Plan C – social liberal approaches to a fair, sustainable economy

A Social Liberal Forum publication

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Foreword by Will Hutton

Social Liberal Forum

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Contents

Foreword

It was as obvious in the last decades of the nineteenth century as it is in these first decades of the twenty first that unalloyed capitalism creates intolerable strains in the societies of which it is part. Indeed it becomes dysfunctional. Entrepreneurship and innovation are destroyed in societies where power resides with incumbents and excessive concentrations of corporate power and personal wealth obstruct the birth of the new. And societies with low trust, low social mobility and in which ordinary people find it impossible to live lives they have reason to value do not provide sufficient reservoirs of workers and consumers upon which successful capitalism depends. Capitalists preach the gospel of the survival of the fittest, unaware that proportionality of reward, constraint on the abuse of power, readiness of public authority to mitigate unknowable business risk and the creation of a social contract are essential to capitalism's effective functioning.

The paradox is that a more bounded capitalism that accepts mutual obligations to the society of which it is part delivers better than unbounded capitalism – a truth with which the great social liberal theorists between 1870 and 1945 wrestled. Green, Hobhouse, Keynes and Beveridge spelled out a more subtle relationship between state and individual than the classic liberalism of Mill and Bentham. They sketched a role for intermediate institutions, for social insurance, for activist fiscal, monetary and financial policy, for public intervention in the design of markets and for a purposeful role of the state to promote investment and innovation.

But they were sandwiched between two great twentieth century ideologies – free market capitalism and socialism. Socialists argued for the socialization of risk not its mitigation, and distrusted the plural distribution of political and economic power. Keynesianism became traduced into the doctrine of tax and spend combined with alleged carelessness about public debt. Meanwhile free market fundamentalists tried to argue that any deformity of capitalism required more capitalism.

Today both traditions are stone dead – killed by their self-evident inadequacies and theoretical failings. We are rediscovering the ideas of the great social liberals who have so inspired my own thinking – and this short pamphlet is a good contemporary expression of those insights. Social liberalism within the Liberal Democrat party and its close cousin, the "new" social democratic tradition within the Labour party, are in my view the joint intellectual and political cornerstone for the re-visioning and reconceptualization of Britain. They chime with the British public's deep attachment to fairness, proportionality and respect for the individual along with a readiness to rally around those who are unlucky through no fault of their own or who face unacceptable risks. I am pleased to be invited to write a few words introducing a policy document that contains so many recommendations and ideas I have consecrated much of my working and intellectual life to advancing.

This is the plan – notwithstanding quibbles about some details and the obvious need for a more expansionary macro economic policy – that could begin to make a difference to our country.

Will Hutton March 1st 2012

Plan C – Introduction and executive summary

Whether it's "ending crony capitalism," bringing about "responsible capitalism" or even "a genuinely popular capitalism," political leaders of all stripes in the UK and beyond are discussing how our economy can be made fairer and more equitable. Responding to the worst economic crisis for over seventy years, as well as to popular anger at the failure of our current economic settlement to provide sustainable prosperity for all, the rhetorical message could not be clearer – to emerge from our current malaise we need to reform how our economy functions.

> *"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else."*
>
> John Maynard Keynes
> General Theory of Employment, Interest and Money, 1936

The Social Liberal Forum exists "to promote social justice and actively narrow gaps in power and opportunity between rich and poor," and here we present our proposals for fulfilling that rhetorical demand for a fairer economic framework. In recognising that orthodox economic policy has failed either to deliver prosperity for all during times of plenty or fairness in times of austerity, we set out the principles upon which a sustainable economy that promotes social justice can be built.

We begin by exploring the underlying causes of the UK's economic stagnation, moving beyond the sterile tendency to pin all blame on profligate government spending and/or greedy financiers. Debates about the structural deficit and global financial crisis should not distract attention from the prolonged period of joblessness and sluggish economic output that has lasted since 2008. With the UK economy still operating considerably below capacity and little sign of improvement, we believe that this should be an urgent priority for economic policy.

A nuanced diagnosis of what caused the ongoing financial crisis, and the subsequent downturn in economic activity from which we are yet to recover, has serious implications for how the government's budget deficit should be dealt with.

We begin by proposing an approach to the fiscal deficit that is sensitive to a broad range of economic indicators, bringing government spending back in line with revenues in a manner compatible with sustainable rises in living standards. This approach differs from 'expansionary fiscal contraction' (which we refer to as Plan A), as well as from a Plan B predicated on returning to many of the conditions before the crash. We then explore the principles behind a Plan C for a social liberal economy, making the following recommendations in three broad areas:

1. **innovation, investment and infrastructure for jobs**, for which we propose:
   - investing in Enterprise Zones such that they become integral to an 'innovation ecosystem' that can incubate innovative business
     – Such an ecosystem approach would see an enterprising state take a more pro-active role in driving innovation, which is vital for growth
   - the creation of **Public Interest Corporations** to deliver job-rich infrastructure projects and other solutions to economic challenges
     – these would bring together public and private stakeholders on equal terms such that risk and reward are evenly spread
   - an **expansion of the Youth Contract** to provide the necessary conditions for young people to find fulfilling work
2. **fair finance fit for purpose**, for which we propose:
   - full and timely implementation of the final report of the Independent Commission on Banking, including higher capital requirements and separation of retail and investment banks
   - the establishment of a **National Investment Bank**, with three distinct divisions to support housing, small to medium enterprises (SMEs) and export activity
     – Such a bank could be funded from the issuance of bonds at favourable rates, as well as a combination of measures to raise revenue from a fairer, more transparent tax system focused on taxation of wealth and financial transactions
   - establishing **publicly accountable regional banks**, and fostering a diverse and well-regulated ecosystem of alternative financial institutions such as credit unions, peer-to-peer lenders and local stock exchanges
   - fair and transparent remuneration, linked to the proposals for fair pay discussed below

3. **moving towards a just, adaptable and secure 'flexicurity' economy**, for which we propose:
   - a social liberal approach to the distribution of risk and reward, delivering fair pay at both ends of the income scale
     - **increased workplace democracy** to ensure that high pay is tackled through effective empowerment of workers and shareholders
     - **a living wage**
     - adoption of the **principles of flexicurity**, to make our institutions and workforce more resilient to waves of change, including:
       - provision of robust employment insurance alongside appropriate skills training for those who fall out of work
       - help in substituting new employment for jobs lost to competitive pressures abroad
       - a defined role for businesses, unions and employees in providing for an adaptable and secure workforce.

These proposals form the basis of a Plan C for the UK economy, but of far greater importance is the social liberal philosophy that animates them – that an empowering state should pay attention to vulnerability, inequality and obstacles to self-fulfilment. There is a role for government in shaping markets such that risk and reward are fairly distributed and citizens are resilient to market volatility, without excessive control or regulation. The discussion that follows expands on these ideas, which we believe can drive an efficient economy producing sustainable prosperity for all.

