Stability and Prosperity
Introduction

In the past, when the country got better off, so did ordinary people and families. The cost of living crisis facing Britain has exposed the fact that the link between the wealth of the country as a whole, and the finances of ordinary people has been broken. People are now working harder, for longer, for less, with wages growing more slowly than prices since 2010.

The cost of living crisis reflects a way of running the country and economy that is short-termist, too accepting of broken markets, and reliant on trickle-down economics - cutting taxes at the top and making everyone else more insecure. While some of these problems go back decades, the current Government has overseen the slowest economic recovery on record, and has consistently looked after a tiny privileged few at the top while squeezing everybody else.

The cost of living crisis facing Britain reaches deeply into people lives and the way in which our country is run. And because the problems are far-reaching, the solutions need to be too. Our country is crying out for real and lasting change.

For that reason a One Nation Labour government will set out a new course. Challenging outdated assumptions, we will reform markets, tackle vested interests, and not shy away from institutional and long-term change, where it is needed, to make the economy work for everyone, not just a few at the top. That is how the next Labour government will turn Britain around even in an era when there is less money around.

At its core, our agenda is about recognising that sustainable growth will be built by the hard-working people of Britain, not trickle down from a few at the top. We cannot detach our national economic success from the contribution to wealth creation and success of Britain’s families and businesses. When ordinary people struggle to deal with the rising cost of living, our national, regional and local economies are held back. For this reason, tackling the cost of living crisis is fundamental to our future economic success.

Growth without national prosperity is not economic success, which is why the first and last test of One Nation Labour’s economic policy is whether living standards are rising for everyone. Labour will build a new One Nation economy which re-establishes the connection between the success of Britain as a whole, and the success of Britain’s people. And as well as addressing the immediate pressures on family finances, ours is a plan for sustainable growth to earn our way out of the cost of living crisis.

As part of this longer-term plan, One Nation Labour will stand behind those creating new, secure and higher paying jobs. That means supporting small and medium sized businesses to grow, and reforming our banking system so it is better able to provide finance for those businesses. It also means taking on the vested interests that are holding our economy back, for example through reforming the energy market, which is unfairly burdening households and businesses.

Building a One Nation Economy that works for everyone will be all the more difficult as a result of the economic failure of the current Government. The next Labour Government will face a tough fiscal inheritance, but by having different priorities and making better choices, we can grow and earn our way to a better future.
Economic failure has contributed to a cost of living crisis

People are working harder than ever before, but for far too many, wages are falling while prices are rising. And for those who are unable to work things are getting more difficult too. Social security changes are hitting people, including disabled people, hard, with child poverty set to rise and unfair policies like the Bedroom Tax making things even worse for many. Women have been hit particularly hard by the Government’s economic policies. One Nation Labour will prioritise action to tackle the cost of living crisis on issues such as pay and bills, as well as take action to address poverty in our society.

Further details on our approach to social security can be found in the Work and Business section of the Final Year Policy Consultation.

Promoting fair pay

The introduction of the National Minimum Wage was one of the proudest achievements of the last Labour Government, and the ongoing need to tackle the problem of low pay in our economy remains a priority for Labour. One Nation Labour will strengthen the National Minimum Wage, by better enforcement and by ensuring that it rises in real terms, to at least make up the ground it has lost under this Government. The next Labour Government will also encourage more employers to pay a Living Wage. Further details on our approach to the National Minimum Wage and Living Wage can be found in the Work and Business section of the Final Year Policy Consultation.

On public sector pay, Labour has been clear that the priority must be protecting jobs. However, we also need to defend those at the bottom of the pay scale who are hit hardest by the Government’s policies. Labour opposes any moves to undermine the pay review bodies by shifting wholesale to regional and local bargaining in the public sector.

Britain’s ageing population means that government will need to take tough choices on pensions to ensure people have an adequate standard of living in later life. That means encouraging saving, increasing transparency and ensuring any changes to pension provisions are both fair and affordable. Further detail on pensions can be found in the Work and Business section of the Final Year Policy Consultation.

Tackling rising bills

Rising bills are contributing to the cost of living crisis for individuals, families and businesses. Higher energy bills, rail fares, childcare costs and rent or mortgage payments don’t just make life harder, but also reduce the amount of money people have available to spend on the high street. As a result, small businesses struggling to balance their books can’t innovate or take the risks necessary to grow.

The next Labour Government will take action to tackle rising bills. We will reform the energy market to put transparency and competition back into the industry, by legislating to force energy companies to separate their generation and supply businesses. Because such measures will take time to put in place, we will take immediate action on energy bills upon entering office, by freezing prices through to 2017.

