

THE LABOUR PARTY AND BUSINESS

Partners for a New Kind of Growth

By Stephen Kinnock MP

A Publication of Labour Business

May 2016

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With a Foreword by

Hamish Sandison

**A Publication of
Labour Business
(formerly the Labour Finance and Industry Group)**

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Foreword



By Hamish Sandison, Chair, Labour Business

Labour Business (formerly known as the Labour Finance and Industry Group or LFIG) is the oldest, largest and only business group affiliated to the Labour Party. We are one of the key links between the Party and the business community. As such, our long-term aim is to help win elections for Labour by demonstrating Labour's economic credibility and by developing pro-business policies for Labour candidates. In the short term, we do this by (a) engaging with, and listening to, the business community and (b) providing business people with opportunities to become involved in detailed policy development through our policy groups.

We would be the first to admit that Labour's pro-business credentials took a serious hit in the 2015 General Election. Labour was perceived as an "anti-business" party, which is one of the reasons why we lost. Whether that perception is fair or not is another matter. But as we know, perception is all in modern politics. To win again, we must bust the myth that Labour is an anti-business party and we must re-establish Labour's economic credibility.

That's why Labour Business was so keen to publish Stephen Kinnock's analysis of what a pro-business Labour policy should look like. The strength of his analysis is that, rather than setting out a shopping list of individual retail offers for the business community, it begins to describe an over-arching narrative for a more joined-up approach to the economy and business under a Labour government. Importantly, in our view, it calls for a partnership between government, business and the trades unions in laying the foundations for a more productive economy. Equally important, with the European Referendum looming, it restates Labour's overwhelmingly pro-EU attitude as a key component of our pro-business credentials.

Stephen Kinnock is a thoughtful MP, with broad private sector experience, and we are very proud to have his support as the Chair of our Labour Business Parliamentary Group. Like him, we believe that Labour Business has a central role to play on the road back to government by repositioning Labour as a party which is unashamedly pro-business as well as pro-worker. We are confident that this publication will make

a significant contribution to helping re-start the conversation between the Labour Party and the business community without which we cannot win future elections.

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Hamish Sandison is a partner in Fieldfisher LLP, the international law firm. He was elected Chair of Labour Business in June 2015, having served as a member of its Executive Committee for 2 years. He was Labour's Parliamentary Candidate in Monmouth in the 2010 General Election. He writes in a personal capacity.

THE LABOUR PARTY AND BUSINESS: PARTNERS FOR A NEW KIND OF GROWTH

By

Stephen Kinnock MP

Background

Over the course of the last parliament the Labour Party made several attempts to create a new narrative on the economy, and to stimulate a debate around the role of business within that narrative. Phrases such as '*responsible capitalism*' and '*pro-business, but not pro-business as usual*' were at the heart of these attempts. For a range of reasons these interventions failed to gain traction, and the broad perception across the British electorate on 7 May was that we were lacking competence on the economy, and were somehow 'anti-business'.

What we learned from the 2015 election is that we can have all the well thought-out policies in the world, but if the mood music is not right then we will fail to engage effectively with the electorate. And if the mood music frames us as an anti-business party, then we will never win a general election.

This places the work of Labour Business in a position of central importance, in terms of the road back to government. The 9 May launch of Labour Business is an important milestone on that road, and the purpose of this short note is to set the scene for the 9 May launch event, by outlining my thoughts on the following questions:

- what does the Labour Party need to start saying and doing, if it is to dismantle the myth that we are an anti-business party?
- what should our emerging narrative on the economy and business look like?
- what steps should we take to begin putting these ideas into practice?

Eight core principles that must underpin our approach

Labour's goal is to ensure that the market serves the people, not the other way round, and our mission is to reform capitalism, not to overthrow it.

1. Our mission is to reform capitalism, not to overthrow it. We embrace the market when it works in the interests of the British people as a whole, but we are also prepared to intervene when it fails to do so.

2. We are economically radical, but fiscally prudent. We understand that wealth must be created before it can be distributed.