Chapter one – the case for social liberal economics

The UK economy faces an unprecedented crisis, with no shortage of economic indicators and statistics that demonstrate its depth. From measures of output in manufacturing and retail, to those of consumer and business confidence; from the continued lack of private sector investment to a near-unprecedented squeeze on living standards; and from increasing income inequality to rising unemployment especially amongst the young – it appears that from whatever angle one views the UK economy, the news is nearly all bad (see Table One). If our economic problems are to be confronted and the slide back into depression halted, three interrelated and self-perpetuating conditions must be tackled, together: the unresolved financial crisis covering both privately-held debt and sovereign solvency; the political prioritisation of rigidly timetabled deficit reduction over other economic goals; and the looming crisis of sustainability in the context of finite resources and a warming planet.

Indicator	Latest	Comment
Employment	▶ (Sep-Nov)	Up by 18,000 in last three months and by 26,000 over the last year – big drop in the number of employees and increase in self-employment
Unemployment	▼ (Sep-Nov)	Up 118,000 in the last three months to 2.68 million or 8.4% - highest level since 1994 – claimant count higher for tenth month but rate of increase slower
Real GDP	▼ (Q4)	Down 0.2% in Q4 – big drop in output of production industries – smaller fall in construction – service sector activity flat – may be back in recession
Manufacturing output	▼ (November)	Down 0.2% in the latest month and 0.6% over the last year – underlying trend in recent months flat to slightly down

Indicator	Latest	Comment
Exports	▶ (November)	Volumes up 5% over the last year (imports up 3%) – level third highest on record – little sign yet of impact from euro zone crisis
Retail sales	▶ (December)	Sales volumes up 0,6% in latest month and up 2.6% over last year – sales values up 6.2% over last year – bad weather depressed sales a year ago
Consumer confidence	▼ (December)	At near record low due to higher unemployment and fears about the effect of the euro zone crisis
Manufacturing confidence	▲ (January)	CIPS indicator at highest level since May 2011 – suggests sector is expanding again
Services confidence	▲ (January)	Third consecutive surprise increase in activity – at a ten-month high – consistent with a growing economy
Consumer price inflation	▼ (December)	Dropped back to 4.2% (RPI 4.8%) – likely to fall sharply towards 2% target rate during 2012
Average earnings growth	▼ (Sep-Nov)	Regular pay up 1.9% over the last year; total pay up 1.9% - well below inflation rate – real earnings falling
Public sector net borrowing	▶ (December)	Government borrowed £13.7bn in December – down on a year earlier – year-to-date figure also lower
Bond yields	▲ (January)	Moved a little higher during the last month but remain at historically very low levels

Table One: *according to a range of indicators the UK faces economic stagnation. Table reproduced with kind permission from Tony Dolphin, Senior Economist and Associate Director for Economic Policy at the Institute for Public Policy Research (IPPR).*

It is unlikely that any one political party, economic tradition or policy basket will – or could - effectively tackle all these crises on its own. It is equally unlikely that orthodox policy tools will overcome the challenges we face, not least because they stem from a faulty diagnosis of how we came to be where we are today. What is needed is a pluralist approach to the most profound crisis in both capitalism and democracy we have faced in living memory, based on an effective dissection of the causes of the crash, coupled with solutions that deliver social justice through economic efficiency and fairness. This pamphlet does not contain ready-made answers to the severe trauma we are experiencing. Nor do we present a 'shopping list' of policies that, given the ever-changing economic landscape, would appear dated before they have been discussed. Rather, the chapters that follow seek to navigate a path between conflicting accounts of how this crisis of economic governance came about, and to propose some indicative policies that flow from broad principles for emerging from the debris of the crash with a fairer and more sustainable settlement. We will discuss past mistakes but our aim is positive. We see it as the role of the government – as well as of society – to build an optimal framework within which both a just capitalism and a socially liberal democracy will flourish.

How did we get here?

The UK faces much the same mix of economic problems that our European and North American friends face, albeit that some of these problems manifest more seriously in the UK than elsewhere and vice versa. 2011 saw anaemic growth in GDP (0.6% in Q3 versus Q2 2011, and just 0.5% growth compared with Q3 2010, the lowest annualised growth since the recession ended in 2009). Over 2.6 million people are officially out of work (8.3% of the workforce, including a troubling one million under the age of 24).

These data clearly show an economy suffering from chronic heart failure – a deficiency in pumping money and jobs, the lifeblood of economic vibrancy, around the nation's vital organs – following on from the financial crash of 2007/8, which Business Secretary Vince Cable described as a heart attack. With these facts in mind there are difficult choices to be made. How much weight should be given to each aspect of the economic crisis: recession, unemployment, lack of banking confidence and structural deficit? How we approach this question determines the emphasis that we give to different components of a recovery programme – and that choice is in turn determined by the narrative we choose regarding the causes of the crash. We need to separate out causes from effects, but in so doing, we must recognise how complex the relationships are between different economic problems. This is why all parties need to pull together and develop an intelligent, multi-faceted strategy, rather than insisting artificially on the primacy of particular problems or solutions, any of which, when taken alone, will be liable to create vicious circles. We offer this discussion document as the starting point towards a pluralist public policy response.

To date we have seen two broad narratives that attempt to explain why we are where we are: one blames public sector debt and the other the failure to regulate high-risk finance. These form the bedrock of how the right and left respectively frame their policies. According to 'deficit hawks' on the right of the political-economic spectrum, excessive public debt, manifested as 'structural budget deficits,' are crowding out a private sector-led expansion of economic activity and hence renewed growth and more jobs. To the 'spending doves' on the left, it is the public austerity implemented to tackle the deficit that continues to prevent a dynamic recovery, dampening demand and turning the recession into long-term stagnation. Both narratives contain kernels of truth masked by ideological blinkers, which obscure the complex causes underlying the current crises in banking, sovereign solvency and sustainability. Both miss essential insights that, if overlooked, will lead to remedies that worsen the disease they aim to cure.

The financial crisis and its unresolved consequences remain a root cause of poor economic performance

Many economic commentators point to the (largely unresolved) turbulence in financial markets since 2007/8 as the root of our current crises. These financial shock-waves saw money markets seize up, transnational financial giants such as the US investment bank Lehmann Brothers collapse, and myriad of supposedly successful financial corporations, from Northern Rock and RBS in the UK to AIG and Fannie Mae in the USA, effectively nationalised. Unforeseen by conventional economists and characterised by most in hindsight as a failure by banks to price the risk of default on complex financial instruments, the crash was also a failure of governments to regulate systemically risky activity. The financial storm was not unique in itself, nor did it only affect the UK; the reach of globalised finance and the interconnected nature of Western economies meant this much was inevitable. Nonetheless the extent to which the financial crisis spilled over and caused both fiscal and general economic crises varied country by country. Both Vince Cable and the Social Liberal Forum predicted long before the event that the UK was particularly exposed to risks of excessive debt and over-reliance on an under-regulated financial services sector. As the most globalised economy in the G8, it was obvious that the UK needed to manage that risk much better.*

It is important to recognise the crucial role that the banking crisis of 2007/8 played in bringing about our current stagnation. Both deficit hawks and spending doves need to incorporate a better understanding of the ongoing financial crisis into their explanations of our economic problems. The former need to acknowledge that burgeoning public deficits are partly due to the justifiable bailout of systemically important banks and the drastic drop in tax receipts ensuing from output lost in the aftermath of the banking crash. The latter must accept that the financial crisis revealed structural flaws in the wider economy that cannot be resolved by

* in the interest of brevity, we will not discuss the precise reasons behind the near-collapse of the global banking system, except in the context of financial reforms discussed in Chapter 4; for excellent reviews of the crash, please see the Further Reading

somehow resetting monetary liquidity and propping up demand through greater borrowing alone. Both the financial crisis and the weakness in the real economy must be tackled together, head-on.

