

RANDOM HOUSE  BOOKS



The State to Come

Will Hutton

CONTENTS

Cover

About the Author

Also by Will Hutton

Dedication

Title Page

Preface

1 The Strange Rebirth of Liberal England

The State We're in Now

The Ideology Behind It All

The Decline and Fall of Conservative England

2 Why Markets Go Wrong

Why Contracting Gets in a Fix

The System in Action: The Labour Market

The System in Action: The Financial Markets

Some Evidence - from North Sea Oil to Building Societies

The Public Sector and the Welfare State

3 The State to Come

The Stakeholder Economy and Society

The Central Importance of Employment

The Creation of an Investment Culture

Unemployment and Democracy

The Institutions of Government

Sharing the Risk

4 And So to Europe

5 Conclusion

Notes and References

Index

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About the Author

Will Hutton is the editor of the *Observer*. A former stockbroker, he spent ten years with the BBC and from 1983 to 1988 was economics correspondent for BBC 2's 'Newsnight'. He was economics editor of the *Guardian* from 1990 and became assistant editor in 1995. He was nominated Political Journalist of the Year by Granada Television's 'What the Papers Say' for his coverage of the 1992 ERM crisis. His book on Keynesian economics, *The Revolution That Never Was*, was published in 1986, and the bestselling *The State We're In* in 1995.

He is member of the governing council of the Policy Studies Institute, the Institute for Political Economy and is a governor of the London School of Economics. He is a visiting professor at Manchester Business School, a visiting fellow at Nuffield College, Oxford, and is on the editorial board of *New Economy*. In 1995 he became Chair of the Employment Policy Institute. Will Hutton is married with three children.

ALSO BY WILL HUTTON

The Revolution That Never Was
'Good Housekeeping: How to Manage Credit and Debt'
(IPPR)
The State We're In

For Jane and the family

The State to Come

Will Hutton



PREFACE

NOBODY COULD HAVE been more surprised than me at the success of *The State We're In*, but, as one leading politician had warned me soon after publication, I found that it became a book against which people carefully positioned themselves. You could not only be broadly for or against its basic analysis and arguments, but even those who were pro would position themselves judiciously as more level-headed, market friendly and centrist than its determinedly loyal Keynesian author (unreconstructed to my critics) – or more radical.

So it has proved, and the politician in question became one of the leading position-takers. I have no complaints: it's been stimulating and great fun. But in the approach to and immediate aftermath of what promises to be a key general election I have become increasingly concerned that all this positioning has led to a bastardisation of the book's arguments – and a weakening of the arguments for stakeholding. Indeed much of the criticism seems in inverse proportion to the thoroughness with which *The State We're In* has been read, preferring instead to go by the reviews and general mood music, which themselves are part of the positioning game. In any case, nearly three years have passed since I completed it, and the arguments need to be revisited and refreshed.

So this short book is the result of those concerns. It casts a cool and sceptical eye over the Conservative 'achievement', and examines quite why contemporary British capitalism has the character it has. Chapter 3 examines how it could be reformed, organising economic,

social and political initiatives as a linked whole, in terms non-specialists, I hope, can easily understand. Some of the emerging figures on inequality are breathtaking; we do live in a fundamentally unfair society and a run-down democracy. There must be change. Some of my fellow advocates of stakeholding do not go as far either in their analysis or in their remedies, preferring instead to talk generally about changing the culture. But if we can't develop a robust policy programme, then we're no help to anybody. This is the best effort I have made so far at defining how a stakeholder economy and society might be built but it is still very much work in progress.

This emphatically does not mean constructing the current German economy in Britain, returning to 1970s corporatism or wishing - as allegedly an inveterate 'declinist' - for a better yesterday. Nor does it mean cherry-picking bits of best practice from around the globe and importing them into Britain with no regard for how they worked abroad. It accepts that the economy and society are ineluctably built around the market, but tries to shape the institutions, incentives and culture of the market system by looking for the appropriate triggers. The implication, as I said in *The State We're In*, is that we start from where we are and do things that are congruent with our very specific Britishness. It also means, and I have grown more convinced of this over the last three years, that to enlarge its options Britain must be a full-hearted player in the European Union, which even includes membership of the single currency.