3. We strongly support the profit motive, and know that business and society are inter-dependent, each requiring the other to be healthy and effective. But we believe that more needs to be done to connect corporate success with social progress. Businesses that are better governed and take into account their social and environmental impact will be more profitable, and enjoy more sustainable growth. So, even those business leaders who believe that the business of business is *only* to make money should still be interested in the social and environmental impact of business. Examples which come to mind are recent issues at BP (the environmental disaster of Deepwater Horizon which has cost the company millions), the VW scandal (poor governance and environmental policies will cost the company millions) and Tesco (accounting anomalies affecting its share value). On a purely “profit driven” analysis, it makes commercial sense for companies to take environmental, social and governance factors into account, but too often these can be seen as “nice to have” ethical add-ons, as opposed to good business sense. We know that many business leaders understand this reality, and are committed working in partnership with them, to build a new kind of growth.

4. We are the Party of modern manufacturing. In 1970 manufacturing accounted for one third of the British economy; in 2015 it stands at barely ten per cent. The dramatic decline of our manufacturing sector is the root cause of three deep-seated structural weaknesses in the British economy, namely, our trade deficit, our productivity crisis and the lack of balance across regions and sectors. Let’s play to our strengths, and show the British people that Labour is the only party with the desire and capability to lead a Modern Manufacturing Renaissance. The starting point for this has to be a comprehensive industrial strategy and a public and private investment plan that covers skills, access to finance, research and innovation, energy and infrastructure. The steel crisis has dragged the government, kicking and screaming, towards the realisation that the state does actually have a role to play in building a sustainable industrial base. Now that Cameron, Osborne and Javid have 'crossed the rubicon', we should be pressing home our advantage by building a set of sector-based industrial strategies, backed up with real investment. To this end Anna Turley MP and I will be co-chairing 'Steel 2020', an inquiry and report under the auspices of the APPG on Steel.

5. We must also ensure that we do not sound too ‘twentieth century’ on manufacturing. In some voters' eyes, manufacturing is 'metal bashing', represents the 'old' economy, and employs a small proportion of the workforce. In reality, the process of manufacturing embraces pharmaceuticals, coding and the use of data to improve the product/service, and as such encompasses a much broader sweep of the workforce. As a result, the distinction between manufacturing and servicing is blurring. For example, Rolls Royce might be considered more of a services firm today given that its revenues are increasingly derived from the servicing of its engines rather selling them. Modern manufacturing elides the difference with services: the most successful businesses often offer packages that involve making things and then

offering services around what they make. Among big firms, Rolls Royce and BAE are classic examples of this, but the same is true of many smaller scale high tech ventures. Also, the digital age muddies the old boundaries further. The Labour critique of Tory industrial policy should therefore focus on the cutbacks in the innovation budget – and particularly Innovate UK and the catapults. George Osborne was right to have protected research in the spending review, but the UK's historic weakness has not been in research citations and Nobel prizes, but rather in our ability to commercialise our research brilliance. The UK lags way behind the rest of the EU in terms of the percentage of our GDP that we invest in commercialising our R & D, and Labour should be relentlessly challenging the government on this point, and pushing for increasing from 1.7% to 3%.

6. We are the party that is pro-business, but not pro-business as usual. The organisational culture of the UK's corporations is in urgent need of change (and I say this as someone who has spent most of his career working in and with the private sector). With some excellent exceptions, the prevailing approach of most business strategies is driven by short-termism – what Hilary Clinton calls 'quarterly capitalism' – with the delivery of fast-buck profits to shareholders taking precedence over all other considerations, including investment in skills, technology and R&D. A growing number of business leaders understand that the current model is not working, and this represents a real opportunity for the Labour Party to form a new progressive partnership with the private sector. In my pamphlet, *A New Nation: Building a United Kingdom of Purpose, Patriotism and Resilience*, I outline how this new partnership model could deliver a number of changes, including reform of the Companies Act and a new statutory Code of Conduct for Institutional Shareholders. The point should also be made that many of the largest shareholders in companies are actually holding ordinary savers' money (i.e. the pension funds and their asset managers) and these savers have an interest in a long-term, sustainable economy. Corporate excess and chasing short-term profit affect the value of savers' hard-earned pensions and savings. The link therefore needs to be redrawn between the providers of the capital (the savers), those who invest it (the asset and fund managers), and the companies in which they invest. The long list of once-reputable firms that have been stripped and hung out to dry by unscrupulous owners (with BHS being the most recent example) speaks for itself. Labour does not need to make the case for change, as the British people are crying out for it. What we must now do is set out a clear vision and detailed set of proposals for reform.