Detail on Labour’s plans for energy market reform can be found in the Living Standards and Sustainability section of the Final Year Policy Consultation.
Long-termism - underpinning our approach to the economy

In order to build the high-skill, high wage economy we need to raise living standards for everyone, it is essential to ensure that our economy is focused on the long-term. Such an approach is good for business, good for employees and good for our economy as a whole. An emphasis on supporting long-termism, as a means of allowing the UK to earn its way to a better future, will be central to Labour’s overall approach to the economy.

Good businesses want to focus on the long-term; so the next Labour Government will reform the rules and incentives within which firms operate to help them do so. We will support productive firms so we can make our economy stronger, more balanced and better able to attract new investment and create the skilled jobs of the future. This is the sustainable way to boost living standards.

Quarterly reporting rules must be abolished to help shift the emphasis towards long-term investment. Takeover rules also need reform in order to strengthen the role of investors who are in it for the long-term and support value creation. Labour will restrict shareholder entitlement to vote on takeovers to those already holding shares when a bid is made.

“\textit{It is commonly assumed that trustees have only a narrow duty to maximise financial return, usually interpreted in terms of maximising short-term returns relative to other investors – a zero sum game which does not create economic value. This is frequently used to justify behaviour that could damage savers and the economy in the long-term.}” \textbf{ShareAction}

A failure to promote long-termism can also impact directly on the living standards of ordinary people and fuel a race to the bottom. One Nation Labour will ensure that there are duties on investors to act in the best interests of ordinary pension savers, and also to prioritise the long-term growth of the companies in which they are investing over short-term profits.

Growth

A key component of Labour’s economic reform agenda is a proper plan for broad based and deep rooted growth. Only this kind of sustainable growth will enable Britain to earn its way out of the cost of living crisis that is holding our country back.

Our focus must be on raising productivity across the economy, generating sustainable growth, creating more well paid jobs, and broadening our economic base across more regions and sectors. In the past, our economy has been too reliant on a narrow group of sectors, such as financial services, to drive growth. The high skill, high wage jobs of the future will not come from the same places as before, and we will need to take advantage of the opportunities arising from new industries and scientific research. Through an active industrial strategy, One Nation Labour will support the sectors and technologies that will be able to generate well paid and secure jobs in the future. Government cannot create those jobs, but as in other countries we can work with business to set a clear strategic direction and establish a policy framework to support those sectors, areas and types of businesses which will underpin our future success.

“\textit{We need a responsible capitalism, a system that works for the common good, regulated to promote and prioritise investment in the production of real goods and services and to provide a safe haven for savings.}” \textbf{Roy Boffy, Tamworth CLP}
Businesses too are facing a cost of living crisis. Productive small businesses of all kinds in the UK are not just facing rising costs, but cannot access the funding they need to grow. The banking system is not supporting businesses that are creating jobs, with lending to businesses falling steadily since the last General Election. This needs to change and the next Labour Government will address this problem.

**Establishing a British Investment Bank**

One Nation Labour will not only reform broken markets but build the institutions we need to underpin our future prosperity. In line with the recommendations of the Stability and Prosperity Policy Commission’s 2013 policy document, and the work of Nick Tott for the Policy Review, the next Labour Government will set up an effective British Investment Bank to help small and medium sized businesses get access to the funding they need.

“We believe that the focus on delivering a British Investment Bank to help deliver long-term, sustainable economic growth is the right one. A British Investment Bank could facilitate better targeting of credit to where it is most needed to boost economic growth and create jobs.” *Black Country Chamber of Commerce*

All of the most successful economies around the world recognise the need for state support for business lending, and now the UK must do so too. Labour’s proposed British Investment Bank will fulfil the Government’s role in supporting lending to businesses to provide the long-term finance they need. Such an institution could be key in reshaping the banking sector in our country.

In addition, a British Investment Bank, working alongside the Green Investment Bank, could also play a key role in providing innovative finance solutions to help boost our economy and support job creation.

**Strengthening the low-carbon economy**

Labour is committed to tackling climate change. As the 2006 Stern Review on the Economics of Climate Change concluded, the benefits of strong and early action “far outweigh the economic costs of not acting”. One Nation Labour will take advantage of the opportunities that have arisen from the low-carbon economy and green industries. It is only by creating the right policy framework that we will attract the scale of investment we need. The current Government has failed to do this and investment has slumped as a result.

Labour will back low-carbon industries by giving them policy certainty. That is why we have committed to the decarbonisation of the power sector by 2030. The Green Investment Bank must also play a key role in providing funding, which is why it should have borrowing powers and become a real bank. Labour will also actively use the public sector to boost demand for green goods and services.

British manufacturing should be producing the plants, equipment and technology for the clean energy sector and our small and medium sized firms should be a critical part of the supply chain. This will help create more of the high skilled jobs we need to win the race to the top. Labour is committed to do everything we can to secure for Britain a competitive advantage in the green economy of the future.

