cannot stifle competition by simply purchasing competitive start-ups which might otherwise threaten their dominance.*
- 10) *Provide a new entitlement to lifelong retraining and education to equip all citizens for the new economy and soften the disruptive impact of automation.*
- 11) *Set a route to a more flexible working week, promoting radical models of work where hours fall and employment is equitably shared. As the Fourth Industrial Revolution gathers pace, employees will benefit from improved work/life balance, businesses will benefit from the increased productivity it leads to - and society will benefit as people with more leisure time decide to give more back through volunteering.*
- 12) *Give incentives to companies to improve staff well-being by introducing a time-limited fiscal incentive (such as a two-year discount on business rates or National Insurance) for businesses which pursue evidence-based action to help their staff. This Well-being Premium will confront the costs of presenteeism and sickness absence which result from the failure to tackle mental ill-health.*

3. See <https://radixuk.org/papers/freedom-to-choose-why-competition-policy-affects-us-all/>

1. THE INNOVATORS

For 18 years now, I represented North Norfolk in parliament. Our county has a proud reputation for 'doing things different'. Indeed, 'Do Different' is the University of East Anglia's motto. That state of mind is embodied in the approach of one local entrepreneur, Phil Hayton, who set up the speed detector flashing road signs manufacturer Westcotec.

He was, in more senses than one, the founder of a 'cottage economy' – the company was named after his home, West Cottage, when it was launched in 2001. He saw a bigger responsibility than a narrow duty to shareholders, which demonstrates his commitment to behaving in a sustainable way. So he bought some land nearby in 2013 and, since then, Westcotec has planted a tree for every street sign they sell. Phil has a real sense that simply making money is no longer enough of a differentiator for the corporate world. Increasingly, employees and customers want, and expect, companies to demonstrate that they are acting responsibly and that they are making a positive difference in the world.



SIMPLY MAKING MONEY IS
NO LONGER ENOUGH.
COMPANIES CAN MAKE A
POSITIVE DIFFERENCE IN
THE WORLD

The old idea that the sole purpose of a company is to maximise shareholder value still clings on in conservative circles. But an increasing number of those at the sharp end – who run these companies, and who have built them up from scratch – know that it isn't enough.

If business is going to come of age and take its place as the energetic driver of the new world, then business leaders will need also to play their part imaginatively in rebuilding the planet and the places we live in. Phil Hayton is one of those who helped me understand this.

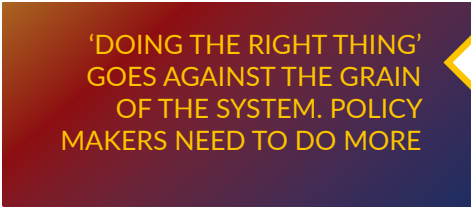
But what happened next was the most inspiring element of Westcotec's story. Such was the success of the business and the effectiveness of how it was run that it never had to rely on the vagaries of the big banks, which cramp the ambitions of so many small businesses. It meant that they were in control of their destiny.

And when it came to retirement, Phil didn't want to just sell out to the highest bidder. It didn't gel with the sense of family they had built up. He wanted to repay the loyalty of his workforce. These were the people, after all, who had contributed so much to making the company such a success. So he decided that he wanted to sell the company to his employees, for a substantially reduced price, and payable over a period of time.

So like John Lewis, and since last year, Westcotec has now been owned by an employee trust. And judging by their continuing success, it has provided a basis for the long-term. The evidence shows that businesses owned wholly, or in part, by their employees, perform well, are sustainable and profitable⁴. And they share the rewards of capitalism in a wholly different way. Now, of course, even if the business is employee owned, success is not guaranteed – look at the challenges which John Lewis is currently facing. But nor are employee owned firms in any way disadvantaged. The evidence suggests the exact opposite.

But Phil's experience of transferring ownership to the employees demonstrates that change is needed. He told me that achieving this generous and profound objective had required an enormous input from lawyers and accountants and was complex and massively time consuming.

Doing the right thing goes against the grain of the system. You need the patience of a saint to blaze this kind of trail. Policy makers need to do far more to encourage it.



**'DOING THE RIGHT THING'
GOES AGAINST THE GRAIN
OF THE SYSTEM. POLICY
MAKERS NEED TO DO MORE**

PROMOTING EMPLOYEE OWNERSHIP

As minister in the then Department of Business, Innovation and Skills in 2012, I commissioned lawyer, Graeme Nuttall, a partner in the law firm Fieldfisher, to conduct a review of how we can promote mutualism in the private sector⁵.

As a result of the Nuttall Review of Employee Ownership, the UK government promoted private company employee ownership for the first time as a distinct policy area, through various regulatory and non-regulatory initiatives including company law and tax changes⁶. These initiatives raised awareness, increased resources and removed actual or perceived complexities.

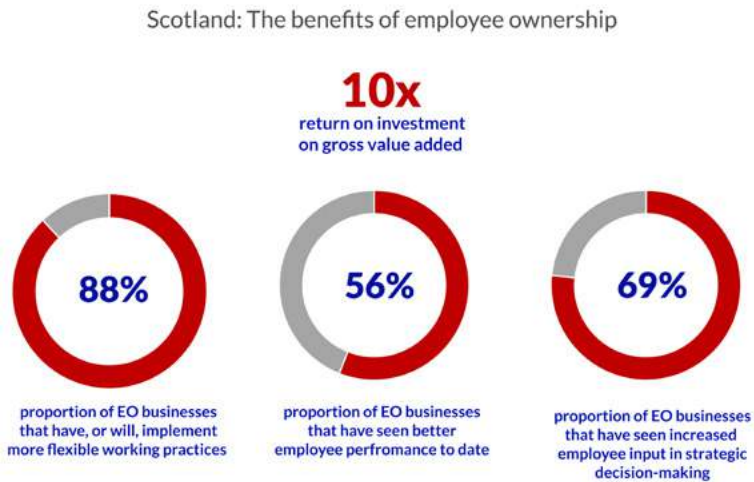
4. http://theownershipeffect.co.uk/wp-content/uploads/Global_literature_review_The_Ownership_Effect_Inquiry-What_does_the_evidence_tell_us_June_2017.pdf

5. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31706/12-933-sharing-success-nuttall-review-employee-ownership.pdf

6. <https://taxdeductionsblog.fieldfisher.com/2015/nuttall-review-of-employee-ownership-quick-guide-to-source-materials>

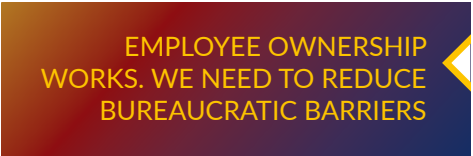
In particular, in 2014, capital gains tax and income tax exemptions were introduced to promote employee ownership and especially the trust model through the creation of the Employee Ownership Trust (EOT).

These changes were a “major flip”⁷ and there has been a “period of sustained growth”⁸ of this business model.



Source: “The Ownership Dividend - The Economic Case for Employee Ownership. The Ownership Effect, June 2018”

The effect of the Nuttall Review and the UK government’s support for employee ownership has been held out as an exemplar for all of Europe, and elsewhere in the world, to follow.⁹ There are now over 370 employee owned businesses in the UK with some 60 per cent of conversions to employee ownership happening since 2014 – the year that the EOT was introduced.¹⁰



But we need to go much further. The creation of the EOT model has proved popular and reduced legal and tax obstacles substantially.

7. http://wreoc.org/fileadmin/webfiles/WREOC/EMPLOYEE_OWNERSHIP_IN_BRITAIN_EO_DAY_.pdf
8. <http://theownershipeffect.co.uk>
9. <https://www.fieldfisher.com/publications/2016/06/the-uk-employee-ownership-sectors-success-is-celebrated-around-the-world-on-eo-day>
10. <https://employeeownership.co.uk/news/ownership-dividend-partnerships-fsb/>

But due to the lack of knowledge among advisers, it is still often a costly process involving lawyers and accountants. In response to this, the employee ownership sector is calling for government-financed regional hubs to raise awareness of the concept, and to provide the sort of expert guidance that business owners and entrepreneurs need¹¹. The whole focus must be on easing the way to setting up employee-owned businesses and facilitating the transfer of existing businesses to employees.

The story of Westcotec shows how it might be possible to be successful and representative at the same time – and to spread the prosperity more broadly.

CAPITALISM NEEDS REFORM TO BE SUSTAINABLE

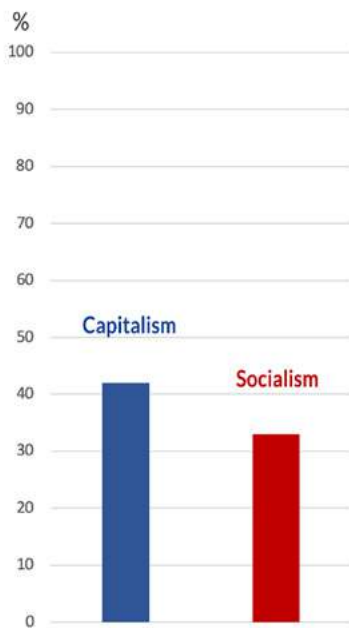
This is important. Because, as it hardly needs saying, capitalism is in serious trouble.