7. We are fully committed to the development of a mature, constructive, productive and partnership-based industrial relations culture, and we wish to work closely with our trade union colleagues, to turn this vision into a reality. We know that the only effective way to tackle low pay is through collective bargaining, and we believe that the decline of collective bargaining across the British economy contributes directly to the productivity crisis. At present only 30% of the UK economy is covered by collective bargaining, as compared to the EU average of almost 70%. We believe that the Labour Party should commit to re-inventing industrial relations in a modern context, and that it should be doing so from a pro-business perspective – we should be making the business case for collective

bargaining. The first step in this direction would be to commit to doubling collective bargaining coverage across the economy from 30% to 60%, by 2030.

8. We are a pro-EU party, almost to the point of unanimity, and this greatly strengthens our pro-business credentials. The British business community is, like the Labour Party, strongly pro-EU. We must build on this common ground, as a central plank of our strategy for re-inventing the relationship between Labour and business. From now until 23 June we shall of course be fully focused on campaigning, but once the dust has settled after the vote then we should set up a Labour Business Joint Task Force on the EU, which will look at re-thinking the UK's relationship with our EU partners. Our fervent hope, of course, is that the British people will vote Remain, but whatever the result on 23 June, we know that business-as-usual is no longer sustainable. A fundamental re-definition of the UK's role will be required. If Remain carries the day, then Labour will be presented with an unparalleled opportunity. As the Tory psycho-drama continues to rage, we will be ideally positioned to set out a roadmap for the UK to re-launch its engagement with the EU, to exorcise our demons, and to take up the leadership role that our partners and allies have been urging us to take, for so long. Given that the UK's membership of the EU and access to the single market is of central importance to the business community, then it is right that Labour should join forces with business in the re-shaping of the UK's long-term Europe strategy.

Partners for a new kind of growth

If the Labour Party is to be successful in its primary role of holding the government to account then it must, as a matter of urgency, set out a positive and constructive alternative to the Tory mantras that are recited *ad nauseam* on the floor of the House, in the media, and in their speeches (e.g. 'long-term economic plan', 'fixing the roof whilst the sun is shining', and so on).

Informed by our analysis of the structural weaknesses that lie at the heart of the British economy, guided by our critique of the Tory policies that are compounding those weaknesses every day, and driven by our pro-business stance, the proposal at the heart of this note is that Labour's narrative should be structured around a single strap-line, namely: ***partners for a new kind of growth***.

The *Partners for a new kind of growth* strap-line is anchored in our belief that change does not happen in a vacuum. It is informed by specific interests, objectives and outlooks – all of them human but not all of them benign. The job of progressive politics is not simply to react and adapt to change; it is to become an engine for change of a new and different kind. We know that globalisation, de-industrialisation and the technology revolution have radically altered our country, and we also know that successive post-Second World War governments have failed to harness those forces and channel them into equitable, sustainable and balanced outcomes for ordinary working people. Yes, the seismic changes of the last 50 years have driven growth, but it has not been the right *kind* of growth.

More specifically, *partners for new kind of growth* sends the following messages:

We place *partnership* at the heart of everything we do. We know that government, business, finance and the trade union movement must work closely together, if we are to tackle the huge structural challenges facing the UK economy:

- We believe in the market economy, as it delivers *growth*, and growth has lifted millions out of poverty.
- But we seek to build a *new kind* of growth that is designed to: a) deliver a modern manufacturing renaissance based on smart long-term investment and a comprehensive industrial strategy; b) re-shape Britain's corporate culture on the basis of firmer, fairer and more patriotic foundations.
- Our new kind of growth will also be founded on the re-invention of the UK's corporate and industrial relations culture.
- Our ambition is to develop all of the above in partnership with the TUC and a vanguard of progressive business leaders.

Re-engaging with business

There can be little doubt that over the last five years the relationship between the Labour Party and the business community has deteriorated. To some extent this deterioration has been caused by differences over policy, but the fundamental problem has been the 'mood music'. We simply have not done enough to engage with the private sector at a strategic level, from blue chip through to SMEs, start-ups and social entrepreneurs.

I hope that Labour Business will drive and support the renaissance in the relationship between Labour and business that is so desperately and urgently needed, and I look forward to working with colleagues across the PLP and the business community, to help make that happen.

Partners for a new kind of growth: the clue is in the name - the concept must, by definition, be developed and rolled out *in partnership* with the relevant stakeholders. It is a narrative that must be co-created and developed jointly, demonstrating that Labour and business are delivering together, through the strength of our common endeavour.

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