

Think Piece

In the public interest:

The role of the modern state

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Policy Series



In the public interest: *the role of the modern state*

All societies across the world have some kind of state - the question is not whether the state should play a role in society, but what sort of role that should be. Neoliberalism, the dominant political orthodoxy since the 1980s, views the state as primarily the defender of national sovereignty, protector of private property, and maintainer of social order. Under neoliberalism there is no role for the state in promoting sustainability, social justice or technological progress. Initially the financial crisis of 2008 seemed also to be a crisis of neoliberal thinking, but the implications of neoliberal failure upon the role of the state were never seriously debated.

Too often, the left has succumbed to the 'small state' arguments of neoliberalism without considering rationally the appropriate role and place of the state in a 21st Century economy and society confronted with major problems. Five years after the financial crisis, and with an ecological crisis looming, it is time to ask how a modern state can play a major role in securing social and ecological justice.

This paper was commissioned as a core part of a series that will seek to address these issues and creatively explore the role of the modern state.

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In 2010, Prime Minister David Cameron announced he was imposing cuts to government spending out of necessity rather than from “some ideological zeal”. Three years later, he had changed his mind and made clear that his party intended to go further.

“We are sticking to the task. But that doesn’t just mean making difficult decisions on public spending. It also means something more profound. It means building a leaner, more efficient state. We need to do more with less. Not just now, but permanently.”¹

Whoever wins the next election is projected to inherit a deficit of nearly £80 billion². Paying for borrowing will be the third largest cost to the government after spending on welfare and health. So far, Labour has accepted that the straitjacket of further cuts; ‘more with less’ will dictate the way ahead. In theory, the state will shrink regardless of which party is in power. That makes it all the more urgent that the prevailing neoliberal mould is broken, a new social contract is urgently forged, and a positive narrative developed as to the function, capabilities and extraordinary resources that a proactive state can command.

These resources allow the state to prioritise early intervention budgets not crisis spending, promote growth and innovation in a revitalised public sector, invest in research and development, ensure social justice, and dramatically improve the civil service and the way in which government is run. The state must refocus and instead mine the abundance of assets of people and communities at local level too long disregarded by the mandarins of Whitehall whom, traditionally, have always believed they know best. How this shift to a 21st Century modern state could come about is what this policy series intended to address. Five papers by leading academics³ have explored various elements of the modern state, while this Think Piece will seek to creatively explore the role of the modern state.

Any strategy to redefine the modern state must surely begin with a clear understanding of how deeply neoliberalism has got under the skin of civic life, commodifying too many aspects of the social realm. And second, how the state, since Thatcher’s era has, at times gorged itself on its own managerialism. The promotion of ‘choice’ and competition in the name of neoliberalism has been to the detriment of the common good. On occasion, taxpayers have been turned from active citizens into passive disgruntled consumers,

rarely satisfied by what 'the market' in the public sector has to offer and undermining the value of vocation in the process. This is part of what Ben Page of IPSOS Mori calls 'retail politics' or – 'I will give you this – or that, in return for your vote'. But austerity dictates that it is time for a different kind of political settlement.

As the work of French economist Thomas Piketty has lain out⁴, capitalism as presently constructed has a fatal flaw. It cannot deliver on the vital promise to ordinary people that if they strive, their standard of living will improve and their children will climb the ladder of social mobility. Instead, Piketty argues capitalism's default setting is to accumulate capital for the already wealthy. So, the progressive politician cannot simply act as retailer, selling increasingly sparse and inadequate state services to the electorate. He or she has an imperative to address, not just a cost of living crisis, but to deliver a convincing and robust narrative – anchored in appropriate policies – of the shape and terms of a fairer society. One in which capitalism is constrained from its own worst excesses and in which the public sector, trade unions, universities, business and industry forge a new collaborative alliance. One in which they work together, guided not simply by sectional interests but also by an awareness of the value of the common good and its direct relationship to a strong economy. Such an alliance is much more likely to stop capitalism collapsing in on itself than the current political agenda can hope to achieve, an agenda that is resulting in the erosion of average incomes, rising inequality and a deepening sense of insecurity, even as it speaks the language of revived growth.