So is the free market.

CAPITALISM AND OPEN
MARKETS ARE RAPIDLY
LOSING PUBLIC AND
POLITICAL SUPPORT

Our faith in the economic system took a massive hit with the 2008 banking crash, when a whole series of abuses and a culture of greed and recklessness came close to bringing the whole edifice crashing down. We have still not seen the end of the political fall-out from those events – and Brexit may only be the first. Perhaps the key fact is a 2016 Harvard University survey in the USA found that half of young people (51 percent) no longer supported the capitalism that the western world was said to depend upon.¹²

Proportion of US 18-29 year olds who believe in...



Source: Harvard IOP Poll, Spring 2016

11. https://www.uk.coop/sites/default/files/uploads/attachments/one_million_owners_1.pdf

12. <https://iop.harvard.edu/youth-poll/past/harvard-iop-spring-2016-poll>

These issues are understood by a growing number of people in business and beyond. Not even the Treasury is exactly gung-ho for the traditional solution any more.

The difficulty is that they have not replaced it with anything else.

We are in a policy limbo when it comes to the failures of the capitalist model.

Under assault from the statist left and the populist right, there is a paucity of radical, fresh thinking about how the capitalist model needs to change in order to rebuild trust, to share the benefits more fairly, and not only to survive but to thrive.

**WE ARE LACKING RADICAL,
FRESH THINKING ABOUT
HOW THE CAPITALIST MODEL
NEEDS TO CHANGE**

In these circumstances, with a vacuum instead of a clear reform agenda, it is hardly surprising that populism is on the rise across the developed world.

A series of so-called 'strong men', right-wing and nationalist leaders – all, in different ways, rejecting liberal and democratic values – have emerged from Trump downwards. Populism has also been on the rise on the left, peddling increasingly extreme – but generally archaic – fake solutions that will not solve our difficulties.

Worse, non-socialist, liberal and other progressive parties have been sidelined, and especially across Europe.

Centre parties and the centre-left parties, particularly, have failed to come up with a response to the failures of capitalism as we know it or the rise of populism. Nor have they come up with the compelling economic vision we need to tackle the multiple failures of conventional capitalism.

**POPULISM IS A RESULT OF
OUR FAILURE TO DEVELOP
MORE COHERENT, FAIRER
AND MORE EFFECTIVE
MODELS OF PROSPERITY**

So when I tell the story of Westcotec, I am not just doing so because it is an example of a market-based alternative at work, nor just of an approach to the economy that can be more value-driven or moral – it is more urgent than that. I want to argue, in this pamphlet, that we urgently need to develop more coherent, fairer and more effective models of prosperity.

Because if we fail to do this as a priority, the vacuum will otherwise be filled with populist contenders to running the new and emerging world.

2. WHAT IS THE MARKET FOR?

At the heart of the current political difficulties around the market is the sense, that is very widely shared, that the system benefits the owners of capital at the expense of those they employ, and does so at an accelerating rate.

An increasing share of a considerable cake is going to the owners of capital, and the way quantitative easing was organised increased the returns to those who already have assets.^{13,14}

Thomas Piketty, in his best-selling *Capital* in the Twenty-First Century provides compelling evidence that the share of total wealth owned by the top ten and top one per cent of the population has been increasing since the 1980s. He puts forward the case that, under the conditions of an 'unrestrained' free market, this gap continues to increase.¹⁵

The rapid deployment of artificial intelligence and the potential for quantum technologies, for example, seems likely to increase automation and

the centripetal forces that are targeting the rewards at fewer and fewer.

THE RAPID DEPLOYMENT OF
NEW TECHNOLOGIES MAY
TARGET PROSPERITY AT EVER
FEWER PEOPLE

Much of that change is to come – but in the here and now we have already seen a transition of the UK economy away from manufacturing and towards services over the last three decades. The result of that change is that many people and families in areas like the North East which used to be dominated by industry have lost out.¹⁶ That means more divisions between rich and poor people, places and regions.

The UK now includes six of the poorest regions in North Western Europe, but also one of the richest regions of all.¹⁷ The UK is more unequal than eighteen other EU member states, including France, Germany and Ireland.¹⁸

13. <https://www.bankofengland.co.uk/working-paper/2018/the-distributional-impact-of-monetary-policy-easing-in-the-uk-between-2008-and-2014>

14. <https://radixuk.org/papers/quantitative-easing-the-debate-that-never-happened/>

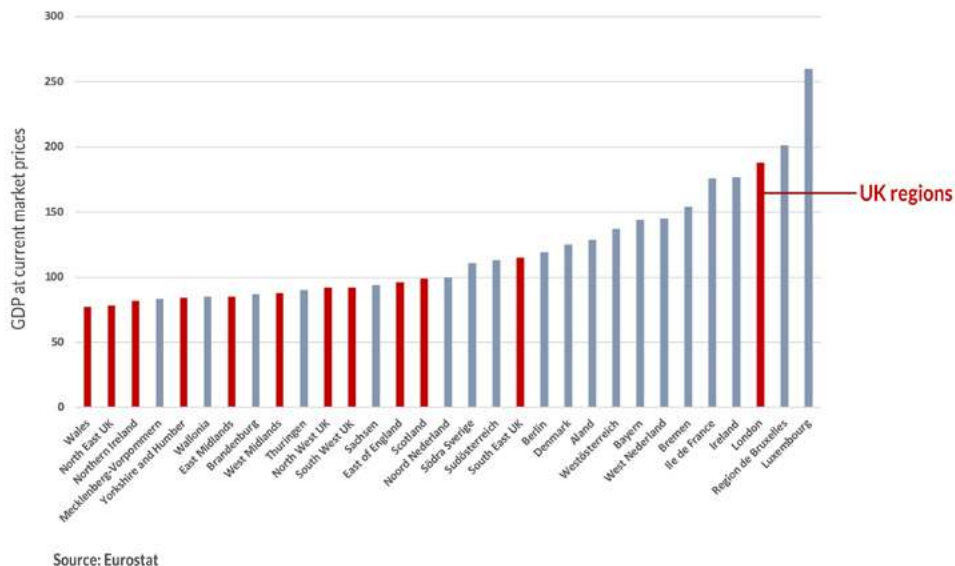
15. This is a controversial area of dispute these days, see <https://www.economist.com/briefing/2019/11/28/economists-rethinking-the-numbers-on-inequality> But the consensus remains that, whatever the exact number, the wealthiest have been hoovering up increasing proportions of wealth.

16. https://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2006/wp4_cs_north_east_england.pdf

17. http://appsso.eurostat.ec.europa.eu/nui/show.do?query=BOOKMARK_DS-513634_QID_2945F743_UID_-3F171EB0&layout=TIME,C,X,0;GEO,L,Y,0;UNIT,L,Z,0;INDICATORS,C,Z,1;&zSelection=DS-513634INDICATORS,OBS_FLAG;DS-513634UNIT,PPS_HAB_EU;&rankName1=UNIT_1_2_-1_2&rankName2=INDICATORS_1_2_-1_2&rankName3=TIME_1_0_0_0&rankName4=GEO_1_2_0_1&sortR=DESC_9&sortC=A SC_-1_FIRST&rStp=&cStp=&rDCh=&cDCh=&rDM=true&cDM=true&footnes=false&empty=false&wai=false&time_mode=NONE&time_most_recent=false&lang=EN&cfo=%23%23%23%2C%23%23%23.%23%23%23

18. <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/EDN-20180426-1>

The UK has the widest wealth disparities between regions



Behind these trends lies increasing disquiet about the institutionalised inequity at the heart of the system.

**OUR CURRENT SYSTEM
PUSHES TOWARDS EVER
GREATER INEQUITY**

Why, for example, should the failing chief executive of British American Tobacco get a £7.5 million golden parachute farewell present?¹⁹

Or the former chief executive of Persimmon Homes, Jeff Fairburn, who received a £75m bonus as the share price soared on the back of the government's Help to Buy scheme?

Why, also, should those whose behaviour caused the banking collapse in 2007/8 have escaped the economic consequences?

Why should so much public money have been pumped into corporate vehicles which then go bankrupt – as Carillion did – *“a story of recklessness, hubris and greed”*, according to the Work and Pensions Select Committee

19. <https://www.thetimes.co.uk/article/british-american-tobacco-coughs-up-7-5m-for-outgoing-chief-nicandro-durante-w9j9x36mf>

'Carillion' inquiry, published in May 2018. *"Its business model was a relentless dash for cash."*²⁰

THE B-CORP APPROACH

For me, as a liberal and a human being, I cannot disconnect the moral and the economic.

The more the economic realm gathers to itself, the more questions of human destiny, right and wrong, become important. Ideas of just or moral capital are important for us to consider. Business does not operate in a moral vacuum. I was struck by the evidence of Wilkinson and Pickett in *The Spirit Level* that everyone loses out in so many ways in more unequal societies.²¹

So I am particularly interested in the B-corporation idea, which has emerged from the USA, which enshrines the idea of a moral company, beyond the narrow and frankly immature idea that companies owe their only duties to shareholders who may only own the shares for a few seconds at a time or who have done nothing themselves to justify the rewards that the system is designed to deliver.

