

IPPR Commission on Economic Justice



Prosperity and Justice

**A plan for the
new economy**

The Final Report of
the IPPR Commission
on Economic Justice
Executive Summary

The IPPR Commission on Economic Justice



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The IPPR Commission on Economic Justice

The IPPR Commission on Economic Justice is a landmark initiative to rethink economic policy for post-Brexit Britain.

The IPPR Commission on Economic Justice was established in autumn 2016 in the wake of Britain's vote to leave the European Union. The purpose of the Commission was broadly conceived: to examine the challenges facing the UK economy and to make recommendations for its reform.

The members of the Commission come from all walks of life and different political viewpoints. They voted on different sides of the EU referendum, and the Commission is independent of all political parties.

The Commission's Interim Report was published in September 2017, setting out our analysis of the condition of the economy and the causes of its weak performance. The Commission has also published 17 discussion and policy papers to inform its work and to stimulate public debate. These papers provide more detail on the analysis and proposals made in this report. The Interim Report and full set of papers are available at ippr.org/cej.

Given the breadth of Commissioners, we have reached a remarkable degree of agreement, which we hope can be reflected in a wider national consensus about a new direction for the UK economy. Our proposals are deliberately ambitious. Taken together, we believe they offer the potential for the most significant change in economic policy in a generation. We hope that this report can spark a national conversation on why we need a change of direction, and what that direction should be.

NOTE

The IPPR Commission on Economic Justice presents its final report in order to stimulate vital public debate. Individual members of the Commission agree with the broad thrust of the arguments made in this report, but they should not be taken to agree with every word or recommendation. Commissioners serve in an individual capacity, and this report should not be taken as representing the views of the organisations with which they are affiliated.

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KEY MESSAGES

- 1. The UK economy is not working.** It is no longer delivering rising living standards for a majority of the population. Average earnings have stagnated for more than a decade – even while economic growth has occurred. Too many people are in insecure jobs; young people are set to be poorer than their parents; the nations and regions of the UK are diverging further. As more and more people feel economically disenfranchised, the political consequences are being felt across society.
- 2. The economy needs fundamental reform.** Many of the causes of the UK's poor economic performance – particularly its weaknesses in productivity, investment and trade – go back 30 years or more. They will not be addressed by incremental change or trying to 'muddle through'. Fundamental reform has happened twice before in the last century following periods of crisis – with the Attlee government's Keynesian reforms in the 1940s and the Thatcher government's free market reforms in the 1980s. Ten years after the financial crash, change of this magnitude is needed again.
- 3. A fair economy is a strong economy.** It used to be thought that prosperity and economic justice were in conflict; we had to choose one or other but could not have both. The international evidence now points in precisely the opposite direction. A more equal economy generates stronger and more stable growth, lower social costs and greater wellbeing. Both economics and morality argue for an economy which achieves prosperity and justice together.
- 4. Economic justice needs to be 'hard-wired' into the way the economy works.** It is not sufficient to seek to redress injustices and inequalities simply by redistribution through the tax and benefit system. They need to be tackled at source, in the structures of the economy in which they arise. These include the labour market and wage bargaining, the ownership of capital and wealth, the governance of firms, the operation of the financial system and the rules that govern markets. Economic justice cannot be an afterthought; it must be built in to the economy.
- 5. Achieving prosperity and justice together requires a comprehensive and integrated programme of reform across the economy.** There is no 'silver bullet'. Our 10-part plan includes far-reaching but achievable measures to:
 - **promote 'investment-led growth'** by raising public investment, holding down house price inflation and reducing the incentives that currently favour short-term shareholder returns over long-term productive investment
 - **rebalance the economy through 'new industrialisation'**, away from an over-dependence on the finance sector towards a more diverse array of manufacturing and other innovative, export-oriented industries, located right across the country
 - **give workers greater bargaining power**, making it easier for trade unions to negotiate on their behalf to achieve higher productivity and to share its rewards fairly through better wages and conditions and reduced working time
 - **pursue 'managed automation'**, accelerating the adoption of new technologies across the economy and ensuring that workers share in the productivity gains and are helped to retrain

- **promote open markets** which reduce the near-monopoly power of dominant companies, particularly in the digital economy, and make data available to promote innovation for social good
 - **spread wealth more widely** in society, both by widening ownership of capital and through fairer forms of wealth and corporate taxation.
6. **Achieving change means redressing imbalances of economic power:** from corporate management towards workers and trade unions, from dominant companies towards innovators and entrepreneurs, from short-term finance towards long-term investors, from Whitehall towards the nations and regions of the UK. We need a more active and purposeful state, acting to achieve prosperity, justice and environmental sustainability on behalf of society as a whole. It must be decentralised, with stronger powers for the nations and regions of the UK. Managing economic change will require greater social partnership, both within companies, and between businesses, trade unions, government and civil society.
7. **Change is possible, and urgent.** Many other countries have economies that are both fairer and more successful than ours. As we confront the challenges of Brexit, of further globalisation, and of technological, demographic and environmental change, doing nothing won't keep things the same—it will make things worse. The economy we have is a matter of choice, and changing it is a matter of democracy. Fundamental reform can be achieved, if we have the will to do so.

