

# The new centre-ground how can progressives win a new majority?

Liam Byrne MP

February 2012



Center for American Progress Action Fund



Progressives

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83 Victoria Street,  
London SW1H 0HW  
Tel: 020 3008 8180  
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Email: [office@progressives.org.uk](mailto:office@progressives.org.uk)  
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## About the author

Rt Hon Liam Byrne is Member of Parliament for Birmingham Hodge Hill. He is chair of Labour's policy review, and shadow secretary of state for work and pensions. He is a member of the boards of Policy Network, Resolution Foundation, the Great Britain-China Centre and the Advisory Board of Progress.

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# 1. Building the new majority

The global crash brought with it no great wave of support for progressives. Outside America, across Europe, in Australia, progressive parties are under pressure. The political self-confidence of the third way has gone.

Yet the right is struggling too and now around the world progressives are mobilising their fightback. But slowly the new

“ At the core of progressives’ response is a new analysis of where the political centre-ground now lies, a new expression of our traditional values, and a new policy agenda ”

shape of a post-crash centre-left politics is taking shape. At the core of progressives’ response is a new analysis of where the political centre-ground now lies, a new expression of our traditional values, and a new policy agenda. A strategy for winning new majorities is emerging to answer

the challenge: after the third way, what comes next?

In the 1990s, progressives around the world learned an important lesson about how to win elections: building the broadest possible coalition; holding firm to traditional values, but freeing the political mind for new solutions, new methods and new ways of doing



business. We kept the philosophy, but we changed the policy. We forged a new path between old fashioned leftwing statism and new-fangled rightwing laissez-faire.

It worked for the New Democrats in the United States, the Australian Labor party, the Liberal party of Canada, the Social Democrats in Germany and Sweden, Labour parties in the Netherlands and Norway – and for New Labour.

Today that feels like a long time ago. The political confidence of the third way, the euphoria of electoral success, the exhilaration of governance, has taken a battering.

Yet with turmoil on the financial markets, rising unemployment and social unease, finding a better way to reduce deficits makes progressive politics more, not less, necessary.

However, away from the USA, Brazil, Norway and Denmark, progressives confront a cold climate. European social democrats have now lost 19 out of 25 national elections since the collapse of Lehman Brothers in September 2008.<sup>1</sup> Nowhere are we winning by default. We need a new way back to the centre-ground. Winning trust to deliver a better country in straitened times is now the sine qua non of winning elections. So we are mapping new ways to answer the challenge posed by Ed Miliband who said in January 2012:

‘We must rethink how we achieve fairness ... in a time when there is less money to spend.’<sup>2</sup>

There are some, of course, who would say: ‘New Labour was the mistake. Let’s go back to old Labour’. Others will counter: ‘We weren’t modernising enough.’ But neither approach is enough. Winning for Labour in the UK in 2015 demands hard thought about what we need to keep, and what we need to change.

1. Information supplied by Policy Network

2. Ed Miliband MP, ‘Labour Will Deliver Fairness When There is Less Money Around’, 10 January 2012

In a his 1998 pamphlet on the third way, Tony Blair suggested:

‘What of policy? Our approach is “permanent revisionism”, a continual search for better means to meet our goals, based on a clear view of the changes taking place in advanced industrialised societies.’<sup>3</sup>

But in truth our politics did not keep pace with the change we helped author.

Free trade agreements connected six billion of the world’s seven billion people. Huge new movements of capital between east and west kept interest rates low but fuelled great asset bubbles. Banks grew so big their balance sheets grew to five times the size of our national economy. Companies drove down workers’ share of earnings even when productivity rose. Diversity flourished as people moved home. The market, our society, and technology changed fundamentally. So, of course, new challenges emerged: a new inequality between the middle and the top, and young and old; living standards that plateaued; asset bubbles that burst; banks that crashed; old solidarities and old communities that felt pressured.

Back in 1956, Tony Crosland wrote:

‘The intellectual framework within which most pre-war socialist discussion was conducted has been rendered obsolete ... [economic growth and a] ... different configuration of economic power ... call for a complete reappraisal of the socialist position.’<sup>4</sup>

The revisionist’s lesson? Change as the world changes. That is why, after the third way, we need a new way back to a new centre-ground. Not because we need to throw away Labour’s insights of

3. Tony Blair, *The Third Way: New Politics for a New Century*, Fabian Society, 1998

4. Anthony Crosland, *The Future of Socialism*, 1956, p23

the 1990s – we don't. We need to keep them and build on them for a different era.

Today voters have a wider view of what it means to be better off: quality of life; time; security; opportunities for children and grandchildren, are all now part of modern families' ambitions.

But the key insight for us to keep is this: elections are won in the centre-ground, building an alliance around the basic values of aspiration, responsibility and community that unite our traditional supporters with the voters that tend to switch sides. That means understanding today's centre-ground – those voters unattached to any particular party – is fundamental to Labour winning again.

The middle class is getting bigger; the traditional working class is shrinking; women are advancing into the professions; there are more people living alone, or bringing up children alone; the population is becoming older; people are increasingly developing identities based on attitude, ethnicity, or community over class or trade. What is more, old class divides no longer tell us much about who you vote for. More and more voters now change sides. Look at Scotland: we cannot win elections trading on old loyalties. That is not just true for us, it is hitting social democrats right across the west.

Attitudes are changing too. Take these findings from the latest British Social Attitudes Survey:

- Support for tax increases to spend more on public services such as healthcare and education has halved from nine years ago;
- More than half of respondents thought unemployment benefits 'too high';
- Only a third thought government should redistribute wealth;
- Sixty-three per cent think child poverty is caused by parents unwilling to get a job.

This is no counsel of despair; hardening attitudes do not reflect a Conservative renaissance or a return to the days of Maggie-mania. But we will not win, in the words of Graeme Cooke of IPPR, by ‘partying like it’s 1995’,<sup>5</sup> which is why we offer new ideas, not old attitudes.

Our starting point is bold and optimistic. There is an alternative to the right, and it is better for the national budget, your living standards and your children.

Our attitude is determined: realistic about money, but radical about power.

Our philosophy is straightforward: equality of opportunity plus equality of responsibility, in government and in business, at the bottom of society, and the top, and every point in between.

We keep the best of the third way, but confront the new challenges: recovering from the crash, tackling living standards that are flat, addressing worries about identity and community. We seek to forge a new coalition between the young and old, ‘grandparents and grandchildren’, between aspirational families in the middle and working class, especially women, new citizens, and families starting off in life.

We draw on four basic insights in exploring the new centre-ground: that the only way forward for progressives is a high-growth, high-employment future; that there is a profound worry about the power of ‘vested interests’ blocking the power of ordinary families to get on in life; that while people are sceptical about the power of the state, they have not given up on it; and that while many worry about immigration and identity, attitudes are fluid, complex and young people in particular are more open to living in an ethnically diverse society – the vast majority of Britons reject political violence and extremism.

5. Graeme Cooke, *Still Partying Like It's 1995*, IPPR, 2011

We are therefore building around five new principles of the new centre-ground.

First, the national deficit is why we offer not denial but fiscal realism, an approach that marries aggressive short-term action to boost jobs and growth, especially for the young, with a medium-term plan to bring down the national debt. The biggest lesson from the crash was that the world is not immune to financial crash. Indeed, major economies have had 40 of them since 1800. Crises are not extinct. In fact as Martin Wolf of the Financial Times has put it: ‘crises are inherent in free-market capitalism.’<sup>6</sup> For the centre-left, we must always protect our room to act when shocks hit. The Tories will leave us debt at 78 per cent of GDP.<sup>7</sup> That is not much room to act if the worst should happen again. So the debt needs to come down. As Ed Miliband put it: ‘We will have to make difficult choices that all of us wish we did not have to make.’<sup>8</sup> Our answer has to rest on a high-growth, high-employment future where we ask everyone to do their bit, whether it is taking a job or paying their taxes; we need to draw anew on civil society and transform the efficiency of government.

Second, we need a new bargain with business. Business needs government to be more hands-on, not hands-off. We need a new kind of partnership that fosters growth plus fairness for new times, where government invests in infrastructure, reforms banks, supports the shift to low-carbon energy, helps enterprise, acts to support the sectors where we are strong. We want a new ecosystem for enterprise. And in return, we expect business to behave in a way that values and not vaporises trust. What the Financial Times calls ‘the crisis in capitalism’ is going to demand fundamental changes to

“The national deficit is why we offer not denial but fiscal realism”

6. Martin Wolf, ‘Seven Ways to Fix the System’s Flaws’, 22 January 2012, FT.com. Wolf reminds us of Hyman Minsky’s key insight: ‘Periods of stability and prosperity sow the seeds of their downfall’.