We must acknowledge that failures of public policy played a prominent role in both the illusory boom years preceding the crash and the subsequent deep depression. This is usually given some recognition when criticising the regulation of the financial services sector, implying that more vigilant oversight could in and of itself have prevented the systemic meltdown. Of course it was imprudent of successive governments to rely on 'light-touch regulation' of the banking industry. However, asserting that the country will return to economic health if only banks are more tightly controlled and forced to lend more to business, is lazy thinking.

Following the collapse of over-inflated house prices and the value of exotic financial derivatives based on them, we were faced with a credit crisis that threatened to engulf every major UK bank. The New Labour government of 2008 was left with little choice but to take large stocks in struggling transnational giants and effectively bail out the entire banking industry to avert disaster – any responsible administration would have done so. By the time the bank rescue was in place, however, the financial crisis had spilled over into a general economic crisis; lending to non-financial business was choked off by tightened credit conditions, in spite of loose monetary policy from the Bank of England, and the slide into the deepest and longest recession in living memory became inevitable as households and businesses alike de-leveraged the unprecedented debt they had accumulated in the boom years. This has resulted in the slowest recovery from recession in over seventy years (see Chart One).

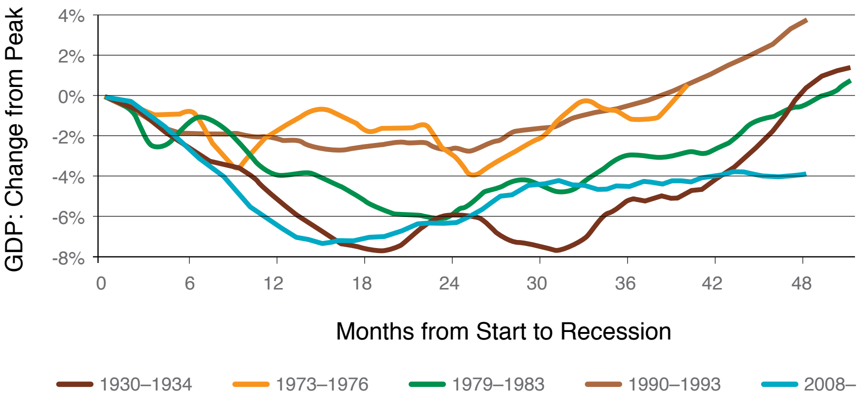

Chart One: *By plotting the change in GDP during and immediately after 20th century recessions, Jonathan Portes, Director of the National Institute of Economic and Social Research, has shown that the 2008/9 recession was the deepest in over seventy years. This also demonstrates that the ongoing recovery has taken longer than any previous downturn.*

Plans A, A+ and B(s) – the public policy response to date

Preceding the 2010 General Election, Labour relied on three broad policies to try to engineer an economic recovery: the bank bailout, loose monetary policy including Quantitative Easing, and some modest fiscal stimulus in the shape of scrappage schemes and a cut in VAT. It is likely that these measures prevented an even deeper recession, and yet it is also clear that they did not address the underlying imbalances in the economy. New borrowing at a time of recession might appear to be a classic example of Keynesian deficit spending, but what the deficit was spent on (restoring bank balance sheets and writing off worthless debts) meant the actual stimulus experienced by the wider economy was tiny. Aside from which, Keynes's essential insights included the need for fiscal responsibility and surplus-building when the economy is doing well – which the last government failed to do, despite Vince Cable's repeated warnings. Perhaps after decades of free market liberalism, the nuances of Keynes's ideas had been forgotten. This pamphlet puts them at the heart of our vision for a 21st century social liberal approach to economic management.

The casual assumption that restoring either public or private balance sheets to parity would, on their own, foster the economic dynamism required to meet the challenges we face today underpinned Chancellor George Osborne's immediate 'Plan A' for the economy. This was reflected in his Emergency Budget of June 2010 and the Comprehensive Spending Review that followed in October 2010. The Plan A approach was predicated on securing low long-term interest rates through low Treasury bond yields. This was intended to spark a private sector-led recovery, aided by loose monetary policy and a smaller state sector 'getting out of the way.' This Plan A – or so-called 'expansionary fiscal contraction' – has to date predictably been neither expansionary nor led to as much fiscal contraction as intended. This is because it focussed narrowly on direct measures to reduce the deficit and did not attempt to address the underlying causes of weak growth in jobs and output. The precipitous falls in tax receipts during and since the recession will continue unless a stimulus that outweighs the austerity and the 'automatic stabilisers' such as increased welfare spending is forthcoming.

So what is the Labour 'Plan B' alternative to the austere Plan A? That depends on who you ask, and when. Shadow Chancellor Ed Balls posited a 'five-point plan for growth,' and until recently had consistently opposed the rate and depth of Coalition spending cuts – belatedly Labour seems to have acknowledged the need for some public spending restraint in an attempt to regain credibility, but have yet to spell out which austerity measures they would support. The VAT cut, bonus tax and other temporary measures Labour proposes are plainly not designed to address the deep economic problems we face; rather, they represent a desire to patch up the economy as currently configured.

The pressure group Compass also presented a Plan B. It rightly sought to refocus attention on the recession and included some laudable pro-growth policies, but its stance on deficit reduction (to halt spending cuts completely until recovery is in place) is neither politically nor economically credible.

Concern at the failure of Plan A to inspire a recovery has resulted in various government initiatives – most of them originating from the Office of the Deputy Prime Minister – such as the Youth Contract, bringing forward some infrastructure spending, yet further loosening of monetary policy and the Cities Deal. These initiatives are welcome and discussed positively elsewhere in this pamphlet – however they do not go far enough as they are add-ons to the austere spending constraints of Plan A. As such, policy since Chancellor Osborne's 2011 Autumn Budget Statement, which laid bare the need for extra borrowing to compensate for the suppression of demand, can be seen as Plan A+; fiscal consolidation as per Plan A, plus a little more active pro-growth policy. It now appears that Labour has accepted the Coalition's Plan A as the only legitimate framework.

Plan C – there is an alternative

The narrowness of economic policy debate in Westminster increases the urgency for a different approach, which puts crisis management into a wider context. We need a genuinely progressive economic settlement, based on sound public finances, that supports rather than undermines the generation of sustainable and socially just prosperity.