At the turn of the 20th Century it was Republican President, Theodore 'Teddy' Roosevelt, wedded to American individualism and the right to turn a profit, who saw the profound danger to "the common welfare" presented by unfettered capitalism. Roosevelt recognised how unbridled greed destroyed legitimate competition to build corrupt monopolies. "An immense gulf had opened between the rich and the poor; daily existence had become more difficult for ordinary people and the middle classes felt increasingly squeezed", writes Doris Kearns Goodwin, author of *The Bully Pulpit*⁵, a book whose resonance with current times has allegedly impressed Labour leader, Ed Miliband. Roosevelt promised the electorate a 'Square Deal'. He broke up cartels such as John Rockefeller's Standard Oil Company and, without a scintilla of defensiveness, redefined a role for the state that made sense to the electorate. "We Progressives believe that human rights are supreme over all other rights", Roosevelt said, "wealth should be the servant not the master of the people".

Thirty years after Roosevelt, capitalism was once again succeeding in dismantling regulation. William Davies⁶ explains how, from the 1930s, the Chicago School of Economics and its exponents, taught and trained many lawyers, developing an increasingly laissez-faire framework for jurisprudence in the process. “The question of ‘just or unjust’ became replaced by one of ‘efficient or inefficient’”, Davies writes. As a consequence, areas over which it is difficult to set a market price, but that nevertheless need to be protected in a vibrant healthy state – such as trust in democratic transparent institutions, the value of a sense of vocation in the public sector, and the right of children to have a healthy start in life – have been subsumed. “Metrics based around market price end up dictating values beyond the limits of the market,” notes Davies. For years there has been no serious political challenge to this neoliberal recasting of the rules. Short-term competitiveness and economic growth for the benefit, too often of the minority, have been prioritised over quality of life.

The late Stuart Hall captured the prevailing view of proponents of neoliberalism when he wrote, “state intervention must never compromise the right of private capital to grow the business, improve share value, pay dividends and reward its agents with enormous salaries benefits and bonuses”⁷. This belief in the primacy of the market, and its alleged capacity to self-correct, has gone hand-in-hand with faith in “trickle down” economics – a theory which has been adept at silencing critics of neoliberalism. As the rich grew richer, so, ran the theory, we would all benefit. That has patently not been the case. In the USA, for thirty years and more as enormous wealth has continued to be accumulated at the very top, the wage of the ordinary man and woman has flat-lined or declined.

It was Henry Ford who realised that his workers weren’t only employees, they were customers too, and in doing so raised wages to an unprecedented high of \$5 a day. In the UK, the think tank the Resolution Foundation, estimates that the fall in earnings since the downturn may be as high as 30 per cent⁸, if the very low earnings of the 4.5 million self-employed are included in employment measures. The return of inflation and the possibility of a rise in interest rates puts an even greater strain on the pound in the average pocket. A record number of people – 30.6 million – are now in work in the UK but inflation at 1.9 per cent far exceeds earnings growth of 0.7 per cent. For six successive years, the living standards of British families have fallen.

For years, distraction from this monumental failure of the neoliberal project has been provided by the charge of 'statism' and the demonisation of the 'nanny' state. Margaret Thatcher was a particular enthusiast. In 1945, she had read Hayek's *The Road to Serfdom*⁹. Hayek was in favour of a small state, no centralised control, low taxes and privatisation. In his view, collectivism led to socialism and totalitarianism. Unemployment was the price for keeping down inflation. For almost forty years, until Thatcher's arrival in 1979, and the initiation of what Pope Francis calls the tyranny of "unfettered capitalism"¹⁰, the Labour and Conservative parties had been in Keynesian agreement that a major function of the state was the maintenance of full employment. Thatcher disagreed. She used £70 billion of North Sea oil to pay for the unemployment benefits of 3 million, as she attempted to put Hayek's views into practice.