Perhaps the most ambitious company in this respect is the food multinational, Danone, where chief executive Emmanuel Faber has made a commitment that all the companies in the group should qualify as B-corps by 2030.²² He also argues that this will improve their bottom line and their credit rating, and I am sure he is correct.



DANONE SEES
COMMITMENT TO B-CORP
STATUS AS HELPING
IMPROVE PERFORMANCE
AND COMPETE AGAINST
EMERGING DISRUPTERS

There are also commitments to diversity and training a local workforce, which will spread economic benefits more widely.

Here is the definition:

*"Certified B Corporations are businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose. B Corps are accelerating a global culture shift to redefine success in business and build a more inclusive and sustainable economy."*²³

The clothes company Patagonia is another early adopter of B-Corp status. So was Ben & Jerry's ice cream.

Danone's involvement is some confirmation that you can be big but also a force for good. It also says, quite correctly, that society's problems can't be solved by governments and the voluntary sector alone.

20. <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/769/769.pdf>

21. *The Spirit Level: Why Equality is Better for Everyone* (Wilkinson & Pickett, 2009)

22. <https://www.linkedin.com/pulse/one-person-voice-share-time-let-our-people-go-create-own-faber/>

23. <https://bcorporation.net/about-b-corps>

'BIG' CAN BE AN EFFECTIVE FORCE FOR GOOD

The B-Corp community harnesses the power of business, using profits and growing turnover as a means to greater ends – a positive impact for their employees, communities and the environment. And, right now, with the world facing an environmental emergency, many companies are starting to recognise that they have a responsibility to play their part in confronting this challenge.

There is also a sub-text here, which is that Faber sees B-Corp status as a way of helping them compete against the high standards of the emerging small food companies.

This is especially so in the USA where they are turning the food industry upside down, by beginning to re-localise the production of food. Hershey's are already taking BST milk, GM ingredients and artificial flavours out of some of their most popular chocolate products.²⁴ Campbell's Soup has bought baby food maker Plum Organics, and – to keep its authentic spirit – has made it a B-Corp too.²⁵

By 2014, there were nearly 8,300 farmers markets in the USA, having grown at an average of 11 per cent a year since 2008 – people want it.²⁶ So the big corporate players are responding.

Campbell's CEO Denise Morrison said:

*"We understand that increasing numbers of consumers are seeking authentic, genuine food experiences, and we know that they are sceptical of the ability of large, long-established food companies to deliver them."*²⁷

I have no problem with small entrepreneurs – quite the reverse in fact – but big corporations will be with us for some time and B-Corp status may provide them with a way to humanise themselves and respond to the changing social climate.

Nations as varied as Colombia²⁸ and Italy²⁹ have taken steps to make B Corp status easier to attain. Companies can meet the legal requirement for B Corp certification if they adopt a specially created legal status. And – if we are to develop the idea of business as a force for good – we need to think more about how we can promote the model.

WE NEED TO FACE DOWN THE ECONOMIC THREATS FROM THE STATIST LEFT AND THE POPULIST RIGHT

24. <https://www.ecowatch.com/hersheys-most-popular-chocolates-will-go-gmo-free-by-end-of-the-year-1882015311.html>

25. <https://www.theguardian.com/sustainable-business/2014/aug/06/campbells-soup-plum-organics-pouch-baby-food-benefit-corporation>

26. <https://www.producegrower.com/article/usda-farmers-markets-directory-grows-76-percent/>

27. Beth Kowitt (2015), 'The war on big food', Fortune, 21 May, <http://fortune.com/2015/05/21/the-war-on-big-food/>

28. <https://bcorporation.eu/colombia-no>

29. <https://bcorporation.eu/italy-no>

Because, if we are going to face down the threat from a statist Left and a populist Right, we need to tackle the problem of those businesses that have lost their moral compass. We need to make a moral and optimistic case that business can benefit everyone, and which can tackle the concentration of power and wealth.

There are many business leaders who, like Faber and Morrison, are pushing forward the necessary changes. But our policy and financial systems work against them. They make their life more difficult rather than easier.

So, it is time that government began thinking about how to promote a broader concept of the corporation than simply a vehicle dedicated to maximizing shareholder value:

- *What levers do we have that might be capable of promoting a more inclusive capitalism?*
- *Can it be achieved whilst maintaining, or even enhancing, performance and productivity?*

The evidence of Danone and others suggests that it can.^{30,31,32} Is there any legitimate reason for *not* seeking to find ways of incentivising genuinely responsible capitalism, and sharing the fruits of capitalism more equitably?

HOW CAN OUR POLICY AND FINANCIAL FRAMEWORKS HELP THOSE BUSINESS LEADERS TRYING TO DO BETTER?

PUBLIC CONTRACTING IS A POWERFUL LEVER

The first potential lever is through the power of public contracting.

Is it not reasonable for the state to expect a high standard of behaviour from the companies it contracts with – and not just in their transparency and willingness to play their part by paying taxes, but also by making sure that everyone shares properly in the proceeds of success? They need to be actively and deliberately making a difference around them. And setting a high standard need not, as we have seen, impose a crushing burden on those businesses, but instead actually benefit them.

Yet corporate behaviour on the part of many of the biggest contractors with the public sector falls short. A recent Demos report, *Value Added: How better government procurement can build a fairer Britain*, highlights the fact that 25 of the government's 34 strategic suppliers are part of a corporate group including one or more subsidiaries in 14 tax havens. And 20 of those 25 companies were awarded more than £41 billion worth of government contracts between 2011 and 2017.

30. <https://www.globenewswire.com/news-release/2018/02/16/1357294/0/en/DANONE-Strong-results-in-2017-with-solid-progress-on-growth-and-efficiency.html>

31. https://ssir.org/articles/entry/has_the_b_corp_movement_made_a_difference

32. <https://www.edie.net/news/7/B-Corp-businesses-grow-28--faster-than-national-average/>

33. <https://demos.co.uk/project/value-added-how-better-government-procurement-can-build-a-fairer-britain/>

The central government contracts with private companies to the tune of £49 billion a year. When you factor in all public sector spending (local government, capital spending and the myriad of state agencies – the NHS, Environment Agency, Highways Agency and all the others) that sum rises to £251 billion.³⁴ Yet we expect little in return in terms of standards of behaviour.

**WE SHOULD APPLY
B-CORPS PRINCIPLES TO ALL
COMPANIES INVOLVED IN
PUBLIC CONTRACTS**

So, let's apply the B-Corp concept to determine what we should expect of all businesses benefiting from public money. We could apply different requirements based on the size of the company but there could be a clear commercial benefit in terms of increasing their prospects of winning tenders for those companies which commit to full B-Corp standards. The Demos report, similarly, calls for the establishment of 'social value standards' for public procurement. They should be legally binding for all contractors involved in public sector procurement.

TAX FOR PROSPERITY

Then there is the tax treatment of companies.

Under current rules, every company operating in the UK benefits from highly competitive corporation tax rates. The Left opposes this and the Labour 2019 manifesto argued for increasing the rate of corporation tax from 19 to 26 per cent for businesses which make more than £300,000 profit, with the risk that this drives companies away, with potentially damaging consequences for GDP, jobs and our ability to fund public services.³⁵

There may be a 'third way' that makes entitlement to low rates of corporation tax conditional upon meeting specified standards. In particular, there is a case for challenging the assumption that only shareholders should be entitled to benefit from profits generated by the company.

The Labour Left argues for a statist intervention – forcing companies of 250 or more employees to give up to 10 per cent of ownership to their workers via the creation of an 'Inclusive Ownership Fund'. But employees' extra income would be capped at £500 a year. Any further dividends would go to a national fund to pay for public services and welfare, so this would be, in effect, an additional state levy on the company.

34. <https://www.nao.org.uk/wp-content/uploads/2017/12/A-Short-Guide-to-Commercial-relationships.pdf> (p.5)

35. <https://labour.org.uk/wp-content/uploads/2019/11/Real-Change-Labour-Manifesto-2019.pdf>

LEVELS OF CORPORATION TAX COULD BE REDUCED FOR THOSE THAT SHARE PROSPERITY MORE EQUITABLY

An alternative would be that, in order to benefit from reduced rates of corporation tax, companies of any size would have to demonstrate that their employees receive a share of profits - perhaps by way of a John Lewis-style employee share ownership trust to the value of a specified percentage of the company.

As I have already argued, there is plenty of evidence that employee ownership can deliver improved performance, can be more resilient, and can result in improved employee well-being and performance.³⁶

Large German companies with over two thousand employees are required to have 50 per cent employee representation on their supervisory boards. This has a long history - and was given a significant boost in the post-war settlement. Despite dire warnings of the damage it would cause, Germany has continued to out-perform most other developed countries. Germany has a higher employment-population ratio (percentage of working age at work),³⁷ higher life expectancy,³⁸ and lower income inequality than both the US and UK.³⁹

Theresa May notably announced plans to put employees on company boards, only to retreat under pressure from the Confederation of British Industry and others.

