

the long view new ideas for progressive policy

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the long view

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Claire Coulier
May 2010

introduction

This is a critical political moment. The UK's economic, political and social turmoil has reached a climax. We have weathered the most serious financial crash of the post-war era and emerged from the recession, but at immense cost to our public finances and economic wellbeing. Our political system has been deeply wounded by the recent expenses scandal and we have less confidence in our politicians than ever before. This is the backdrop to a general election in which, for perhaps the first time in British politics, all three main parties are real contenders, and which represents an unprecedented opportunity to revolutionise British politics.

It is now time for radical new thinking, to bypass the short-termism, political expediency and departmental policy silos that dominate government circles today; and to set an agenda for real and wholesale reform. This collection is the outcome of the Progressive Policy Forum, a series of eight seminars which sought to address the most pressing of the cross-cutting and multidimensional policy challenges we face; explore their origins and root causes; and set out what must be done to solve these problems in the long term and with cross-party consensus. The expressed aim of the forum was to achieve consensus and concrete new policy suggestions around these issues ahead of the formation of the next government. It sought specifically to remedy the apparent lack of progressive, cross-party, and long-term thinking in and around government.

We asked speakers from each of the Progressive Policy Forum discussions to contribute to this volume. Their challenge was to transcend the cut and thrust of a gripping electoral campaign and to frame deeper, wider questions for policymakers over the next decade. The authors differ in many respects — not least in their political allegiances — but all agree on the urgent need for radical reform and for a longer view in policy setting. A number of other key themes arise throughout the pieces in this volume, and indicate where future policy battles will be fought.

Jules Peck, Tim Smit and Anthony Seldon all highlight the need for a broader vision of the kind of society and

nation we want to be. They argue for bolder and more ambitious policy objectives and leadership courageous enough to implement the reforms needed to achieve these goals. The acute crises of the past two years, including the expenses scandal and the vast and widening public deficit, have in their view made us want and expect bigger, bolder and more radical change than what is currently being explored or delivered by any of the main parties. The British public seems willing to consider approaches to our social and economic challenges that, under other circumstances, they may not have envisaged at all. Arguably then, groundbreaking proposals such as Mike Brewer's suggestion for compulsory savings accounts for social insurance or Stephen Brien's proposal on tax breaks for companies with a large staff base will have more purchase in policy circles and on the British public now than might have been the case at another moment in time.

A second theme, discussed in the pieces by Anthony Seldon, William Heath and Jonty Olliff-Cooper, in particular, is the need for greater trust; both in terms of renewing the public's faith in institutions and government and of the state allowing the frontline — teachers, medical practitioners and others — space in which to get on with their jobs, as well as giving individuals more power and scope to make decisions about the services they use. The authors argue that policy-makers must abandon the conceit of believing they have all the answers. The state's role, in this view, is not to find the ideal solutions to policy challenges but to provide the structures and the support framework through which to channel the expertise of practitioners and charity workers outside government, as well as that of individual service users themselves.

Several contributors also called for a broader vision of what services should aim to achieve and, in particular, for public services to not only deliver physical infrastructure and services but also take an active role in enabling people's personal and inner development — to help build character. Anthony Seldon laments the narrowing of education to learning by rote and calls for schools to take a wider view of the individual in order to help them develop spiritually, morally and expressively. Stephen Brien discusses the potential use of progressive taxation to promote 'good' behaviour; while David Halpern takes a more practical view of whether behavioural psychology and 'nudges' can help policymakers alter socially costly behaviour or prevent it from occurring in the first place, in order to build a better, fairer society while delivering cost savings in the longer term.

Lastly, perhaps predictably, though less prominently than might have been expected, many of the contributors allude to the challenges associated with the recession. Foremost among these are the need for a new regulatory framework, as outlined by Kitty Ussher, and the implications for public services of our enormous deficit, which Mike Brewer discusses in the context of delivering welfare. But both Tim Smit and Jules Peck allude to the larger challenge of creating a ‘beyond growth’ economy — that is, an economy in which social and ecological wellbeing are prioritised and valued alongside macroeconomic growth and business profit.

Taken together, these proposals point to the need for a deeper, more fundamental shift of mindset among policymakers and the British public. Traditional policies and approaches alone cannot deliver this type and magnitude of change. But before embarking on a process of wholesale reform, the authors caution that we must think carefully about how government operates and what it is for. We must consider how to impart new meaning to our economy; how to move away from overriding consumerism and boom and bust growth; and how to price into the economy environmental and social costs and benefits, while being realistic about how strongly embedded profit incentives and existing regulation are.

This may seem overly ambitious, but the problems we face are vast. There is enormous potential — and public appetite — for change in this political moment. As the Progressive Policy Forum and the contributions to this volume demonstrate, we are not lacking in big, and big-picture, ideas. What we now need is the political leadership and courage to achieve something new, and possibly momentous.

Claire Coulier and Jonty Olliff-Cooper, Demos.

fixing finance

Kitty Ussher

In order to learn from the experience of the recent financial crisis, we need a shared analysis of what actually went wrong. This contribution attempts to do just that and looks at the policy conclusions that then flow from that analysis. But first, we need to recap what actually happened.

How we got here

Within weeks of Gordon Brown leaving the Treasury, the wholesale money markets started to seize up as major financial institutions began to doubt not only the value of their own assets but also those of their trading counterparties. The cause of the doubt was a change in the perception of the value of previously fashionable assets, and in particular securities whose value was linked to the payments that householders made on their mortgages. The problem was that these mortgages had been sold without sufficient scrutiny of the borrower's ability to pay the money back.

Although such sub-prime mortgages certainly existed in the UK, the problem was much more acute in the USA, where lighter regulation meant it had become easy for high-risk individuals to acquire so-called 'ninja' — no income no job — loans, primarily to buy houses. When, from 2004, interest rates in the country began to rise, householders started to default on their loans and because these debts had been securitised and sold around the world, there were ripple effects throughout the global financial system.

In the UK, Northern Rock was the first company in the firing line — not because it was particularly exposed to subprime mortgages, but because it was reliant on the seized-up wholesale money markets for routine access to cash. By early 2008 it had been nationalised. By September of that year, it became clear that there were serious problems at the US government's monoline mortgage companies Freddie Mac and Fanny Mae, which were bailed out along with the insurance group AIG. Less fortunate were the folk at Lehmans, which was allowed to go under. Merrill

Lynch was only saved by jumping into the arms of Bank of America.

Panic returned, threatening the next tier of vulnerable firms and necessitating in the UK the shotgun marriage of HBOS to Lloyds TSB, the partial takeover of Bradford and Bingley by Santander and a government guarantee of deposits in Icesave following the bankruptcy of the country of Iceland. With the markets understandably deaf to pleas from distressed banks for more capital, the government not only provided its own credit underwriting scheme but also stepped in to offer lifelines to Royal Bank of Scotland and the merged Lloyds TSB/HBOS in return for appropriate fees and ownership stakes.

Back in the real economy, banks uncertain of the value of their own assets were wary of taking on any risk at all, leading to a contraction of credit that caused consumers to rein in spending — a situation not helped by a spike in food and fuel prices — and which made fears of a downturn a self-fulfilling prophecy. Unemployment started to rise in mid 2008 and the UK formally entered recession by the end of that year.

Why? A lax US regulatory environment...

It had become far too easy to borrow money to buy a property in the USA. The Bush administration had encouraged Fannie Mae and Freddie Mac not only to purchase securities backed by subprime loans but to originate them as well. On top of that, they changed the law in 2000 deliberately to reduce regulatory supervision of credit default swaps, which was a major factor in the subsequent collapse of AIG.

In 2004 the Securities and Exchange Commission relaxed the net capital requirements of the five main investment banks, causing debt levels to rise sharply. There was also a general failure of regulators to see the level of systemic risk in the global financial system, including by Alan Greenspan, Chairman of the Federal Reserve Board, who as late as April 2005 was praising the computer based models that had replaced a more rigorous assessment of an individual's mortgage application.

All of this meant that the proportion of toxic assets held by financial institutions that were American in origin vastly outweighed those that originated in the UK, even after accounting for population size. The International Monetary Fund estimates that there could be \$3.1 trillion in US-originated toxic assets, compared with \$900 billion

originating from Europe and Asia combined. It follows that had there been greater control over the availability of credit in the USA, particularly that secured against property, the crisis could have been avoided.

..and a failure of management

Even given the existence of bad debt in the system, it takes a bad manager not to notice it. There is no intrinsic reason that a financial services company should need to expose itself to excessive risk. Barclays and HSBC did not see the same speculative attacks on their share prices as the likes of HBOS and RBS. Why? Quite simply because they had made wiser decisions over the years.