The thinking behind Plans A and B – reflecting the neoliberal pro-market orthodoxy of the 1980s and '90s – needs to be challenged rigorously, but without sentimental recourse to policies designed for a bygone era. We must use the ideas bequeathed to us by the great social liberal economists to present a coherent narrative of how to bring about economic progress today. Our goal is to inspire economic dynamism for the current era, as much by reviving Keynesian 'animal spirits' as through detailed policy.

E.F. Schumacher reminded us in *Small is Beautiful* that meta-economics, which he defined as the narrative aspect of the 'economy as if people mattered,' was as vital in fostering sustainable prosperity as quantitative micro- and macro-economic policy. Defining 'sustainable prosperity' as socially just economic progress that benefits all in a manner that protects resources for future generations, we draw upon Amartya Sen's capabilities approach to socio-economic justice, as well as thinkers from the past and present such as Leonard Hobhouse, T. H. Green, John Maynard Keynes, Will Hutton and Ha-Joon Chang. Inspired by these great social liberals, we present Plan C as a broad-brush attempt to re-define social liberal economics for the 21st century.

With Plan A failing to support economic recovery and Plan B not likely to do so either, there is a clear need for a social liberal Plan C. We begin by exploring in brief what a Plan C approach to the economy means for deficit reduction and how it would be achieved. Recognising that healthy government finances are necessary but insufficient to foster fair and sustainable economic progress, we then present the substantive elements of Plan C in three parts: **innovation, investment and infrastructure for jobs; fair finance fit for purpose**; and policies that move us **towards a just, adaptable and secure 'flexicurity' economy**. The first two parts attempt to define broad principles and some policies that flow from them to re-shape the economy and generate fairer and more sustainable outcomes. The final part differs in recognising that the rapidly increasing pace of technological change and the rise of new economic powers are putting pressure on advanced economies. With the lifetime of most firms measured in years not decades, it is essential to develop policies that accept the fluid landscape and offer ways of making our economy adaptable to change.

Chapter two – reducing the deficit whilst supporting sustainable prosperity

While it would be wrong to deny the negative effect of a large budget deficit on the viability of our national economy, it is equally wrong to attempt to completely cancel the deficit according to an arbitrary and rigid timetable at the expense of our underlying economic health. The emotive nature of the debate around deficit reduction makes any dissent from the accepted orthodoxy – that bond markets would reject as irresponsible even small deviations from the fastest ever planned fiscal consolidation on record – politically difficult. Despite the apparent importance of projected government spending figures for the credibility of an economic plan such as this, and the uncertainty around the economic forecasts upon which such projections are predicated, we avoid the temptation here to specify precisely how much fiscal consolidation a Plan C approach would require year-on-year. Instead we present some simple guidelines as to how public finances can be made healthier.

The Plan C approach to deficit reduction is to support the 'deficit reduction averaging' approach set out by the IPPR, with a few important caveats. In brief, this means aiming to reduce the deficit over a set period, but re-calculating each year how much progress has been made and adjusting for important non-fiscal indicators of economic performance, notably GDP growth. Details of the IPPR's work are presented in Further Reading.

Such an approach would allow sensitivity of deficit reduction to conditions around the UK that affect economic progress. The first significant departure from Chancellor Osborne's plans that this implies is to take the effects of spending cuts themselves – including job losses, increased welfare spending and reduction of aggregate demand – into account when planning the following year's fiscal tightening. It is vital to build at least this degree of flexibility into any sensible deficit reduction plan – as 2011 data show, a lack of sensitivity to the depressive effects of spending cuts, manifested in lower-than-expected tax revenues, has resulted in greater than anticipated borrowing without freeing up that borrowing for capital investment.

Benchmarking the deficit against broader economic progress

Where the Plan C approach differs from the IPPR's plans is to use broader economic indicators against which to benchmark the amount of fiscal retrenchment the economy can bear. By looking at, for example, employment and unemployment statistics, price levels affected by inflation and deflation, levels of public and private capital investment and – in the long run – wider measures of economic well-being, as well as nominal GDP growth, we would move beyond the simplistic use of real GDP, which fails to fully capture the state of the economy.

Such an approach would prevent a 'balance-sheet approach' to public expenditure, which sees all government spending as negative entries on a balance sheet and gives equal weight to £1 spent on legal aid, universal childcare or disability benefits as that given to £1 spent on nuclear weapons, subsidies to risky banking or money wasted on the private finance initiative – despite the former adding more to socio-economic well-being than the latter. It would also re-frame the debate around closing the tax gap – introducing measures such as a General Anti-Avoidance Rule would allow uncollected taxes to repair government finances.

Crucially, it would also require formal acknowledgement that whilst healthy government finances are a necessary condition for sustainable prosperity, they are not themselves sufficient. A balanced budget doesn't necessarily imply a balanced economy – especially if it is accompanied by private sector deleveraging and an overall cash surplus unable to find channels through which to invest.

A Plan C approach to government finances requires political leadership

Finally, a Plan C approach would allow the government to take advantage of the exceptionally low bond yields – a result of a lack of confidence in the long-term prospects for growth as much as confidence in the Chancellor's spending cuts – to fund investment in a manner that re-shapes the nation's economy. In the short run, this may mean adding to public borrowing, although this need not be excessive. Measures to maximise the effectiveness of these investments are proposed in the following chapters. Moreover, it is clear that any extra borrowing that results in adequate investment from both the public and private sectors will be more than compensated for over the medium term by lower welfare spending and a more sustainable tax base.

It is only by building in such sensitivity to parameters of economic performance that deficit reduction can be achieved whilst supporting sustainable prosperity, which is as necessary for the repair of government finances as vice versa. Policies to support growth, quality jobs and wider economic well-being should not come as an afterthought – or still less be shelved in the interests of self-defeating fiscal policy. They must be a core component of a more nuanced public finance strategy, which takes into account the complex relationship with wider economic performance. Undoubtedly the fear of rising interest rates haunts the Treasury – but as noted above low bond yields in the UK are as much an expression of the lack of confidence in growth as an endorsement of austerity. Our triple-A credit rating keeps yields low for now, but is not enough to help small and medum-sized businesses grappling with reduced credit availability from nervous banks and a huge drop in demand. Plan C seeks to address the latter and will require strong political leadership to implement in the face of old arguments that insist on fiscal conservatism as an end in itself. But it is essential if the interest of both the taxpayer and private enterprise are to be served.

The electoral implications of taking this longer-term view might appear difficult as it means spreading fiscal consolidation over more than one Parliament. However the argument that we need a completely balanced budget before the 2015 general election has been undermined by the Chancellor's Autumn Statement of 2011, in which he admitted the failure to return to growth meant that fiscal tightening would continue well into the next Parliament anyway. So the question is no longer whether it would be sensible to reduce the deficit more slowly than Plan A indicated. It is now more relevant to ask *how* we plan to bring the deficit down over the medium to long term – and what mechanisms we have to make sure we achieve sustainable prosperity as part of the same strategy.