Labour's 2019 manifesto proposed that, for companies with 250 or more employees, '[w]e will require one third of boards to be reserved for elected worker-directors and give them more control over executive pay'.⁴⁰ This goes much further than the German approach - which **only** provides for employee representation on supervisory boards, rather than the main company board and is limited to much larger companies.

There is, though, a strong case for incentivising board representation for employees in the UK alongside employee ownership. We could also provide an incentive to companies to do more to promote the well-being and health of their staff. Many companies already recognise that it is enlightened self-interest to look after their employees. Others don't.

I have proposed a 'Well-being Premium' - a time-limited fiscal incentive such as a two-year discount on business rates or National Insurance - in return for pursuing evidence-based action to improve the well-being of staff.

36. <https://wol.iza.org/articles/does-employee-ownership-improve-performance/long>

37. <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/timeseries/lf24>; <https://tradingeconomics.com/germany/employment-rate>; <https://tradingeconomics.com/united-states/employment-rate>

38. <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2102rank.html>

39. <https://data.worldbank.org/indicator/SI.POV.GINI?view=map>

40. <https://labour.org.uk/wp-content/uploads/2019/11/Real-Change-Labour-Manifesto-2019.pdf>

There is plenty of evidence of what works to reduce sickness absence and to confront the problem of presenteeism (where an employee turns up to work but is unproductive because they are unwell).

Training of line managers is a good example. More effective line managers, who treat the staff they are responsible for better, pays dividends. The potential prize here is that everyone benefits. Companies, incentivised to do the right thing, see an improvement in their bottom line; employees enjoy improved well-being, fewer fall out of employment and onto benefits; and the state pays out less and sees reduced pressure on the NHS.

GOVERNANCE

We must also confront the inadequacy of the legal duty at the heart of the governance of the modern company. I have suggested ways in which we can incentivise good, sustainable corporate behaviour, but alongside that, can we embed the idea of moral capitalism, the concept that the company can be a force for good, into the legal framework which determines the governance arrangements of companies?



CAN WE EMBED THE
IDEA OF 'MORAL
CAPITALISM' INTO THE
LEGAL FRAMEWORK?

Section 172 of the Companies Act, 2006 states that a director of a company 'must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole..⁴¹ For these purposes, 'members' means 'shareholders'. So the central purpose of a company is to make cash for shareholders.

This view of a company's purpose has dominated thinking in the western world both in governments and in business for over 50 years. And Milton Friedman made the case for it in his book, *Capitalism and Freedom*. It has become known as the Friedman Doctrine.

A previous RADIX paper on corporate governance outlines in detail why it is time to recognise that this approach is fatally flawed.⁴² It incentivises short-term thinking, it facilitates companies behaving in a way which harms the planet, damages supply chains, exploits workers and undermines the communities in which they operate. Ultimately, it results in a collapse in trust in the corporate world.

The Companies Act does offer the option of allowing directors to pursue other purposes, so the means are there for more enlightened companies to do different. But this is the exception, not the rule.

The question is, how could we make the pursuit of a purpose beyond narrow shareholder value mainstream rather than peripheral?

41. <https://www.legislation.gov.uk/ukpga/2006/46/section/172>

42. https://radixuk.org/wp-content/uploads/2019/08/Beyond_governance_V5_singles.pdf

As Professor Colin Mayer, in his book *Prosperity*, puts it:

“How can we ensure that we harness business as a source of societal benefits and avoid its detriments? How do we make it the creator of prosperity of the many not just the few, and of the future not just the past?”

The good news is that there are green shoots of a different approach developing.

When I spoke to Professor Mayer, he drew my attention to a significant development in the US. The Business Round Table represents the largest US corporations. Since 1978, periodically, they have issued ‘Principles of Corporate Governance’. Since 1997, those statements have declared that corporations exist principally to serve their shareholders. These statements have been highly significant in shaping modern business culture in the States.

But in August 2019, they issued a new statement which represents a significant shift in thinking. The new Principles of Corporate Governance drops the narrow focus and expressly declares that corporations have a commitment to ‘all of our stakeholders’.⁴³ It then goes on to highlight commitments such as ‘delivering value to our customers’, ‘investing in our employees’, ‘dealing fairly and ethically with our suppliers’, ‘supporting the communities in which we work’ and then finally ‘generating long-term value for shareholders’.

Now, of course, this in itself may change little. But it is a demonstration of a dawning realisation that the capitalist system is in trouble and that new thinking is needed.



THE CAPITALIST SYSTEM
IS IN TROUBLE AND NEW
THINKING IS NEEDED

There are also signs of new thinking in the political sphere.

Democrat presidential hopeful, Elizabeth Warren has promoted an ‘Accountable Capitalism Act’.⁴⁴ This also seeks to confront the narrow purpose of the company to benefit shareholders. Under the Act, very large American corporations would have to obtain a federal charter obliging their directors to ‘consider the interests of all corporate stakeholders’. She wants CEOs incentivised to promote long term thinking. She wants employees on the board.

Back in the UK, Professor Colin Mayer is leading a major research programme, sponsored by the British Academy, looking at the ‘Future of the Corporation’. When I talked to him, he described how he wants to see ‘purpose’ at the heart of what companies should be doing. He talked about how companies should be focused on producing profitable solutions to the problems of people and the planet.

43. <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

44. <https://www.warren.senate.gov/imo/media/doc/Accountable%20Capitalism%20Act%20One-Pager.pdf>

They should do no harm. They should not profit from causing problems for people and the planet.

So, just as things have started to move in the US, could we, in the UK, reform company law to replace the narrow concept of promoting shareholder value with the idea that a company should have a clear statement of purpose which meets these sustainability tests?

In the here and now, some companies have chosen to act without waiting for further reform of company law, taking advantage of the flexibility that already exists in that section of the Companies Act, 2006, to which I have already referred.

One of the most interesting examples is Anglian Water, a public utility company, which announced on 4th July, 2019, that it was changing its 'Articles of Association', a legally binding document which governs how the business will be run. The changes will formally enshrine public interest within the constitutional make-up of the business.

Water companies have been subject to heavy and legitimate criticism for their corporate behaviour. They face the threat of re-nationalisation by a future Labour government. Whatever the motivation for Anglian Water to take this action, it is welcome. But the bottom line surely is that every public utility should be required to pursue a bigger purpose than narrow shareholder value.

FROM WORDS TO ACTION

Of course, while the principle of a broader corporate purpose is starting to be accepted, it remains a long haul to work out how these statements of principle will, in practice, be translated into business models, corporate strategy and operational execution.

This is one of the core tasks that will be taken on by the soon-to-be-launched ***RADIX Centre for Business, Politics & Society***. Watch this space.

This might all seem rather dry and technical, but the impact of reform could be profound. It could help business rediscover its moral compass. It could help restore faith in capitalism by demonstrating that companies can be a force for good that can benefit everyone, not just the fortunate few.

3. SHARING THE BENEFITS

The award-winning brewers and spirit makers, Adnams, is based in Southwold in Suffolk, and operates two stores in my former constituency as well as many others across the East of England. They also have pubs and hotels. It is led by a modern progressive industrialist, Andy Wood, who has recognised the critical importance of employee ownership as a way of sharing the benefits of their success. The company also seeks to behave in an environmentally sustainable way.

Andy at Adnams has certainly helped me understand the potential of employee ownership as a way to build a more effective kind of capitalism, just as Westcotec has done. Staff own shares at Adnams, and its share incentive plan is distributed evenly across the whole business – so the CEO gets the same share as any other employee. Adnams donates at least one per cent of profits to its charitable community trust, which supports local community initiatives. It has been doing this for over thirty years. The business prides itself on its environmental sustainability, its desire to innovate, and its meritocratic culture – and the root of this is their ownership model, which Andy calls a “gift”.

I also met Stuart Hampson, then chairman of the John Lewis Partnership, the mutual retailer, when I was Shadow

Secretary of State for Trade and Industry back in 2006, looking at how it might be possible to transfer part of the shareholding in Royal Mail to its employees, rather than pursuing a more conventional privatisation.

THE JOHN LEWIS STORY

The John Lewis system provides us with a glimpse of a future business model that works. It was designed by the founder's son, John Spedan Lewis. He believed their partnership model may be a way that can motivate staff, equalise society and save the economy. He wrote:

“Few, if any, want to live on a volcano but more and more we are doing so. Our world of millionaires and slums is more and more volcanic.”

It has become even more volcanic since he wrote that in the 1950s.

This is a view shared by Kate Pickett and Richard Wilkinson in their book *The Spirit Level* which offers evidence of the range of the negative consequences of more unequal societies.

THE JOHN LEWIS SYSTEM
PROVIDES US WITH A GLIMPSE
OF A FUTURE BUSINESS
MODEL THAT WORKS

Spedan Lewis, the father of the 'partnership', denied that he had been influenced by any of the co-operative pioneers, like Robert Owen, whose maverick legacy at the New Lanark mills a century before had first put mutualism on the map. But he could not fail to have been influenced by the Rochdale pioneers, a group of weavers who managed to pool resources to open a shop there in 1844.