PART I: BUILDING THE NEW ECONOMY

THE ECONOMY TODAY

The UK economy has some impressive strengths: employment levels are high, and we have a number of globally successful sectors, such as finance, aerospace, motor manufacturing, life sciences, new technology start-ups and creative industries. But the problem is that there aren't enough such sectors and too few people have been sharing in their successes.

In recent years our economy has been growing, but most people are no better off than a decade ago. The 2010s are forecast to be the weakest decade for average real earnings in 200 years. Over the last 40 years, only 10 per cent of national income growth went to the bottom half of the income distribution, while almost two-fifths went to the richest 10 per cent. The UK is the fifth most unequal country in Europe in terms of income, while inequality of wealth is even greater: 44 per cent of wealth is owned by just 10 per cent of the population. The huge growth in property values means that today's young people, many of them priced out of the housing market, are set to be poorer than their parents. The UK is Europe's most geographically unbalanced economy, with wide disparities between the nations and regions, and many once-thriving communities suffering economic decline. Many more people work in insecure jobs than in the past, with almost a million people on zero-hours contracts, and 15 per cent now self-employed. The prevalence of low pay means that a majority of people living in poverty are now in working households.

Despite a decade of unprecedented policy interventions, including fiscal austerity, near-zero interest rates and £445 billion of monetary stimulus ('quantitative easing'), the UK's current growth prospects remain weak. But our underlying performance is even more worrying. On investment, research and development (R&D), trade and productivity, the UK performs worse than most of our European neighbours, and has done for much of the last 40 years. It is hard to say the UK economy has been performing well; for many people, it is not working at all.

PROSPERITY AND JUSTICE: A NEW VISION FOR THE ECONOMY

The Commission believes that the goal of the economy should be to achieve prosperity and economic justice together.

Prosperity is not just private consumption. It depends on the security and quality of work, and the balance of work and life, as well as the amount of income we receive. It rests on the common good as well as individual wellbeing. The critical nature of public goods emphasises the importance of taxation in contributing to prosperity.

The concept of justice provides a moral foundation to every society. We define six principles of economic justice aimed at making sure that all people, places and future generations share in prosperity. The fundamental basis of all economies in the natural environment makes environmental sustainability critical to both prosperity and justice.

Prosperity and economic justice are not in conflict with one another. On the contrary, the international evidence is that economies with more equal distributions of income and wealth tend to have stronger and more stable paths of economic growth than those with greater inequality. Everyone—from top to

bottom—is better off when the rewards of the economy are more fairly shared. A fairer economy is a stronger economy.

But redistributing the results of economic growth is no longer sufficient to confront the challenges of today's economy. Justice must be 'hard-wired' into the processes of production and consumption: in the labour market, in corporate governance and the ownership of assets, and in the rules of the market.

Many economists and international economic organisations have now recognised the need for new models of 'sustainable and inclusive growth', based on new measures of economic performance and wellbeing. We believe our vision for broadly-based prosperity and economic justice could act as the basis of a new economic consensus.

RESHAPING THE ECONOMY

To achieve prosperity and justice the UK economy needs to be fundamentally reshaped. Five key shifts need to be made, both to the way the economy is structured, and in the approach that governments take to economic policy.

1. From short-term finance to investment-led growth

The UK economy has an unbalanced model of growth. It is overly reliant on household consumption, much of it based on ever-rising property prices and excessive household debt. At around 17 per cent of GDP, public and private investment is around 4 per cent below the developed country average. The stock of business capital is falling and R&D investment is lower than our peers.

Low investment has several causes, including excessive short-termism among major companies and financial markets; a banking sector overly focused on lending for land and property rather than to businesses; and insufficient demand in the economy. To move to an investment-led growth model will require reforms to corporate governance and the regulation of the finance sector, and a larger role for public investment, particularly in providing 'patient capital'.

2. From trade deficits to 'new industrialisation'

Despite some world-leading sectors, the UK economy is internationally uncompetitive. We have had a trade deficit (imports greater than exports) for 20 years, and in 15 of them it has exceeded 1.5 per cent of GDP. In 2017 it was the largest of all G7 countries. Sterling has been kept high by capital inflows from overseas; its value has reflected and supported the success of the UK's financial sector, but damaged manufacturing, which now makes up just 10 per cent of the economy's gross value added.

To improve our international competitiveness we need to diversify and expand our innovation-leading and exporting sectors. This will require what we call 'new industrialisation': the development of innovation-based industrial clusters across the UK, anchored around our universities. This should form the central aim of a more active industrial strategy. A new National Investment Bank is needed to provide long-term finance to help build successful start-up companies into major exporting businesses.

3. From flexible labour markets to raising productivity in the 'everyday economy'

Productivity in the UK is 13 per cent below the G7 average, and has stalled since the financial crisis. Our leading firms are highly productive, but we have a much larger number of low-productivity businesses than in other developed countries.

A major cause of low productivity is the UK's highly flexible labour market. Firms which can take on workers by the hour have little incentive to invest in the equipment or training which raises productivity. We need to escape the

‘low-wage, low-productivity’ equilibrium into which too much of the economy has fallen, and the belief that wage costs must be as low as possible. This means raising the minimum wage, regulating the labour market better and strengthening the bargaining power of workers and trade unions. Industrial strategy needs a specific focus on raising productivity in the ‘everyday economy’ where most people work.