Similarly, what set Goldman Sachs and Standard Chartered apart from Lehmans and Merrill Lynch, both of which filed for bankruptcy and were sold overnight in mid-September 2008? They had fewer bad debts because they had been better at managing risk over the years, though doubts are now rising about some other aspects of Goldman Sachs' activities. It could therefore be argued that rather than the bankers having collectively caused the crisis, not enough bankers succeeded in preventing it.

Consumer debt aggravated the problem in the UK

Once the bad loans had been made and some bankers had bought them the problems were inevitable. But the severity of their impact in the UK was due to a third factor, namely the low savings ratio in the UK economy. By 2006, the savings ratio had fallen below 3 per cent, the lowest it had been at any time since the 1950s. This meant that many UK consumers had no buffer against the chill economic winds blowing across the Atlantic. Instead, they had debts, and so felt financially vulnerable, causing them to rein in their discretionary spending to a greater extent than might otherwise have been the case. This was a major factor underwriting the severity of the recession.

Banks held insufficient capital to weather the storm

Many financial institutions also lacked a financial safety cushion to shield them from the adverse market conditions. The double whammy of having over-estimated the value of mortgage-backed securities, plus the negative effect of a deteriorating economic climate in itself, forced firms to go cap in hand to the market to raise capital in the heat of the

crisis. This was necessary but destabilising, as the prospect of a failed rights issuance could precipitate even more market panic. This is what prompted the government to inject its own capital into RBS, and offer the same to the Lloyds Banking Group. There were therefore two main causes of the crisis: US regulatory failure, plus management failure in some banks, exacerbated in the UK by insufficient funds held by either consumers or the banks themselves.

Alongside all of this is the vexed issue of pay and bonuses. There is certainly much that is wrong with the way that bankers are rewarded, which needs to be addressed regardless of the fallout from the financial crisis. The current bonus structure can feel arbitrary to the individual; it encourages macho behaviour; it is overly discretionary rather than being linked in a clear way to an individual's performance; and it can result in a culture of short-termism that is out of synch with the interests of long-term institutional investors. But there is nothing wrong with a private sector company deciding to pay a certain individual a particular amount to do a defined job. Indeed the shareholders of the banks that weathered the recent storm well may think that their managers are worth their weight in gold.

Conclusions

Government and regulators need to be confident in the face of aggressive lobbying from the banks. Their role is to put in place mechanisms that discourage excessive risk taking. For example, capital requirements that rise as house prices increase would provide a useful dampener to asset price bubbles. Rather than breaking companies up, the size of capital buffers could simply increase to reflect a company's importance to the stability of the financial system as a whole.

In the UK, greater thought should be given to providing buffers to consumers against a sudden deterioration in the economic situation. The savings ratio and general level of indebtedness should provide an early warning system to people's potential vulnerability and brave chancellors should take early action to dampen over-exuberant spending, particularly if interest rates remain low. Similarly, more policy thought should be given to how to dampen asset price bubbles, for example in housing, in a climate of low interest rates. There should also be a renewed focus on corporate governance, particularly in the financial services sector, to raise the quality and diversity of

management and reduce group-think. Incentive structures should be scrutinised as part of this without necessarily penalising high rates of pay for their own sake.

Kitty Ussher is the former Economic Secretary to the Treasury and MP for Burnley from 2005 to 2010.

progressive taxation in a fiscal crisis

Stephen Brien

This short paper explores some important questions around tax policy. At a time of fiscal turmoil in the UK, we must now ask what tax is for, and what and who should be taxed. We must also look in more detail at whether taxation can be used to minimise socially costly behaviour and support more positive forms of social conduct.

What is tax for?

The primary purpose of a tax system must be to collect the necessary funding for a government to operate. It should do so efficiently and in a way that is consistent with broader policy objectives such as redistribution, economic growth and sustainability. Taxation can also be used to explicitly discourage and penalise certain types of behaviour, such as smoking. However, the tax system's greatest consequences are arguably its unintended impact on behaviour. Hence, the first principle of all tax policy should be a form of Hippocratic Oath — above all do no harm.

What should be taxed?

In choosing what should be taxed, we should start with those sources of tax that have the least damaging economic and social impact. What is taxed today is wealth in one form or another — be it the assets that represent the stock of existing wealth, the income that represents the creation of wealth, or the expenditure that represents the consumption of wealth.

Putting aside the politics of envy, there are some attractions to taxing assets, because it encourages these scarce resources to be used effectively. This approach can be seen as a form of sale-and-leaseback, a means of imposing discipline upon those who hold the assets. However, more and more of the nation's wealth now takes the form of intangible assets — such as financial securities for instance — which are more difficult to tax. Tangible assets represent such a small portion of economic wealth

that relying on them as a major source of tax revenue would require such high rates as to inevitably lead to distortionary effects.

In the long run, income and expenditure represent a larger tax base. Of these, we should emphasise the taxation of consumption, VAT, because it has no impact on post-tax rates of return on investment. Such a tax does not affect savings and investment decisions, unlike taxes on income or capital gains.

The Organisation for Economic Cooperation and Development has demonstrated that this is not just a theoretical argument, but is also borne out in the economic growth rates of different countries:

The results of the analysis suggest that income taxes are generally associated with lower economic growth than taxes on consumption and property.... Property taxes, and particularly recurrent taxes on immovable property, seem to be the most growth-friendly, followed by consumption taxes and then by personal income taxes. Corporate income taxes appear to have the most negative effect on GDP per capita.¹

In order to minimise the distortionary effects of tax, rates of individual taxes should not be so high as to end up reducing the tax take. We cannot therefore rely on only one or two sources of tax. The base of tax should be broad — but how broad?

Who should be taxed?

There is a general consensus that those who can afford it should be expected to pay more. However, the person with the obligation to pay the tax may not be the one who bears the economic cost of the tax. This issue is most relevant when considering choices about how far to tax individuals or corporations.

For example, changing the rate of corporation tax could potentially affect investors, employees or customers, depending on how the company responds to the change. In the very short term, investors are most affected by changing tax on corporations. However, in an open economy the long-run effect of taxes on corporations is to push down wages, because labour is the least elastic of business costs. Declining returns to shareholders lead to capital flight. And increasing prices to consumers make imported goods more attractive.

Yet in most countries, corporations are taxed more than is efficient. Governments fail to recognise that although

corporations may appear to be wealthy, they in fact represent only a source of wealth. This problem has been recognised by the Nordic countries, whose tax base is skewed more towards property and consumption taxes, and away from corporate taxes. This emphasis towards economically efficient taxation is one factor explaining why they have sustained strong levels of economic growth despite relatively high overall tax takes by their governments.

The next question of who should pay tax concerns different groups of individuals. In order to address this issue, however, we need to be much more specific about our broader policy goals and their interaction with the tax system. A key policy objective concerns the distribution of income and wealth across society, which must be balanced against the tax system's primary goal of raising money for the state. We therefore need to think about net transfers, including benefits, as well as tax. And we need to think about both average participation tax rates and marginal tax rates.

A cursory glance at who pays tax and who faces benefit withdrawal suggests that the system as it stands today is not particularly redistributive. Extending VAT to exempt certain items or raising its overall rate is therefore less regressive than it might first seem. However, we should not simply assume that progressive taxation schedules automatically result in redistributive outcomes. In fact, an income tax schedule that maximises the resources available for redistribution would result in very regressive marginal tax rates and outcomes not unlike today's, with our current rates of benefit withdrawal.

How can the tax system be used for better and fairer social outcomes?

The countries that have tackled income inequality most successfully do not have particularly progressive tax structures. Rather, their well-designed benefits systems have been the major factor in achieving these outcomes.² On a policy level, they also prioritise reducing worklessness. However, this makes strongly regressive tax systems which penalise work for low earners much less attractive.

The Centre for Social Justice's work on this issue and that of the Institute for Fiscal Studies demonstrates that it is better to reduce participation tax rates for lower earners. We should now take it further and eliminate employers' National Insurance for those on low incomes so as to reduce the cost of entry-level employment. We could take this a

step further yet by re-considering corporation tax. From a government perspective, companies are good institutions with which to create wealth. They also employ people and they can be taxed. Today, however, we give tax breaks to companies based on their debt and then tax them based on their employees' wages. Why not turn this on its head and create a corporation tax allowance for employment, rather than debt, to the tune of £5,000 or more for each employee? Not only would this eliminate the favourable tax treatment of debt versus equity but it would also encourage investment in and employment of lower-skilled workers, rather than assets or offshoring. This is a single example of the enormous gains to be made from aligning tax with policy goals.

Can the tax system be used to charge for externalities or encourage positive behaviour?

Using taxation to offset the cost of externalities or to discourage certain types of behaviour is relatively straightforward. Setting a tax level for externalities such as pollution in line with their cost to society leads to an efficient tradeoff between pollution and the costs of avoiding it. So-called 'sin taxes' can be set at a relatively high level to discourage behaviour such as smoking, though not so high as to create a black market.