7. HM Treasury, Autumn Statement 2011, Table C6

8. Miliband, *ibid*

foster longer-term horizons and better corporate governance in the boardroom. Our economy needs a new balance, between sectors, and in who gets what. This is what the political economist Jacob S Hacker calls fixing ‘pre-distribution’ – the way in which the market distributes its rewards in the first place<sup>9</sup> – before the government steps in.

Third, welfare needs to change. The welfare state no longer does enough for working people, because it does not help enough families work when they can and build assets for the long term. Working people need different things to help them deal with modern interruptions to their earning power. People expect everyone in Britain to work as hard as them in finding a job – and they expect government to do more to make that opportunity real. No one should be able to choose a life on benefits over a life in work. Everyone should feel the system is based on what you put in as well as what you take out. But it is not only welfare that needs reform, it is ‘corporate welfare’ too. When tiny elites can extract, unchecked, vast salaries from shareholders and dodge with too much ease the basic obligation of paying their taxes, then it is not just the welfare state but the tax system that needs reform. Right now people feel we might all be equal, but we do not all appear equally responsible – and people want that to change.

Fourth, we need a new revolution in civic inventiveness, so we might better draw on the hidden wealth of civil society where we take hold of valued old identities, but invent new ways of coming together to get things done. We need to be the political leaders – and community leaders. We need to deliver not simply through the ‘hard power’ of elected office, but through the ‘soft power’ of local networks, community organisations and social entrepreneurs. Progressives need the self-confidence to give power away.

9. Jacob S Hacker, ‘The Institutional Foundations of Middle-class Democracy’, *Priorities For A New Political Economy: Memos to the Left*, Policy Network, 2011. See also: Jacob S Hacker and Paul Pierson, *Winner-Take-All Politics: How Washington Made the Rich Richer - and Turned Its Back on the Middle Class*, Simon & Schuster, 2010

Fifth, in public services standards need to go up, even while budgets are coming down. We need to be the party offering the ‘control shift’ in public services, putting more power in people’s hands to change the services they pay their taxes for, the party that stands for high standards in public services. We need to remember that innovation is the only way to square that circle. Around innovation we need to reinvent government.

We need to advance our cause with confidence. Progressives win by mobilising an appeal to optimism. Conservatives want voters to feel disempowered and cynical. They want to diminish the appeal of politics. Where they are in power, they want a fearful electorate to ‘cling to nurse for fear of something worse’, to borrow the words of Hilaire Belloc. Our task is to offer hope in an age of uncertainty, and optimism in an era of doubt. That is how we seize the centre-ground and build a new progressive majority.

## 2. A new way for the third way

Almost two decades ago, the third way began to offer a governing narrative for progressive parties. It became one of the most powerful, successful, election-winning, country-changing political approaches in social democratic history.

It argued for a politics that captured the centre-ground, built an enabling state, was fiscally prudent, global in outlook, prioritised investment in education and skills and, above all, focused on jobs and the right rewards for work. It combined economic efficiency and social justice. Not only were the two compatible, as progressives had previously contested, but we demonstrated that economic efficiency helped provide social justice, and that social justice was a path to competitiveness, thereby challenging the common sense understanding of both the left and the right. At its core was the basic insight that elections are won in the centre-ground, by building an alliance between traditional supporters and the floating voters of the centre by capturing the values they share. Back at the beginning, in 1990, Stan Greenberg argued that modernised progressive parties could win but only by:

‘Reclaiming values that many believed were owned by the right, and most important of all, rooted in the hopes and aspirations of ordinary working people.’<sup>10</sup>

10. Stan Greenberg, 'Reconstructing the Democratic Vision', American Prospect, 1990



This was ‘the middle-class project’ built around three principles: work, reward for work and restraint, and connected to the values of opportunity and ambitions and responsibility, linked to national renewal.

When Bill Clinton accepted the Democratic party’s nomination for the presidency in 1992, he said boldly:

‘I am a product of that middle class and when I am president you will be forgotten no more.’<sup>11</sup>

He found his echo in Britain in Tony Blair’s speech to the 1994 Labour party conference:

‘To the parents ... to the men and women ... to middle- and lower-income Britain ... we are on your side ... your aspirations are our aspirations ... we are back as the party of the majority in British politics.’<sup>12</sup>

The third way was so powerful because it created a new unity between the working and middle class. As Tony Blair put it:

‘We play the Tory game when we say we’ve got to speak up for the dispossessed; actually they share the same hopes, dreams and sense of responsibility as everyone else. The aspirations that I know ... unite the majority of people.’

Few argued it better than the late Philip Gould in his masterpiece, *The Unfinished Revolution*:

‘What most voters want is over time and without greed to advance and improve their lives. In short, to become better off.’<sup>13</sup>

11. Bill Clinton, speech to the Democratic National Convention, New York, 1992

12. Tony Blair, speech to the Labour party conference, Blackpool, 1994

13. Philip Gould, *The Unfinished Revolution*, 1999, p212

Around this basic political position, third way politicians built a powerful new policy platform that recast old dividing lines in politics:

- **Credibility on tax and spend:** Strong, prudent management of public finance was the foundation on which everything else was built. In the US, President Clinton drove hard for the balanced budget. In the UK, New Labour made the Bank of England independent, and introduced tough new fiscal rules.
- **The opportunity economy:** Third way politicians saw clearly that the best way to create equality was to create growth – and ensure that growth was fairly shared. That meant a new partnership between business and government, strong backing for entrepreneurs and enterprise, national minimum wages, tax credits to help make sure work paid, education reform to boost standards and new investment in skills to drive up equality of opportunity.
- **Rights and responsibilities:** A message about rights and responsibilities permeated the third way: ‘society has a responsibility to give people the hope of a better life ... in return they have a responsibility to give something back to the community and obey its rules.’ There was a new focus on family, children and child poverty, welfare reform and crime and policing.
- **A new internationalism:** Instead of isolation, governments worked together on global challenges, from security to climate change, to poverty reduction to free trade.
- **Party and campaign reform:** Progressive parties sought to be ‘catch-all parties’, wide coalitions reaching beyond traditional boundaries with better, sharper use of new communication and

media techniques, like rapid rebuttal and mobilising supporters, not just the hardcore of members and activists.

## The third way achievement

The scale of the third way achievement cannot simply be described in the short pages here. Perhaps most fundamental of all was the legacy of progressives creating a new age of interdependence – ‘the world without walls’<sup>14</sup> as President Clinton called it – a great movement of capital and ideas and people that fostered the fastest decade of global economic growth since the second world war.

The North American Free Trade Agreement came into force in 1994; China and Russia’s accession to the World Trade Organisation eventually followed; the EU was enlarged; ASEAN expanded. After a century of revolution and war, progressives helped create a global marketplace that now links together six billion of the world’s seven billion people, and we used the new wealth to show you could combine economic efficiency and social justice.

The numbers, the headlines, the lines to take, never quite seem to do justice to the material transformation of lives under progressive governments.

In Britain:

- Record consistent economic growth, and productivity gains;
- Record high employment with 2.8 million more people in work than there were in 1998;
- 500,000 fewer children in income poverty. Indeed, new figures show that in the last year of the Labour government (2008-9 to 2009-10) 200,000 children were lifted from relative poverty. Between 1998 and 2010, the percentage of children in relative poverty fell by six per cent – or 900,000;

14. Bill Clinton, *The Struggle for the Soul of the 21<sup>st</sup> Century*, [http://www.dic.org/ndol\\_ci\\_cfm?&kaid=124&subid=307&contentid=3917](http://www.dic.org/ndol_ci_cfm?&kaid=124&subid=307&contentid=3917)

- The poverty rate for pensioners down by a third;
- A doubling of the annual growth rate of the income of the poorest 20 per cent.

In the US, during Bill Clinton's presidency, the Democrats:

- Created 22.7 million new jobs, with unemployment dropping to the lowest levels in 30 years;
- Grew GDP by 35 per cent overall, with eight years of sustained growth, the longest in US history;
- Broadly shared growth, with average hourly wages increasing by per cent after six inflation and median household income up 14 per cent;
- Moved the federal budget from an enormous deficit to enormous surplus, with the federal government on track to be debt free by 2009.