Hall explained the view of the state Thatcher sought to put into practice when he wrote,

"According to the neoliberal narrative, the welfare state mistakenly saw its task as intervening in the economy, redistributing wealth, universalising life-chances, attacking unemployment, protecting the socially vulnerable... Its do-gooding utopian sentimentality enervated the nation's moral fibre and eroded personal responsibility and the over-riding duty of the poor to work."¹¹

Thatcher's application of Hayek's values adhered exactly to this sentiment. The 'nanny state' was strategically undermined in favour of the market. Changing the negative story that has manacled the state and inhibited the articulation of a bolder vision is vital. No government since Thatcher has sought to coherently re-articulate a new role for the state in relation to the market. New Labour – despite implementing a significant number of positive social programmes such as the National Childcare Strategy – did not question the orthodoxy of neoliberalism. The market, it believed, was the most efficient catalyst for reform and ensuring the public good.

The creation of a new style of government for the 21st Century, neither in hock to the City nor wedded to central planning is essential, as is an even stronger anchor in a more democratised public sector. And it is popular. Two-thirds of respondents in a poll last year supported the nationalisation of energy and rail companies, for instance, including 52 per cent of Tory voters¹². The failings of G4S, Serco and Atos have not gone unnoticed. In a recent report, Hilary Wainwright¹³ says a process of remunicipalisation is taking place. In the UK, half of 140 local councils have brought services back from the private sector¹⁴. In Germany by 2011, the majority of energy distribution networks had

returned to public ownership¹⁵. EDF is wholly owned by the French state and runs the UK nuclear generator as well as handling 5.7 million customer accounts. The state is demonstrably capable of efficiency and fairness.

Reclaiming what the state has achieved, often against the odds; admitting to its current failings, not least its natural tendency to accrue power and delay change; and considering how the state's fresh energies can be released, are all part of recasting the modern state as a catalyst for positive social transformation. A capability demonstrated in 1945 and promised in 1997. Labour leader Ed Miliband's proposed bid to 'reshape capitalism' includes a freeze on energy prices; a limit on the size of retail banks; a change to pension tax relief; and the reinstatement of a 50 per cent top rate of income tax. Other measures focus on support for redistribution by urging major companies to improve pay; and using the lever of billions of pounds of procurement by the state to ensure a fairer deal. Yet Labour still treats the state as an embarrassing and unwanted guest at the table. Politics continues to be set in a neoliberal framework.

The reasons why are self-evident. The Hayekian 'cure' for the state - more competition, more privatisation; more metrics, more reorganisation and targets - in tandem with a constant flow of criticism of its very existence - has been crippling. For example, in 2012, research by the Fabian Society revealed that the top three words the public associated with their experience of public service were, "frustrated, powerless and ignored"¹⁶.

The state is responsible for both the abstract and distant in peoples' lives - public spending, laws and matters of war - and the very personal such as health, housing and schools. Since the 1940s, the state has been judged by its constraints, when frequently, given the lack of commitment to social investment, its achievements have been striking as Andrew Cumbers¹⁷ and the late Tony Judt¹⁸, have both explored. In 1996, for instance, in the last year before British Rail was privatised, while France's rail had a subsidy of £21 per head of population and Italy £33 per head; in Britain, it was £9 per head¹⁹ and the Treasury demanded a 10 per cent return on investment on the electrification of England's East Coast Mainline. Public appetite for a nationalised railways system is back and it's not difficult to see why. It wasn't public ownership that failed in post-war Britain, it was a lack of commitment to its potential and an absence of high-quality talent trained to maximise its usefulness to the nation.

To give another illustration - John Allen and Michael Pryke at the Open University have examined the accounts for Thames Water for 2007 to 2012²⁰. Privatised twenty-five

years ago, serving 13 million customers, in three of those five years, investors took more dividends out of the business than it rose in profits after tax. Debt has doubled to £7.8 billion in that period. Allen and Pryke conclude, “A mound of leveraged debt appears to have been used to benefit investors at the expense of households and their rising water bills”²¹. According to the Consumer Council for Water, Thames is near the bottom of its table for water and for sewerage services, while the not-for-profit, Welsh service, Dwr Cymru, ranks at or near the top for everything.