Labour’s approach to reducing our carbon emissions is covered in the Living Standards and Sustainability section of the Final Year Policy Consultation.
Addressing our infrastructure needs

The Government’s record on infrastructure investment has been one of delay and failure to deliver. One Nation Labour will turn this around, building the infrastructure our country needs to ensure it is properly equipped for the 21st century.

Labour recognises the need to take a more long-term approach to major investment decisions facing the UK. Too often, government does not put in place the appropriate mechanisms to promote clear decision making, and actually deliver critical infrastructure when and where it is needed. A new approach is needed to prepare the country for the major challenges ahead, such as population growth and climate change.

Sir John Armitt’s independent Review of Infrastructure, commissioned by Labour to inform the Policy Review, has recommended a coherent 25-30 year national infrastructure strategy. This would mean a new independent National Infrastructure Commission to assess the UK’s infrastructure needs in consultation with stakeholders, make recommendations to the Government, and then monitor its implementation. Such a strategy would fully take into account the Government’s climate change targets.

Building more homes is an essential part of rebuilding our economy for the longer-term and boosting living standards. Rising demand for housing must be matched with rising supply which is why Labour will ensure 200,000 homes a year are built by the end of the next Parliament. Detail on Labour’s plans for housing can be found in the Stronger, Safer Communities section of the Final Year Policy Consultation.

Banking and financial services

If Britain is going to prosper in the 21st Century, we need a banking system which serves our businesses, rather than carrying on with our businesses serving our banks. We need a banking sector which provides the funding and supports the next generation of British firms to start up, grow and create jobs. Small businesses in particular rely on bank finance, and should be able to trust in the banks to understand their needs and act in their best interests. However, this is not the banking system we have now.

“A consistent theme is the desire to channel the activities of wholesale markets to support communities, be it through regional regeneration, support for SMEs, helping individuals and households save more, or to achieve wider environmental and international development objectives.” Labour in the City

One Nation Labour will challenge the old ways of doing things, promoting institutional change, so our economy works for the many, not just a few at the top.

There is a major lack of competition in the UK banking sector and this is at the root of many of the wider problems businesses and consumers come across. The next Labour Government will take action to boost competition in the banking sector, including by establishing, for the first time, a legal threshold for the market share of personal accounts and small business lending that any one bank can have. Labour will also support a regional banking system, working alongside the British Investment Bank, which reaches out to businesses up and down the country. This network of regional banks will have a duty to promote local growth and lend to firms operating in their area.
Learning the lessons of the past, Labour will develop the One Nation banking system we need; banking which works for every region, every sector, every business and every family in Britain. If we do not see proper reform of the banks, with a tough ringfence between investment and high street banking, alongside a genuine change in banking culture, by 2015, the next Labour Government will break up the banks so that ordinary retail banking is completely separate from riskier investment banking.

One Nation Labour will also tackle excessive pay in our banking system. Entrepreneurs and wealth creators should be rewarded, but too often pay and bonuses for the highest paid in our banking system reward failure, and are out of all proportion to the contribution being made. That is why Labour has proposed a repeat of the bank bonus tax, using funds raised to provide a Compulsory Jobs Guarantee for young people out of work. Labour will also require banks to publish the number of employees earning more than £1 million.

Details on Labour’s plans for high pay can be found in the Work and Business section of the Final Year Policy Consultation.

Labour believes that we also need a legally enforced Code of Conduct for bankers so that those who act recklessly can be struck off. The next Labour Government will ensure that bankers know that if they attempt to rip-off their customers or take excessive risks, they will personally face the consequences.

**Taxation**

The principles of contribution and reciprocity are at the heart of Labour’s tax policy. Individuals and businesses should know that those who play by the rules and contribute to our nation’s economic success will be treated fairly, with consequences for those that don’t.

“The tax system must rest on the principle of fairness” *Neil Harrison, Stockton South CLP*

Ensuring people and businesses pay their fair share of tax is absolutely essential; their responsibility to do so is non-negotiable. Society relies on tax revenues to provide essential services - we should not take for granted its importance. When times are tough and cuts to public spending and tax rises are having an effect, it is only right that the public has confidence in the tax system, and knows that everybody is paying their fair share.

**Tackling tax avoidance**

Labour supports tough penalties on tax evasion and relentless action to close down loopholes that allow people and businesses to unfairly avoid tax. The current government is failing to tackle tax avoidance and evasion, with the value of the tax gap now £35 billion.

High profile examples of companies, and individuals, being seen to avoid tax to extreme levels have exposed a system that requires significant reform. Business practices have been changing rapidly over recent years, and many aspects of the current Corporation Tax system have fallen behind. Fundamental reform is required in the international corporate tax system. The ability of the international community to address these emerging issues and the need for wider reform is an area of continuous, and multilateral discussion.