### Where the third way went wrong

But the nostrums of the third way were simply no match for the forces of globalisation that we unlocked – the financial change, economic change and social change.

The global crash, stagnating living standards, extreme new differences of wealth and wages and, crucially, new worries about identity and immigration are conspiring, combining together to explode an earlier optimism about the new world we were creating at the end of the 1990s, and replacing it with a new age of anxiety, insecurity and fear. Vapour-like, around us the conditions rose in which the right – and the far-right – blossomed.

Four great problems emerged with the 'statecraft' of the third way:

- Financial change: Great imbalances that sparked the global crash;
- Economic change: Stagnating living standards;
- Social change: New pressures on old solidarities;
- Political change: New political attitudes, expectations and activities.

Let's take each in turn.

The push to deregulate and create the right environment for our international high-flyers in the financial sector – where the Conservatives urged us to go much further – needed a far better system of checks and balances to guard against the global financial contagion which almost destroyed the global banking system. Throughout the 1980s and 1990s, deregulation of the financial sector and a flurry of ‘innovation’ that at the most extreme end multiplied offers of NINJA (no income, no job or assets) and ‘liar loans’ to those who could ill-afford them. By 2005, home equity withdrawals in the US peaked at an annualised rate of \$1tn.<sup>15</sup> It is worth noting that when much of this activity occurred, and lending went through the roof, the Republicans were in the White House and ran both Houses of Congress.

To this surge of liquidity came new money from Asia – a ‘capital flow bonanza’ that exploded to pay for sustained current account deficits. After the Asian crisis of the late 1990s, surplus nations exported hard – and saved harder. Some \$7tn of forex reserves was amassed, and much of it headed towards US Treasury bills, as the United States under President George W Bush began to run a current account deficit of some \$600bn, drawing in Asian surpluses to pay for it.

Thus by August 2005 Alan Greenspan was pondering a ‘conundrum’. The Federal Reserve had raised interest rates from one

15. Nouriel Roubini, *Crisis Economics: A Crash Course in the Future of Finance*, Penguin Press, 2010, p18

to three per cent. But the long-term rate on US Treasury bills was not rising, it was falling, from 4.9 per cent to under four per cent. As the Fed raised the headline interest rates between 2004-6, from one per cent to 5.25 per cent, long-term rates and mortgage rates barely moved as a wall of demand from the east kept interest rates low.

Crucially, faster international capital flows also helped make sure that most of the western banking system had a stake in the financial innovation of the banks. Indeed, some 40-60 per cent of securities generated by US financial institutions ended up in the portfolios of foreign investors.<sup>16</sup>

Together, both forces helped fuel an extraordinary asset price boom. You could see it in Dubai, Australia, Ireland, New Zealand, Spain, Ireland, Vietnam, Estonia, Lithuania, Thailand, China, Latvia, South Africa and Singapore. In 2005, the Economist estimated that the total value of residential properties had doubled between 2000-5 to \$40tn, reporting: 'It looks like the biggest bubble in history.'<sup>17</sup>

Against these rising asset prices, consumer debt spiked around the world, including in the UK. In 1981, US private sector debt stood at 123 per cent of GDP. By 2008, it was 290 per cent.

Far riskier was the way in which banks were responding to rising asset prices by taking on dramatic new volumes of debt. In the US, financial sector debt rose from 22 per cent of GDP to 117 per cent. By June 2008, leverage ratios at European banks had grown gigantically; leverage at Credit Suisse stood at three to one. ING stood at 49 to one. Deutsche Bank stood at 53 to one. And Barclays stood at 61 to one. In the UK, bank balance sheets ballooned to five times the size of our economy. Alongside them grew a shadow banking system \$7tn big.

When the bubble began to burst, problems therefore spread fast throughout the western financial system. US house prices peaked in

16. Ibid p81. Roubini estimates that half of the collateralised debt obligations and mortgage backed securities created in America were held by foreign investors; Roubini p119.

17. In the big five crashes in advanced economies since the late 1970s (Finland in 1991, Japan in 1992, Norway in 1987, Spain in 1977 and Sweden in 1991), house prices boomed for between 4-6 years before a crisis. This time was no different, but this time, the asset bubble was a global phenomenon.

2005. By late 2006, US non-bank mortgage lenders were starting to go bust. Ten failed by the end of 2006. Fifty fell by the end of March 2007. In April 2007, New Century Financial collapsed, helping trigger in June the collapse of two hedge funds and Bear Stearns. In a short space of time, BNP Paribas suffered major losses as did the German bank IKB. Iceland's banking system totally collapsed. Ireland's system was totally underwritten by the government, and the UK's effectively nationalised.

By 15 September 2008, Lehman Brothers had collapsed and in the weeks that followed:

'Each of [America's] big five investment banks failed, was sold or was converted into a bank holding company. Two mortgage lending giants and the world's largest insurer were placed under government control ... [and] American taxpayers became part-owners in what were once the nation's proudest financial institutions.'<sup>18</sup>

In the UK, one million jobs, and £400bn of UK net wealth – most of it household wealth – was destroyed.<sup>19</sup> Third way politicians – like all politicians – put a lot of confidence in the idea that with the right institutions, markets would rebalance themselves. In fact, as Martin Wolf<sup>20</sup> put it recently, the economist Hyman Minsky was probably right. Good times encourage people to take on debt, especially in the finance sector. Finance moves from 'hedge' to 'speculation' to 'Ponzi'. And then it crashes.

Yet there was another problem starting to loom large: the squeeze on living standards that started not after, but before, the crash.

Here was the key insight of Barack Obama's team. When John McCain, the 2008 Republican party presidential candidate, told America that there was basically nothing wrong with the American

18. Andrew Ross Sorkin, *Too Big to Fail: Inside the Battle to Save Wall Street*, Allen Lane, p529

19. ONS, *Economic Review*, August 2010, p12

20. Wolf, *ibid*

economy, voters knew otherwise: the American economy had stopped working for millions of families. Indeed, the challenge to American families under President Bush had become so stark that Time magazine called his time in office ‘the death of the American Dream’.

Writers like Paul Krugman,<sup>21</sup> Robert Reich,<sup>22</sup> Jacob S Hacker<sup>23</sup> and Lane Kenworthy<sup>24</sup> have now set out how, since the early 1970s, the gigantic growth in American productivity has barely produced any improvement at all in the real income of the average American family. The emergence of what Reich calls the ‘super capitalism’ born in the 1970s – in the years following the break-up of the Bretton Woods system – has essentially destroyed the stable payoffs to workers of the 1950s and 1960s. American consumers no longer enjoy ever-cheaper goods: they compete for fuel and food in a more demanding global marketplace, and wages are not rising to compensate. Wages are flat and the prizes are carried off by a richer and richer super-elite. As Krugman has put it:

‘The value of output an average worker produces in an hour has risen almost 50 per cent since 1973. Yet the growing concentration of income in the hands of a small minority has proceeded so rapidly that we’re not sure whether the typical American has gained anything from rising productivity.’<sup>25</sup>

This was not simply about technology or globalisation rewarding those with the skills that make them lucky enough to do well. This is the challenge of what Hacker calls ‘pre-distribution’: the massive new gap between the way markets reward those at the top and those in the middle. This is not just down to corporate behaviour:

‘Politics and public policy have in fact played an absolutely central role.