4. From technology laggards to managed automation

New technologies such as artificial intelligence and robotics have raised anxieties that increasing automation will destroy large number of jobs. But past experience of automation is that, while many jobs change, many others are created as productivity and incomes rise. The greater risk is of growing inequality, as the rewards from automation flow to the owners of capital in profits, rather than to workers in wages. Lower-skilled workers may especially lose out.

Though strong in technology start-ups, the UK lags far behind other developed countries in adopting automating technologies. To avoid falling further behind we need to embrace ‘managed automation’ – accelerating the uptake of new technologies to boost productivity, while ensuring that the rewards are shared with workers, and protecting and retraining those whose jobs are lost. This will require new social partnerships between employers and trade unions, at both firm and sector level.

5. From market power to open markets

Over the past 40 years the market power of leading companies has grown in all developed countries, leading to lower rates of investment and innovation, and often worsening conditions for suppliers and workers. Eight out of 10 of the UK’s major consumer markets are now highly concentrated. The huge market power of the major digital ‘platform’ companies (such as Google, Apple, Facebook and Amazon) risks excessive concentration, both of the collection of data and of the development of new technologies such as artificial intelligence.

Countering market power requires reform of the UK’s competition regime, with a stronger focus on open markets that better promote investment, innovation and entrepreneurship. In some areas the major digital platforms operate in a manner comparable to utilities and should be regulated as such. At the same time data created by us all should be managed as a ‘digital commonwealth’, a common resource for entrepreneurs, citizens and government to use for public benefit.

PARTNERSHIP AND POWER

Reshaping the economy to achieve prosperity and justice will require major changes to the way it is governed and managed.

We need a more active and purposeful state, which takes responsibility for the direction and outcomes of the economy as a whole. This means more than correcting individual ‘market failures’. Markets fail in systemic ways, in areas such as financial instability, insufficient investment, inequality and environmental degradation, which only governments can address. Doing so will benefit the private sector, whose profitability depends on public spending and the predictable expectations created by fiscal and industrial policies. In a modern economy there are no such things as ‘free markets’: wealth is co-produced by the public and private sectors together.

A more active state must also be a more decentralised one. The UK is still one of the most centralised states in the developed world. National government departments in Whitehall cannot understand the challenges or capabilities of a country as large and diverse as the UK. England needs a new tier of democratically

accountable regional economic executives, alongside combined authorities in cities and counties. These need the resources and powers to develop regional and local industrial strategies. There should be stronger economic powers in Scotland, Wales and Northern Ireland.

Change of the magnitude we propose cannot be delivered by government alone. We need greater partnership across the economy. Businesses need to be understood as ‘communities of interest’ in which shareholders, managers and workforce work together to raise productivity and share its rewards fairly. Trade unions are vital both to secure better pay and conditions for workers and as means to engage employees in workplace innovation. Government, businesses, unions and civil society, and the nations and regions of the UK, should be brought together in a National Economic Council responsible for agreeing a national economic plan.

The lack of control felt by many people today reflects an economy characterised by concentrations and imbalances of power. These are both a cause of some of our economy’s problems and a barrier to their solution. Our proposals seek to rebalance power from corporate management towards workers and trade unions; from dominant companies towards entrepreneurs and new market entrants; from short-term financial interests towards long-term investors; from Westminster towards the nations and regions; from individuals and households who own great wealth to those who do not. And across the economy as a whole there is a need to redress the imbalance between market forces and society. We need an economy in which markets serve society, not the other way around.

TIME FOR CHANGE

To achieve prosperity and justice the UK economy needs fundamental reform. ‘Muddling through’ is not an option: in an era of profound change, to stand still will be to fall back. The 2020s are set to be a ‘decade of disruption’, as we confront the impacts of Brexit, continued globalisation, and demographic, technological and environmental change.

Fundamental reform has happened twice before in the last century. Following the Great Depression of the 1930s, and then again after the economic stagnation of the 1970s, major changes in economic thinking and policy occurred. Ten years after the financial crisis, it is time for a comparable ‘paradigm shift’ today.

It is sometimes believed that ‘there is no alternative’ to the economy we have today. But we know this is not so. Other countries have notably different economies from our own, and many of them perform much better.

We believe that achieving the proposals set out in our 10-part plan could be adopted by the present government or a future one. There is no ‘silver bullet’: a new economic settlement will require a systematic and integrated programme of economic reform across many areas. Our proposals are unapologetically bold and ambitious. We believe that achieving prosperity and justice hand-in-hand could create the foundation for a new consensus that brings a divided country back together.

PART II: OUR 10-PART PLAN

Part II of the report offers a concrete and integrated plan to build an economy of prosperity and justice through 10 areas of policy reform. Here we provide a brief summary of the analysis in each chapter and set out the Commission's specific proposals for change.

1: RESHAPING THE ECONOMY THROUGH INDUSTRIAL STRATEGY

Since 2009 governments have committed to a more active industrial strategy, aimed at addressing the UK's structural weaknesses in investment, productivity and trade. But there is much more to be done.