It would be folly to pretend that this can be achieved simply through more public borrowing alone. There needs to be a radical change in the way the UK economy is configured – so that it embeds the social liberal values of socio-economic justice into the heart of how capitalism and democracy work. The following chapters move beyond the narrow debate over how much the government should borrow to how best we can arrange our affairs to deliver a sustainable, just economic settlement, in which the positive liberty of citizens to pursue their own goals is paramount.

Chapter three – innovation, investment and infrastructure for jobs

The most damaging consequence of a depressed economy is lack of work – or more pertinently, the scarring effects of unemployment that stem from the contraction of demand, confidence and investment. Adding to the gloom today, the hardest-hit amongst those seeking work include the young, with over one million under-24s out of work. Regions outside London and the South-East are also disproportionately affected by both depressed demand in the private sector and public spending cuts. Future prospects appear bleak, with some firms planning to hire fewer and fire more employees – risking yet further decline in demand.

Labour market statistics show that the private sector has not created nearly enough new jobs to compensate for those shed by the public sector under austerity measures.

Governments either side of the 2010 General Election have implemented policies to encourage growth of jobs in the private sector – in the form of Labour's Regional Development Agencies and Future Jobs Fund and the Coalition's Regional Growth Fund and Youth Contract. These have not yet redressed the worrying increase in youth unemployment, nor the slide in wider employment (see Chart Two). There is also huge regional disparity in economic performance that our current crisis threatens to widen; additionally the long-term scarring effect of being unemployed, particularly on the young, risks creating another 'Lost Generation' if we fail to learn the lessons from crises past.

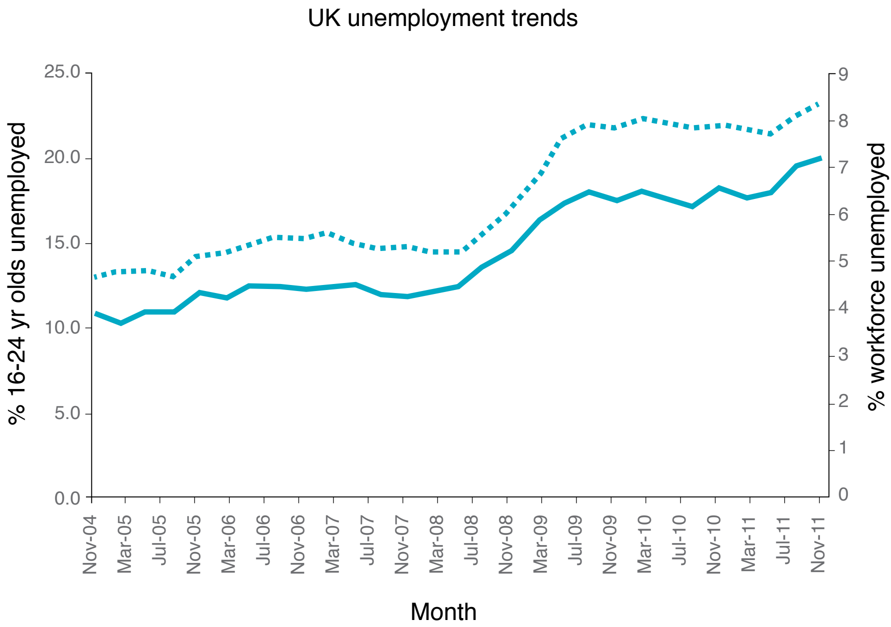

Chart Two: *Both youth unemployment (solid line) and wider unemployment (broken line, note different scales) began a steady rise in early 2005 and then increased dramatically following the financial crash and the onset of recession. Neither have fallen significantly in response to government policy – in fact joblessness continues to rise. Source: Eurostat.*

Innovation for growth, jobs and prosperity

There are several ways in which the state can – and must – play a role in order to stimulate private sector growth and employment. It has been shown many times – notably in Asia but also in the United States – that merely standing back and freeing up private enterprise is not enough. This is especially true during difficult economic times, when confidence is in short supply. Lasting prosperity stems from innovation and co-production between the public and private realms. The government needs to identify where new demand for jobs – and the skills and investment to fulfil it – are most likely to come from, as well as what obstacles stand in the way. Experience from many advanced economies shows that the state must also be willing to underwrite, finance and sometimes initiate research and innovation.

With the more flexible approach to deficit reduction set out in Chapter Two, the government should invest more in Enterprise Zones (EZs), moving beyond the supply-side approach exemplified by relaxed planning regulations and tax-break incentives. Such targeted investment in EZs should be aimed at finding innovative solutions to local and national challenges, particularly those regarding the improvement of physical and virtual infrastructure. The scope, design and delivery of these solutions should involve Local Enterprise Partnerships (LEPs) and other regional stakeholders, including elected representatives of local authorities and private businesses. EZs need to act as a facilitative forum through which local economies are strengthened and job markets revived, ensuring that both risk and reward are fairly distributed amongst private and public investors and employees.

To some extent the Coalition Government recognises the value of local authority engagement in delivering skills, jobs and growth, and the recently-announced 'City Deals' are an encouraging development. However, welcome though the devolution of decision-making is, the funding made available is unlikely to be transformative and the focus on broadband infrastructure alone likely to prove too narrow. There needs to be an expansion of the infrastructure and resources that promote innovation and collaboration for new and existing firms. Regional economic development can best be promoted via an 'innovation ecosystem' approach, involving both public and private sectors, as set out by Prof. Mariana Mazzucato of the Open University, NESTA, The Big Innovation Centre and others. Concrete policies that would foster such an approach include:

- expansion of the remit and resources of both LEPs and of the Technology Strategy Board (TSB) along the lines of DARPA in the USA, with more direct commissioning of innovative solutions
- reconfiguring the TSB's Small Business Research Initiative to encourage spending on innovation from Small to Medium Enterprises (SMEs)
- encouraging patient investment in innovative technology through the tax system
- ensuring Technology Innovation Centres (TICs) encompass physical and virtual networks between universities, investors, business and public institutions to maximise the translation of research and innovation.

Investment in scientific research is known to boost growth, create jobs and enhance well-being – therefore it is imperative that in encouraging innovation, we promote both public and private investment in the UK's centres of scientific excellence. There should also be a 'Green Deal' thread running through these policies so that the jobs, training and innovation provided by such schemes help to reach the government's targets for reducing the UK's carbon emissions.

Co-investment for co-production of sustainable prosperity

It is vital that the priority of maintaining the highest possible levels of employment is returned to the heart of political discourse. A powerful case has to be made for co-production of innovative goods and services. The interaction of public and private resources offers the best prospect for sustainable prosperity; the challenge is to create a framework within which both realms work together effectively to co-produce job-rich solutions to the economic challenges we face.

This requires fair finance fit for purpose (dealt with in the next chapter) and a more just, adaptable and secure framework for our economy to flourish (chapter 5). But it also requires genuine partnership between sectors of the economy that do not always see their goals as aligned. We therefore propose the creation of Public Interest Corporations, which would bring together public and private providers of skills, investment, infrastructure and a vision of the ways in which these can be put to work in the public interest. These would build on the successes of State-Owned Enterprises and Roosevelt's New Deal institutions of the 1930s.