21. Paul Krugman, *The Conscience of a Liberal*, Penguin, 2009

22. Robert Reich, *Supercapitalism*, Icon Books, 2009

23. Hacker, *ibid*

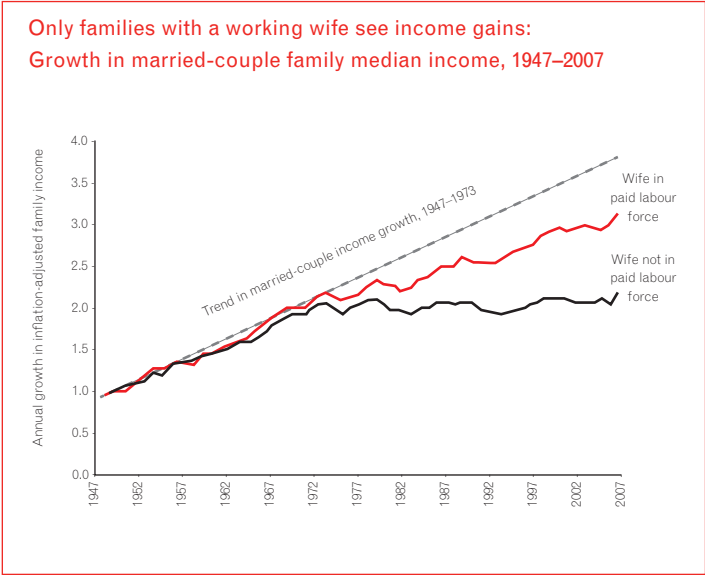
24. <http://lanekenworthy.net>

25. Krugman, *ibid*, p124



One clue that they have been central is the diversity of experiences among rich democracies. All rich countries have experienced the impact of technological change and globalisation and yet in many rich democracies increases in inequality and declines in economic security have been modest, and few have seen anything like the sharp upward shift of economic rewards, the implosion of unions or the breakdown of social benefits that have occurred in the United States.<sup>26</sup>

But in Europe we can see a similar picture emerge. In fact,



throughout the 1990s and the early part of the 21<sup>st</sup> century, workers' share of national earnings began to fall sharply. At first Britain bucked the trend: during Labour's first five years, between 1997 and 2001, workers' share of national earnings rose from 68 per cent to around its postwar average of 73.5 per cent.<sup>27</sup> But then the trend went into reverse. Productivity kept on rising, by over nine per cent

26. Hacker, *ibid*  
27. Analysis commissioned by Liam Byrne from the House of Commons library reveals that broadly speaking, since 1948, British workers have laid hands on around 73 per cent of our national earnings

between 2001 and 2008 – but workers’ share of national earnings fell, from 73.5 per cent to 69.6 per cent. Over the same period, corporate Britain saw its rate of return soar, from 11.8 per cent in 2001 to 14 per cent in 2008.

What did that mean for workers? In 2009, workers’ share of national earnings was around £768bn. Yet if workers’ share of the national economic pie had matched the postwar averages, an extra £23.4bn would have headed into people’s pay packets.

That meant the living standards of millions of workers – perhaps 25-30 per cent of people in Britain – many of whom were small employers, sales assistants, cashiers, construction and factory workers, or working in routine jobs – were starting to plateau. Overall, the hours people were working had not really changed. In other words, people were working just as hard as ever – but were just not getting on. With rising fuel, food and housing costs, they felt squeezed – because they were squeezed.

This began to make it harder and harder to reverse patterns of inequality that were deep set. Indeed, when the Organisation for Economic Cooperation and Development looked at the problem they found just a handful of countries where inequality was going into reverse.

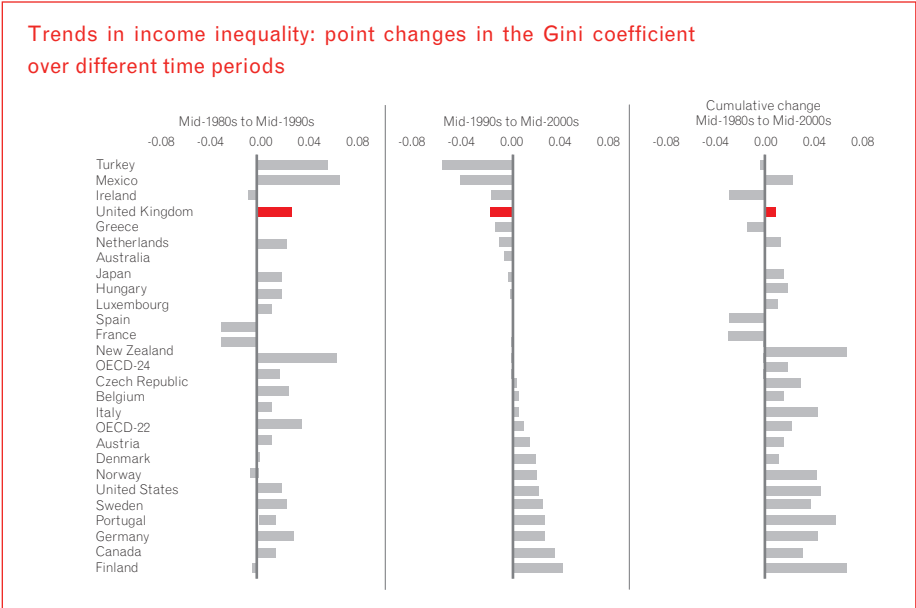
To these economic challenges, third way politicians began to feel new pressures emerging to test old solidarities, including the new challenge of immigration and identity.

Global migration has doubled since the 1960s, and all rich countries have felt the change. But in the first four years of the 21<sup>st</sup> century, the foreign-born population has increased by some 14 per cent in the key OECD countries. Austria, Finland, Ireland and the United States<sup>28</sup> all experienced increases of over 20 per cent. The UK in 2004 was only around mid-table – both in terms of the percentage of both foreign and

28. Increases have been lower (less than 10 per cent) for Australia, Canada, Germany, Hungary, Luxembourg and the Netherlands

foreign-born population (4.9 per cent and 9.3 per cent respectively).

As people moved, so the political temperature rose. Right across



Europe, immigration began to top the table of issues voters cared about most. The left's rational, balanced, measured assurances, while correct, cut little ice with voters. Support for the far-right climbed. In the European parliament and national parliaments across Europe their representation multiplied.

But frustration with immigration was playing into a much deeper and complicated concern about the decline of traditional feelings of community and belonging that were part and parcel of the changing way we lived life in the modern age: gone was the mass workplace; families lived scattered further apart; new influences like the media began to saturate our lives. Worries about immigration were so deep because they were amplified by a wider insecurity about the decline

of community. Europe is not contending with these pressures alone. In America, Robert Putnam found a similar sense of something in decline. As he put it:

‘At the century’s end, a generation with a trust quotient of nearly 80 per cent was being rapidly replaced by one with a trust quotient of barely half that ... [as] ... we have developed communities of limited liability ... place based social capital is being supplanted by function-based social capital.’

The fourth challenge here is the changing nature of politics. Across the developed world, people have become less deferential towards institutions and politicians. Anthony Giddens has termed this ‘post-traditional’,<sup>29</sup> where every public actor must constantly re-earn their right to legitimacy and trust. In several other countries, particularly continental Europe with more pluralist party systems, new organising techniques and the web have lowered the barriers of entrance into the political process, making it easier for smaller niche parties to develop a following and gain seats in parliament.

But the third way, one could argue, also became too technocratic. By only being concerned, or appearing to be concerned, with evidence-based politics, we became managers, rather than insurgents. We began to suffer from what Matt Browne of the Center for American Progress has called ‘seminaritis’: a belief that politics was about having simply the best data-driven evidence-based policies. In office, we lost some of the anger, passion and moral outrage that animates parties in opposition.

So, here we have it. The third way was an incredible success. But change in the world – change we helped unlock – began to create new challenges, ones that create new questions which the right has simply been faster to answer than us. The right’s response has been

29. Anthony Giddens, *An Introduction to a Social Theorist*, Wiley-Blackwell, 2000

wrong. But it has been faster to manipulate the uncertainty created by new challenges. We have been slower to offer real responses that resonate with the public.

Why do we need to wrestle with what went wrong with the third way? Not to dump it, but to work out the right way to build on its achievements.

Today, we know that benign circumstances can change, but the basic point is this: the strategy for progressives has to adapt to the challenges before us. We should no more throw away the achievements of the third way than we should the extraordinary legacy of the New Deal in America or the postwar progressives in Europe who rebuilt a continent and established a welfare state that, as David Miliband put it last year, created:

'The most civilised, egalitarian societies in the world based on individual rights and communal services.'<sup>30</sup>

Our challenge is not to see how quickly we can throw away the past. It is to figure out how to keep the best – and reform the rest. To get that right we need to understand where the new centre-ground now lies.

30. David Miliband MP, The Political Quarterly 2011 Lecture: Why is the European Left Losing Elections?, LSE, 8 March 2011

### 3. The state of the left: where is the new centre-ground?

Progressives need a new majority. Yet the elections of the last couple of years show us a new shape of western electorates in sharp relief.