The next Labour Government will take action to develop a system which is robust and effective in the modern world, which supports investment and job creation, and deals effectively with the complexities of international business. It must be fair to all and transparent, so that it can be better understood by the public. We will consider how greater transparency around revenues, profits, and taxes paid could be delivered domestically if international agreement takes time to be reached. We will also examine the international
lessons on how we can improve transfer pricing rules, so that the way in which companies allocate their profits for tax purposes is fair.

“These are the tax facts Labour should stand by and they have the aim of delivering:
- A progressive tax system that is fair to all
- A level playing field for all business
- Strong support for a stable economy
- Stability in the future” Unite

The next Labour Government will also ensure that action to tackle tax havens and tax avoidance is top of the international agenda. This will require work at a domestic, EU and international level, including looking at Britain’s Crown Dependencies and overseas territories. We will prioritise increasing transparency in the Crown Dependencies and overseas territories, including requiring UK tax havens to reveal the identity of British tax evaders. Leading by example is the best way to make the case for a proper EU regime. However, such an approach should not be at the expense of working towards international agreement on those important issues.

Meanwhile, we need to ensure that HM Revenue and Customs has the right resources, expertise and specialists in different sectors to adequately police this increasingly complex area.

Business and personal taxation

To help build an economy that works for working people, One Nation Labour will support the small businesses that have the innovation and dynamism to grow the economy and create new jobs. For this reason we will not go ahead with the current Government’s additional Corporation Tax cut for multinationals and large businesses in 2015-16, but will instead use the money to cut and then freeze Business Rates for small and medium sized businesses. This cut in 2015-16 and freeze in 2016-17 will benefit 1.5 million business properties, compared to just 80,000 businesses that would benefit from a cut in Corporation tax.

Helping more people into jobs, with higher wages and paying tax, is essential to getting the deficit down. A Labour Government would prioritise a fair deficit reduction plan, with the richest paying their fair share of tax and helping those on middle and low incomes. For the next Parliament, we will restore the 50p top rate of tax for those earning over £150,000. This is in contrast to the approach of the current Government, whose priority has been to cut taxes for millionaires at a time when everyone else is facing a cost of living crisis.

Fair deficit reduction

The slowest economic recovery in over a hundred years has resulted in a cost of living crisis and meant failure on deficit reduction too. The country we seek to govern in 2015 will therefore be one in which people and businesses are being squeezed, while a high deficit remains. The next Labour Government will have to govern with much less money around. In 1997, we were able to plan our manifesto on the basis of rising departmental spending. In 2015 we will have to plan on the basis of falling departmental spending. The current day-to-day spending totals for 2015-16 will have to remain our starting point. But, while there will be no additional borrowing for day-to-day spending, a One Nation Labour Government will make different, and fairer, choices.
We recognise that deficit reduction alone does not make for a successful economic policy, but it is a necessary and important part of it. We can only reduce the fiscal deficit if our recovery is balanced, long-term and does not sow the seeds of problems ahead. So the challenge for the next Labour Government will be to deliver stronger, investment-led growth which helps reduce the deficit in a sustainable way. We need action to deliver investment-led growth, and fairer choices about how to get the national debt down while protecting vital public services.

The next Labour government will balance the books and deliver a surplus on the current budget and falling national debt as soon as possible in the next Parliament. We will legislate for our tough fiscal rules within 12 months of the General Election - rules which will be independently audited by the Office for Budget Responsibility. How fast we can go will depend on the state of the economy and public finances we inherit.

A One Nation Labour government will make fairer choices on who bears the weight of deficit reduction, including those on the highest incomes. And it will build a recovery which is made by the many, supporting the living standards of everyone, rather than just the few at the top, in order generate the wealth we need to bring down the deficit.

Labour remains committed to the principles of universalism in our social security system, but we always need to prioritise and strike the right balance between universal and targeted support. So at a time when the public services that pensioners and others rely on are under strain, and the state pension is protected by the triple lock, it can no longer be a priority to continue paying the winter fuel allowance to the richest five per cent of pensioners.

To underpin our approach Labour is also carrying out a zero-based spending review - a root and branch review of every pound the Government spends from the bottom up - which we have already begun and will complete in our first year in office. Labour will also ask the Office for Budget Responsibility to independently audit the costings of spending and tax commitments in our General Election manifesto.

Further reading


“Speech: Rebuilding Britain with a One Nation economy”, Ed Miliband, 2013

“Overcoming Short-termism within British Business: The key to sustained economic growth”, An independent review by Sir George Cox commissioned by the Labour Party, 2013


“Speech: Fabian Annual Conference”, Ed Balls, 2014

“Speech: One Nation Economy”, Ed Miliband, 2014
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