These Public Interest Corporations (PICs) will be charged with operating as financially viable entities that provide employment-rich ways to tackle locally- and/or nationally identified challenges, in a way that brings in the private sector as more than just investors. Private and public entities would combine their respective advantages, such as the propensity to innovate and the consideration of common goals, into PICs that serve the public interest, which would be constituted to ensure that both risk and reward are spread between all relevant stakeholders including employees.

Moving beyond the sterile suspicion of 'picking winners' that plagues the debate around public involvement in economic activity will not be straightforward, and the imbalance between public risk and private profit embodied in recent PFI schemes must also be avoided. The aim is to bring the innovative capacity and resources of the private sector into harmony with publicly defined goals.

There is no reason why the state should not invest to underwrite private enterprise that is likely to provide sustainable employment and engage local communities. As Ha-Joon Chang and others have shown, most nations have provided subsidies, patient long-term finance and direct public investment to 'winners', even at the height of the neoliberal pro-market era and in supposedly 'free-market' economies such as the United States of America. Whether through the expansion of seed-corn finance for Community Interest Corporations, or the aforementioned PICs, we need to see greater co-ordination between public and private sectors to maintain high levels of fulfilling employment in the pursuit of sustainable prosperity.

A Plan C for the young

Finally, a Plan C approach to jobs must focus on youth employment, ensuring that the skills, investment and demand that give rise to meaningful work for the next generation are available and readily accessible. The Youth Contract should expand beyond the provision of short-term apprenticeships in existing firms by actively engaging school-leavers and graduates in multiple ways, including: matching skills to local vacancies through the provision of vocational training; hosting better links between employers and schools/colleges; and local ‘venture funds’ that allow groups of young people with innovative ideas to secure capital funding.

The individual policy proposals discussed here are not as important as the theme they share. An enterprising state that fosters investment in innovation from both public and private sources is the best way to deliver a sustainable economic settlement and meaningful, fulfilling work for all. We turn next to the modes of finance through which this can be achieved.

Chapter four – fair finance fit for purpose

> *I believe it will be said of this age, the first decades of the 21st century, that out of the greatest restructuring of the global economy, perhaps even greater than the industrial revolution, a new world order was created... Britain needs more of the vigour, ingenuity and aspiration that you already demonstrate that is the hallmark of your success.*
>
> Gordon Brown, then Chancellor of the Exchequer, addressing leaders of the City of London in his Mansion House speech, June 2007.

Many of the deep faults within the global financial system that were exposed by the credit crunch crisis of 2007/8 remain unresolved, despite their centrality to the generalised economic malaise most developed nations face today. Partly as a result of reluctance and/or inability to take on powerful interests in the shape of globalised finance, and partly because of the hope that minimal reforms would permit a return to the illusory growth that preceded the crash, efforts to reform our financial system have floundered.

A financial system fit for the 21st century must provide sufficient liquidity and dynamism to promote sustainable prosperity, but must also manage risk more effectively and be less reliant on public guarantees. This would serve the interests of the financial services industry as much as the public purse. No-one should pretend that it is simple to create a stable system, given the inherently cyclical nature and fluid cross-border movement of global capitalism. The government must therefore be willing to insist on the radical structural reforms required to ensure our financial system is fair and fit for purpose.

Since the 'Big Bang' reforms to the UK's financial sector in the mid-1980s, mirrored by the piecemeal repeal of the Glass-Steagall reforms in the USA and a deregulatory race-to-the-bottom across the world, successive governments viewed ballooning profits in the financial services sector as an indication of the underlying health of the wider economy. In fact, as pillar after pillar of the financial house of cards crumbled, their failure showed these apparent profits to be based on a rotten core of under-priced risk and a crass failure to take account of systemic uncertainty. Uncertainty is necessarily at the core of all markets. The role of regulators should not be merely to tinker at the edges, but to keep a close watch on macro-financial trends, in order to identify and negate risky activity before crises arise. In addition, risk-taking – the core business of financial speculators – must be properly insured against with higher capital buffers and a robust separation of retail and investment banking.

To achieve the aim of a fair financial system, fit for purpose, we must first define that purpose and set out the parameters of fairness we wish to apply.

A financial services sector that serves the nation's interest, not just its own

Events of the last three decades have shown that the purpose of the financial services sector has become distorted and eventually lost in the pursuit of gargantuan short-term returns. So here is a Plan C, social liberal, definition of the purpose of financial services: to provide the capital investment and credit required by productive business, and to help spread the risk inherent in taking on business activity, in a manner consistent with an environmentally and socially sustainable economy. Reforms to the sector must work to fulfil these aims, not to prop up existing structures and companies.

There is of course a balance to be struck between the provision of investment and credit in support of non-financial firms and maintaining solid public balance sheets. This reflects a tension at the heart of national and international financial policy between ensuring that the economy's wheels are well-oiled during the normal business cycle, and lessening both the likelihood and impact of large-scale financial crises. This is not the appropriate forum to discuss micro-prudential reforms aimed at restricting risky financial engineering at the level of the individual firm. But, in the interests of reducing inequality and to prevent excessive remuneration from distorting decision-making and incentives in the sector, pay in banks and allied institutions will need to be tackled (see chapter five). Here we set out a macro-prudential view of a safer, more effective financial system and how this could be achieved.

There has been much discussion of Sir John Vickers' proposed firewall between retail and investment banking. Proponents of 'true separation' argue that the Vickers proposals don't go far enough and will retain some public exposure of risk, while those opposed suggest that even internal firewalls between two arms of a banking corporation will be more costly than is worthwhile. Dealing with the latter argument is relatively easy; the cost to individual firms in ensuring their investment and retail activities are adequately separated will be minute compared to the explicit and implicit taxpayer subsidies the banking industry enjoys. However, those who wish to see integrated banks completely divest their retail arms should note that Lehmann Brothers had no retail activity and yet its failure caused seismic shockwaves that reverberate to this day. Also, several integrated banks survived without explicit taxpayer intervention (although all banks benefited from indirect State action such as the implied underwriting of retail deposits). It is clear that whilst protection of retail deposits from the vagaries of high-risk banking reduces taxpayers' liability – something the Coalition Government can achieve by adopting the recommendations of Vickers' Independent Commission on Banking – this reform is not of itself sufficient to restore the UK's financial health. Global financial crises are more likely to stem from the systemically risky behaviour of banks that are too big to fail. Or rather, too important to fail: the failure of even relatively small banks can be potentially disastrous, which is why the retail-only Northern Rock was saved from bankruptcy through nationalisation.

To make the banking world as safe as possible, then, it is not sufficient to keep retail and investment banking separate. The banking sector also needs to be more competitive than it is today and provide enough of the different kinds of financial services required by various types of business and organisations. To determine how to make such a financial system fit for purpose, we should revisit our statement of purpose and ask, 'what kinds of institutions and mechanisms are required to provide the productive economy with sufficient capital and credit to go about creating sustainable prosperity?' Or, 'what does Good Banking look like?'