It is much more difficult to use tax policy to encourage more discrete positive behaviour, both because it is usually harder to define 'good behaviour' and because this type of policy works only if it means avoiding the existing penalties imposed on 'bad' behaviour. For such tax breaks to be effective, the tax rate for the alternative 'bad' behaviour must be high, which is probably not a good thing in the first place. Proposals such as tax breaks on marriage therefore send a policy message rather than serving as true economic incentives.

Conclusion

Tax needs to be effective, simple and aligned with the nation's social priorities. It fails many of these tests today and is ripe for reform. Attempts to do too much social engineering with the tax system add unnecessary complexity. They result in a smaller tax base being taxed more highly both to raise state revenue and to sustain the differentials required to create incentives. We need to increase returns from employment, savings and investment,

and reduce marginal taxes on these activities. If taxes need to be raised, we should focus on broadening consumption and property taxes, while avoiding high rates for any individual tax.

Stephen Brien is a partner at Oliver Wyman and chair of the Economic Dependency Group at the Centre for Social Justice.

welfare that works

Mike Brewer

All political parties claim to acknowledge that dealing with the UK's fiscal deficit is of paramount importance, but none is proposing anything but very minor cuts to spending on welfare benefits and tax credits. The public spending plans set out by Alistair Darling in his last Budget have departmental spending falling by 11.9 per cent by 2014–15, but spending on welfare benefits and tax credits growing by 4.5 per cent over the same period. Obviously, ongoing productivity improvements mean that more public services can always be squeezed from existing departmental budgets, but these vastly diverging trends look unbalanced and possibly unsustainable.

In the Institute for Fiscal Studies' 2010 Green Budget, James Browne and I examined options for saving money in the social security budget.³ It was extremely easy to think of cuts that would be simple to implement but very hard for us to highlight any of these as being more desirable than the others, though we found it easy to rank some tax rises as being more desirable than others on economic grounds. Some social security savings would reduce distortions and improve the efficiency of the benefit system, but the main consequence of any cut to social security benefits would be its distributional impact: some actual or would-be recipients would be worse off as a result. Because of this, we suggested that any government looking for savings should be clear on the rationale for cuts, if not on its principles for the whole welfare system.

A simple way to contain the costs of welfare, which shares the pain over a large number of households but which ducks the question about the future of welfare benefits, is to freeze the cash value of all benefits and tax credits. In its extreme form, a freeze over the entire next Parliament would save £24.6 billion a year by the fifth year, equivalent to 1.3 per cent of national income in 2014–15. But such a change would clearly act to increase income inequality and relative poverty.

One rationale for reform might be to focus benefits on those who need it most. A government that removed

benefits from better off households could save £6.5 billion by means-testing the family element of the child tax credit and rolling child benefit into the tax credit system; £1.4 billion from scrapping winter fuel payments, free TV licences and compensating pensioners on the Pension Credit; £0.5 billion by abolishing Carer's Allowance; and perhaps up to £2 billion a year by time-limiting contributory Incapacity Benefit and Employment and Support Allowance.

All these would lead to a benefit system more closely targeting those with the fewest resources, but would increase the amount of means-testing required, which in turn would weaken incentives to work and save and increase administrative and compliance costs. Related to this, measures that are more aggressively means-tested – reversing the direction of benefit reform since 1999 – could save up to £2 billion a year from benefits and tax credits for working-age households and a similar amount from those households with adults aged 60 or over. The next government will also have a key decision to make on when to begin indexing the basic State Pension in line with earnings. The savings from doing this in 2015–16 rather than 2012–13, as the Labour Party has pledged to do, amount to £2.1 billion a year.

What the manifestos do talk more about, though, is welfare to work. What help and support should we give to benefit recipients, how should the state organise, contract for or deliver that support and how much conditionality should we place on benefit recipients as a quid pro quo? Here, there is much consensus, perhaps reflecting that what the three main parties are proposing is a continuation of trends we have seen over the past two or three decades.

The Conservative Party is proposing to combine all welfare-to-work programmes into a single Work Programme, with even greater use of contracting out and payment 'almost entirely' by results, with differential payments to reduce the extent of 'cream-skimming'.⁴

But little of this is different in tone from past government announcements that it will run pilots that combine all welfare-to-work programmes and take steps to move to a single working-age benefit. Similarly, although the Conservative Party seems perhaps a little more strongly committed to contracting out welfare-to-work provisions than the Labour government, such arrangements were virtually unheard of under the last Conservative government, and their importance has increased steadily since 1997. There also seems to be near agreement on the need to move the remaining incapacity benefit recipients onto Employment and Support Allowance – a move which should reduce

benefit spending but does involve conducting many more Work Capability Assessments.⁵ There is also cross-party support for requiring lone parents on benefits to prepare for or look for work once their children are all of school age. And all three main parties have their own none too dissimilar ideas for tackling youth unemployment and long-term unemployment as we emerge from recession.

Several organisations have set out programmes for welfare reforms on a large scale. My own contribution was made as part of the Mirrlees review of the tax system, the overall conclusions from which should be published shortly after the 2010 election.⁶ I argued that we would have a more efficient welfare system if we improved the payoff for working, particularly for groups we know to be responsive to financial incentives, such as second earners. I also argued that the complexity of the current benefit and tax credit system reduces its efficacy in redistributing to those who need it most and in encouraging people to work. Over the medium to long run, we need first alignment and then integration of out-of-work benefits and in-work tax credits; integration of Local Housing Allowance and Council Tax Benefit with the rest of the welfare system; much higher earnings disregards in all means-tested benefits; and individual-level earnings disregards for couples in benefits and tax credits. The Centre for Social Justice used similar arguments to justify a dramatically simpler welfare system with stronger incentives to work.

But the problem with these sorts of reforms is their cost. Being more generous to low earners while cutting spending on welfare benefits means being less so to either non-workers or middle to high earners. For this reason, tax allowances must be cut, Child Benefit means-tested and entitlements to out-of-work benefits scaled back. The Centre for Social Justice presented a package that would cost several billions of pounds, with the true cost depending on how many people are induced to work as a result. So it would not be surprising if the next Secretary of State were more attracted to large-scale reforms that saved money.

One place a future government might look to make savings is compulsory savings accounts. These could be used to fund some benefits currently financed through general taxation. This is similar to the principle of using personal accounts to fund income in retirement, although these are not compulsory, and is based on the fact that a great deal of welfare spending performs one of two functions: insuring individuals against adverse circumstances such as ill-health or unemployment, and redistributing

income across the lifecycle through Child Benefit and State Pensions. Only some is about raising the living standards of those whose lifetime income would otherwise be unacceptably low.

Expecting the private sector to supply insurance products for ill-health and unemployment, as suggested by some, seems unrealistic, as there will almost certainly be some people unable to insure themselves because of the usual problems of moral hazard and adverse selection. But compulsory insurance or savings accounts could act as a replacement for benefits such as the State Second Pension, Child Benefit and Statutory Maternity Pay, Jobseeker's Allowance for short spells of unemployment and Statutory Sick Pay or Employment and Support Allowance for periods of sickness or disability. For example, under a system of compulsory savings accounts, each working age adult would have an account into which mandatory contributions would be made by these individuals and perhaps employers and the government, replacing some or all of National Insurance contributions. Payment of the benefits listed above would deplete an individual's account balance. These balances could furthermore become negative. On reaching the state pension age, negative balances could be forgiven – to provide some form of redistribution – and positive balances annuitised to provide a pension.⁷

The advantages of this derive from the fact that richer individuals would effectively fund their own benefits directly. This would strengthen incentives for such individuals both to work and to not make use of those benefits. It should therefore also allow savings to be made without leading to losers among the poor.

Such a scheme would arguably represent the largest shake-up to the welfare system since Beveridge and may therefore be a step too far. Even if only smaller-scale changes are on the agenda, however, the next government will need to be clear on its wider objectives and distributional goals before deciding how and whether welfare spending should be cut. We should not lose sight of the fact that these are not just fiscal questions – as the National Equality Panel concluded, 'the progressivity of taxes and the levels of benefits and tax credits relative to other incomes are central to overall inequalities. How the public finances are rebalanced will probably be the most important influence on how economic inequalities evolve.'⁸

Mike Brewer is Programme Director of the Direct Tax and Welfare team at the Institute for Fiscal Studies.

a big idea for a post-growth economy

Jules Peck

Arguments that growth and GDP-obsession do little to increase our wellbeing and are fast killing our planet are well rehearsed. This, and the case for moving beyond our current form of corporate, consumer debt-based, growth-dependent capitalism, is no longer the preserve of campaigners and think tanks.