Public ownership looks to the long-term. In contrast, the UK business obsession with short-term share price increases encourages behaviour that can be immensely damaging. Economist Andrew Smithers²² argues that corporate resources invested in share price manipulation through stock buyback rather than genuine innovation is inhibiting the economic recovery, and that this is incentivised by executive bonuses linked to share price increases. As Luke Hilyard of the High Pay Centre says²³, this explains why business investment in the UK is lower than in France, the US, Germany and Japan and why our few remaining world class companies are concentrated in the financial services and commodity extraction sectors.

In this climate, the shareholder has become despot. Between 2001-2010, the top 86 UK companies included in the European 350 index distributed 88 per cent of its profits to shareholders through dividends and share buyback. Seventy years ago, the average holding period of shares was eight years. Thirty years ago, it was four years. Now, it is nanoseconds, while – with exceptions in the creative industries – investment in research and development is dire. Here is a prime example of the short-termism of markets being prioritised above the wellbeing and progress of citizens. Those at the top are rewarded for this short-sightedness. According to the High Pay Centre²⁴, in 1979 bankers and heads of industry earned 14 to 15 times the average wage. Now it’s 133 times. The average CEO’s ‘package’ last year was over £4 million. The rewards for the richest don’t end there. The top tenth of the 1 per cent of taxpayers has 36 times as much income as the average wage earner but gains 86 times as much through beneficial tax arrangements through pensions and mortgage relief; an upside down tax welfare state.

Neoliberalism’s curse is that it may loathe the state but it can’t operate without it. A salient example is working tax credits that come directly from the pockets of the public and allow companies to boost their profits by permitting the payment of unacceptably low wages. 5 million in the UK earn below the Organisation for Economic Co-operation

and Development's definition of low pay, currently £7.71 an hour. As the Resolution Foundation has shown²⁵, in a number of sectors, among them banking, construction, computing and food production, it is possible to pay the living wage (£7.65 outside London, £8.80 in London) without an undue impact on profits.

Again, in the financial crisis of 2008, it was the state that came to the rescue of neoliberalism. According to the National Audit Office, by the end of 2009 alone, the crisis had already cost the UK Treasury £850 billion or 60 per cent of GDP. Britain's public debt roughly doubled as a proportion of GDP – a scale of mismanagement never committed by the state however “bloated” and inept. Extraordinarily, the experience has accelerated rather than curtailed neoliberalism, now dressed in the sackcloth of austerity. The damage continues. The demise of the trade unions and the axing of wage councils, for instance, not only decimated collective bargaining, imperative for any fair recovery, but have also laid waste to a network of community life, for example, in working men's clubs, credit unions and mutuals. The current market in Britain, subsidised by the state, is ‘working’ but at a high cost to employees, families and communities.

The terrible irony of the last three decades, under Labour, the Conservatives and the Coalition, is that the effort to minimalise regulation, weaken trade unions and liberalise the financial markets, has patently failed to propel modern capitalism to greater heights. On the contrary, when even the International Monetary Fund disputes right wing politicians who claim inequality is an incentive to the rich to make more and a spur to the poor to work harder, the project is in deep trouble. Economist Robert Skidelsky writes²⁶, “modern capitalism inflames through every sense and pore, the hunger for consumption. Satisfying that hunger has become the great palliative of modern society, our counterfeit reward for working irrational hours.”

First in the US and now in the UK, that “counterfeit reward” has disappeared, for all but the few. According to the Office for National Statistics (ONS)²⁷, a typical full-time worker currently has a salary of £517.50 a week, in real terms just £1 a week more than in 2002, while the cost of living has soared. The resuscitation of the economy is a very partial affair. Since 2003, economic growth has decoupled from earnings. According to the ONS²⁸, output per man hour in the UK is 21 percentage points below the G7 average – the biggest productivity gap since 1992. Britain is 30 percentage points less productive than Germany, France and the United States. We are becoming a low-productivity, low-wage economy, with desperately poor exports. Our ‘flexible’ workforce is enabled by underemployment that wastes talents; while a lack of training bodes ill for the future.