We propose a strategy of 'new industrialisation', focused on building regionally distinctive high-tech clusters around the UK's research-based universities. Industrial strategy should integrate supply-side measures with stronger demand, through an expansion of public investment, using public procurement and policy to build domestic supply chains, and the adoption of 'missions' aimed at solving societal challenges such as environmental degradation and an ageing society.

We therefore propose:

- 1.1 An expanded and mission-oriented industrial strategy, focused on achieving investment-led growth, with the aims of diversifying our industrial base, driving up exports, raising productivity and addressing regional imbalances.
- 1.2 A new Industrial Strategy Act setting out clear goals and criteria for state support for industry, and creating an independent Industrial Strategy Committee to provide oversight and guidance.

The private sector is not currently providing sufficient 'patient capital' for long term investment across the country. In Germany and across the EU, public investment banks have played a vital role in economic development, 'crowding in' private investment. We therefore propose:

- 1.3 The establishment of a National Investment Bank (NIB) to invest in infrastructure, innovation and business growth in England. The NIB would have regional divisions in England accountable to the regional economic executives we propose, and work with parallel institutions in Scotland, Wales and Northern Ireland. We propose that the NIB should initially be capitalised at £20bn, enabling it to lend between £50 and £200 billion.
- 1.4 That alongside its core lending activities, the NIB should have a number of funding instruments, including:
 - The provision of equity financing, particularly for innovation.
 - Offering innovative start-up companies a 'first customer' guarantee which can reduce the risk for other businesses of becoming an early customer.
 - The creation of a National Factoring Agency to help SMEs improve their cashflow at low cost.

At present, public funding for innovation is dominated by two tax incentives, the R&D tax credit and the ‘patent box’. But these have not been effective in expanding and diversifying the UK’s base of innovative businesses and frequently fund activities which would have occurred anyway. We therefore propose:

- 1.5 The phasing down and eventual abolition of R&D tax credits other than for SME firms younger than seven years old, and the phasing down and abolition of the patent box. The money released should be channelled into direct funding for innovation through Innovate UK and the National Investment Bank.

Raising productivity across the UK economy as a whole will require a sustained focus on raising the productivity of small and medium-sized businesses. We therefore propose:

- 1.6 The establishment of a new social partnership body, Productivity UK, to focus on raising productivity in the everyday economy through business advice, training, funding and consultancy services.
- 1.7 That Productivity UK should have a core objective of accelerating ‘managed automation’ and the diffusion of digital technologies across the economy.
- 1.8 The introduction of a ‘Technology Displacement Fund’ to support workers displaced by new technologies to be retrained and supported back into the labour market.

The skills systems in the UK needs further reform to ensure that it meets the needs of the economy. At the same time better job design can help improve productivity, earnings and job satisfaction. We propose:

- 1.9 The abolition of the current apprenticeship levy, and its replacement by a ‘productivity and skills levy’ able to support a wider range of initiatives to raise productivity through skills training and workplace organisation.
- 1.10 Directing a portion of the current apprenticeship levy ‘underspend’ to sectoral skills councils bringing together businesses and trade unions.
- 1.11 The introduction of Personal Training Credits, to provide low-paid workers and unemployed adults with up to £700 a year to invest in their own skills.
- 1.12 The establishment of a ‘good jobs standard’ for England. Accreditation under the standard could be used as a requirement of public procurement.

The UK’s immigration system should be designed to promote human dignity, prosperity and justice, rather than using reductions in net migration as the definition of success. We therefore propose:

- 1.13 The adoption of a new immigration framework aimed at supporting the UK’s economic strategy, the vitality and cohesion of our communities and the dignity of migrants, including separate targets for different types of migration and giving the devolved nations more control over their own immigration rules.

2: SECURING GOOD JOBS, GOOD PAY AND GOOD LIVES

The UK has a highly divided labour market, with good jobs for some, but increasing numbers experiencing insecure work and low pay, and unequal access to better jobs. Stagnating wages are the result both of low productivity, and of the declining bargaining power of workers in a more fragmented economy. Only 26 per cent of workers are now covered by collective bargaining agreements, compared to more than 70 per cent in the 1970s. This has contributed to the declining share of wages and salaries in national income – from almost 70 per cent in the 1970s to around 55 per cent now.

Modernisation of labour market regulation has the potential to improve the working lives of millions of people. We therefore propose:

- 2.1 Raising the national living wage to the level of the ‘real living wage’, based on the actual cost of living (£8.75 an hour outside London).
- 2.2 To ensure that businesses are able to adjust to the new rates, a temporary reduction in employer national insurance contributions (ENICs) for employees and workers paid at or just above the new minimum wage.
- 2.3 A 20 per cent higher minimum wage to apply to zero hours contracts and other uncontracted hours.
- 2.4 Clarification of the law on employment status and workers’ rights and their communication to all workers.
- 2.5 The extension of work-related benefits and support to the self-employed, funded by higher National Insurance contributions.
- 2.6 That enforcement agencies should be given the power and resources to proactively investigate employers on all aspects of employment status and rights.