As Thomas Friedman asked in 2009, '[w]hat if the crisis of 2008 represents something much more fundamental than a deep recession? What if it's telling us that the whole growth model we created over the last 50 years is simply unsustainable economically and ecologically and that 2008 was when we hit the wall — when Mother Nature and the market both said — No more!'⁹

Many have added their voices to those questioning growth and seeking alternative routes to progress, including Presidents Sarkozy and Barroso, the Organisation for Economic Cooperation and Development's Angel Gurría, Sir Nicholas Stern, Lord Adair Turner, Prince Charles, Archbishop Rowan Williams and the World Economic Forum, among many others. The crucial message is that growth and planetary destruction are inescapably in lockstep. New technologies and fictional decoupling cannot save us or our politicians from having to contend with some very inconvenient truths about growth.

So what's the alternative?

At least three things are now needed. First, we need a new political narrative, evolved values and a new vision of progress and prosperity. The story of our times is 'bigger is better'. This needs to shift to 'better, not bigger'. Sustainable development is about quality, rather than quantitative growth. New technology alone cannot save us. Only a change in the way we relate to each other can bring about the change we need. We must shift from being passive consumers to active citizens and participants in our communities.

As Booker Prize-winning novelist Ben Okri has said, '[t]he meltdown in the economy is a harsh metaphor of the

meltdown of some of our value systems. Individualism has been raised almost to a religion, appearance made more important than substance. The only hope lies in a fundamental re-examination of the values that we have lived by in the past 30 years.’¹⁰ Vaclav Havel echoes this, saying, ‘it is my deep conviction that the only option is a change in the sphere of the spirit, in the sphere of human conscience. It’s not enough to invent new machines, new regulations, new institutions. We must develop a new understanding of the true purpose of our existence on this Earth.’¹¹

Second, we need a new economics — one that puts people and planet before pounds and pence. Professor Tim Jackson laid out, in *Prosperity Without Growth*, 12 practical steps we need to take to bring about this new economics through policy, regulation and taxation to build a sustainable macroeconomy, enable further economic development and respect ecological limits. Professor Peter Victor has also illustrated with his LowGrow econometric modelling that we can move beyond the pursuit of growth to an economy of near full employment, low debt, high wellbeing and sustainability. And the New Economics Foundation is about to launch a groundbreaking new initiative, ‘The Great Transition’, to model how the UK can move towards such a vision.

Third, we need an updated form of capitalism to support a prosperous transition to this wellbeing economics. We need a new architecture, rules, incentives and norms whereby the market works for us and nature and no longer vice versa.¹²

The political challenge

None of this will happen without the political will to make space for audacious change. There is voter support for government action on these issues. A survey by Globescan in 2007 found that three-quarters of people in ten countries believed their governments should look beyond economics and include health, social and environmental statistics in measuring national progress. Only 19 per cent believed that economic growth alone is the most important measure of national wellbeing.¹³

Surely a failed high growth economy is much more politically damaging than a dynamic equilibrium, lower growth or no growth economy? We stand today at the very edge of the planet’s ability to deal with any more growth. A high growth economy is doomed to boom-bust and terminal collapse. But we are stuck in an economic whirlwind that destroys all around it. The rationale goes something like this.

Economic growth is the paradigm we are in. Why question it? New technology means more efficient use of resources for production but this displaces labour. Displaced labour is bad politics. The unemployed cannot buy products, so this reduces consumption and growth. Therefore, we need more consumption from those left with jobs to create growth to create new jobs and industries. As a result, it is now estimated that the US economy needs to grow 3 to 5 per cent yearly just to stop unemployment from rising.

Former World Bank economist Herman Daly argues that the myth of never-ending economic growth is strongly held and politically entrenched for three key reasons:

Without growth the only way to cure poverty is by sharing. But redistribution is anathema. Without growth to push the hoped-for demographic transition, the only way to cure overpopulation is by population control. A second anathema. Without growth the only way to increase funds to invest in environmental repair is by reducing current consumption. Anathema number three. Three anathemas and you are damned.¹⁴

These shibboleths need pulling down.

The politics

In a recent New Statesman article, Dominic Sandbrook said:

the coming years will bring major ideological clashes over, for example, the best way to reconcile economic growth with environmental responsibility. One thing is missing, perhaps the most important thing of all: the big idea...

Sadly, the three main political parties in the UK are all lacking this 'big idea'. The consensus is that the left and the government are failing us badly on sustainability. Gordon Brown seems to have an immovable ideological block on these issues. Writing in *Greening the Millennium*, political scientist Neil Carter wrote that the Labour Party 'has an ambivalent attitude to the environment... there is a long-standing suspicion that environmentalism is the preserve of the middle classes who, in Crosland's words, want to "kick the ladder down behind them" by focusing on threats to the countryside while ignoring urban decay and the material needs of the working class.'

What of the right? Tim Montgomerie has said recently on ConservativeHome that 'the Conservative Party has always been a powerful political force but if it raids deeply

into Labour territory over the next few years — planting the Tory message deeply into the soil of social justice and green politics we could be talking of realignment'. Cameron's philosophy of social responsibility is a significant departure from the neo-liberal model. But it underpins a familiar call for a smaller state in line with Conservative traditions and in contrast to what he argues is Labour's overbearing statism. Many would challenge the application of this critique to Labour's record in government. The environmental critics of the Chancellor argue that he has intervened *too little*, not too much.

The role of the state is the central issue that David Cameron will need to resolve to develop a policy approach to sustainable development. A 'big society' will not work without government intervening significantly, if only to undo the problems caused by previous governments. As Will Hutton has said, 'the state is not the enemy. Deployed correctly it is our friend. A few Red Tories have got this message. Cameron's regression will set him back, perhaps even costing him an overall majority in 2010.' And the Guardian's Tom Clark has said, 'it is hard to avoid the conclusion that Cameron's flirtation with Red Toryism was no more substantial than Tony Blair's fleeting support for Will Hutton's brand of stakeholder capitalism.' Some would say there still lurks a 'nasty' side to the Conservative Party, which sees progressive politics, equality and sustainability as a threat. Although Tory green policy is solid enough, 'sustainability' without consideration for equality or wellbeing is not sufficient to move beyond a growth-driven economy. And in his recent TED [Technology-Entertainment-Design] talk, David Cameron seemed to display little understanding of wellbeing economics.¹⁵

As we stand at the edge of a change in government, perhaps a change in the two-party nature of British politics, it is the Liberal Democrats whom many see as the consistent leaders on sustainability, with the exception of the Green Party. But none of the mainstream parties has anything useful to say about the challenges of dethroning growth. Only the Green Party has a truly sustainable vision that accepts the thesis of this article. Until the other parties do too, they cannot lay claim to any truly sustainable development territory.

Conclusions

The growth question is so crucial, urgent and complex that unilateral action from one party will be insufficient to effect

real change. A hung Parliament and the cross-party coalition building it would entail could work in the favour of those calling for a new wellbeing economics. But unilateral action taken in the UK to shift beyond growth will not be possible. Other countries in the European Union are considering these areas, but Tory confusion over the EU does not bode well for multi-lateral action on issues such as climate change, let alone more difficult matters such as shifting to wellbeing macro-economics. Consensus from the left and the right on these issues is possible;¹⁶ but it requires our politicians to step up to the plate and embrace this 'big idea' for the economy.

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a low carbon Britain

Tim Smit

We live in a scientifically illiterate society whose secular public face masks an underlying yearning for some form of spiritual succour. The discussion of climate change is surrounded by all the paraphernalia and fervour of a religious movement, but no compelling vision for change has yet emerged from it. Scientists are besieged by the media's demands for scientific certainties, which they give way to only to watch their carefully won reputations unravel in the glare of public scrutiny. The environmental movement itself has failed to create a compelling narrative about the sort of nation or world we should aim for. With a few notable exceptions, such as Jonathan Porritt at The Economist's Sustainability Summit in February 2010, they have also failed to paint the future in anything but a negative light. In the middle are the policy advisors, ministers and media commentators who cannot tell the difference between heat and power. Policy is being set by the few people who do not understand the debate and who may have vested interests; the shamefully slow speed at which the UK embraced feed-in tariffs is a case in point.

Let us take climate change out of the equation for a moment. The UK is a small island nation. Energy security is vital to its independence and wellbeing. But security does not just mean supply; it also means price. At present, our country is intensely vulnerable to the vagaries of the financial markets and of politics. To not control a commodity that so influences our economy and our way of life is deeply politically negligent.

Successive governments have paid lip service to the needs of manufacturing while at the same time talking nonsense about Britain as an emerging service economy. At present we still have the fifth most successful manufacturing sector in the world. We should now commit ourselves to low-carbon technologies and approach the challenge with the same passion as we did the making of the Mulberry Docks in the Second World War. We must send a clear signal about our faith in our ability to engineer a new future and start to build the capacity and expertise with which to

kickstart a second industrial revolution. We must not let glib commentators use phrases like post industrial revolutions — I am guilty of this myself and feel embarrassed by it. This is a full-blooded revolution with the potential to transform the country. What is needed is leadership and the courage to voice a vision of Britain as a low-carbon nation, not because of climate change — the public is not yet convinced by such arguments — but because it represents an enormous competitive advantage and a means to take control of our economic future.