The Rochdale inspiration led to a whole range of regional co-operative societies, where tens of thousands of people would eventually buy their groceries, invest their money, even get themselves buried.

Within weeks of the start of the First World War, the Co-operative Wholesale Society was awarded a contract to turn out 200,000 tunics, caps and 63,000 blankets for the War Office.⁴⁵ It was turning out 10,000 tunics a day for the army and its ships were rescuing the survivors of torpedoed vessels.

The trouble was that, in Britain at least, co-operative working was by then in decline. The Fabian Beatrice Webb had carried out a study of co-operative tailoring and decided there was a fatal flaw.⁴⁶ Under her inspiration, the Fabians built a political movement which ridiculed co-operation and anything which did not immediately compute into money and higher wages.

John Lewis the elder was a bit of a tyrant. He had no time for novels, music, or holidays, all of which he believed were a waste of time. But at the age of 48, he met and married Eliza Baker, whose

father he had encountered on a trip up the Caledonian Canal. His two sons, John Spedan and Oswald were brought up in Hampstead on the edge of the heath in a peculiar atmosphere of secrecy and duplicity.

Old John Lewis was a militant Liberal and a militant agnostic and Spedan's mother had to have both boys baptised secretly. Spedan was given a quarter share of the business when he was 21, in 1906, shortly after old John famously walked across London with £20,000 in his pocket to buy the ailing store Peter Jones in Sloane Square.

In 1914, when Peter Jones was on the verge of collapse, his father asked him to take over as chairman of their acquisition, on condition that he carried on his full day's work at the headquarters store, and didn't work at Peter Jones until after 5pm. Spedan immediately raised the staff wages, launched a pooled commission scheme and set up department talk committees with direct access to himself. Sales immediately began to rise.



John Spedan Lewis

45. <https://blog.coop.co.uk/2018/11/09/the-co-ops-role-in-the-great-war-still-inspires-us-today/>

46. <https://www.oxforddnb.com/view/10.1093/ref:odnb/9780198614128.001.0001/odnb-9780198614128-e-36799>

Doubts about these revolutionary business ideas reached his father, who warned him to give up his wild theories or hand back control of Peter Jones. If not, his quarter partnership would end. Spedan agreed he would give up his share of the business in return for control of Peter Jones.

In business terms, it was a ludicrous deal – giving up a quarter of a reliable fortune in return for a small store on the verge of collapse. Everyone, from his mother to his bankers, urged him not to do it. But he did and, by the end of the war, the turnover of Peter Jones had multiplied by five.

EVERYONE URGED SPEDAN
TO REJECT EMPLOYEE
OWNERSHIP. HE DID IT
ANYWAY. TURNOVER
MULTIPLIED BY FIVE.

The contrast between Peter Jones and John Lewis in the 1920s could not have been sharper.

While Spedan Lewis was pushing his profit-sharing scheme through recalcitrant Peter Jones shareholders, his father was facing his first and only strike. Four fifths of his 500 staff came out in a bruising contest of wills. The management side was so unpopular that even Queen Mary asked her ladies-in-waiting to put money into the strikers' collecting box.

It wasn't until 1926, the year of the General Strike, that the two men were reconciled, two years before the old man's death (aged 92), leaving Spedan Lewis in full control of the group, and able to put his partnership ideas fully into effect – as they are to this day.

It might be possible to see in that father-son battle an echo of our situation today – an old order at war with the new, determined to continue with the old rules to the destruction of the employees, and the new ideas which were able to unleash a new creativity and commitment.

THE OLD ORDER IS ALWAYS
AT WAR WITH NEW IDEAS
– AND ALWAYS ENDS UP
ON THE WRONG SIDE OF
HISTORY

It was striking that when Julian Richer announced, in May 2019, that he had handed over control of his business, Richer Sounds, to his employees, he received widespread praise. But it didn't seem to lead to any real self-examination within the corporate world.

Yet here was another inspiring leader, just like Spedan Lewis, who understood that those who work in a business deserve a share in its success. Sharing ownership doesn't guarantee success. You still need effective management. Tough decisions still have to be taken.

Failure is possible, just like in any other business. But there is no evidence that this approach undermines corporate success.

IT IS ALSO IMPORTANT FOR THE PUBLIC SECTOR

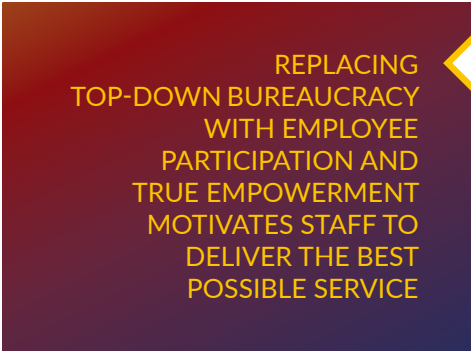
These ideas about how to behave equitably - and how to get the best out of people - are not only relevant to the private sector. I believed then, and I believe now, that the NHS - as just one example - would have important lessons to learn now from John Lewis.

If this is not yet possible on the biggest scale, it is already happening on a smaller scale. The Lowestoft social enterprise East Coast Community Healthcare is one example, within the NHS, providing community health services to Waveney and Great Yarmouth. Staff can purchase £1 shares in the enterprise and over 80 per cent of staff are now shareholders.⁴⁷

Instead of being accountable solely to NHS bosses in London, the leadership of the social enterprise are accountable to their staff.

This changes the dynamic of the organisation in a profound way. I hear too many stories of a bullying culture in NHS organisations, as local managers, under pressure from on high, demand more from their staff. At East Coast Community Healthcare, it feels very different.

When I visited, I saw a group of community nurses talking about how they could deliver the best possible service. They have a degree of control over the service they care about. They are empowered to make it the very best they can for patients.



REPLACING
TOP-DOWN BUREAUCRACY
WITH EMPLOYEE
PARTICIPATION AND
TRUE EMPOWERMENT
MOTIVATES STAFF TO
DELIVER THE BEST
POSSIBLE SERVICE

My sense is that these more ambiguous and flatter structures are more human, more flexible and more effective than the traditional hierarchies in the NHS.

Designing a new model, based on this approach, which maintains the public service ethos, but which frees organisations from top down bureaucracy which too often crushes the spirit and blunts innovation could provide us with an attractive alternative for the future of public services.

⁴⁷. <https://www.ecch.org/about-us/>

4. GOING BACK TO FIRST PRINCIPLES

We also need to humanize work by shortening the working week. It can't be right that working hours are rising in the UK at the same time as we have a jobless underclass.

Employment may be at record levels but we, in the UK, are far less productive than workers in other countries where working hours have been reduced. And big changes in employment patterns are coming down the track with the impact of automation, artificial intelligence, quantum technologies, the Internet of Things, autonomous vehicles and other disruptive innovations. The Fourth Industrial Revolution is going to involve improved productivity. We need to make sure that this leads to fewer working hours, sharing out the marketable work more equally.

There is no rule which suggests that it is best for an economy to encourage long working hours. In fact, economic development has brought with it significant reductions in hours. Typical working hours have reduced from 60-70 hours a week in the late 19th century to about 40 by the 1970s.⁴⁸

Since then, there have been further falls.

Many European countries have seen recent falls compared to the US and the UK. In Germany, one of the largest trade unions has recently negotiated a 28 hour working week. Yet, in the US and the UK, hours have actually risen since the 2000s.⁴⁹

Denmark is one of the world's 'happiest' countries according to surveys.⁵⁰ People there work an average of 37.8 hours per week – the shortest working week in the EU (the title of country with the longest working week belongs to the UK).⁵¹ They have five weeks paid holiday and 11 public holidays.⁵² Yet, Danish employees are far more productive when they are at work.⁵³ Their lower working hours means they have more time for family and they volunteer more.⁵⁴

48. <https://ourworldindata.org/working-hours>

49. <https://www.economist.com/finance-and-economics/2018/12/22/why-americans-and-britons-work-such-long-hours>

50. <https://www.thelocal.dk/20190321/denmark-now-worlds-second-happiest-country-after-latest-report>

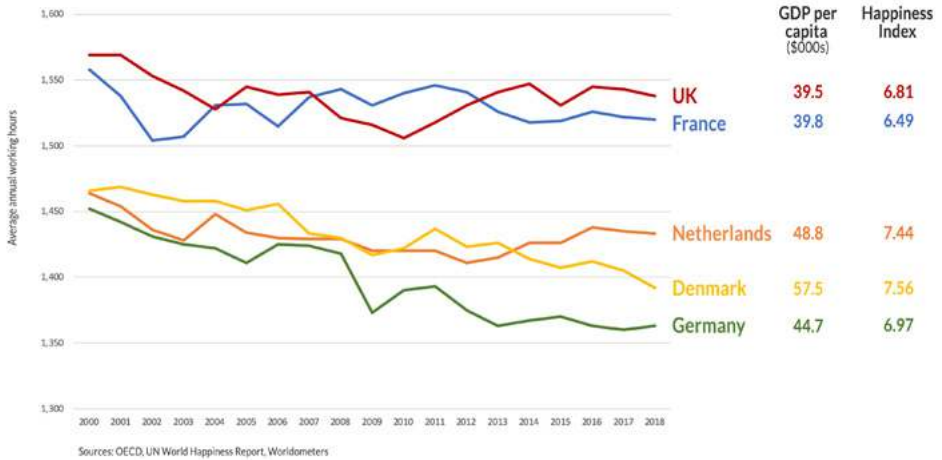
51. <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180125-1>

52. <https://www.workindenmark.dk/Working-in-DK/Holiday-pay>

53. <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>

54. https://volonteurope.eu/wp-content/uploads/2018/03/Measuring-impact-_Paper_Final.pdf

Work longer, less wealth, less happiness



The Labour Party’s 2019 manifesto committed to “reduce average full-time weekly working hours to 32 across the economy, with no loss of pay, funded by productivity increases” by 2030. But to simply remove one-fifth of working hours is not the solution. The radical approach to the working week is to treat it as dynamic, and flexible.