Trade unions can help workers achieve higher earnings and better conditions and businesses to raise productivity. We therefore propose:

- 2.7 A target of doubling collective bargaining coverage to 50 per cent of workers by 2030, with a focus on the lowest paid sectors.
- 2.8 A new ‘right to access’ that would give unions stronger rights of physical access to workplaces, combined with a ‘digital right of access’ to reach remote workers and a new ‘right to join’ for workers.
- 2.9 A trial of auto-enrolment into trade unions within the ‘gig’ economy, on the model of auto-enrolment into workplace pensions.
- 2.10 A WorkerTech Innovation Fund to support unions to innovate and use digital technology to recruit and organise.

An important method of reducing inequalities in earnings is for pay and pay gaps to be made transparent across the economy. We therefore propose:

- 2.11 That all firms with more than 250 employees should be required to publish their pay scales.
- 2.12 That reporting on ethnic pay gaps should be made mandatory, and all pay gap reporting should be accompanied by mandatory action plans.

The organisation of working time affects everyone’s lives, but especially women, who are more likely to care for children and older people. We propose:

- 2.13 That shared parental leave should be changed to include a period of ‘use it or lose it’ paternity leave, to encourage men to take a greater role in care responsibilities.
- 2.14 That all jobs should be required to be available and advertised on a flexible and potential job-share basis, except with good reason.
- 2.15 An increase in the number of bank holidays, with new ones linked to national productivity rises and added to existing statutory leave entitlements. This will enable everyone to benefit from productivity increases through reductions in working time.

3: TURNING BUSINESS TOWARDS LONG-TERM SUCCESS

A successful economy needs successful private sector businesses, and most businesses take their responsibilities to society seriously. But the UK's system of corporate governance, which gives overwhelming primacy to the rights and interests of shareholders, creates a number of problems. It encourages short-termism in investment, provides little incentive for employee engagement to improve productivity, and has led to escalating executive pay unrelated to company performance. This has contributed to declining trust in business. Most other European countries have 'stakeholder-based' corporate governance models that balance the interest of shareholders with employees.

To encourage company boards to focus on long-term performance, and not simply the short-term interests of shareholders, we propose that:

- 3.1 The 'directors' duties' in Section 172 of the 2006 Companies Act should be reformed to make explicit that the primary duty of directors is 'the promotion of the long-term success of the company', and companies should be required to report on this in an integrated financial and strategic report.
- 3.2 Under normal circumstances automatic voting rights for shareholders should only be awarded to shares held for more than a year.
- 3.3 A new statutory public interest test should be introduced for takeover bids above a certain size, including consideration of issues such as the likely consequences for innovation, employment, the UK's industrial base and regional development.

To widen the diversity of company boards we propose that:

- 3.4 Public and private companies of more than 250 employees should have at least two workers, elected by the workforce, on their main board.
- 3.5 Companies should be required to set out their plans to move towards gender-balanced boards, with fully transparent board nomination and appointment processes.

To control executive pay and promote wider pay equality we propose that:

- 3.6 A third of the membership of remuneration committees should be made up of elected worker representatives. The committee's remit should be widened to include the pay, incentives and conditions of all company staff.
- 3.7 Reporting on ethnic minority pay gaps should be mandatory, with companies required to have equality plans to close both gender and ethnic gaps.
- 3.8 Executive pay packages should be simplified and linked to the key drivers of long-term value, such as innovation and productivity, not just share prices.

To raise public trust in business and encourage good corporate behaviour we propose:

- 3.9 The creation of a new statutory Companies Commission to oversee and enforce a reformed corporate governance code and the Companies Act, including the power to take directors to court for breaches of duty under Section 172.
- 3.10 Strengthening the 2012 Social Value Act to require all public procurement decisions above a certain size to account for their wider social and economic benefits.

4: PROMOTING OPEN MARKETS IN THE NEW ECONOMY

Many markets in the UK are highly concentrated, with a small number of dominant companies wielding considerable market power, with detrimental impacts on suppliers, workers, entrepreneurship and innovation. Current competition policy, focused on consumer welfare, does not address these wider public interests. This is a particular problem among the major new ‘digital platform’ companies which act as intermediaries between service providers and users. Platforms tend to monopoly due to the powerful ‘network effects’ of data aggregation. In the UK Facebook has 74 per cent of the social network market share, Amazon is responsible for 80 per cent of online books sales and Google has around 90 per cent of the search engine market. As a result of their acquisitions of other companies, these firms have become dominant in artificial intelligence and other new technologies.

To tackle market concentration and promote open markets we propose:

- 4.1** That the remit of the Competition and Markets Authority should be broadened to include a focus on market power that damages the public interest, alongside existing commitments to promote consumer welfare and economic efficiency.
- 4.2** The establishment of a new regulator, the Office of Digital Platforms (OfDigi) to regulate the major digital platform companies in specific areas, such as searching, connecting, matching and digital infrastructure, where their services are comparable to those of utilities.

To realise the vision of a ‘digital commonwealth’ in which publicly-generated data is made more widely available to serve the common good and encourage innovation, we propose:

- 4.3** The establishment of a Digital UK public service to organise and curate public data as a ‘digital commons’, including the creation of local digital commonwealth strategies and an upgrading of digital infrastructure in rural areas.