We in the UK hate philosophy in public life. It smacks of affectation. The French, however, do have a philosophy about energy, from which they have derived their energy policy. We have no such policy. In France they know that the future is electric and that this electricity comes mainly from nuclear and hydro-electrical sources, with only a little wind and solar thrown into the mix. French car manufacturers are now going hell for leather in developing electric cars; there is huge competition to build battery-charging stations in towns and villages; and landing slots are being withdrawn for flights between TGV-linked cities. They know where they are going. We need this in the UK.

There are a number of policies we can commit to now. One of the key priorities in the UK should be to upgrade our electrical grid into a smart grid. Every house should have a smart meter and all houses, by law, should be well insulated. Money should be put aside to train people to retrofit the UK's existing and awkwardly-shaped housing stock, as they do in Germany. Nuclear must for now remain part of the picture; we must allow for more facilities to be built at the expense of the suppliers, while at the same time investing hugely in wave and wind technology, and encouraging micro-generation wherever possible. We must support and invest in the electrification of the entire transport infrastructure, from cars to trains, and have an airline policy similar to that of the French. The argument that sustainable energy is uneconomical is spurious and put about by those who support the status quo. The European Climate Foundation's Roadmap 2050 project demonstrates how an 80 per cent carbon cut can be achieved Europe-wide. The UK has an important part to play in this.

Ultimately, the low carbon agenda is important for reasons altogether separate from arguments about climate change. As a society we are tired and jaded. We lack vision and self-confidence and harbour a deep desire for our society to have a meaning and purpose other than consumption. A concerted drive towards energy

independence, with all the challenges this would bring, would provide a compelling social narrative about what we can achieve together. It would herald the birth of an industrial renaissance.

The energy policy and solutions we need have to be judged by values other than simple economics. The trouble with allowing accountants to determine the viability of such a policy is that they will always find some cost or other prohibitive, even if analysis elsewhere demonstrates that the cost of pursuing a low carbon future are essentially the same as that of the status quo, give or take 15 per cent. But every fibre of my being tells me that the real cost lies in not embracing this policy. If Britain fails to grasp this, others will lead the way instead, and we will have lost the most important opportunity of a generation to reinvent ourselves and our economy.

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influencing behaviour and public policy

David Halpern

Most public policy challenges — crime, health, education, climate change and so on — have at their heart the practical objective of trying to get people to behave differently. We want people to restrain from hurting others, to eat more healthily, to reduce their carbon footprint. Yet in recent years politicians have come to doubt the ability of traditional policy tools such as legislation to affect lifestyle habits and are now increasingly looking to the philosophically challenging, but practically useful, insights of behavioural economics for solutions.

Influencing behaviour and personal responsibility

In 2004, the Prime Minister's Strategy Unit published a discussion paper *Personal Responsibility and Changing Behaviour*.¹⁷ This linked evidence of how policy can influence people's behaviour to a larger narrative of personal responsibility. The theme was subsequently — and prominently — picked up on the other side of the Atlantic:

*we must also admit that fulfilling America's promise will require more than just money. It will require a renewed sense of responsibility from each of us to recover what John F Kennedy called our 'intellectual and moral strength'. Yes, government must lead on energy independence, but each of us must do our part to make our homes and businesses more efficient. Yes, we must provide more ladders to success for young men who fall into lives of crime and despair. But we must also admit that programmes alone can't replace parents; that government can't turn off the television and make a child do her homework; that fathers must take more responsibility for providing the love and guidance their children need... Individual responsibility and mutual responsibility — that's the essence of America's promise.*¹⁸

Yet the rhetoric of personal responsibility sits uneasily with evidence from empirical work in psychology and behavioural economics. Laboratory experiments undertaken in the 1970s found that many human actions are driven by

automatic shortcuts, or heuristics, in our thinking. Relatively minor changes in the context or the presentation of choices can lead to big, and at times seemingly irrational, changes in our behaviour. This implies that changing contexts and cues can influence how people react. A string of books, from Cialdini's *Influence* to Arielli's *Predictably Irrational* and Thaler and Sunstein's *Nudge*, has since popularised these findings.

Behavioural change comes of age

If the success of these books is anything to go by, the science and application of behaviour change is here to stay. Whitehall's political elite now understands that there is no neutral stance when it comes to behavioural influence. Any choice of action, including doing nothing, will in some way influence behaviour. Whether they like it or not, policymakers are, in the words of Thaler and Sunstein, 'choice architects'.

The current fiscal context has sharpened policymakers' interest in behavioural economics. They offer the potential to deliver policy outcomes at substantially lower cost and often with better results. For example, many chronic medical conditions are better managed through structured self-care than through conventional medical treatment and hospitalisation, a solution that is also far cheaper. Behavioural shaping could also help save billions in public funding by preventing many policy problems from arising in the first place, including crime, obesity, whether we save for pensions, or whether we recycle.

On a practical level, an important first step will be to work out which effects can be consistently relied on. Commentators such as Tim Hartford have noted that many of the effects of behavioural economics — not least the famous supermarket experiment about how people buy less jam when given more choice — have subsequently proved difficult to replicate.¹⁹ The number of effects and claims is also ever-increasing as researchers document variations on earlier laboratory-based experiments. A recent exercise, commissioned by ministers and the cabinet secretary and conducted by the Institute for Government, reviewed the evidence to establish the most robust of these effects, captured in the mnemonic MINDSPACE and set out in box 1, below.

Box 1

A summary of the most robust behavioural effects that policymakers need to know about²⁰

Messenger	We are heavily influenced by who communicates information
Incentives	Our responses to incentives are shaped by predictable mental shortcuts, such as strongly avoiding losses
Norms	We are strongly influenced by what others do
Defaults	We 'go with the flow' of pre-set options
Salience	Our attention is drawn to what is novel and seems relevant to us
Priming	Our acts are often influenced by sub-conscious cues
Affect	Our emotional associations can powerfully shape our actions
Commitments	We seek to be consistent with our public promises, and reciprocate acts
Ego	We act in ways that make us feel better about ourselves

Not just individuals

Social norms are key factors in behaviour shaping. We are strongly influenced by the actions — real and perceived — of others. It is what psychologists call the 'declarative social norm'. We may not like littering, and know the formal rule that we shouldn't do it, but if we see litter on the ground we end up dropping our rubbish just like everyone else.

So who sets the social norm? Under many circumstances, it is simply 'emergent'. As in the famous experiment in which smoke floods a waiting room, we look to each other to decide how to react — whether we panic or sit calmly depends on what those around us do.²¹ As individuals, it is very hard to change a social norm; but it is something we can do together. Communities, cities or even nations can collectively discuss and decide what they want the social norm to be.

One of the ironies of behaviour change and 'personal responsibility' is that their usefulness as tools in policy setting

turns out to rest heavily on *collective* responsibility. One way out of the moral and political quagmire of using behavioural economics as a basis for policy is to give citizens the ability to decide what the social norm should be and only then to allow politicians and the state to use these techniques where appropriate. In some areas, such as where behaviours cause clear and direct harms to others, and to some extent where children are involved — the literal nanny state — policymakers already have a fair amount of rope.²² But where the effects of behaviour are more subtle, or where the consequences lie mainly with the individual themselves — such as smoking or diet — policymakers need to be given permission to act. If a minister bans Mars bars from checkouts, they will be crucified by the Daily Mail. But if a deliberative forum of citizens demand it, and if supermarkets don't respond directly, policymakers can offer legislation. The policymaker becomes the facilitator of the debate.

Yet the collective, or social, element of behaviour change is much more significant than this. It speaks to the *hidden wealth of nations* — the rich tapestry of human habits, values and relationships that makes economies and societies work.²³ Most of our lives, and certainly most of the factors affecting our happiness, are not rooted in the logic of the 'real economy' but in a largely parallel world of the 'economy of regard' — the world of reciprocal exchange and influence that constitutes our families, friendships and communities. For example, when traditional policymakers look at the aging population and the 'problem' of social care, they worry about the numbers and the costs. But with a little imagination and a tweak in our worldview, this is the kind of problem we can not only address but also harness to create a 'nicer' society. For example, the Japanese have a system of 'fueai kippu', or care tokens, whereby someone who lives far from their own parents looks after someone else's. They can then give the non-monetary credits they receive to their own parents, who can use them to get care from someone closer to home. It is a form of behaviour exchange that not only boosts the total level of care available, but also alters the shape of society itself.

Conclusions

The North American origins of behavioural economics have given it an individualistic and frankly 'economic' feel. But as it is employed on this side of the Atlantic, it is becoming a little softer and more social. It offers the potential to better understand what goes on in our heads and the wider world

of social influence around us, and to harness this for effective change.

The insights of behavioural economics are already quietly changing how we do policy. It will become a familiar part of the policymaker's toolkit in the coming years and as shrinking public finances drive us to find cheaper ways of delivering outcomes. When linked to our growing understanding of *social* influence, behaviour economics offer the possibility of enriching and sustaining our lives and our communities, and even of changing the nature of society itself. No wonder we're talking about it.