A new approach to work involves working not just fewer hours, but different hours. For most, the five-day week has become a metronomic constant in working life. But there is no reason to think it offers the ideal way to work.

After all, its origin is centred around religious observance. In fact, it would not be at all surprising if some alternative ordering (three days on, one day off, for instance) turned out to offer a more productive and beneficial way to work.

**WHY HAS THE METRONOMIC
FIVE-DAY WEEK BECOME
SUCH A FIXED CONVENTION?**

The key barrier to change is that the five-day week (followed by two days of leisure) has become a cast-iron convention for most, both in an economic and social sense. But times of crisis can sometimes force governments to abandon convention and adopt radical solutions.

That was what happened in the state of Utah during the 2008 financial crisis. Faced with a budgetary shortfall, the Republican governor, John Huntsman, imposed a four-day week on state employees.⁵⁵ Rather than work 9-to-5, Monday to Friday, they would work ten hours a day from Monday to Thursday (a 'four-ten') – followed by a three day weekend.

Huntsman reasoned that, with workers occupying government buildings for four days a week rather than five, the state government would save on energy costs; and employee satisfaction would improve.

The radical experiment was reasonably successful. It received an 85 per cent approval rating from public workers. Volunteering rates increased as workers put their extra free day to good use.

That's not to say there weren't drawbacks. Our school system mirrors the world of work, and so 'four-ten' hours proved difficult for parents who needed to look after young children. The expected energy savings costs were lower than anticipated. But overall, workers favoured the change (which was brought to the end by a new administration in 2011).⁵⁶

There is a strong case for planning now for how we make sure that technology benefits society rather than damages it.



PLAN NOW FOR THE FUTURE IMPACT OF NEW TECHNOLOGIES

We are now witnessing the start of a debate, primarily on the Left, contemplating shorter working weeks in both the US and the UK. There is a certainly a case for establishing a pathway to reduced working hours, preferably by extending the right of employees to negotiate flexible working and by encouraging management and staff to negotiate potentially mutually beneficial reductions in the working week.

THE ENVIRONMENTAL EMERGENCY

But as we approach the Fourth Industrial Revolution, there are other factors we need to confront. One, which looks set to define the coming decades, and indeed the 21st century as a whole, is the climate and environmental emergency.

The mission is to limit the rise in global temperatures to no more than 1.5 degrees above pre-Industrial levels.

55. <https://www.rapidtransition.org/stories/moving-to-a-four-day-working-week-with-one-months-notice/>

56. https://www.huffingtonpost.co.uk/2011/06/09/jon-huntsman-four-day-week_n_873877.html

That is our best chance to avoid the cataclysmic consequences which are otherwise underway – rising sea levels, mass extinction events and hundreds of millions of people displaced. But the world is already one degree warmer than in the mid-1800s. The margin for error is slim.

The response which the climate emergency demands is to swiftly decarbonise the UK and, indeed the global economy. This challenge requires ambition. Yet, depressingly, although the government has now legislated for a net zero target by 2050, the strategies and policies needed to achieve that target are frequently too conservative. Progress in many areas has stalled or fallen back. Why are we waiting until 2040 to ban the sale of diesel and petrol cars? In Norway, 47 per cent of all vehicles sold in the year ending September 2018 were plug-in electric. But, unlike in Norway, the UK government isn't providing the right incentives – and, as a result, electric vehicles made up just 2 per cent of UK car sales in the same period.⁵⁷

In the same way, we lack clear incentives and a clear plan to decarbonise the heating of buildings, and to reduce energy use. The energy standards of new homes fall well short of what is necessary, and the cancellation of the feed-in tariff has resulted in the rate new solar installations dropping dramatically.

Neither are there yet any strong incentives to protect the world from environmental damage beyond climate change. Plastic waste is receiving some public attention – if little action. But the continued destruction of natural resources, dumping of large quantities of waste, the rapid decline in biodiversity on which all life, including human life, depends to survive and thrive – all these are labelled 'environmental externalities' and not being adequately tackled at policy level.

Many are focusing time and resources to reducing these externalities. Yet that simply amounts to doing less harm rather than to doing good through restoration of what we have damaged. There are precious few policy initiatives that focus on transforming what is fundamentally an extractive and dumping economic model to a regenerative one.



HOW CAN WE TRANSFORM OUR EXTRACTIVE ECONOMIC MODEL INTO A REGENERATIVE ONE?

The opponents of rapid action claim that it will wreak unnecessary havoc upon the economy – which we cannot manage as we look to tackle a whole range of other challenges.

57. <https://www.theccc.org.uk/wp-content/uploads/2019/05/Net-Zero-The-UKs-contribution-to-stopping-global-warming.pdf>

Yet, surely, change actually offers a huge opportunity for economic renewal. We need to legislate for a ‘Green New Deal’, which would invest in the green technologies necessary to transform our economy and, as a consequence, create well-paid jobs for people across the country.

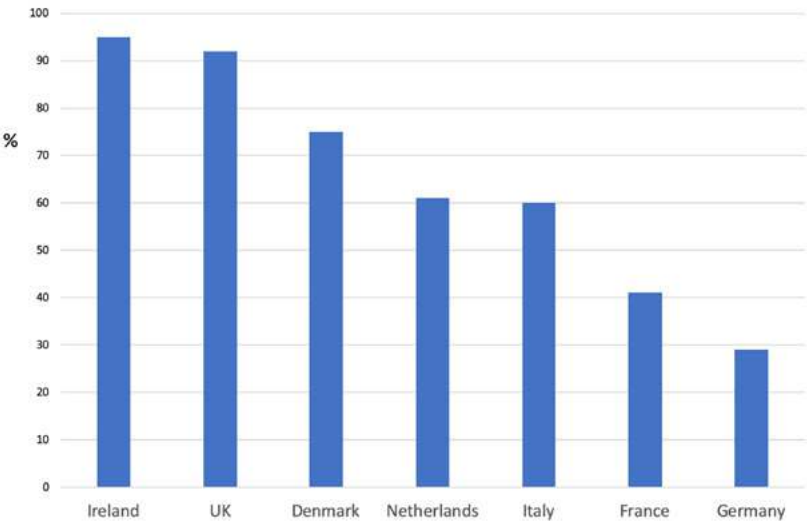
There are different interpretations of exactly what the phrase means in practice, primarily between the American proposal (higher taxes on the richest) and the British (money created by central banks). This is not the place to argue for one or the other, or a third. The only point is that we need an ambitious programme of green investment to boost the economy at the same time as tackling the threat to our climate and to the broader environment.

THE POWER OF DECENTRALISATION

One of the other factors that we will need to confront to make the Fourth Industrial Revolution human, and effectively beneficial, is the extent to which power is centralised in the UK.

The UK is the most centralised of all European countries (with the exception of Malta and Ireland) in terms of the proportion of total public expenditure which is spent by central government- and power resides with those who control the purse strings.⁵⁸ We need a radical devolution of tax-raising powers to our cities and regions across the country - so that they can have some control over their destiny.

Share of central government in all public expenditure



Source: Eurostat

58. ec.europa.eu/social/BlobServlet?docId=19208&langId=en

It was this kind of localism in the Victorian era which gave the great cities of the north their vibrancy – and could potentially do so again.⁵⁹ It was a kind of competitive localism which saw proud cities vying for dominance.

THE LOCALISM IN THE
VICTORIAN ERA GAVE
THE GREAT CITIES OF THE
NORTH THEIR VIBRANCY –
AND COULD POTENTIALLY
DO SO AGAIN

The Devo deals are a start, but they have just been tinkering at the edges of centralisation. Yet they have opened the minds of those running the cities involved, because they have become aware that – if their economy doesn't work – it will impact their services, and vice versa. The interconnections between budgets have become clearer as a result, at local level, in a way that they are not in Whitehall, where a silo mentality still prevails.