5: RAISING PUBLIC INVESTMENT IN A REFORMED MACROECONOMIC FRAMEWORK

Over recent years policymakers in charge of the two principal levers of macroeconomic policy have been pulling in opposite directions. While fiscal policy has been drawing demand out of the economy by cutting spending and raising taxes (‘austerity’), the Bank of England has experimented with ultra-loose monetary policy, with record low interest rates and a £445 billion injection of ‘quantitative easing’ (QE). But these policies have not generated the sustained growth which would allow a return to normal interest rates, leaving the economy very badly placed to deal with the next recession.

Current public accounting practices and fiscal rules do not differentiate between borrowing for current expenditure and borrowing for investment, which have very different economic impacts and should be treated separately. We therefore propose:

- 5.1** That the Office for Budget Responsibility and Office for National Statistics should conduct an independent review of public sector accountancy practices, to ensure that investment and debt are better defined, measured and presented.

At today’s very low interest rates, there is considerable scope for additional public borrowing for investment which helps generate growth. We therefore propose:

- 5.2** An increase in annual public investment spending by at least £15 billion over and above current plans by 2022, doubling the presently anticipated increase and taking public investment to 3.5 per cent of GDP, the average for G7 countries.

To enable fiscal policy better to support economic growth, we propose:

5.3 The introduction of new fiscal rules:

- A current spending rule to balance day-to-day government spending with revenues over a rolling five-year period in normal economic circumstances.
- A minimum public investment spending target, subject to appropriate project appraisal.
- A sustainable debt metric under which the sustainable level of government debt would be independently assessed on the basis of interest rates, debt maturity and expected tax revenues.

To ensure that the Bank of England is able to take the wider health of the economy into account in setting interest rates, we propose that:

5.4 The Treasury should formally revise the Monetary Policy Committee's mandate to include explicit targets for unemployment (including under-employment) and the level of nominal GDP, either alongside inflation or as intermediate guides to a primary inflation target.

As an alternative to QE, to enable macroeconomic policy to stimulate the economy in recessionary conditions when interest rates are very low, we propose that:

5.5 The Bank of England should be given the power to ask the National Investment Bank to expand lending in the real economy, and to buy its bonds to ensure this can be financed.

6: STRENGTHENING THE FINANCIAL SYSTEM

The UK's financial sector is one of the largest and most successful in the world, contributing around 7 per cent of GDP, over 3 per cent of total employment and nearly 5 per cent of tax revenues. But it also contributes to some of the economy's weaknesses. There has been insufficient provision of 'patient capital' for long-term investment. Equity markets have placed excessive pressure on companies for short-term returns. The UK has had a long-term problem of asset price inflation, particularly in land and property. And the financial sector has played a key role in keeping the value of sterling higher than it would otherwise have been, thereby damaging our manufacturing and other exporting sectors.

Our recommendations for a National Investment Bank and for corporate governance reform are essential to promote long-term investment. But this also requires a better alignment of incentives between savers and institutional investors, and their intermediaries and the companies whose shares they own.

We therefore propose:

6.1 That the legal fiduciary duty on pension and insurance funds should be reviewed, including the possibility of its extension to financial intermediaries.

To improve the stability of the financial system, we propose that:

6.2 The government should investigate whether the Financial Policy Committee (FPC) of the Bank of England should be given an explicit house price inflation target, as part of its macroprudential responsibility to counter systemic risk.

6.3 The corporation tax surcharge for banks should be abolished, and the Bank Levy made into a counter-cyclical measure applied to both regular and shadow banks.

6.4 The government should review whether the cap on company debt interest relief should be progressively reduced to the lower limit of 10 per cent of earnings as recommended by the OECD.

To clamp down on tax avoidance and illicit capital flows into the UK, we propose that:

- 6.5** The data on the public company register of ‘people with significant control’ should be verifiable; that named individuals should be required to provide proof of identity; and that the threshold for inclusion on the register should be lowered from 25 per cent to 5 per cent of shares or voting rights.
- 6.6** Trusts should be included in the public register of people with significant control.

7: SPREADING WEALTH AND OWNERSHIP ACROSS THE ECONOMY

Wealth is much more unequally distributed than income. The wealthiest 10 per cent of households own five times more than the entire bottom half of all households combined. As house prices have risen, making it harder for young people to buy a home, inequality between generations has increased particularly sharply. Wealth inequalities raise important issues of economic justice. Having wealth gives people security and opportunity denied to those who don’t. But a great deal of wealth is unearned. Wealth inequality is also damaging to prosperity, as rising land and property values have diverted investment away from more productive uses. And the concentration of business ownership gives few people a say over economic decisions, including in the companies in which they work.

To enable the public to share more fairly in the nation’s wealth we propose:

- 7.1** The establishment of a Citizens’ Wealth Fund, a sovereign wealth fund owned by and run in the interests of the whole UK population. Capitalised over a 10-year period from a variety of sources, this could provide all citizens with a small annual dividend, or a £10,000 ‘universal minimum inheritance’ to all young people at the age of 25.

To enable more young people to build up wealth by owning their own home will require significant changes to the markets for land and property.

