

“The challenge is to  
reconcile the prosperous  
economy with the good  
society...”

**POWERFUL PEOPLE**

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## ECONOMICALLY POWERFUL PEOPLE

### Why markets need values

What unites the Left is a belief that markets should serve people, not vice versa. Yet the difficult reality for any government minister – and one of the great challenges for the coming years – is that this grand aspiration seems a long way from many people’s daily experience.

The promise of the market is freedom, dynamism and wealth creation, but the reality, in workplaces, homes and high streets, can often feel more like insecurity, rampant commercialisation and powerlessness.

For all the unquestionable benefits that markets bring, Britain is still a place in which unscrupulous landlords are able to exploit migrant workers ten-to-a-room on our streets. Trade unions still have to fight against unscrupulous employers seeking to substitute the tips employees receive for a proper minimum wage. Parents still worry about young girls being sexualized by advertising, and unhealthy food is being marketed at the most unhealthy generation of children on record. We experience the consequences of market failure in our daily lives and in those of the people around us.

It wasn’t necessary to see the global financial meltdown to know the damage that unfettered markets can cause. Most of us experienced first hand, in our communities and daily lives, the damage that unregulated markets can cause long before the financial crisis struck.

Yet the collapse of confidence in the banking system felt like a turning point. Immediately, economists, central bankers and policy makers were galvanised into finding ways to restore the health of the global financial system.

Less than a year on, many in the City and elsewhere argue that reform has been completed, pressing the case for a swift return to ‘business as usual’. Having cleaned up the banking system and restored stability to the financial markets, they say we can return to the benign economic conditions that have prevailed for the last 25 years.

That is a thoroughly conservative view. The world has changed. Too many households in Western economies, buoyed by increased personal debt and rising house prices, have been living beyond their means. Since the turn of the century, savers in countries that are net exporters, in China and elsewhere, have helped to sustain consumer consumption in countries such as the US and UK. We now see that the scale of that imbalance was too large to sustain.

At the same time, imbalances have been created within our own country. Older generations have benefited from the financial security and increased spending power that rising house prices and occupational pensions have given them. Those same benefits and protections will not be afforded to the young. Rising house prices may have made many of us feel wealthier - but they have transferred wealth on a grand scale from the young to the old.

Faced with these prospects, we cannot simply leave the market to 'let rip'. We have to grasp the opportunity now to think about the kind of economy we want. Nothing should be off-limits.

Demos has long argued that the exercise of power does not only reside in the formal arenas of political activity. The impact of the choices we make in our daily lives - about the car we drive or the food we buy - can be just as significant as the decisions taken in the polling booth or the council chamber. Therefore, if we are serious about creating a country of powerful people, we need to begin by addressing the impact that economic choices have on our lives.

We must restore the imbalance that people too often feel between their own aspirations and the weight of markets. That means acknowledging the impact of the economic choices we make, as consumers in the high street and producers in the workplace. And it must require us to recognise the damage done when we allow the economically weak to be exploited.

The contested ground of politics in this century lies in the relationship between markets and values. The fault line will run within as well as between political parties. On one side stand those who believe that markets come 'with values included', with the right values built in, because they reflect a certain understanding of freedom. But many of us cannot be satisfied with this impoverished view of a free and fulfilling life. We believe that democracy is there to infuse markets with values, to make them worthwhile and to help achieve their potential for society.

That doesn't happen by chance. Government must help to create the conditions to empower consumers, employees, suppliers and shareholders. But this cannot be achieved by all-knowing, all-powerful regulators. It is a job for informed, empowered citizens.

How do we make that a reality?

### **Be confident in asserting the public interest**

Even the staunchest free marketeer believes that markets only function with rules which govern property rights and provide due process. Clear, robust rules are a prerequisite for a successful economy built on long-term foundations. Banks need to be regulated because our economy depends on a sound financial system. Like the companies that supply our gas and electricity or run our trains, banks are vital to the success of the economy. The savings we deposit in banks benefit from a government guarantee and banks themselves enjoy an implicit level of support from governments. These guarantees are necessary given the importance of a fully functioning banking system. But they also mean that banks have a responsibility to answer to the public as well as to their shareholders.

### **Assert the moral as well as economic limits of the market**

Regulation must have a place, not simply to minimise wider risk to the economy, but to protect and support those who are too often powerless. ‘Market failure’ has become the stock explanation for government intervention, whether that means addressing companies’ carbon emissions, or providing employees with the skills they need to thrive in an increasingly competitive world economy. Over the last decade interventions have tended to be justified on technical, not ethical grounds. Tax credits would make work pay, altering incentives. Childcare would help mothers back to work, tackling poverty. Adult learning would boost productivity, enhancing competitiveness. All of these things were true – but Labour has been at its best when we have made bold commitments based on ethical principles. The National Minimum Wage was based on principles of decency, not just economics, protecting the least powerful in the labour market. Ending poverty in a generation became a moral crusade that even the Tories now pay lip service to. Boosting the spending power of those hurt by the downturn is more than a fiscal stimulus: it is an expression of solidarity.