Meanwhile, according to the Institute for Fiscal Studies²⁹, unless there is change, the number of children in poverty in one of the most affluent countries in the world, will grow by an additional 400,000 over the course of this parliament. This is not only appalling in its own right, it is detrimental to society and the economy. As Özlem Onaran argues³⁰, growth which is not matched by an increase in wage levels is not sustainable. Keynes said that capitalism couldn't survive if its workings are reduced to furnishing the wealthy to become wealthier. His warning has been overshadowed by the message that we must have a flexible workforce, short-term contracts, zero hours and underemployment – or jobs will go to other parts of the globalised economy.

Yet workers in German factories are paid thirty times those of the Chinese and twice their American competitors³¹. The reason is that the German state has invested heavily in research and development, strong technical education, advanced machinery, workers' representation on boards and regional banks that provide local support. It is imperative that the British government look to and learn from examples such as these. In 1977, the Bullock Report³² in the UK proposed a form of workers participation or workers' control – all boards of companies with over 2000 employees would have a right to have representation for workers. The report was strongly opposed including by the City Company Law Committee who argued that shareholders are the “owners” of the companies, “those who provide the capital”³³. The opportunity presented by the Bullock Report should be revived, acknowledging the central role trade unions play in securing fair wages and decent conditions.

At a micro level the state, directed by the neoliberal agenda, also falls short. It needs to see citizens as whole individuals with assets and a sense of agency, not clients whom passively and sometimes punitively receive its services. In 1942 the Beveridge Report³⁴ famously identified five “Giant Evils” in society: squalor, ignorance, want, idleness and disease. Crucially, Beveridge also saw the recipients of the new welfare state as agents in their own lives. The report endorsed a commitment to co-operation between the state and the individual. By his third report, published in 1948, Beveridge was voicing his concerns that he had both missed and limited the potential power of the citizen. The state had a leading role but there was also “the room, opportunity and encouragement for voluntary action in seeking new ways of social advance.... services of a kind which often money can't buy”³⁵. In his book *Good and Bad Power*, Geoff Mulgan quotes Lao Tzu, “The good leader is the one that the people adore; the wicked leader is the one the people despise. The great leader is the one that people say, ‘We did it ourselves’”³⁶.

The organisation Participle provides a useful example of how the state can fulfil the vision set out by Beveridge at the foundation of the welfare state. In a programme called LIFE³⁷, established in 2009, now ended, it worked with families in Swindon with complex needs that it was estimated cost the state £250,000 per family per year. One not untypical family was in receipt of 73 services working out of 24 departments. One social worker spent 86 per cent of his time filling in forms and meetings with other professionals about a teenager in the family; managerialism triumphed. Participle redesigned support in a way that has vital lessons for the state. It sees individuals as having attributes; they are more than a bundle of problems, no matter how complicated and chaotic their lives. It sets goals; provides strong consistent relationships and adopts a holistic approach; a welfare state that enables not disables the individual, milking him or her of resilience in the process. The old fashioned transactional state operates on the notion that if a variety of professionals fix the separate parts – truanting, rising damp in the house, debt, diabetes, unemployment – the whole will come together as a model citizen; except that approach only accentuates the atomisation of the individual. The modern state at a micro level, reflected in the public sector and the welfare state, needs a different ethos that enables it to work with citizens in collaboration, not against them in the competitive conflict of the market place or as the disapproving dispenser of benefits.