We also need to look further afield. Similar to Scotland's devolved tax administration, the Basque Country in Spain has its own unique tax and spending regimes which are set separately to the central Spanish government. But unlike Scotland, the powers are devolved even further, to a local level.⁶⁰

The region of Gipuzkoa is semi-autonomous and has its own tax laws. It uses these powers to promote, among other things, employee ownership, which has been incredibly successful.

Located within Gipuzkoa is the small town of Mondragon, the home of Corporación Mondragon, the world's largest co-operative which is owned by its own workers. Contained within the thriving business are 260 individual co-ops and the firm employs 75,000 people in 35 countries.⁶¹ During Spain's economic troubles a decade ago, Mondragon stayed stable.⁶² Managers' salaries are capped and, as a result, the pay ratio between the lowest and highest paid staff is 1:9 – this compares very favourably with the 1:129 for your average FTSE 100 company.

More radical devolution in the UK could unleash similar innovation.

Along with devolving power and tax raising to our cities and regions, we also need to see a rebalancing of our country.

As I have already highlighted, the UK is one of the most unequal countries in Western Europe – even after redistribution through the tax system. The hothouse economy of London and the South East makes it feel like a different country. London dominates as both the administrative and economic centre of gravity.

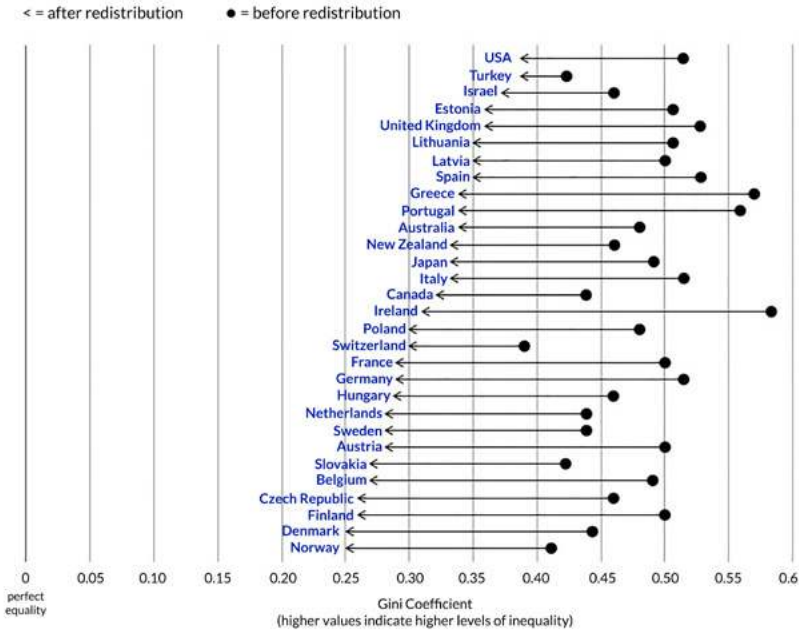
59. <http://www.historyandpolicy.org/policy-papers/papers/a-central-role-for-local-government-the-example-of-late-victorian-britain>

60. (<https://www.bizkaiatalent.eus/en/pais-vasco-te-espera/apuesta-de-futuro/sistema-fiscal-propio>)

61. <https://www.uk.coop/newsroom/new-report-highlights-lessons-worlds-largest-worker-co-op>

62. (<https://www.theguardian.com/world/2013/mar/07/mondragon-spains-giant-cooperative>)

Inequality of incomes before and after redistribution



Data source: OECD
Visualisation adapted from ourworldindata.org

In Westminster, work continues on how to manage the renovation of the Houses of Parliament and what we should do with MPs and peers whilst the work is under way. Why not build a new, modern parliament building in one of the northern cities? I can't imagine any measure that would do more to share power and influence more equitably across our country. It would create a Northern 'Powerhouse' in the most literal sense.

MOVE A NEW, MODERN
PARLIAMENT TO THE NORTH?

CONCENTRATED ECONOMIC POWER

The over-centralisation of administrative power has a parallel with economic power.

The Economist estimates that the global pool of 'abnormal profits' – from the concentration of dominant firms in many markets – is \$660bn.⁶³ These are profits which are over and above the expected rate of return on a firm's capital, and comes about when a small number of firms hold a significant share of market concentration.

63. <https://www.economist.com/leaders/2018/11/15/the-next-capitalist-revolution>

A significant proportion of this is represented by technology companies.⁶⁴ Although the *Economist* argues that the problem is greater in the US, they also suggest a growing concentration in Europe.⁶⁵ This negatively impacts on productivity, innovation and real wages. It simply enriches those who own the firms which dominate these markets.

The new book *The Myth of Capitalism* by Jonathan Tepper explains why “the American skies have gone from an open market with many competing airlines to a cozy oligopoly with four major airlines.”⁶⁶ He also gives other egregious examples of American monopoly:

- **Two corporations control 90 percent of the beer Americans drink.**
- **Five banks control about half of the nation’s banking assets.**
- **Many states have health insurance markets where the top two insurers have an 80 percent to 90 percent market share. For example, in Alabama one company, Blue Cross Blue Shield, has an 84 percent market share and in Hawaii it has 65 percent market share.**

- **When it comes to high-speed internet access, almost all markets are local monopolies; over 75 percent of households have no choice with only one provider.**
- **Four players control the entire US beef market and have carved up the country.**
- **After two mergers this year, three companies will control 70 percent of the world’s pesticide market and 80 percent of the US corn-seed market.**

A proposal to ban mergers in industries dominated by six players or fewer has been made in the *Financial Times* by Tepper, based on evidence that “a move below six players in an industry raises prices for consumers”.⁶⁷



**A MOVE BELOW SIX PLAYERS
IN AN INDUSTRY RAISES
PRICES FOR CONSUMERS**

The UK appears to be going in the same direction, with four big banks, four mobile phone networks and six big energy companies all of which dominate those sectors.

64/65. <https://www.economist.com/special-report/2018/11/15/dynamism-has-declined-across-western-economies>

66. <https://www.bloomberg.com/opinion/articles/2018-11-25/the-myth-of-capitalism-exposed>

67. *Financial Times* (2018), 29 Nov. https://www.ft.com/content/20801f16-f1a3-11e8-938a-543765795f99?accessToken=zwAAAWeDdfzYkc8ggB8W8aMR6NOTilQ3ZXIfmQ.MEUCIBvi79idZ6rL3ZdR04yGp2WV6yQ_gpdSshJCdn2XZsolAiEA1RHoBmlKn1_yBM55yVycvOKgNGA6_odsful2dHjNO&sharetype=gift?token=5d980b83-431f-4875-b730-

There was a time, until the 1950s, when the political establishment in the UK kept corporate power in check. One of the major factors in the emergence of unchecked corporate power in recent decades has been that this widespread agreement has broken down.

This was partly because of the intellectual shift influenced by Milton Friedman in the early 1960s – arguing that monopolies were always the result of government intervention, not constrained by it.⁶⁸

The USA is already debating this issue widely and intensely, but the UK political establishment has yet to awake on the issue, either on the Right or the Left. It is up to liberals to revive this central issue in economics which will underpin our shared prosperity, if we can achieve it – and we must be aware that if we fail then we are at risk of simply parceling it up for the richest.

Andrew Tyrie, Chairman of the Competition and Markets Authority (CMA), is aware that we cannot rest on our laurels, saying that:

“The UK has an analogue system of competition and consumer law in a digital age”.

He has put forward proposals to substantially strengthen the CMA, at the heart of which is the imposition of an “overriding” statutory duty to treat consumer interests as paramount.⁶⁹

This new duty would take the role of the CMA beyond a sometimes narrow focus on competition-based solutions, allowing it to tackle new forms of consumer detriment, like the harvesting of personal data. This would be strengthened by a new duty to conduct its investigations quickly – allowing it to respond to the rapid pace of change in the digitalised world.

Tim Cowen in a recent RADIX paper goes further.⁷⁰ He suggests that the whole competition framework based on 'consumer welfare' as measured by market prices is no longer fit for purpose in an age where many, especially digital companies, make their products and services available for no monetary cost. Instead we all pay through data surrender – which is largely unmeasurable.

He suggests a fundamental change in focus with competition authorities having a duty to ensure that there is sufficient freedom of choice in the market. It can all be achieved within existing legislation. All it needs is a change in mindset – maybe the most difficult task of all.

68. See for example <https://radix.org.uk/monopoly-power-dog-didnt-bark/>

69. <https://www.gov.uk/government/publications/letter-from-andrew-tyrie-to-the-secretary-of-state-for-business-energy-and-industrial-strategy>

70. https://radixuk.org/wp-content/uploads/2019/08/Freedom-to-Choose-Report-June-2019_EMAIL.pdf

COMPETITION POLICY IS INEFFECTIVE. WE NEED A CHANGE IN MINDSET

We need the leaders of our institutions to be honest about where our processes are failing, and take decisive action to improve them. As Andrew Tyrie says:

“The legal framework is not broken... [but] carrying on roughly as we are is not a prudent option.”

And we need to tackle the power of the Big Five global tech companies.