The challenges to the third way have arrived just as long term trends – the ‘de-alignment’ of the traditional working-class base, the rise of bigger, more complicated, middle classes – have begun to crystallise. Those changes have all fanned support for new challengers, from the rise of new, ‘pure-play’ working-class parties, to the new strength of the Greens and other challengers.

I think we can now safely assume that in the wake of the crash the left is not going to win back power anywhere by default. But nor will we win simply with the best policies and programmes. Which is why, collectively, the left is fast developing a new political strategy.

So, what are the voters saying?

#### The state of the left

How are progressives doing at the polls? Not well. Look at the most recent elections to legislatures mostly held after the crash and compare performance to the last election, typically held before the

global recession. Outside France and Norway, the number of seats won by the left – even in Denmark where a new progressive prime minister has taken office – has fallen; in Spain, the UK, Germany and the USA, the number of seats lost is over 25 per cent

### Progressives' performance in recent elections

Country	Party	Most recent election	Number of seats	Previous election	Number of seats	Loss/gain (seats)	Loss/gain (per cent of seats)
France	Socialist party	Jun-07	186	Jun-02	138	48	35 per cent
Norway	Labour party	Sep-09	64	Sep-05	61	3	5 per cent
Denmark	SDP	Sep-11	44	Nov-07	45	-1	-2 per cent
Finland	SDP	Apr-11	42	Mar-07	45	-3	-7 per cent
Netherlands	Labour party	Jun-10	30	Nov-06	33	-3	-9 per cent
Australia	Australian Labor party	Aug-10	72	Nov-07	83	-11	-13 per cent
Sweden	SDP	Sep-10	112	Sep-06	130	-18	-14 per cent
USA	Democrats	Nov-10	193	Nov-08	257	-64	-25 per cent
UK	Labour party	May-10	258	2005	355	-97	-27 per cent
Germany	SPD	Sep-09	146	Sep-05	222	-76	-34 per cent
Spain	PSOE	Nov-11	110	Mar-08	169	-59	-35 per cent

Source: House of Commons library research

Of the social democrat success stories, Portugal's has since been reversed, while the centre-left government in Slovenia has been through turbulent times. Even in Denmark, Helle Thorning-

Schmidt's victory in September 2011 came despite her party achieving its worst share of the vote in a century.

The lazy assumption that both the crash and the need for a concerted, progressive left-of-centre response to jumpstart the global economy would benefit the left in the polls has been exploded.

Yet in truth, this is the lesson history teaches us.

After the Wall Street Crash in 1929, Labour, then in office, could not offer a way forward. The party lost in 1931 and did not win an election again for 14 years. In Australia during the Depression of 1930s, the failure of the Australian Labor party mirrored that of the British Labour party. The ALP won power in 1929 under James Scullin, but in December 1931 the ALP lost to the United Australia party in remarkably similar circumstances to Labour's loss to the National government.<sup>31</sup> In Sweden, Norway and Denmark the social democratic parties enjoyed limited success during the Depression, usually by forming broader coalitions with other parties.<sup>32</sup>

Only really in the United States did progressives face the Depression head-on. President Roosevelt was elected in 1933 and served until his death in 1945. His incredible political legacy was a raft of New Deal legislation to tackle the Depression and its impact: action to stabilise the banks; infrastructure projects to stimulate growth and create jobs; social security to protect the most vulnerable. Unemployment fell dramatically from 25 per cent when Roosevelt took office to 14.3 per cent in 1937. But in the 1980s voters chose Ronald Reagan and George HW Bush over liberal, interventionist Democrat alternatives.

In a powerful recent essay for Policy Network, *Cameron's Trap: Lessons for Labour from the 1930s and 1980s*, Gregg McClymont

31. Neville Kirk, *Labour and the Politics of Empire: Britain and Australia 1900 to the present*, 2011, pp32-33

32. Stig Hadenius, *Swedish Politics During the 20<sup>th</sup> Century*, 1988, pp38-40



MP and Ben Jackson make a blunt point: historically the right is better in recessions because its political strategy is simply more ruthless:

[Margaret] Thatcher and [Stanley] Baldwin made deep cuts in spending while presiding over sluggish economic growth but neither was punished by the electorate ... These governments delivered enough prosperity for enough of the time to retain electoral support. But this success also depended on presenting Labour as “profligate” and “incompetent”. The Conservatives won elections in the 1930s and 1980s by claiming relative rather than absolute government competence: under Labour, they argued, things would be much worse.’<sup>33</sup>

It is hard to generalise across history. Every episode is different. But today there are some familiar patterns from the past.

First, the crash demanded not ‘more of the same’ from us but something new. And we were not nimble enough to offer change as big as the world demanded. But, second, the crash struck at a point of huge change in electorates that were already making it harder for progressives parties to hold together the coalition of the 1990s.

So, what is going on?

## Attitudes are changing

First, let’s look at how attitudes are changing around the crash.

In tough times, a wide sense of community and altruism has given way to a narrower worry about the individual outlook. When times are tough, when feeling under threat, people circle the wagons. Traditional conservative rhetoric of self-reliance, self-help and individualism holds more sway. Voters become more resistant to big, dramatic changes that add to their discombobulation.

33. Gregg McClymont MP and Ben Jackson, Cameron’s Trap: Lessons for Labour from the 1930s and 1980s, Policy Network, 2011

A slump heightens other senses too. Anxiety goes up. Altruism goes down. The most recent British Social Attitudes Survey<sup>34</sup> is a good dashboard:

- While 75 per cent agree that the income gap between rich and poor is too large, only just over a third (35 per cent) believe that government should redistribute more to solve the problem;
- Although people see child poverty as an issue that government must tackle, 63 per cent believe that parents who ‘don’t want to work’ are a reason why some children live in poverty;
- After hitting a peak of 63 per cent just nine years ago, support for tax increases to spend more on public services such as health care and education has dropped to 31 per cent.

These trends are not unique to the UK. The evidence suggests similar trends in other countries. Policy Network research in the UK, US, Sweden and Germany in March 2011<sup>35</sup> showed similar patterns across the west. Two conclusions stand out:

- 1 **Significant numbers of voters believe centre-left governments tax too much with too little public benefit.** 48 per cent share this view in Germany, 46 per cent in the US, 39 per cent in the UK, and 34 per cent in Sweden.
- 2 **Voters have little faith in the state to correct the injustices of the market.** Just 15 per cent of voters in the US feel one of the benefits of state action is to stand up to vested interests; in the UK the figure rises to 16 per cent; 21 per cent in Germany; and to a more respectable, but still low, 27 per cent in Sweden. Considerable numbers count the hijacking of the state by vested

34. British Social Attitudes Survey 26<sup>th</sup> Report, 2010, National Centre for Social Research

35. Policy Network polling data, cited in ‘The Quest For a New Governing Purpose’, Priorities For A New Political Economy: Memos to the Left, Policy Network, 2011

interests as a major disadvantage of state action: Germany 48 per cent, US 47 per cent, UK 38 per cent, Sweden 17 per cent.

## Voters are changing

This is challenging enough for the left. But this is only part of the picture.

The crash struck just at the time when the rapid demographic and economic change wrought by globalisation was beginning to shake up western electorates, creating a new electoral map.

Over the last decade, a huge middle-class revolution has begun to change the nature of politics. The economist Surjit Bhalla calls this the third middle-class surge since 1800.<sup>36</sup> By the end of the last decade, more than half of the world's population was defined as middle class. The rise of the middle class (in direct contradiction to the predictions of Karl Marx) has reshaped our societies and politics in the past 30 years. Most of this new growth is in the developing world<sup>37</sup> but the same trend is continuing to change the west too.

Take the UK. In some surveys, more than 70 per cent (33.6 million people) of the UK voting population call themselves 'middle class'.<sup>38</sup>

Old reliance on 'working-class' votes quite simply cannot deliver a majority; indeed, this has been true for years. It was identified by Eric Hobsbawm as long ago as 1978, in his famous essay *The Forward March of Labour Halted*.<sup>39</sup>

But something else is changing, within the working class: it no longer votes automatically for social democrats. Flat living standards, new worries about immigration and identity, the decline of old family structures and workplaces are all forces hollowing out traditional affinity for the centre-left. Private polling for Labour

36. The first occurred in the 19<sup>th</sup> century with the creation of the first mass middle class in western Europe. The second was the baby boom (1950-1990)

37. Surjit Bhalla, *Rise of the Middle Class*, the Economist. Bhalla's research suggests that the number of middle-class people in Asia has overtaken the number in the west for the first time since 1700

38. 'Speaking Middle English A Study on the Middle Classes', BritainThinks, 2011

39. Eric Hobsbawm, 'The Forward March of Labour Halted', *Marxism Today*, September 1978

shows that lower income groups are the most footloose of any voting group. At the 2010 election Labour support among C2 voters (those defined as skilled manual workers, who comprise roughly a fifth of the population) dropped by 20 percentage points.