Towards Good Banking that supports sustainable prosperity

The first thing a healthy economy requires from its financial services sector is sufficient and patient investment in capital-intensive areas of the economy where returns are uncertain but potentially transformative and/or able to strengthen public goods. This is already acknowledged by Liberal Democrats in the Coalition Government, who are pressing for the Green Investment Bank (GIB) to be well-capitalised and capable of leveraging private funds to invest in green infrastructure. Such a bank must be given a broad funding base and generous operating conditions, in order to enable as many Green Deal jobs as possible to be created. Job-intensive projects in the beefed-up Enterprise Zones should be prioritised for lending, as should measures to tackle energy efficiency, which pound-for-pound save more carbon emissions than the generation of power through renewable sources. But investment in the public interest needs to go beyond the remit of the GIB.

We therefore propose a National Investment Bank. This would be organised to help three broad sectors of the economy (as is the case with the German KfW group of banks): housing, SMEs and the support of business-for-export. It would be able to take advantage of favourable borrowing conditions created by Treasury guarantees, and could be financed from three possible sources:

- increased tax receipts arising from a ‘general anti-avoidance rule’ that would bring in a fairer share of corporate profits
- wealth taxes, such as those on high-value properties and on land values.
- a ‘financial transactions tax’ (FTT). Although the globalised nature of finance makes such a tax difficult to implement in the absence of worldwide agreement, the 0.5% stamp duty that HMRC charges on shares traded in London shows that it would be possible at the domestic or EU-wide level, without leading to loss of business.

Going beyond national-level large-scale investment, there is a pressing need for both credit and capital investment in innovation and for SMEs – investment that our current financial system is notoriously poor at providing. Thus, a network of publicly accountable regional banks should also be set up, perhaps emerging from the break-up of the currently-nationalised RBS group. Such regional banks, arranged as mutuals or cooperatives, would have closer links to local businesses and have a stake in their success, incentivising lending that leads to economic growth and job creation. The existence of a network of local and community banking institutions is crucial to economic revival. This will especially help if they act as the conduits for government schemes such as ‘credit easing,’ which currently fail to aid the wider economy because they rely on inadequate existing financial architecture, which remains out of touch with SMEs and still needs to repair its collective balance sheet before carrying out additional lending.

This network of new banks would form part of an ecosystem of financial institutions that encompasses credit unions, micro-finance providers, peer-to-peer lending facilities, local stock exchanges and other alternatives to traditional banking and investment. Such an ecosystem would go some way to ensuring that the diverse range of enterprises that form the backbone of the UK economy have access to the types of finance that suit them.

First, however, the economy must become less dependent on debt and more on equity-finance. Policy in this area is likely to be very difficult and slow to implement, but working towards an equalisation of debt and equity in the tax system, as recommended in the Mirrlees review, would go a long way to ensuring that businesses are less dependent on ephemeral sources of credit and more on patient investment through equity-funding.

Here then is a sketch of what a Good Banking sector looks like, focused on supply-side reforms that would facilitate the conditions for sustainable economic progress. However, Good Banking is not enough on its own. In order to achieve equitable, sustainable prosperity, the social liberal values of fairness and social justice must be embedded as key principles of how state and market are configured. It is to how these values can be put into practice that we finally turn.

Chapter five – towards a just, adaptable and secure ‘flexicurity’ economy

We face a twin crisis with a common core – our economic and political maladies are joined by the want of social justice and of fairness, neither of which can be resolved without embedding these principles anew in the institutions of capitalism and of democracy.

Recent events have demonstrated that inequality affects economic efficiency. When power, income, wealth and status are unequally distributed, the economy loses stability as well as legitimacy in the public’s eyes. This is to leave aside the moral indignation most progressives feel at the concentration of wealth in the hands of the few.

Liberals have always fought to prevent the emergence of an overbearing state that disempowers individuals. However, social liberals recognise that markets – or rather their constituent actors – are too often organised in ways that disempower and violate the capability of individuals to live fulfilling lives. It is at this point that a central principle of social liberalism comes into play – that a liberal, accountable and open state should act as a countervailing force to the inequality that results when the market’s ‘invisible hand’ distorts outcomes through unjust practices.

“We are intensely relaxed about people getting filthy rich – as long as they pay their taxes.”

Lord (then simply Peter) Mandelson, addressing Californian computer executives nervous about the UK being a poor host for business, in 1998.

“The function of the State is to secure conditions upon which its citizens are able to win, by their own effort, all that is necessary to a full civic efficiency. It is for the State to take care that the economic conditions are such that the normal man who is not defective in mind or body or will can by useful labour feed, house and clothe himself and his family”

L. T. Hobshouse, in Liberalism (1911)

The state's role in ensuring that a market economy delivers social justice

The recent trend, in the UK at least, has been for government policy to try to act as a countervailing force in a post-hoc manner. That is to say, attempts to redress some of the unjust outcomes of the market economy have come as afterthoughts designed to patch up underlying iniquities that remain in place. This is exemplified by New Labour policy relating to earnings, taxation and in-work benefits. Tax credits and in-work benefits were trumpeted as great progressive interventions on behalf of a caring state. Indeed, as inflation-adjusted wages continued to stagnate for the majority of the working population, low- and middle-earners came to depend on tax credits to top-up their incomes to an acceptable level. However, this served to support a labour market configured to produce unjust outcomes. New Labour's reluctance to tackle the injustice of stagnant median wages in the first place – particularly in the face of soaring pay for the lucky few at the very top of the income scale – exposed a massive philosophical flaw at the heart of modern social democracy as practised by New Labour and its intellectual bedfellows in other countries.

The assumption, infamously encapsulated by Peter Mandelson's claim with which this chapter begins, was that the labour market could self-organise in whatever way it saw fit. Provided the filthy rich paid their taxes, the government could continue to make transfer payments to those who fail to secure a just market wage. This myopic view of social justice recapitulates the fundamental flaws in the idea of redistribution as an end in itself: that redistributing small amounts of money to millions of people will make up for the gross inequality created by an unfair system; that redistributing money alone is tantamount to redistributing capabilities; and finally, that the state's role is to act only as an after-the-fact arbiter.

The key for a Plan C, social liberal approach to the economy is to challenge these assumptions. Inequalities of rewards are a symptom of the underlying inequality of power in the workplace – and to some extent the ballot box. We need a wider-reaching redistribution of more than just monetary income. The role of the state is to make the framework within which markets operate fairer so that the outcomes people experience are more socially just in the first place, before any need for heavy government intervention arises. Put simply, social liberals believe that a fairer economy, with rewards themselves distributed more evenly and according to desert, would be a more efficient economy.

A social liberal approach to fair pay

Unequal pay matters for hard economic reasons as well as moral ones. With an increasingly high proportion of the spoils of growth accruing to an ever-diminishing sector of the super-rich, many low-to middle-earners came to depend not just on state handouts but also on crippling levels of personal debt. This led to an unstable consumer base prone to shocks to their spending power. It also made monetary stimuli ineffective, because they were used to pay down debt rather than prop up consumption (itself a destabilising strategy in the long term).