I hope the book will be seen as an optimistic, can-do, forward-looking study - for that is very much how I feel. There is every chance now of a change of government, and with it the once-in-a-generation opening that occurs in British politics before the traditional Conservative blanket settles over us again. We can build a better country, which would make everything - from travelling to work to educating our kids - much less harrowing than it is at

present. If the book contributes just a little to hardening the resolve of voters and politicians alike, and pushing on the debate about policy, it will have done its job.

The State to Come was written over five weeks, completed on 9 March. I am acutely aware of how it could have been improved with more time, but neither the election timetable nor my responsibilities at the *Observer* allowed it. As a result I have needed very quick reactions from friends who have agreed to read it in draft, and I have been lucky that they have been so prompt. Martin Jacques and David Held both offered extensive criticism and valuable suggestions; David Miliband faxed me a typically well-constructed critique at my hotel during a so-called holiday in the middle of writing, as did David Held. Neil Belton had some important reactions, and I appreciated my personal telephone seminars on reflexivity with Anthony Giddens and Geoff Mulgan. John Gray, both in conversation and in the draft of his forthcoming book, helped to crystallise my ideas - especially on globalisation; and Colin Mayer is a boundless source of articles and contacts. David Halpern and Stuart White produced two very useful papers with important suggestions and criticism, while David Marquand offered some very good last-minute refinements. My thanks to them all, never forgetting my father, who came up with the most important suggestion of all - the title.

A book written this quickly requires a very flexible editorial infrastructure, and more thanks to Caroline Michel, my editor at Vintage, for providing it. It was her gentle persistence that finally persuaded me to take the plunge and write again, and she has proved resourceful, helpfully critical and calm throughout. Liz Cowen was a considerable copy-editor operating under intense pressure, and my personal assistant at the *Observer*, Angela Burton, must be heartily sick of the photocopier and dispatch rider. Thanks to you both.

It's 3.30 a.m., and there's much more to do yet - along with another day at the *Observer*. I hope I've included all my thank yous and not inadvertently left anybody out - certainly not Jane and the children. These books couldn't have been written without all your forbearance and affection. Thanks hugely. And I hope you the reader, the most important person of all, enjoy the result.

Will Hutton, March 1997

THE STRANGE REBIRTH OF LIBERAL ENGLAND

THE BRITISH ARE favoured. We are a governable people who have enjoyed and expect to continue to enjoy civil peace and rising living standards. We have won our wars. The genocides, hyperinflations and revolutions which have destabilised other national communities have not visited our shores. At the end of the twentieth century we still remain in the first rank of nations, even if not where we once stood.

And for a very old country there is life in us yet. The flair of our designers, the exuberance of our popular music and our strength in industries as disparate as accountancy and the manufacture of Formula One cars are all tribute to a continuing native genius. Some of our older industrial cities have managed, against the odds, to throw off the long legacy of decline. There are strong and growing social movements insisting that the degradation of the environment cannot continue. British women are entering work in unparalleled numbers and bringing with them a new creativity and commitment. We demand of ourselves ever higher standards. We are aware of enlarging choices and possibilities fed by the new technologies and the opening up of the globe.

Yet at this moment when the future is so pregnant with possibility, the Conservative party and the body of ideas that has succoured it over its long years in power paradoxically insist that we can do nothing together that

might improve our circumstances and exploit the signs of this vitality – or at least nothing that does not correspond to their very particular brand of individualism. We have no choice but to obey the injunctions of the genre of market capitalism they have developed over the last eighteen years and to which we owe every and any improvement about us. Our public institutions, if they cannot be privatised, must be made to ape those in the private sector. To entertain the reform of our political system, as John Major has said before the general election, is to put in peril a thousand years of history. Our future is Conservative as mapped by the decades of Thatcherism and its bastard child, Majorism.

This is an extraordinary claim. It supposes that the present is unimprovable, or defective only to the extent that the rule of one form of market capitalism has not been sufficiently extended. Solutions to any problem lie in asserting more individualism and averting as far as possible any development of public institutions or public initiative. That would involve public expenditure and, worse, taxation. To tax has become the sin above any other, even though eighteen years of Conservatism have produced a rise in the proportion of taxation raised as a proportion of national output,¹ while redistributing it so that more is shouldered by those on average and below-average incomes and less by those on higher incomes.