Over the next decade, the party that is able to help people overcome the pressures of modern life will be the one that is willing to take these ethical positions and stand by them. Whether it is preventing advertising being targeted at young children, providing spaces for them to play, or ensuring families have time together.

### **Empower consumers by providing better access to information**

Thriving markets are founded on the free exchange of knowledge and ideas as well as goods and services. If we really want better markets, then

consumers, shareholders and stakeholders need more and better information. Many of the mechanisms are already in place. Publicly listed companies are required to publish data about their financial performance. But they should also be expected to report on the things that matter to employees, customers and shareholders alike: executive pay, environmental impact, labour conditions in their supply chain, and the way that companies treat communities. Organisations in civil society and individual consumers are already taking the steps to collate and share information about companies.

For years, consumers' choices have been informed by their values, whether buying cleaning products that don't harm the environment or cosmetics that have not been tested in animals. But this gives us only a glimpse of the potential power we all hold. As we address the future of our planet, think of the positive impact that millions of informed, empowered consumers could have by making ethical and environmentally-conscious choices - what Daniel Goldman calls 'ecological intelligence'<sup>1</sup>.

Already consumers want to know much more about where their clothes are made and in what conditions. Technology is making this a reality. Applications such as GoodGuide enable consumers to access independent information at the touch of a button about the health, environmental and social impacts of products they buy - from shampoo and washing powder to yoghurt and breakfast cereal.<sup>2</sup>

Imagine the change people could demand with more information. Why shouldn't people have more information about the companies that advertise to them? We should be armed with information about supply chains, carbon emissions and the wages companies expect people to work for. People often complain that consumerism is empty, but that is only because we let it be.

### **Create a more sustainable economy by spreading the benefits of ownership**

Greater diversity in the way that companies are structured can help to create a more resilient economy. But the existing legal and financial architecture is skewed towards one model of ownership: the joint stock company. Incentives can encourage more inclusive ways of doing business, such as employee-owned companies, co-operatives and mutuals. For example, the tax system could be used to encourage the establishment of employee share trusts, assisting company owners who want to hand control of their business to employees. Legislation can support the mutual financial model. Central and local government can play its part by looking at the way the public sector commissions services, ensuring that alternative models of ownership are given a fair crack of the whip when bidding for government contracts. We

should also investigate the wider use of public interest companies, taking Network Rail and the Guardian Media Group as models.

In finance, the traditional concept of the credit union has been given a new lease of life by peer-to-peer finance. Websites such as Zopa bring together individuals who want to lend or borrow money, offering both parties better terms than the high street banks. Zopa provides the infrastructure and legal protections, but the critical ingredient is the personal agreement and trust between borrower and lender. It is a model that works for personal loans, and has the potential to be extended.

### **Work towards a more empowered and responsible model of shareholding**

Capitalism will not be sustainable if shareholding is seen as a purely transactional, momentary phenomenon. We need to encourage shareholder activism and place a greater onus on owners to challenge the people who run companies. We should foster the notion of 'stewardship' which sees company ownership as a relationship based on long-term engagement rather than a simple transaction.<sup>3</sup> Put simply we should find ways for shareholders to think of themselves as responsible owners of businesses, not just speculators on the stock exchange. And we should support the efforts of organisations such as Fair Pensions to empower all of us as shareholders to take on our responsibilities as owners and hold companies to account.

At work, employee ownership offers an alternative, ethical and successful model of the firm. In companies that are owned by employees themselves, staff work *with* one another, not just *for* someone else. People with a stake in their work have a greater sense of well-being and benefit financially by sharing in the profits. The genuine engagement from employees contributes to more sustained commercial performance.<sup>4</sup>

We must seize the moment. History shows that the opportunity to recalibrate the economy and its relationship with society comes once in a generation during periods of immense upheaval and economic dislocation.

After the oil price shocks and industrial unrest of the 1970s, Thatcher's reforms created the conditions for a growth spurt founded on speculation in property and the financial markets. But that growth was built on the flimsiest of foundations, and in the headlong rush to create a country of little capitalists, the policies of the Thatcher and Major governments destroyed many of the social institutions they claimed to uphold.

The Left needs a clearer vision of what a good society looks like – and that includes not just the role of the state but the place of markets in our everyday lives.

Political thinkers on both the Left and Right are grappling with the challenge of how to marry the wealth-creating potential of the individual with the need to create a society founded on common values. The big political prize is to reconcile the prosperous economy with the good society.

Only progressives can achieve that because we understand the limits of the market as well as its possibilities. Values and markets don't always go hand-in-hand. And choice means nothing without power. If we're serious about creating a country of powerful citizens, we must begin by empowering people in the marketplace.

## NOTES

<sup>1</sup> Daniel Goleman, *Ecological Intelligence: Knowing the Hidden Impacts of What We Buy: How Radical Transparency Transforms the Marketplace* (Allen Lane, 2009)

<sup>2</sup> [www.GoodGuide.com](http://www.GoodGuide.com)

<sup>3</sup> Tomorrow's Company, *Tomorrow's Owners: Stewardship of Tomorrow's Company* (Tomorrow's Company, 2008)

<sup>4</sup> William Davies, *Reinventing the Firm* (Demos, 2009)