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the future of learning

Anthony Seldon

Education should be a delight to the mind and the spirit. Whether at primary, secondary or higher level, it should be opening the hearts and the minds of young people to the wonders and fullness of life in all its dimensions. Yet our children do not want to be at school. They are too often bored and uncooperative in lessons. Parents, who should be actively involved and full of appreciation for the free gift to their children, frequently shun schools, treat teachers with insufficient respect, and are not supportive of school policies on attendance and homework. Teaching is a profession which should attract the brightest and most energetic of young people. Instead, it is hard to get top graduates to apply; when they do, many leave the profession within a few years, disillusioned. Teachers should aspire to being heads, with the chance to lead, inspire and shape an entire school; but too many become disenchanted with the paperwork, the surliness of teachers and parents and many heads' posts remain unfilled. And although volunteering as the governor of a primary or secondary school offers unique opportunities to support learning and teaching, governors' meetings are too often dull ceremonies of paper-checking and box-ticking rather than places of stimulating debate.

Universities, meanwhile, should be full of young men and women revelling in the chance to spend three or four years studying the subject they most love, with once in a lifetime opportunities to pursue sporting, artistic, intellectual and charitable activities. Surveys suggest, however, that many students do not know why they are at university and do not engage profoundly with their subjects. Like many, I once aspired to becoming a university academic. I was captivated by the prospect of spending a lifetime studying and teaching and, in some small way, advancing the frontiers of knowledge while playing a significant part in young people's development through that most sensitive of transitional ages, 18 to 22. As with teachers, however, the profession today is underpaid and disillusioned, and has become the aspiration of the few, not the many.

We need to ask ourselves what education is for. To all three main political parties, it seems to be primarily about maximising exam results. This is understandable. Exams are important ways of measuring the performance of a school and of assessing certain skills. But exams can take the measure of only a small part of a human being. Schools need to have a far broader role beyond simply being exam factories, and it is this vision that is lacking on a policy level.

The time is ripe to launch a fundamental debate about the purpose of education. What is the job of a school? Is it all about metrics? Is it merely a pre-university or pre-job institution to prepare young people for university and work? Or is there a wider purpose? Increasingly, education in Britain is moving towards the former, most recently with Gordon Brown's emphasis on 'skills' and Ed Balls' on 'economic literacy'. The UK's once broad and liberal education is being replaced by instruction; open-ended learning by coaching for exams; genuine worth by league table positions as the sole validator of whether or not a school is doing a 'good job'. With children examined almost every year from the age of 11, it is not surprising that schools have become results-obsessed.

Education should be more than this. We have lost sight of what an inspiring and glorious activity education is. Children are not commodities. Subjects are not devices to facilitate testing. Schools are not factories, or social control mechanisms to keep children off the streets and ensure they have a proper lunch every day. There is another way of looking at the purpose of schooling, which is through the other end of the telescope. Its starting point is to ask what we are as human beings. Are we just intellects who need 'educating', or do our other aptitudes contribute equally to our humanity? If so, do schools have a role in drawing out those faculties and nurturing them?

This bottom-up approach is visible in the work of thinkers such as Kurt Hahn of Gordonstoun fame, Howard Gardner of Harvard University, and the Indian poet and writer Rabindranath Tagore. Guided by their thinking, and drawing shamelessly on their ideas, Wellington College has produced its own model for education. The important point is that it does not focus narrowly on the intellect, but encompasses all areas of human potential.

The basis of this model is the belief that a human being is made up of eight aptitudes, split into four sets of pairs. First are our 'moral' and our 'spiritual' faculties. Human beings are moral agents, though we do not do enough in schools to systematically develop children's moral agency;

and we are deeply and profoundly spiritual beings, whether or not we believe in the existence of a god. It is about the non-material — love, beauty, nature, art and a sense of the transcendent. Both potentialities are ripe for nurturing and exploring. Yet in most schools, they lie dormant.

The second pair of aptitudes deals with the ‘personal’ and ‘social’. ‘Personal’ intelligence is not just about understanding emotions but also about how to optimise the way the body and the mind work. Alongside it is ‘social’ intelligence — the ability to understand other people and to work with them in harmony. This is the aptitude that employers seek more than anything. At core, these two aptitudes are about helping each child discover who they are, what they want in life, and how to enjoy productive relationships. They are about the formation of ‘character’.

Aptitudes five and six are our ‘cultural’ and ‘sporting’ abilities, which are perhaps less well catered for in state schools than ever before. Every child has a cultural aptitude — a potential to dance, act, sing, play an instrument, paint, write creatively — just as every child has physical aptitudes. Sadly, our schools do far too little to develop them. ‘Not enough time’ is not an adequate answer; nor should ‘not enough money’ be. The ‘co-curricular’ in schools is every bit as important as the curricular.

Finally, and I deal with them last deliberately, are the numerical/logical aptitude and the linguistic aptitude. These are far too dominant in our schools. Why? Because they are the only two of the eight that can be readily assessed by exams. Even these are not approached in the broad and inspiring way they could and should be. Too often, lessons become mere exam instruction to the drumbeat of SATs, of GCSEs, of AS levels and of A2s. All of this stifles education.

It is even more important for schools to develop the whole child when children come from backgrounds of lesser means and where they may not enjoy the same opportunities for enrichment and cultural development as others. If such children are fed a diet of exam preparation by teachers who have had their initiative and individuality stripped from them by a regime of school teaching that is mere instruction, then large numbers of pupils will be bored and resentful when they are at school, and under-fulfilled after they leave it.

Those who want to run schools and universities should be telling us much less about structures and organisation, and much more about *education*; about how they are going to trust schools, heads and teachers to do the job; and about how they are going to re-engage the minds, hearts

and spirits of our young people. All schools can learn from those state and independent schools which exhibit genuine and profound commitment to co-curricular activities. If some can manage it, then why not all? This means schools where all children play sport, take part in drama, dance and music, participate in service and leadership programmes, and go on outward-bound activities. At present, such entitlements are reserved for the elite. It will also mean a genuine commitment to taking the wellbeing of all the young seriously. This is not only a question of helping the 25 per cent of school children with significant mental and emotional difficulties but also about helping the others learn to lead flourishing lives. We now have the research to show us how to do this, and there is no excuse. The core lesson the young will learn is that, if they want to be happy, they must take responsibility for their own lives and serve others.

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the state of inequality

Max Wind-Cowie

So long as the gap is smaller, they would rather have the poor poorer

Margaret Thatcher, House of Commons on 22 November 1990²⁴

This provocation is about income inequality in the UK and how a conservative should approach the issue of the widening gap between the rich and the poor.

The Conservative Party has not historically been greatly perturbed by inequality. In fact, as the quote above illustrates, many Conservatives have actively embraced the uneven distribution of resources as evidence of meritocratic reward; those who work hard do well, those who don't do not — thus we are all incentivised to try our hardest. In her final Prime Minister's Questions, Margaret Thatcher was asked how she could possibly be proud of her period in office when she left the gap between rich and poor greater than it had been when she was first elected. It is not the size of the gap that matters at all, she retorted to cheers from her own side, but rather how wealthy those who are at the bottom are.

This argument lies at the heart of a neoliberal view of inequality. It argues that the gulf between the wealthy and the wealthless is meaningless and invests importance only in the ability of citizens to acquire individual worth.²⁵ For at least 30 years this argument has driven the economic outlook of the Conservative Party. From Thatcher to Duncan Smith, this idea has remained a key ideological thread, binding Conservative leaders together.

We need to make a conservative case for revisiting the issue of 'the gap' and, indeed, for caring about it a great deal. We need to paint, for conservative thinkers, a realistic portrait of how we might stay true to convictions about the independence of business, the need for meritocratic reward and the right to acquire property whilst also taking measures to actively shrink the gulf that separates the rich from the poor.

This does mean rejecting some of the thinking of the past. The Conservative Party has, on issues as diverse as gay rights and the environment, sought to embrace modernity

and reflect the realities of the day — this movement needs to be part of the Conservative response to inequality. Fundamentally it means rejecting the Thatcherite apologies for massively uneven distribution. There are problems that are caused by inequality and, until that fact is recognised by conservatives they will remain unable to produce the kind of societal and cultural changes that they advocate elsewhere; stronger and more responsible communities (which lie at the heart of a modern, Cameroon interpretation of conservatism) are more difficult to establish in the face of gross inequality.

Conservatives are also integral to the battle with inequality by simple virtue of the left's failure to achieve their goals in this area. The instigation and expansion of Tax Credits and the Minimum Wage were fundamental to the centre-left's approach to poverty and inequality. Both these measures are deserving of praise — if only for succeeding in placing inequality back on the political agenda somewhat.