Nor is it admissible to regulate private business. The Conservatives themselves may have been compelled to set up agencies that regulate the privatised utilities and financial services industries, but this is seen as a regrettable concession which should be reversed when politically possible and as the industries mature. Regulation implies the direction of private conduct in ways that might not be chosen voluntarily. Even if it has wider benefits, it still implies an intervention in the free actions of companies. And this conception of freedom – or more accurately the freedom of contract – is the heart of the matter. As we will

explore in Chapter 2, the Conservatives believe that the route to economic and social efficiency lies in insisting upon the primacy of permanently renegotiable contract relationships whoever you are: a GP and a hospital, a firm and its suppliers. Forget any imbalance of power, of knowledge, of financial muscle, or of wider social consequences which make contracting unstable and inefficient. Contract is King.

But the extravagant claims made for the results of all this free contracting – from the financial system to the National Health Service – do not bear close scrutiny. Britain has grown less rapidly and the gains from the lower growth are bitterly unequally distributed. The scope for the abuse of British democracy, ever present in a country without a written constitution, has become more evident as the transformation of the public sector into a web of contract relationships has been prosecuted with little care for accountability and transparency. A new value system has grown up in which everything can have a price put on its head and is potentially up for sale. Concepts which a civilised community holds dear – the ethic of care in medicine, of justice in the courts, of service in the public sector – have been threatened by the overarching ethic that they must be on the market, even though, as Bob Kuttner argues, society could never allow them to go bust.² Sporting excellence and artistic achievement are similarly threatened. There must be another way; and if there is not we must invent one.

Such a plea is not made carelessly. We have learnt more about other market economies and societies as the world has become smaller, and what is evident is not the homogeneity of their cultures and organisation, but their heterogeneity. As choices widen for us as individuals, we are simultaneously told that there are no choices about how we organise ourselves collectively. That we can have no other institutions and practices but those we have inherited or

had imposed upon us by the simplistic verities of Conservative rule. Such propositions are neither reasonable nor democratic. Of course there are choices about the kind of capitalist society we want to become, about the balance we want to strike between market efficiencies and social justice and about how we organise our democracy. No veto is placed upon our freely expressed will by globalisation, as some on the Conservative right argue; in truth the new world, if properly interpreted, empowers us all the more.

Moreover, the capacity to make such choices is at the heart of democracy. To win elections and to initiate change through legislation is the precept upon which democracy is built. The notion is inadmissible that the only use to which public power can be put is to make the world safe for a free enterprise which does not accept social responsibilities and which tries to place risk firmly on individuals rather than acknowledge that the role of government is to organise its fair distribution. It is also, as I will argue later, amoral.

One lesson of our times may be that capitalism has triumphed for the moment in the great battle with socialism – if socialism is understood to mean a planned economy, extensive public ownership, negligible private property rights and a directed society, in which political and civil liberties are not entrenched in law. It was right that it should win, even if many socialists would say that such a description of their aims traduces what they ever stood for or intended. But the moral and religious values which informed the socialist and social democratic movements of the twentieth century, along with their fierce advocacy of liberty, cannot be consigned to history without endangering the civilisation which we prize. Another lesson of our times is surely that the operation of the unchecked market, whatever its success in sending effective messages about what is scarce and what is abundant, has an inherent tendency to produce unreasonable inequality, economic instability and immense concentrations of private,

unaccountable power. To protect itself, society has to have countervailing powers built into the operation of the market, otherwise the market cannot deliver its promise. Instead it collapses into licence masquerading as liberty, spivvery dressed up as risk-taking and exploitation in the guise of efficiency and flexibility.

Thus the challenge at the turn of the century is to learn from past mistakes on both sides of the political divide. Capitalism has won, certainly, but that does not mean that societies cannot shape it to meet their wider goals. Different ethical values apart from the market ethic must be protected; and trust, fairness and the acceptance of obligations should not be seen as tiresome obstacles in the creation of economic efficiency, but as central to it. Human values need to be incorporated into the core of market processes not merely to produce a kinder, more tolerable society - fundamental though that is - but a well-functioning market economy. This is the core of the stakeholding concept. But to accept the need for change, there first has to be acceptance that the current system is not working well, to dispute, in short, Conservative claims about the nature and scale of their achievement. It is to those that we now turn.

The State We're In Now

In the Conservative lexicon Britain is an unparalleled success - the enterprise centre of Europe, with a dynamic economy generating employment to a degree which is the envy of the European Union. A more honest appraisal is more sober.

The economy may now be growing, but the long-run growth rate has weakened. Over-reliant on personal consumption to propel the economy, which is still higher proportionally than in other leading industrialised countries, the sustainable growth rate cannot rise until investment