There is a great deal of thinking required here. One idea is to allow individuals to own their own data, and so that users of tech services might one day be able to take their information elsewhere. In the short term, it may be easier to force major platforms to open up their platforms to rivals and to tear down barriers to entry. As Cowen points out, this remedy has been shown to be effective in the past when fixed line telecoms operators similarly benefited from network effects and formed a natural monopoly.

There is no doubt that the tech companies have seen extraordinary growth. They have acted as disrupters and offered people and businesses new freedoms and choices. The real problem is that this revolution has concentrated power in the hands of a small number of global players.⁷¹

The Blair think tank, the Institute for Global Change, argues for a new generation of regulators. A new regulator would be required to approve acquisitions of potentially competitive start-ups by big companies - with a presumption against approval unless a “compelling” public interest suggests otherwise.

The regulator would also have the power to place big tech companies in an “alternative corporate tax regime that allocates profits geographically”, pending international reform.⁷²

The challenge is to facilitate innovation but also to guarantee responsible behaviour – with consequences where standards are breached. Meanwhile in the US, Democrat presidential candidate Elizabeth Warren is leading a debate there on whether the big tech companies should be broken up.⁷³

TACKLING TAX OPTIMISATION

There is a growing debate now on how to confront the ability of multinational companies to shift profit around their global empires in order to minimise tax liability. The need for action is clear.

There was an outcry when Amazon announced its UK tax bill for 2017. Only £1.7m paid upfront in corporation tax in spite of pre-tax profits of £72m. This in itself is an extraordinarily low profit figure given that turnover that year rose by 35 per cent to £1.98bn.⁷⁴

71. <https://www.bloomberg.com/opinion/articles/2018-11-25/the-myth-of-capitalism-exposed>

72. <https://institute.global/sites/default/files/articles/A-New-Deal-for-Big-Tech-Next-Generation-Regulation-Fit-for-the-Internet-Age.pdf>

73. <https://www.bloomberg.com/news/articles/2019-03-08/warren-has-plan-to-split-tech-cos-like-amazon-n-y-times-says>

74. <https://www.theguardian.com/technology/2018/aug/02/amazon-halved-uk-corporation-tax-bill-to-45m-last-year>

NATIONAL AND INTERNATIONAL INITIATIVES TO TACKLE TAX MINIMISATION ARE TAKING SHAPE

The UK government is starting to take some tentative action. As part of the 2018 Budget, the then Chancellor, Philip Hammond, announced a special digital services tax on tech firms. From April 2020, tech giants will face a two per cent levy on revenue which they make in the UK.

It's a start – a sensible move away from taxing these firms' UK profits, which clever accounting too often artificially reduces – but it is a modest one.

The Office for Budget Responsibility forecasts that the main tech giants – Amazon, Facebook, Apple – will only end up paying £30 million each under this new tax regime, compared to revenues which reach into the billions.⁷⁵

Meanwhile, the French Government has secured Parliamentary approval to introduce a tax on tech giants (with global revenues of \$850m) of 3 per cent on revenues earned in France.⁷⁶

Under US pressure, it has now agreed to delay implementation while international agreement is sought.

The OECD has come up with new proposals to shake up the global corporate taxation regime,⁷⁷ arguing that:

"The current rules dating back to the 1920s are no longer sufficient to ensure a fair allocation of taxing rights in an increasingly globalized world."

The new proposed approach would increase the rights of individual countries to levy tax on corporate income earned from sales in their territories.

LIFELONG LEARNING

Given the rapidly changing world of work, Blair's think tank has also made the case for a guarantee of access to lifelong learning as employment patterns are massively disrupted by technology.⁷⁸

This must be part of the new deal for people to make sure that they have the skills for the new economy. How this is funded – the balance between the state, the citizen and industry – still has to be resolved. It has to be a sustainable model.

WE HAVE REACHED THE POINT WHERE MARKETS NO LONGER WORK

75. <https://www.theguardian.com/uk-news/2018/oct/29/hammond-targets-us-tech-giants-with-digital-services-tax>

76. <https://www.bbc.co.uk/news/world-europe-48947922>

77. <http://www.oecd.org/tax/beps/public-consultation-document-secretariat-proposal-unified-approach-pillar-one.pdf>

78. Chris Yiu (2018), A New Deal for Big Tech, London: Institute for Global Change.

There comes a point when the growth of monopoly power begins to siphon off too much of the rewards into the pockets of a tiny handful of owners and investors.

There comes a point, as well, when a free market – in the liberal sense, where the small challengers can take on the established players, where the poor can succeed as well as the rich – becomes impossible.

That point has now long since been reached. And it is undermining people's faith in the system as well as feeding the political extremism which will damage us all.

5. WHAT SHOULD WE DO?

This paper has throughout suggested that we need to confront the deep flaws in our model of capitalism. It has been found wanting. It has fuelled a sense of a growing divide between the owners of capital and everyone else. It is under assault from the Left and the Right.

We need a series of new approaches to business and to the economy that allows everyone involved to share in the prosperity created. The old assumptions of the Fabian Left, that you can tax society back into shape, no longer seems to be working. We urgently need to find ways that the economic system itself can find a better balance.

THE 'TRICKLE DOWN
ECONOMY' HAS RUN
OUT OF ROAD

Even the Treasury seems now to accept that success no longer 'trickles down'. But they have still not replaced the assumptions that went with that. The old, rigidly orthodox policies are still in place.

They assume that policy is about ameliorating their more damaging effects with more comprehensive skills training or better connectedness – building transport links and IT infrastructure. These are important, of course, but they are certainly not enough.

The poverty and inequality in our cities *appears* to be a skills problem, but cities know they also have to crack the social policy dimension, carrying with it a whole array of other issues of identity, class and belonging – at the same time as trying to make an impact on our fundamental economic problems and confronting the existential challenge of climate change and environmental destruction.

Conventional solutions may have reduced unemployment, but they have tended to replace it with employment that pays too little. That is now one of the main drivers of poverty in the UK.⁷⁹ We have left other areas of the local economy untouched as we maintain sections of the population in subsidised dependence on low wages or zero-hour contracts.

79. (https://www.jrf.org.uk/sites/default/files/jrf/files-research/uk_poverty_2017.pdf) p.19

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We need a new economic settlement that recognises the vital importance of health or clean air to supporting the local economy, and accepts that someone should be accountable for rebuilding them. A policy framework that accepts that prosperity matters and understands that the task of economics is to fan it into life.

These are my twelve recommendations to revitalise our economy and reboot capitalism for the twenty-first century:

- 1) *Streamline the creation of employee owned businesses and the transfer of ownership of businesses to their employees along with a programme to raise awareness amongst advisers and business owners.*
- 2) *Set a new lowest rate of corporation tax, only applicable to those companies which share ownership equitably with staff (either directly or through employee ownership trusts), recognising their right to benefit from success, helping to create a new enterprise owning democracy.*
- 3) *Reform company law to widen and strengthen duties from the current narrow focus on shareholder value, introducing an obligation to define purpose and to consider the interest of, not just shareholders, but other stakeholders too.*
- 4) *Set new 'Good Company' rules for public procurement setting clear requirements of business - based on the B-Corp concept with levels of requirement linked to size. No burdensome additional regulation - but based on enlightened self interest. Good, sustainable employers benefit. The public benefits. Public utility water companies should be required to meet set governance standards, following the lead given by Anglian Water.*

- 5) Devolve power radically, including over setting taxes, to our great cities and regions enabling them to determine their own destiny, empowering local innovation.
- 6) Use the upcoming decampment from the Palace of Westminster to move our national Parliament to the North of England. Finally, the UK's economic and political capitals would be separated – and the country would be permanently rebalanced. That would create a Northern 'Powerhouse' in its most literal sense.
- 7) Use a Green New Deal to tackle the environmental emergency, delivering a regenerative economy which is supported by new investment in green industries, delivering new skills and jobs across the country.
- 8) Set tough new competition rules to challenge concentrations of power and wealth and to drive up wages, drive down prices and improve consumer choice.
- 9) Strengthen competition regulators so they can deal with global tech companies and other concentrations of power effectively, to make sure that they cannot stifle competition by simply purchasing competitive start-ups which might otherwise threaten their dominance.
- 10) Provide a new entitlement to lifelong retraining and education to equip all citizens for the new economy and soften the disruptive impact of automation.
- 11) Set a route to a more flexible working week, promoting radical models of work where hours fall and employment is equitably shared. As the Fourth Industrial Revolution gathers pace, employees will benefit from improved work/life balance, businesses will benefit from the increased productivity it leads to – and society will benefit as people with more leisure time decide to give more back through volunteering.
- 12) Give incentives to companies to improve staff well-being by introducing a time-limited fiscal incentive (such as a two-year discount on business rates or National Insurance) for businesses which pursue evidence-based action to help their staff. This Well-being Premium will confront the costs of presenteeism and sickness absence which result from the failure to tackle mental ill-health.

That is my prescription for a healthy economy and society.



“THE DIFFICULTY
LIES NOT SO MUCH
IN DEVELOPING
NEW IDEAS AS IN
ESCAPING FROM
OLD ONES.”

John Maynard Keynes

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