Why? Because they are worried and feel let down by politicians.

Seminal research in the UK published by the anti-fascist organisation Searchlight Trust pinpointed:

‘Deep resentment to immigration as well as scepticism towards multiculturalism. There is a widespread fear of the ‘Other’, particularly Muslims, and there is an appetite for a new right-wing party that has none of the fascist trappings of the BNP or the violence of the English Defence League. With a clear correlation between economic pessimism and negative views to immigration, the situation is likely to get worse over the next few years.’<sup>40</sup>

So, what is the conclusion?

Any strategy that tries to win with an appeal to an industrial proletariat or trade-unionised workforce is going to find it tough to command a majority. That truth is unchanged. But in a more complex world, the business of reaching out to forging a broad-enough coalition to win is more complicated than ever.

### Where does the new progressive coalition lie?

The challenge is stark. But this is not a counsel of despair, far from it. Instead, we need to be clear about where our voters are, and the ideas that can bring them together in a new majority for progress.

The Center for American Progress<sup>41</sup> has published an excellent account of how our potential coalition now looks – and the good news is that the basic values that were so important to the third

40. Searchlight Trust, *Fear and Hope*, 2011

41. Center for American Progress, *A New Progressive Coalition*, 2011

way – aspiration to get on, support for families, identification with neighbourhoods and communities, and, above all, an innate sense of fairness and justice – remain strong and salient. They are values which if we mobilise them well are strong to win.

### The new progressive coalition

<b>The traditional (yet shrinking) working class</b>	In sharp decline. In Germany, for example, the proportion of blue-collar workers in the workforce has been cut by half since the late 1950s to just over one-quarter of the workforce today, while the proportion of white-collar workers has nearly tripled to 57 per cent. In Sweden the proportion of blue-collar workers has been cut by half to one-quarter of the workforce since the mid-1970s.
<b>Rising educated, middle-class, and professional voters</b>	On the rise. The proportion of white-collar workers in Germany's workforce has nearly tripled since the 1950s, and the rate of white collarisation is not far off in other countries. This is a universal trend.
<b>Women</b>	On the rise. The forward march of women into the labour force, into higher education, and into the professions means that the historic tendency of progressive parties to do better among men than women has been reversed.
<b>The younger generation</b>	On the rise. The 'millennial' generation born between 1978 and 2000 are vessels of modernity with an outlook – particularly among women – that is notably cosmopolitan, tolerant, and open compared to previous generations. They are also, of course, a generation whose access to economic mobility bears a vexed relationship to the welfare state and to the older voters who are its chief beneficiaries.
<b>Singles and seculars</b>	On the rise. In the United Kingdom, the number of single-person households rose by 73 per cent between 1981 and 2008. In the Netherlands, the proportion of unmarried voters in the 20-to-65 age group increased from 26 per cent to 36 per cent in just 12 years (1998-2010). In Australia, between 1991 and 2006, the proportion of never-married or divorced women among 25-to-29-year-old women rose by 14 points (25 to 39 per cent).
<b>Immigrants and minorities</b>	The UK's non-white BAME population is projected to reach 20 per cent of the population by 2031, compared to 13 per cent in 2001. In the Netherlands, the migrant population share is projected to reach 26 per cent by 2040. In Spain, the immigrant population has grown from 200,000 to just under six million since 1981. In France, around 150,000 newly naturalised citizens are added to the election rolls every year, which could mean 750,000 newly naturalised citizens participating as first-time voters in the 2012 presidential elections.

How do we mobilise the new coalition? With five new principles for winning a new majority.

## 4. Five lessons for progressive renewal

After the third way what is the new way back to the centre-ground for progressives?

The response of the right everywhere has been similar: it is a response, as Gregg McClymont and Ben Jackson argue,<sup>42</sup> which is practically identical to the 1920s, 1930s and 1980s. The right presents a draconian path back to budget balance, argues it is the only game in town and dresses it in the clothes of ‘national purpose’. They cast the progressive past as ‘profligacy’. They find enemies within: trade unions; welfare recipients; single mothers; workers ‘pricing themselves out of a job’. But they find enough winners to sustain an electoral victory, even in tough times:

‘Austerity has delivered Conservative governments re-election in the past by creating a political economy of winners and losers, in which Labour is solely associated with the losers.’<sup>43</sup>

But, as McClymont and Johnson also argue, there is a difference this time. In the 1930s and 1980s, the right created a feel-good factor widespread enough to win. In contrast, by 2015 most Britons will still be feeling the squeeze.

42. McClymont and Jackson, *ibid*

43. *Ibid*, p24

Throughout the last year, progressives have regrouped around the world. In a unique dialogue in Europe through the Amsterdam process, and globally, through Global Progress, a new progressive response has emerged with five principles centre-stage.

Its starting point is simple: there is an alternative and it is better for the national budget, your living standards and your children.

Its attitude is simple: realistic about money, but radical about power.

Its philosophy is straightforward: equality of opportunity plus equality of responsibility, in government and in business. At the bottom of society, and the top, and every point in between.

It seeks to keep the best of the third way, but to confront the new challenges of recovering from the crash, tackling living standards that are flat, and addressing worries about identity and community. It seeks to forge a new coalition between the young and old, ‘grandparents and grandchildren’, between aspirational families in the middle and working class, especially women, new citizens, and families starting off in life.

This is the approach Ed Miliband set out in January 2012: ‘To demonstrate once and for all that Labour is a party for all times, not only a party for good times.’

It draws on four basic insights about the new centre-ground.

First, the only way forward for progressives is a high-growth, high-employment future. The right will never prioritise jobs. The right tolerates the high social costs of unemployment – and finds ways to raise living standards for enough people to win a majority. If we want to help a bigger majority, we have to grow the pie that there is to share.

Second, there is a profound worry about the power of ‘vested interests’ blocking the power of ordinary families to get on in life. Voters today are very worried now by concentrations of corporate power. Polling for Policy Network<sup>44</sup> found that 85 per cent of people

44. The Quest For A New Governing Purpose, *ibid*

in the UK, 83 per cent in Germany, 69 per cent in the US, and 60 per cent in Sweden agree with the view that big companies these days care only about profits – not about the wider community or environment.

People's faith in the market to deliver social goods – especially jobs and shared wealth – is at a low ebb. Only between 15 per cent in Germany and 35 per cent in the US cite as an advantage of the market economy that it is the best way to provide jobs and opportunities to individuals. Even the former neoconservative, Francis Fukuyama, now argues that the key to a healthy middle-class society is government that:

‘Reassert(s) the supremacy of democratic politics over economics and legitimates anew government as an expression of the public interest ... the new ideology would not see markets as an end in themselves.’<sup>45</sup>

Third, let's remember that while people are sceptical about the power of the state, they have not given up on it: they just want a different kind of government. People are prepared for increased taxation if it were guaranteed to improve benefits and services. In the UK, 51 per cent of Liberal Democrat voters and 32 per cent of Conservative voters would be willing to do so. In Germany 47 per cent of CDU voters and 41 per cent of FDP voters would be willing to do so. In Sweden 37 per cent of Moderate party voters would be and in the US even 17 per cent of Republican voters would be willing to pay increased taxes subject to this guarantee.

Fourth, while many worry about immigration and identity, attitudes are fluid and multilayered: young people are more open to living in an ethnically diverse society, and the vast majority of Britons reject political violence and extremism.

Our principles start with fiscal realism. A clear view that over the right time frame a return to budget balance and falling debt

45. Francis Fukuyama, 'The Future of History', *Foreign Affairs*, Volume 91 No 1



levels is vital because in an uncertain world a low level of debt is a Keynesian's best insurance policy. But, in contrast to the right, progressives argue that paying down debt is easier when you have a growing economy. That is why fiscal realism puts the short-term focus on getting people – especially young people – back in jobs, paying in tax, not out of work, taking out benefits.

