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A different dialogue with Israel

Let me say first of all it is a pleasure to be here with the Chair of the Israeli Labour Party, Shelly Yacimovich, and President of the European Parliament, Martin Schulz. I bring you both warm greetings from the British Labour Party.

I want in my remarks to briefly address three core themes.

First, the prevailing economic situation in the UK.

Second, the alternative being developed by the British Labour Party.

Third, the challenges facing the European social democratic family.

First, to Britain. Since the defeat of the Labour government in 2010, the Conservative/Liberal Democrat government in the UK has embarked on a radical, neo-liberal austerity experiment with several components:

- There have been dramatic reductions in public expenditure. As a result of the deficit reduction programme, the size of the state as a proportion of GDP will shrink from 43 per cent in 2010, to 38 per cent by 2015-16.
- The aim is to make the public sector permanently smaller in order to stimulate private sector investment, growth and jobs. So far, 400,000 jobs have been cut from the public sector.
- The government believe that cutting taxes for the wealthy will further stimulate growth, in line with the 'trickle down' theory of the 1980s. Taxes for high income earners have been reduced from 50 per cent to 45 per cent at the higher rate.
- As a result, the burden of the cuts is falling most on low income earners and benefit recipients, including families with low wage earners, disabled people, and poorer pensioners.

- Finally, the government seems determined to resuscitate the old growth paradigm based on a large scale financial sector. There has been no fundamental reform of the banking system, and it appears that the UK will return to 'business as usual' regarding policy on financial services.

Now you might expect a social democratic party to object to this austerity strategy on the basis of social justice. Indeed, this programme is widening inequalities and social polarisation. But according to the latest report from the International Monetary Fund, these policies are also failing economically:

- The UK economy has shrunk dramatically since 2010. There has been barely a quarter of positive growth over the last two and a half years.

- There is little sign of any concerted recovery in export-led private sector activity.

- The IMF now predict that the UK economy will contract by 0.4 per cent in 2012. This is the biggest growth downgrade of any industrialised economy. The UK government has been warned by the IMF that it needs urgently to reconsider the impact of its programme on growth and jobs.

- As a consequence, unemployment and particularly youth unemployment are edging upwards.

- The IMF report demonstrates the limitations of austerity policies across the world economy. The US, which has mounted a concerted stimulus but proposes to begin reducing public expenditure in 2013, has been warned by the IMF not to cut too early. So the tide may be turning throughout the global economy.

The key argument of the British Labour Party is that the priority must be economic growth, rather than deficit reduction per se. Indeed, the quickest way to reduce the deficit is to stimulate growth in the UK and across the international economy. To achieve faster, more sustainable growth, we need a different kind of capitalism:

- A fairer, more responsible capitalism means less reliance on financial sector growth. What we need is less financial engineering, and more real engineering in the British economy. That also means tackling 'predator' interests, as the Labour leader Ed Miliband has recently argued.

- To stimulate growth, we need a new politics of production designed to make the economy more innovative, expansionary, and sustainable. That requires a modern industrial policy to grow the manufacturing and high-value service sector. This entails creative use of public investment not only to stimulate innovation through R&D, higher education, and improvements in public infrastructure, alongside stronger human capital. Governance at national and European level also needs to champion the world-beating companies of the future, ensuring they have the capital and access to technology that enables those businesses to compete and win in the global race.

- However, the purpose of public policy cannot only be faster growth, we also need to ensure that the gains from growth are widely shared throughout our economy. That means improving the position of low and middle income earners, the group that Ed Miliband describes as the 'squeezed middle'. We need to build an economy with more skilled, secure and high wage jobs.

- As such, Ed Miliband has talked about the idea of 'predistribution', drawing on the work of the US economist, Jacob Hacker. The aim of government action must be to make the structure of the economy and the labour market are fairer through minimum wages, decent terms and conditions, and measures to prevent under-cutting in the employment market. The centre-left cannot rely on post hoc redistribution through the welfare state; we have to make initial economic outcomes fairer.

As a result, the British Labour Party is in the mainstream of European social democracy, arguing for an economic policy based on fairer capitalism, and a social policy that rebuilds support for an active welfare state 'from cradle to grave'. This brings us neatly to the broader challenges facing the European social democratic family. The lesson of the global financial crisis is the need for an active state that enables each individual to lead a decent and fulfilling life within an economy that is fair, inclusive and sustainable. Two priorities for public policy are proposed:

- First, we need a common European approach to financial sector regulation, and regulatory policy in general. In addition, we have to ensure that never again must ordinary tax payers bail out banks that have engaged in risky and irresponsible activities. It is important that discussions about a European-wide financial transactions tax continue.

- Second, Europe needs to deepen its commitment to a social investment strategy. The crisis has had a disproportionate impact on younger workers and families. It is vital at this time to protect and extend support that helps lower and middle income families. There is a strong case for a European-wide social investment pact that underwrites a commitment to universal, high quality, pre-school child care, alongside improved systems of social care for the elderly and disabled people. Decent care provision is a win-win for both equity and efficiency in Europe: care policies help to raise employment rates, particularly for women ; households in work are at lower risk of poverty; more individuals in work means more revenues for public investment; and autonomy for women helps to strengthen gender equality.

Of course, social investment strategies are hardly cheap, and there is significant pressure on public budgets. In order to safeguard the social contract, it will be necessary to ensure fairness not only between high and lower income earners, but also between the generations. Today, many European welfare states have an 'elderly bias '. It is essential to protect pensioners, especially low income pensioners at risk of poverty; and of course, those currently drawing a pension have contributed to the system all their working lives. Nonetheless, tough choices lie ahead if inter-generational justice and an active welfare state are to be safeguarded for the future.

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Patrick Diamond
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