We therefore propose:

- 7.2** Abolition of the cap on local authority borrowing to finance house building in England.
- 7.3** New guidelines in England for the minimum proportion of new housing developments which must be genuinely affordable, including one-third for sale in perpetuity and one-third social housing for rent.
- 7.4** The reform of compulsory purchase laws to allow local authorities and public bodies to buy land at its ‘use value’ prior to planning permission, plus a degree of compensation.
- 7.5** Giving planning authorities the powers to ‘zone’ areas of land for development and freeze its price close to its current use value.
- 7.6** Ending the sale of public land to the private sector for residential development in most circumstances.

To enable more companies to be owned by their employees we propose:

- 7.7** Reform of the tax incentives available to Employee Ownership Trusts, under which companies can be majority-owned by their employees.
- 7.8** Introduction of a Co-operative Development Act to help support the expansion of the co-operative and mutual sector, including a statutory underpinning for the principle of ‘asset-locked reserves’ to enable co-ops to raise long-term investment capital.

8: DESIGNING SIMPLER AND FAIRER TAXES

Taxation is the primary means by which governments raise revenue and fund the public services on which a civilised society depends. Over recent decades the UK tax system has become very complicated, and in many respects does not promote economic justice. Around four-fifths of the reduction in the UK's budget deficit since 2009-10 has been achieved through cuts to public expenditure, which have left public services under severe strain. At around 33 per cent of GDP, UK tax revenues are considerably lower than the average for developed countries, including those of, for example Germany (38 per cent) or Denmark (46 per cent). Over the next 30 years, as the population ages and the proportion of working people declines, there will be an increasingly unsustainable 'fiscal gap' between expected public spending and forecast tax receipts.

The Commission therefore welcomes the recent recognition by the government that the overall level of taxes will have to rise to pay for the improved health and social care the public needs. **We call for a serious debate about the appropriate level of both public spending and taxation which can achieve the economy and society we deserve.**

Our present system of taxing incomes is complex, lacks transparency and is insufficiently progressive. On average the poorest fifth of households pay 35 per cent of their gross income in tax, which is more than the richest fifth. **To make the income tax system simpler and more progressive, and more able to raise revenue,** we propose:

- 8.1 That the rates and allowances for employee NICs and income tax should be combined into a single tax schedule, and applied to all incomes on an individual, annual basis; and that the present system of marginal tax bands be replaced with a 'formula-based' system, abolishing bands and applying instead a gradually rising marginal rate of tax as incomes rise.

Current taxes on wealth, and the income that derives from it, are lower than those on income from work. This is unfair, significantly benefiting the wealthy and encouraging tax avoidance. The tax system should do more to reduce wealth inequality, particularly by taxing the unearned 'rents' from wealth which do not contribute to economic output. We therefore propose:

- 8.2 That all income, whether from work or from wealth, should be taxed in the same way. This would mean abolishing capital gains tax and the separate rates of tax on dividends, and incorporating income from dividends and capital gains into the income tax schedule. The exemption from capital gains tax for first homes should remain.
- 8.3 That inheritance tax should be abolished, and replaced with a lifetime gifts tax levied on the recipient, with a lifetime allowance of around £125,000. This could raise an additional £9 billion a year.

Land and property are currently under-taxed in the UK, with council tax, business rates and stamp duty all causing serious distortions and unfairness. We therefore propose:

- 8.4 That the intention should be set to replace business rates by a new land value tax on all non-residential land, based on the value of the land, not the property standing on it, and calculated on the basis of its 'optimum use' under existing planning permission, not its current use.

Since 2008 the main rate of corporation tax paid by businesses on their profits has been reduced from 30 per cent to 19 per cent. This compares with countries such as France (38 per cent) and Germany (31 per cent). This has not increased investment, but has increased inequality. At the same time a proliferation of reliefs and allowances has led to the erosion of the tax base. **To ensure companies**

contribute fairly and to raise revenue while retaining the UK's international competitiveness we therefore propose:

- 8.5 An increase in the rate of corporation tax to the lowest effective rate of corporation tax in the G7 (24 per cent), while simplifying the system of reliefs and allowances to increase the tax base. This could raise an additional £13.3 billion in tax revenue in 2020-21.

To tackle tax avoidance by multinational corporations we propose:

- 8.6 The introduction of an Alternative Minimum Corporation Tax (AMCT) as a 'backstop tax' levied on multinational corporations which consistently report low profits in the UK and are unable to show these are genuine. It would be levied on the company's UK sales at a rate derived from its global profits relative to global sales.

9: ENSURING ENVIRONMENTAL SUSTAINABILITY

Environmental sustainability must lie at the heart of economic policy. We cannot sustain either prosperity or justice if climate change continues on its present course, and if the world's environmental resources and life support systems continue to be degraded and depleted. Achieving a sustainable economy will require a transformation in the productivity with which we use resources. Such a 'green growth' strategy offers significant potential to create jobs and exports. But we are not currently on track to meet our statutory climate targets and our global environmental footprint is unsustainable. While the individual impacts of products and companies are widely regulated, their aggregate environmental impacts are generally not. Meanwhile most global impacts – such as plastics pollution – are barely subject to any controls.

To bring the whole UK economy within sustainable environmental limits we therefore propose:

- 9.1 The introduction of a Sustainable Economy Act mandating the adoption of statutory short-term and long-term targets for a broad range of environmental impacts. Modelled on the 2008 Climate Change Act, such an Act would require governments to set out comprehensive plans and policies to meet the targets, and would set up an independent Committee on Sustainability to monitor progress.