But sustained growth needs more than just any old jobs. We need an active industrial and innovation policy plan to rebalance our economy, play to national strengths, switch to low-carbon energy, strengthen infrastructure, redouble enterprise, and reform our banking system so that once again business – especially small business – has the lifeblood of credit to expand. This is the new bargain with business. And in return we ask for behaviour that does not resemble the worst excesses of robber barons.

Third, we have to renew our welfare states to drive up the rate of employment. That means freeing some to work when they want, and insisting others work if they can. For many, especially young families and women, that means progressives delivering new services like childcare and social care to help families juggle the 'care crunch'. For others it means firm action to make sure that if you can take a job, you do so. This is welfare reform that helps, not hinders, countries working hard. But welfare reform is not just about the welfare state. It is about reform of 'corporate welfare' too, starting with tough measures to make sure everyone pays the tax they owe.

Fourth, we know that to get through the next decade we need to draw not simply on the wealth of nations, but the hidden wealth of nations. The challenges we face today are too big to all be left to government. Governments and political parties alike need to help make it easier for good people to come together to make a difference through social action and innovation – and it is this kind of civic

inventiveness that modern democracies need to renew the ties that bind strong communities together.

Finally, we know that in tough times there is a higher premium than ever on making taxpayers' money go as far as possible. Standards in public services have to go up even when budgets are coming down. Only a revolution in innovation can square that circle. And that is very hard to mandate from the centre. So sometimes, the centre has to let go – set standards, yes, but then free up the frontline and devolve power to speed up new ways of doing business, delivering for citizens better than before.

Together this is an agenda for national renewal; for growth, higher employment – and a renewal of the social solidarity that underpinned the creation of progressive high-growth welfare states of the postwar era. The agenda starts, of course, with money.

## 1. Fiscal realism: paying down the deficit by getting people back to work

The record deficits created by the financial crash demand action to bring deficits once more down to zero. But at the right pace – and with the right plan. The left will not get re-elected without clear and present fiscal credibility, but the fiscally realistic thing to do right now is to boost jobs – especially for our young people, investing in their opportunities for the future – and tax reform to ensure wealth and the wealthy make a fairer contribution to solving the challenges at hand. As Chile's former finance minister, Andrés Velasco, puts it:

‘There is nothing progressive about large fiscal deficits and high public debts: when public finances blow up and need to be fixed in an emergency, it is the poor and the vulnerable who end up footing the bill.’<sup>46</sup>

46. Andrés Velasco and Francisco Díaz, ‘Cut to the Chase: 15 Political Truths for the Centre-left’, *Priorities For A New Political Economy: Memos to the Left*, Policy Network, *ibid*

Polls around the world confirm that there is no return to office for progressives unless they are credible on the question of deficit reduction. Budget deficits peaked at 8.25 per cent of GDP in the OECD countries in 2010 and on average levels of debt in the OECD countries were 30 per cent higher than before the crisis.<sup>47</sup>

So, at election time, voters need to have a pretty good idea about our plans for rebalancing budgets – and the tough decisions we would take. This is not simply good politics, it is good policy. If we have learned one thing from the last three years it is that while many nations are now almost immune to sovereign debt crises, few of us are immune to a global banking crisis.

Between 1945 and 2007 only four major economies avoided banking crises.<sup>48</sup> The world's great finance hubs, the US, the UK and France, have between them experienced 40 banking crises since 1800 – and when they strike they are serious, because they trigger secondary crises. As banks liquidate long-run assets to pay for short-term liabilities, lending collapses, business across all sectors is hit hard, and tax receipts collapse.<sup>49</sup> In the 'big five' postwar financial crises, bank bailout costs ranged from 11-16 per cent of GDP, and tax revenues fell for three years by between two and four per cent.

But, unlike the right, we think there is a different way to getting deficits down. Quite simply, a short-term focus on getting people back into work helps make deficits easier, not harder, to pay down. As Oliver Blanchard, chief economist of the International Monetary Fund, has put it:

“If we have learned one thing from the last three years it is that while many nations are now almost immune to sovereign debt crises, few of us are immune to a global banking crisis”

47. [http://www.oecd.org/findDocument/0,3770,en\\_2649\\_34595\\_1\\_11968\\_4\\_1\\_2\\_1,00.html](http://www.oecd.org/findDocument/0,3770,en_2649_34595_1_11968_4_1_2_1,00.html)

48. Carmen Reinhart and Kenneth Rogoff, *This Time Is Different*, Princeton, 2009

49. *Ibid.*, p141

‘Low growth, fiscal and financial weaknesses can easily feedback on each other. Lower growth makes fiscal consolidation harder. And fiscal consolidation may lead to even lower growth. Lower growth weakens banks. And weaker banks lead to tighter bank lending and lower growth. In short, there are clear downside risks to this forecast.’<sup>50</sup>

That is why around the world, progressives are in the lead proposing plans to get nations back to work:

- **In the US:** President Obama’s Jobs Act, which provides targeted tax breaks for employers creating new jobs and taking on new employees (with a focus on veterans);
- **In the UK:** Shadow chancellor Ed Balls has proposed a five-point plan to kickstart jobs and growth, including a temporary tax on bankers’ bonuses which could create up to 100,000 jobs for young people;
- **In France:** Presidential candidate François Hollande has put forward ideas for job creation and economic growth;
- **In Germany:** While in the grand coalition, Social Democrat minister Olaf Scholz introduced ‘work sharing’ which supported and subsidised work to save over two million jobs when the crash hit, and allowed the German economy to bounce back once orders began to pick up. The policy was wholly designed and implemented by Scholz at the Labour Department and his Social Democrat colleague, Peer Steinbrück, the finance minister.

But short-term action has got to come with strong, credible and committed determination to do what it takes to bring down debt in the medium term. As Andrés Velasco and Francisco Díaz have said:

50. <http://www.econmatters.com/2011/10/strong-policy-actionthe-essence-of.html>

'It is much better to strengthen fiscal accounts before a crisis – and to do it the progressive way. The first thing is to get the timing right. A weak recovery is not the time to tighten fiscal policy sharply. But if markets see no indication of tightening, they may abort the recovery themselves. The way out of this conundrum is to commit to adjustment, backload it, and make credible any promises of additional future tightening. This may require setting up fiscal rules and independent fiscal councils. Such rules have worked well in social democratic countries: Sweden is an example from the north and Chile is an example from the south.'<sup>51</sup>

## 2. A new economy: how we renew 'good growth'

We have learned the hard way that markets do not always work for the long term. And with the rise of Asia and a new competitive challenge, progressives need new strategies for government and business acting together to strengthen the industries that will provide the jobs of the future, infrastructure, small business and enterprise, bank reform and the transition to low-carbon energy. Markets alone cannot achieve this. But smart governments and markets stand a chance.

This is not a luxury – it is a necessity. We do not know whether the next 20 years will be the story of the 'rise of the rest'<sup>52</sup> or the 'rise and fall of the west'.<sup>53</sup> Five years ago, economists forecast that China would not become the world's richest nation until 2041. Now, China may be number one within a decade. The Asian century is arriving far faster than anyone expected.

Asia will prove a great new market, but a great new competitor too. There is now some \$3-4tn lodged in sovereign wealth funds globally.<sup>54</sup> A third of that money is in Asia, and now slowly but surely that money is flowing into infrastructure and industrial policy, boosting the strength of China and India's production base. China has billions in sovereign wealth funds, and is spending the

51. Velasco and Díaz, *ibid*

52. Fareed Zakaria, *The Post-American World*, WW Norton & Company, 2008

53. A point Prof David Gergen, at Harvard University's Kennedy School, makes

54. Stephen S Cohen and J Bradford DeLong, *The End of Influence: What Happens When Other Countries Have the Money*

money on smart graduates, technology, and foreign businesses – 400 of them bought up in the last five years.

At the heart of the third way was the idea that a new partnership between business and government was vital to help business grow. In the UK, under New Labour, productivity grew to record levels.<sup>55</sup> In the future, good growth is going to need government to help shape a different kind of economy.

In the past, industrial policy in the west has been fraught with failures<sup>56</sup> from bad loans programmes to hi-tech businesses to the French government's attempt to build a state-run electronics sector (it required subsidies of \$4.6bn by 1982). But there is now an impressive list of success stories, as Dani Rodrik recently suggested: from Silicon Valley to South Korean steel, to Dubai's Jebel Ali airport, to Brazil's aircraft industry, to Taiwan and Singapore's electronics industry.