An ageing society requires strengthened communities, fresh ideas. Mick Ward, head of commissioning for adult social care in Leeds³⁸, for instance, has shown what can happen when budgets are pooled, the approach is intergenerational and older people are treated as engaged and active members of the neighbourhood with a wealth of knowledge. Day centres have been closed and re-opened as community hubs with connections to local schools and organisations. Older people remain independent for longer; the quality of life has been raised – but the state, influenced by a neoliberal outlook, has yet to work out the metrics of such savings. What price on a happy life? These are areas of civic health that fail to count in a neoliberal climate, where the efficiency of the market is prioritised above all else. A reframed narrative about the state must acknowledge the link between the mental and physical wellbeing of citizens and economic growth and the prosperity of markets.

An opportunity for a genuinely participatory, challenging, creative and active citizenship requires something different from the state than the retail politics of selling ‘the offer’ to the electorate in return for power; and a more robust story than the obscure rhetoric now growing around ‘power to the people’ and the “the relational state”³⁹. Brazilian professor Roberto Unger, former minister in Lula da Silva’s government, believes that equality in

society is too modest a goal; every man, woman and child can aim for “a higher life”⁴⁰. Unger describes a very different role for a state “energised” from the top down, as well as the bottom up. The state provides a universal minimum and at the other end of the spectrum, it provides the most expensive and complicated services:

“However in the broad area between this floor and the ceiling the state should engage independent civil society not for profit but in the experimental and competitive provision of public serves without ever endangering the universal minimum...it represents the most powerful provocation to the independent self-organisation of civil society outside the state....” ⁴¹

That concept is no more fanciful than the notion of a National Health Service free at the point of delivery to taxpayers in the 1920s – so how can it be brought about? The state is already innovative and proactive as Mariana Mazzucato eloquently argues⁴², investing in green tech, for example and the technology in the US that lead to Apple and Google, but it needs to be less retiring about its achievements. State banks such as Germany’s KfW bank and the Brazilian development banks work well; it is time they were emulated in the UK. House building, social housing, the provision of social care, free universal childcare are all areas in which the state could play a vital innovative role. By ensuring supply and not just subsidising demand; upholding universal standards of quality and rewarding entrepreneurship, including in the development of co-operatives, mutuals and not-for-profits; the modern state can lead the way.

A progressive modern state may allow boldness about the importance, for instance, of benefits. Professor Andrew Sinfield⁴³ points out that countries with lower rates of poverty tend to have maintained universal systems with more effective preventative strategies. A decent level of benefits enables people to cope and plan more easily when faced with uncertainty and loss of earnings. A national minimum income is vital. “The preventative value of a decent social security, automatically stabilising demand, helping to maintain consumer spending and so employment, is considerable and must not be neglected as it has been,” writes Sinfield.

William Davies⁴⁴, poses the ultimate challenge for the dynamic modern state – what is it for? How can it resolve the tension between the individual and the collective? How can it constrain the most powerful and restore the value of the common good? “The problem of politics is that individuals are both private, isolated actors, with tastes and choices and part of a collective with rules and authorities,” he writes. “An alternative answer to this

riddle needs to be identified other than simply more competition and competitiveness, in which isolated actors take no responsibility for the collective and the collective is immune to the protestations of those isolated actors". Just as the neoliberal lawyers redrafted the rules to the benefit of the "free" market, it is time to redraft the social contract and re-assert the positive contribution a modern state can make to the establishment of new forms of a political and social economy.

Jon Cruddas has referred to the importance of "a political sentiment"⁴⁵. "Transformative politics is about voicing what people know and feel but struggle to find words for," he says. It happened in the 1940s when the NHS was born, homes built, work provided, major utilities nationalised and wide scale deprivation tackled. Today, that political sentiment is much harder to discern when political disengagement is so high and trust in Westminster so low; when new social institutions are not so much rare as poorly recognized, and pollsters and focus groups give a dubious voice to the electorate. Nevertheless, as Keynes wrote in 1926⁴⁶, "we do not dance even yet to a new tune – but change is in the air". A state with a strong ethos and clear remit has to be a part of that change since little else has the power to fight off the worst excesses of a global capitalism that is malfunctioning, fashioned by the creed of neoliberalism that has been found so wanting.

All of the policy papers in this series will look at the questions raised in this Think Piece and will attempt to locate a path forward for a new role for a modern state.

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