However, New Labour has been forced, by the political baggage of their wilderness years of Militant Tendency and unabashed socialism, to water down their commitment to equality in order to avoid 'rocking the boat' by frightening middle class voters. Thus it is only now, in what may be the dying days of a Labour government, that the party has begun to fully and publicly confront this issue. Harriet Harman's Equalities Bill, and John Denham's comment that class is now more important to a person's chances in life than race, are steps toward a reinvigorated centre-left approach but they are both late and are burdened with 12 years of failed policy.²⁶

Because of this political narrative, a modern Conservative Party is better placed to tackle inequality, and better able to adapt to new ideas and new emphases. Conservatives are not burdened with political baggage or tied to one-size-fits-all solutions. Instead, if they are willing, they are free to become the real party of equality; on conservative terms.

Those terms can be defined in the context of three, key principles that must underpin the conservative approach.

- *Visible inequalities matter the most.* The inequalities that people see everyday, that they experience in their lives and that they suffer from at work are the most important. These localised inequalities cause the most resentment, undermine cohesion most directly and are the source of the greatest angst.

- *When the state is the boss, the state must lead by example.* The public sector must serve as the example of how a more equal remuneration policy can work. This is the case both morally, because the state should do the right thing when it is directly responsible, and practically, because it is the area over which the state has the greatest existing control.
- *A nudge needs a stick behind it.* If the state decides that progress needs to be made on inequality then it is right to extend that challenge to the private spheres of business and industry. The aim should be co-operation but, where co-operation is not forthcoming, a reasoned and appropriate system of rebuke must be available.

These principles point to an approach that starts small and starts with the state itself — rather than pursuing a utopian vision and attempting to impose it wholesale on private industry. The first step in realising these principles is to look at the deep-rooted inequities in the public sector, because this is a sector which is disproportionately better paid than its private peersⁱ and because inequality *within* the sector is problematic and getting worse.

A couple of examples: the chief executive of an NHS strategic health authority can earn a maximum of £204,048 a year. When compared with the pay for an NHS employee at the bottom of the ladder — £13,233 per annum — this represents an extraordinary pay ratio of 15 to 1. In local authorities, this pattern is repeated: the lowest salary paid to a full-time employee of Slough local authority, for example, is £12,994 while the chief executive is paid up to £157,479, a ratio of 11 to 1. In practical terms this means that our public sector happily pays a nurse up to 15 times less than her manager. Now, possibly, there is an argument that such enormous gulfs are necessary between the public sector rich and the public sector poor but that case is rather dented by the fact that Britain has an example of a public service (a terrifically well run and demanding one at that) where pay ratios are substantially and deliberately smaller.

In the army, the area of public service where cohesion is perhaps most vital, the pay ratio between the top operational rank (brigadier) and the very bottom (a new entrant still in training) is just 7 to 1. What is more, if one takes into account the fact that most soldiers will quickly move from entrance to the rank of private (as soon as they have completed their training) the ratio shrinks to just 6 to 1. I will leave you to draw your own conclusions about why an organisation that depends on high morale and commitment, and which performs a vital public service in the face of

unparalleled challenges, places such a premium on maintaining a reasonable and equitable gap between its highest and lowest paid.

Inequalities *within* our public sector are as damaging as those between it and the private sector. They hinder morale, undermine commitment to public service and artificially devalue the important business of delivery in favour of the managerialism that has infested the state. The Conservative Party's wage freeze on the highest paid is a good first step but it does not go far enough — we need to start the messy business of actively reducing the wages of the public sector rich in order to reduce the absurd gap between them and the public sector poor. When the taxpayer is paying the wages there is no excuse for its continued bankrolling of excessive and detrimental inequality.

By using these principles to shape policy that retains a conservative basis, while attacking inequality at its roots, the Conservative Party can demonstrate its rejection of fundamentalist neo-liberal dogma and a return to the true One Nation conservatism of Disraeli. What is more, it can use policies on inequality to ensure that the birth of the new society to which Cameroonism is wedded is less painful and more effective. If, instead, they choose to leave inequality unaddressed, the modern conservative project will find itself faltering on the same difficult ground that so weakened the impact of Blairism — the reality that must now be recognised by conservatives is that the whole of their agenda for Britain relies on diminishing the impact of massively uneven distribution.

David Cameron has recognised the necessity of tackling the public sector inequalities — the stated policy of the Conservative Party is to impose a 20 to 1 pay ratio in the public sector. But this does not go far enough — the ratio needs to be reduced to be closer in line with that in the army. But this is only the start, the next government should use procurement to drive down the pay ratios in partner and supplier companies, step by step, to push the benefits outwards and to reduce inequality without using force.

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personal data and public services

William Heath

The UK government has made good progress in how it handles public data such as facts about public finances and statistics. Unfortunately, the same cannot be said of its handling of personal data and identity management.

On public data, the Power of Information review made the powerful case that public data should, by default, be free. The economic benefit from using the data for potential new services far outweighs any benefit from selling such information — and of course taxpayers have paid for it already. The review was followed by a task force led by Richard Allan and with the ministerial backing of Tom Watson. Then we saw the launch of data.gov.uk in 2010 with Sir Tim Berners-Lee and the blessing of the prime minister. That's the scale of effort needed to change entrenched data practices. The process is barely started; there's much further to go.

On personal data — that is, people's personal circumstances, identifiers, and case histories of their experiences with public services including health, education or travel — our progress since 2000 has been lamentable. UK government policy applies the most arrogant and centralised of approaches to personal information and uses a model better suited to dealing with terrorism suspects than ordinary UK citizens. The fact that the state is not at war with its citizens should be reflected in the way in which it treats our information. The UK government should also start to conform to the European data protection and human rights laws by which it is bound.

Let us focus on the question of how government treats data about people's identity, their circumstances and the services to which they are entitled. A new policy on personal data will achieve significant savings and create vast new value, just as freeing up public data is likely to.

Handling personal data: past vs future

The government's handling of personal data is characterised by a long-term desire, typical of customer relationship

management advocates and practitioners, to gather and 'own' as much customer data as possible. Alongside this we have seen a rush to remove statutory and technical barriers to data sharing between centralised databases. One side effect of this has been a series of catastrophic data losses, most notably from HM Revenue & Customs in November 2007. The underlying reality, however, is less dramatic but equally damaging: duplication, omissions and inaccuracies in the data sets result in huge inefficiencies and episodes of error, as well as rank injustices for which government declines to assume any responsibility. The 'customer' — or resident, pupil, job-seeker, patient, traveller — has to spend inordinate amounts of time putting the services back together. The taxpayer picks up all the cost.

Online identifiers vs the national ID scheme

We need to solve the policy and practice of dealing with personal data. First, we need to grasp the nettle of online identifiers for public services. The Cabinet Office's report on transformational government proposed identity management solutions that would 'converge towards biometric identity cards and the National Identity Register'.²⁷

Yet the national ID scheme was conceived by the law enforcement community for a 'bricks-and-mortar' world. It is neither designed nor intended to work usefully for the individual in the rapidly evolving world of online services. The expensive lesson we are learning is that online services with privacy policies designed around the needs of the security services don't make very good public services. That, in turn, does very little to make society any safer. It simply annoys people and wastes money.

The real question to answer is how people can identify themselves online to get convenient and trusted access to services, public as well as private. This needs to be done in a consistent and convenient manner under the user's control and without making everything citizens do online routinely available to officials. It's bad enough that ContactPoint or the NHS summary care record do this; let's not compound the error exponentially by 'joining up' insecure services.

The necessary principles — routinely ignored by Whitehall, though accepted in Scotland and elsewhere — have been stated very clearly by Kim Cameron in his 'seven laws of identity'. Like so much in government IT, the right aspirations exist already in government documents from a decade ago. But the world of identity has moved on rapidly with the interconnection of social networks, the rapid

progress of services such as Google, Facebook and Yahoo, the realignment of credit reference agencies and the emergence of payment services such as PayPal as online identity providers.

We should adopt the US ‘trust framework’ model

In the short term, the UK should build on the Obama administration’s lead. This means announcing that, in future, all access to online government services will take place using a range of third-party – that is, non-government issued – identifiers. This removes government from the role of online identity provider. It allows the state to enjoy the benefits that an innovative, fast-evolving and competitive market can deliver.

Next, the UK needs to cultivate a ‘trust framework’ so that different identifiers are accredited at appropriate levels for different purposes. It’s perfectly acceptable, and often appropriate, that many or even most services continue to be available anonymously. It is only where there is some contractual need to know who someone is that stronger identifiers are necessary. These may be the electronic equivalent of the bank statement or gas bill – confirmation that an individual has a trading relationship with a known large entity – or the electronic equivalent of the ‘know your customer’ process, which depends on face-to-face verification as well.