The macro-economic instability created by suppressing the earnings of millions of consumers is therefore plain to see. The lowest-paid must receive wages that allow them to live decent lives – a living wage is essential and should be introduced through voluntary agreements at first, then with legislation if the agreements do not hold. This is a more important and progressive measure than any reform to the benefits system that aims to 'make work pay.'

Historically, social democracy's answer to excessive pay has been to increase taxes on soaring incomes. This has only been marginally effective – that is to say, effective to some degree, but not effective at the margins of the pay scale. A social liberal approach would tackle extremes of pay at root. This government is already taking more action than its predecessor did, having commissioned the Hutton Review on fair pay in the public sector (and begun to implement some of its recommendations), and in welcoming the findings of the independent High Pay Commission. However, the real test of the government's commitment to tackling high pay will be when we see which of the measures recommended in these reports it actually implements.

Workplace democracy as an antidote to the inequality of power and reward

Social liberals see income inequality as a symptom of inequality of power in the workplace. High pay must be transparent, but such transparency must come with genuine empowerment of employees, shareholders and other stakeholders to affect change once they have the data on pay to hand. Plan C would therefore alter the relationship between management and employees – not just through worker representation on remuneration committees, but through genuine democratisation of the workplace.

A radical shake-up of company law and corporate governance would permit such empowerment and should extend beyond the Deputy Prime Minister's welcome promotion of employee ownership; there needs to be root-and-branch reform of company structure to ensure employees and other stakeholders have a fair say in how their firms are run, even in the absence of widespread employee ownership. A greater voice for ordinary workers may start by helping to break the illusion of the superstar CEO that is used as justification for superstar pay.

Shelter from economic storms – flexicurity for sustainable prosperity

Measures to ensure that pay and power in the workplace are fairly distributed should be coupled with a reorganisation of how the labour market works, in particular the provision of skills, training and mitigation against the effects of the business cycle. These measures are qualitatively different from much else proposed here, in that they seek less to create perfect economic equilibrium than to acknowledge the limits of policy prescriptions in the face of uncertainty and to provide shelter from the waves of creative destruction that are an integral part of capitalism.

There has been much talk lately of making further changes to employment laws to encourage job creation. It is doubtful whether such supply-side changes would be effective in creating a single extra job and, even if they did, now is hardly the time to sacrifice employee rights when security of tenure is so fragile.

Instead, labour market reforms should focus on updating the welfare state in a way that incorporates the European 'flexicurity' principles adopted in countries such as Denmark and the Netherlands, which, like the UK, are unusually exposed to the vagaries of global markets because of their high export-GDP ratios. Flexicurity implies that workers will enjoy robust unemployment insurance, as a trade-off against increased flexibility of labour contracts. In addition (and this is the crucial element) there is excellent provision of re-training, life-long learning facilities and help in finding suitable new work. It is no coincidence that countries with the most adaptable systems for helping employees and businesses cope with the choppy waters of the global economy have emerged fastest from the crash of 2007/8.

There is a real question at the heart of flexicurity for social liberals – who should provide the security elements? If left to individual firms, there will be millions of workers who do not benefit from training and out-of-work help. If left entirely to the state, the costs could only be met through higher taxation. Whilst an element of the latter should not be ruled out (a 1% increase in corporation tax, for instance, might be an acceptable levy to pay for improved skills training that would allow firms with the potential to grow to do so), flexicurity offers an opportunity for both corporations and trade unions to reform and play a new role in a social liberal economy.

Firms should be asked to set aside a proportion of revenue to be held in trust and used in the training of employees to help them get through periods of unemployment. Unions could be reorganised along the lines of worker cooperatives or friendly societies, which would work alongside company management to ensure that adequate out-of-work insurance and training is provided to all its members on an income contingent contributory basis. Far from replacing state underwriting of universal benefits, which would continue to provide a floor below which nobody should fall, such organisations would help employees cope with the need to adapt to a rapidly evolving economic landscape and help business and employees benefit from greater matching of skills and demand for work. Such radical reforms, altering the relationship between management, workers and the state, would ensure that all three benefit from closer alignments of their individual goals.

Conclusion

Reviving and reforming the economy to make it greener, fairer and more sustainable than in recent decades is a key challenge facing policy makers. Various politicians, economists, think-tanks and commentators have put forward policies designed to return to the levels of growth seen before the onset of the current crisis – and yet these policies are often devoid of a narrative, a sense of purpose behind what they are aiming to achieve. The Social Liberal Forum's approach is to recognise that narrative is as crucial to making effective policy as any technocratic solutions, and that this narrative should be based on the values and principles of 21st century social Liberalism – the values of fairness and social justice, paired with a vision of an economic settlement that enhances the capabilities of all to live fulfilling lives.

It is from these values and this vision that we derive the overarching goal of Plan C: the co-production of truly sustainable prosperity with the spread of risk and reward between stakeholders according to what they can offer and really deserve. Plan C seeks to establish a new economic paradigm that is focused entirely on the need to build sustainable prosperity – centred on a social liberal conception of how both State and markets must evolve together to bring this about.

Further reading

Full references are available on the Social Liberal Forum website:
http://socialliberal.net

For in-depth analysis of the financial crash and its underlying causes, see:

- *Fool's Gold* by Gillian Tett (Abacus, 2010)
- *The Storm* by Vince Cable (Atlantic Books, 2010)
- *Fantasy Island* by Larry Elliott and Dan Atkinsnon (Constable, 2007)
- *The return of depression economics* by Paul Krugman (Penguin, 2008)
- *Globalisation and the role of the state* by David Hall-Matthews (chapter in *Reinventing the State*, Politico's, 2007).

For an indispensible overview of how John Maynard Keynes's economic philosophy is central to the social liberal approach, see *Keynes: the return of the Master by Robert Skidelsky* (Penguin, 2010).

The social liberal economic philosophy in the following works has informed much of this work:

- L. T. Hobhouse (*Liberalism*; Oxford University Press, 1944)
- J. M. Keynes (*The General Theory of Employment, Interest and Money*; first published 1936, 2008 edition published by BN Publishing)
- William Beveridge (*The Report of the Inter-Departmental Committee on Social Insurance and Allied Services*, 1942) and
- J. K. Galbraith (*The Great Crash*, 1929 and *The Affluent Society,* Houghton Mifflin Harcourt, 1954 and 1958)

Social liberal economics has been brought up to date through the writing of

- Amartya Sen (in particular *Development as Freedom*, OUP, 1999; and *The Idea of Justice*, Harvard University Press, 2009)
- Will Hutton (*The State We're In*, Vintage, 1996 and *Them and Us*, Abacus, 2011)
- Ha-Joon Chang (*Bad Samaritans*, Randon House, 2007, and *23 things they don't tell you about capiltalism*, Allen Lane, 2010)