To maximise the domestic economic advantages of holding the economy within environmental limits we propose:

- 9.2 The adoption of a green industrial strategy. This would integrate demand-side policies on decarbonisation, achieving a zero-waste 'circular' economy and sustaining natural capital with supply-side support for UK businesses and innovation to meet these goals. Such a strategy should support a 'just transition' for workers and communities affected by the process of change.

10: CREATING A NEW ECONOMIC CONSTITUTION

As the UK economy has changed over the last 40 years, particularly through de-industrialisation, large geographic inequalities have been allowed to develop. The economies of Scotland, Wales and Northern Ireland, and the regions of England, have distinctive features and problems. Driving equitable and sustainable growth across the country cannot be done from Whitehall; it requires the decentralisation of economic powers and resources. There is clear international evidence that devolution, particularly at regional level, reduces geographic imbalances. At the same time economic policymaking needs a much stronger culture of consultation and partnership.

To devolve economic governance in England we propose:

- 10.1** The creation of four ‘economic executives’ (regional economic authorities) to be responsible for regional industrial strategy, including infrastructure planning, inward investment and immigration. Two would be based on the current Northern Powerhouse and Midlands Engine, the other two in the South West, and East and South East. Each should be governed by a regional council indirectly elected from their constituent local authorities.
- 10.2** The creation of combined local authorities throughout England, in both city and county regions. These would be responsible for place-based elements of industrial strategy, including labour market planning, further education and skills, business support services and the development of ‘local wealth-building’ strategies using public procurement.

A number of our recommendations would need to be applied separately in the devolved nations, where we also suggest a range of further powers.

To reduce the inequalities between the different parts of the UK we propose:

- 10.3** The creation of an Inclusive Growth Fund (IGF) of £10 billion over five years. This would replace the European Regional Development and Social Funds. It would be administered by the devolved governments, new regional executives and combined authorities.

Over the last 40 years, economic decision making has been dominated by the Treasury, which has often taken a very orthodox approach in its consideration of economic ideas and policies. **Policymaking should be opened up more widely, both within government and beyond it. It is no longer sufficient for the Westminster government to seek to manage the economy on its own: this should be a process of partnership with the devolved nations and regions of the UK, and with the interests of businesses, trade unions and civil society.** We therefore propose:

- 10.4** That the government should engage in much broader consultation on economic policy, in particular by requiring advance public consultation on all (non-market-sensitive) measures announced in the Budget.
- 10.5** The establishment of a National Economic Council (NEC) as a forum for economic policy consultation and coordination. This would have responsibility for drawing up and agreeing a 10-year plan for the UK economy, to provide a coordinated framework for the management of economic policy.

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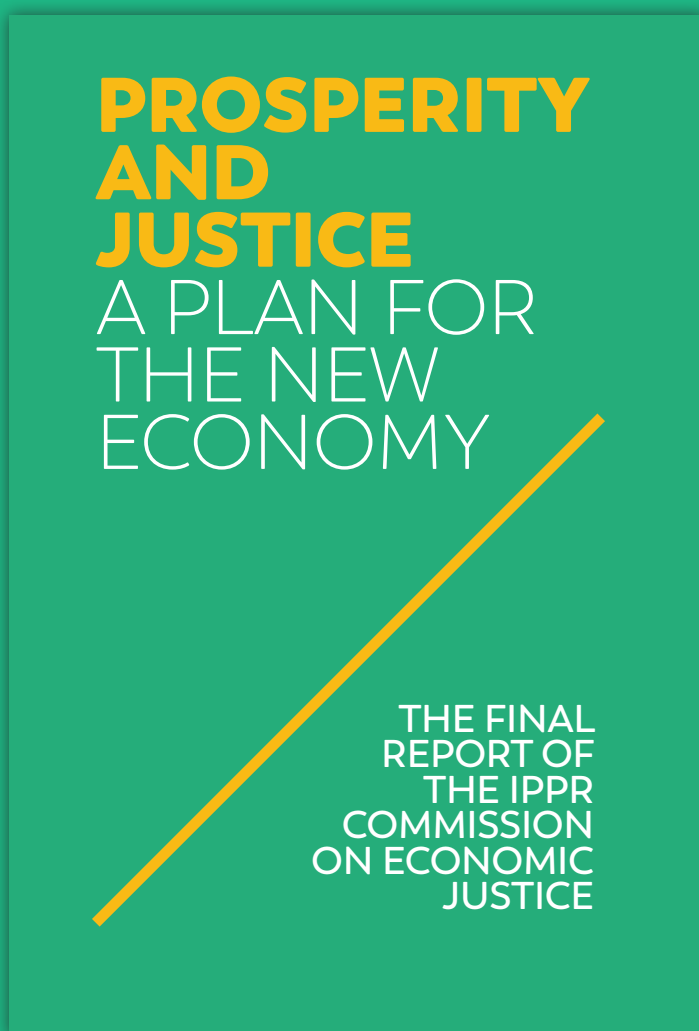
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The IPPR Commission on Economic Justice