Personal data – it’s ours

Beyond this trust framework of third-party identity providers lies a simple but radical change in the principle of ownership and control of personal data and how it is used to drive public services. This means changing the basic assumption that it is solely for the organisation to hold, own and manage the authoritative version of people’s personal data.²⁸ A small amount of infrastructure at the individual’s end would allow people to hold the authoritative version of their circumstances, transactions and case records. They can then share it with organisations and with other people at their discretion, seeking external verification if necessary.

Such a technology infrastructure would reflect the reality that it is the individual who inevitably carries but is also best placed to manage the responsibility of integrating all the services – private as well as public – that they use. This development is well described, well understood and imminent.²⁹ There are numerous entrepreneurial initiatives

ready to make this reality; in Europe, examples include Mydex CIC, The Mine, eDentity, Paoga and specific services such as Workdocx or patientsknowbest.

This new 'person-centric' model for personal data management will emerge rapidly, just as search or social technology did on the internet. It does not require government investment, but government does have a critical role to play as catalyst, as the US administration is showing. We urgently need to deploy live trials of services based on independently verified user-driven data. At the same time we must assess the future of user-driven data by different service lines, for example:

- Health services driven by personally held health records, just as control over the 'red book' of perinatal data rests with the mother. This allows integration by the patient of NHS data (records, appointments, prescriptions) with complementary care and with information on diet or exercise, which affects health but has nothing to do with the NHS.
- Personal, portable education records. Today we are building central records of every child's educational achievement (as well as their disciplinary record and propensity to obesity). Post-election, the Dept for Children, Schools and Families should rapidly decide on the suitability of personal portable education records to support life-long learning. These would be controlled by the individual (or a third party on their behalf) and allow people to record and manage their own achievements in school and elsewhere.
- Other user-driven services. We need similar policy decisions from the Dept for Work and Pensions, HM Revenue & Customs and the Dept for Communities and Local Government about welfare entitlements and other services driven from personally held and externally verified records of financial status. We should ask the Office for National Statistics whether the £500m decennial census continues to be necessary and good value, or whether government statistics could soon be driven faster and more cheaply by volunteered personal information. This could give us a census every 10 minutes if people wanted.

By the end of 2010 we should ensure that there are at least two live prototypes across multiple organisations where service users volunteer personal information to inform and drive a variety of public and private services. Drawing on a growing range of online verification services, this approach will deliver far more utility, value and trust than the troubled national ID scheme. There may be a revived role for the

national ID register as a voluntary service offering stronger online verification as part of a trust framework, for the most demanding cases. A first priority for the Identity and Passport Service therefore should be to produce a business case for this.

The cost of these prototypes would be so low as not to trouble the £100,000 the Official Journal of the European Union/World Trade Organization threshold. At the same time, we must evaluate the role for emerging online verification services, and the effect of user-driven volunteered personal information on fraud control, personalisation, political feedback and trust in online services. There is a huge amount to gain and a huge amount to learn on the way.

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getting more for less in public services

Jonty Olliff-Cooper

Our public debt is hitting Armageddon levels... even the dark years of the mid-1970s and the early 1990s may look like days of wine and roses quite soon... any managers of a public service who are not planning now on the basis that they will have substantially less money to spend in two years' time are living in cloud-cuckoo-land.

Steve Bundred, chief executive of the Audit Commission

The next 20 years will be the most turbulent but exciting period for public services since the 1940s. The reason is of course the UK's astronomical budget deficit, which in March 2010 reached £14.8 billion.³⁰ The implications for public spending are severe; according to the Institute for Fiscal Studies, total public spending over the period 2011 to 2014 will be £37 billion lower than in 2007 alone.³¹ Middle-class tax credits, child trust funds, quangos, senior civil service pay and pensions, fast jets, regional development agencies and ID cards are all candidates for the chop.

Government business advice services — which only half a per cent of businesses in the UK either use or value,³² universal child benefits, free entry to museums, arts funding, free prescriptions, bus passes, TV licences and swimming concessions, capital spending, high-speed rail and Trident may also find their way onto the executioner's list if public finances deteriorate further.

There are efficiency savings to be made, by publishing government spending online, as is already standard in many places in the USA; providing financial incentives to managers to cut out waste; and improving contracting practices. For instance, simply channelling all public contracts through a single website where they can be scrutinised and duplicates spotted saves South Korea \$2.6 billion a year.³³ But belt tightening alone will not be enough because the real crisis is not the immediate fiscal disaster but the new policy challenges now taking shape.

We are witnessing an explosion of social policy issues including an ageing population, anti-social behaviour, obesity, youth unemployment, welfare dependency,

addiction and binge-drinking, and environmental over-consumption.³⁴ These represent a different kind of problem to those that governments have faced before. 'Human' problems such as these are as varied as human beings themselves. There is no single way to deal with a person's depression or obesity. For this type of problem, the solution will be different in each consulting room, classroom or local council. The concept of 'best practice' becomes second-best practice, a cookie-cutter approach, which blinds public service providers to the real needs of the person in front of them.

Of course problems such as addiction have always existed. But only decades ago, prior to the birth of the welfare state, the more pressing issues revolved around meeting the demand for public commodities: building enough houses, training enough nurses, constructing enough motorways. This era's governments were right to centralise their work to meet this demand efficiently. 'Human' problems were neither as pressing nor so widespread.

The opposite will be the case in the next decade. While we have a greater capacity than ever before to address commodity problems, we are still no better at dealing with human ones. By 2050, according to present trends, obesity alone will cost as much as the entire schools and universities budget does today.³⁵ One in four children born today will live to 100.³⁶ If we do nothing, within 20 years simple demographics will cause the NHS to become four times more expensive than it is today.³⁷ Yet we can barely afford to support the NHS as it is.

Government must innovate radically to avoid going bust. But these challenges can only be addressed if policy-makers stop assuming that they know better than the rest of us. If the history of recent reform has taught us anything, it is that modern social problems are too complex, subtle and variable to be solved by any centrally devised plan, however sophisticated. Since 1997 we have seen non-stop public sector reform. It has arguably been, with the exception of Iraq, the most prominent political issue of the last decade. Certainly there have been some improvements, but given the enormous effort expended, the results have been largely disappointing. Despite the vast sums of money poured into public services, we still do not have the schools and hospitals we need.

The lesson is not that policymakers just need to try harder. It is that today's technocratic approach is not working. Centrally driven answers simply cannot solve

today's complex social policy challenges. The best policymakers in the twenty-first century will therefore be those who do not claim to know what the right answer is, who do not waste time hunting for silver bullets, but instead recognise the limits of their knowledge and focus instead on finding ways to unlock the energy, ideas and enthusiasm of those outside government.

To achieve this, the following four things need to happen. First, we need to free public services from Whitehall, allow choice in the public's access to services, and increase the accountability of public servants through direct elections or radical transparency, by opening performance data to public scrutiny online. Existing examples include Conservative and Liberal Democrat proposals for so-called 'Swedish schools', directly elected police commissioners and sites such as <http://heartsurgery.healthcarecommission.org.uk/index.aspx>, which allows surgeons and the public to compare surgery survival rates, share innovative techniques and detect malpractice faster. Survival rates have improved year on year since the data was first published, rising from 93 per cent to 98 per cent between 1999 and 2007.³⁸

Second, we need new models of organising that give public servants greater autonomy and allow them to learn from the latest innovations from cutting edge businesses. A striking example is Brazil's Semco, which has no permanent CEO or centrally devised strategy. Staff set their own hours, salaries and job titles, make democratic decisions about their own workplace and even hire their own managers. Semco has grown by an average of 27 per cent a year for almost 20 years. Staff turnover is just 2 per cent.³⁹

Third, government should endeavour to look at issues from a user's perspective. Techniques drawn from the design world and new technology provide a means of leveraging the knowledge and point of view of service users much more accurately and go beyond what policymakers term 'co-production'. One example is that of the US Army, which is rewriting its field manuals on a wiki open to all serving soldiers in Iraq and Afghanistan, rather than relying on the outdated knowledge of retired generals and military academics.⁴⁰ British groups like SILK, Thinkpublic and Participle are using design techniques to help citizens create new public services and provide better provision at lower cost by addressing their real, not perceived needs.⁴¹

Finally, future public services will have to be much more open about possible solutions. New methods of procuring, such as NESTA's Big Green Challenge prize,⁴² which offered £1 million for community-led ways of reducing

carbon, or Washington DC's Apps for Democracy competition,⁴³ which released data and offered small prizes for its reuse, saving the city \$2 million for just \$50,000 investment, are essential to meeting the challenges ahead. As Tim O'Reilly has put it, government should be like the iPhone.⁴⁴ At first glance, the iPhone is not the best on the market. It does not have the best battery life, or the smallest handset. But it has captured the market because of all the amazing apps created by others that can be added to it. Public services should be the same, a platform and the very best leg up to help you do what you want to do. What this all adds up to is nothing less than a revolution in our public culture, turning government inside out. Given the scale of the challenge which faces us, there is no alternative.

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