Vital for the left is a debate about how to develop a smart 21<sup>st</sup> century industrial policy. It must not only embrace government investments, but the structure and incentives of our banking system, national infrastructure, the relationship between industry and universities, the skills of our workforce, and the ethics of our business communities.

But, crucially, we have to be on the side of the entrepreneurs; the small business; the challengers, not the status quo; because concern with business behaviour is vital to our new appeal. Last year, Policy Network found:

'Unease about concentrations of power is most visible in people's apprehensiveness about the dominance and practices of large, typically multinational, corporations in our societies. Majorities in the UK (85 per cent), Germany (83 per cent), the US (69 per cent) and Sweden (60 per

55. Dan Corry, Anna Valero, John van Reenan, 'UK Economic Performance Since 1997', Centre for Economic Performance, LSE, 2011

56. See the recent debate between Josh Lerner and Dani Rodrik at [www.economist.com/debate/days/view/541](http://www.economist.com/debate/days/view/541)

cent) agree that large corporations care only about profits and not about the wider community or the environment.<sup>57</sup>

This unease with the right's handling of the economy can mean victory for the left. In February 2011, elections in Hamburg saw a decisive swing to the Social Democrats. The SPD won an absolute majority (a rare occurrence for any party) and economic factors played a significant part.<sup>58</sup> Crucially, the SPD candidate for mayor, Olaf Scholz, was notoriously pro-business within the SPD, and was also seen as the architect of the work-sharing policy that had 'saved' the German economy.

But a new balance between sectors is one thing, a new balance between who the market rewards and how is another. What the Financial Times calls 'the crisis in capitalism' is going to demand fundamental changes to foster longer-term horizons and better corporate governance in the boardroom. Our economy needs a new balance, between sectors, and in who gets what. Recalling Hacker's notion of 'pre-distribution' – the way in which the market distributes its rewards in the first place<sup>59</sup> – before the government steps in provides no easy answers.

### 3. New welfare states: restoring the right, the reward and the responsibility to work – and pay your taxes

Strong welfare states not only share wealth and tackle the injustice of poverty, they help young people and working families get on, help countries raise the numbers in work paying tax, and help strengthen a nation's sense of social solidarity.

During the 1990s and after, third way politicians around the world created a welfare revolution, with active labour market

57. The Quest For A New Governing Purpose, *ibid*

58. Helen Pidd, 'Angela Merkel's Christian Democrats suffer heavy Hamburg defeat', the Guardian, 20 February 2011

59. Hacker, *ibid*

programmes to support the unemployed into work, innovations like national minimum wages and tax credits to help make sure work paid, and serious investment in education, skills, and pension reform to help make sure the money would be there to support workers retiring in a world where everyone lived longer.

The next generation of welfare state reforms will marry new rights to work with new responsibilities to work. But new welfare states will renew the reward for work as well, tackling unjust

wage inequalities between men and women and offering new services to help families deal with the new risks of modern life. Crucially, they will seek a new bargain, a new solidarity,

“The next generation of welfare state reforms will marry new rights to work with new responsibilities to work”

between young and old, where we forge a new contract between our countries’ grandparents, the babyboomers now entering retirement, and their grandchildren, the new generation struggling to find education and jobs. This point has been made publicly by former Austrian chancellor Alfred Gusenbauer.

Broadly speaking, if we want to raise living standards and wealth for working people, especially those who are worst paid, we have five options:

- Raise wages;
- Help families juggle the ‘care crunch’ so they can work the hours they might chose;
- Better target income transfers;
- Create better chances to secure decent housing; and
- Use tax incentives fairly to help families save for the long term.



Absolutely key to this is the position of women and young people.

Raymond Johansen, general secretary of the Norwegian Labour party, summed up the point well in his remarks to the Global Progress conference in Madrid in October 2011: the great success of Norway in recent years is not to do with oil, or fish, but women. Specifically, success is down to very high rates of female employment supported by a welfare state that treats parents – and their entitlements – equally, along with excellent childcare. In the UK, new research by the Resolution Foundation shows that over the last 40 years the boost in women’s employment rates has been critical in raising living standards.<sup>60</sup> Good childcare and, increasingly, good social care systems are becoming simply vital for welfare states to help raise family incomes.

But a real right to work is one thing, a fair reward for work is another. In the UK, Labour has proposed campaigns for not simply a minimum wage – but a ‘living wage’, paid at a level to help someone live above the breadline. Just as important is tougher action to end the scandal of sex discrimination at work especially among part-time workers, who are often overwhelmingly women. In the UK, the gender pay gap in part-time work is over 35 per cent. Ending this scandal is vital if we are to restore the right reward for work and raise living standards.

The position of young people is just as vital.

To this agenda the left has to add one more thing: a tough-minded reform that insists that where people can take a job, they do. This was behind Labour’s idea at the last election that every young person, once they were unemployed, had to undertake a job or training or see their benefits cut. Those who had been unemployed for over two years would face the same choice. But Labour chose to back the idea with investment in creating real opportunities for at least six months.

60. Mike Brewer and Liam Wren-Lewis, ‘Why Did Britain’s Households Get Richer?’, Resolution Foundation, 2011. Between 1968 and 2008-9: over one quarter (27 per cent) of all income growth for low to middle income households came from women’s work, with only eight per cent from men. In 1968, 86 per cent of household gross employment income in this group came from men and 14 per cent from women; by 2008, 63 per cent came from men and 37 per cent from women

Ideas like this help strengthen the sense that we are ‘all in this together’, that no one is allowed to ‘free ride’, and helps strengthen progressive instincts. It is what John Denham MP once called ‘the fairness code’.<sup>61</sup> It is this idea of reciprocity that economists Samuel Bowles and Herbert Gintis have shown is absolutely central for retaining support for progressive values:

‘The welfare state is in trouble not because selfishness is rampant (it is not) but because many egalitarian programmes no longer evoke, and sometimes now offend, deeply held notions of fairness, encompassing both reciprocity and generosity ... stopping far short of unconditional altruism towards the less well off.’<sup>62</sup>

#### 4. Civic inventiveness: How we renew community

Progressives believe in the power of collective action, but in the 21<sup>st</sup> century making change happen cannot just rely on politicians wielding the ‘hard power’ of new laws and budgets. We need to mobilise the ‘soft power’ of social action too, locally, nationally and globally. This demands a wider style of political leadership – and an agenda for our party reform and government reform that supports a stronger civil society, and a closer partnership between politicians and people.

Right now, voters are not in much of a mood to trust ‘big government’ to solve their problems. Last year, Policy Network found:

‘Significant numbers in the US (39 per cent), the UK (29 per cent) and Germany (27 per cent) question whether there are, in fact, any advantages at all to government-led action to improve our societies, in contrast to a more optimistic view in Sweden (just eight per cent).’<sup>63</sup>

61. John Denham MP, *The Fairness Code*, Prospect, June 2004

62. Samuel Bowles and Herbert Gintis, ‘Is Equality Passé? Homo Reciprocans and the Future of Egalitarian Politics’, *Boston Review*, December 1998. See also: *A Cooperative Species: Human Reciprocity and its Evolution*

63. *The Quest For A New Governing Purpose*, *ibid*

That means progressives need new ways to mobilise for progress, not simply the hard power of elected office – but the soft power of social action. When budgets are tight, we have to draw on all the wealth of the nation and remember that community action is good for strengthening communities that feel like they are changing fast.

The right will always offer easy answers: the break-up of traditional family, the arrival of newcomers. To blame, in other words, someone else, the ‘other’.

In fact, communities are changing fast for all sorts of reasons. Robert Putnam has found up to 11 key causes.<sup>64</sup> Gone is the workplace as the principal crucible in which shared identity was forged. The job for life is very much a thing of the past. Only one-third of British employees have been with their employers for 10 years. The way we have families now is not the same as 40 years ago. It is harder to speak of an ‘average’ home; our families also look different. We are moving around faster than ever before. Global migration has doubled since the 1960s.

The left needs to understand insecurity, but offer something positive to do about it. That is why action to bring communities together to deliver change is so important. Notions of ‘social capital’ have been independently ‘invented’ at least six times during the 20<sup>th</sup> century.<sup>65</sup> But in a series of books, articles and arguments during the 1990s, we came to see how absolutely central shared standards are to the ‘trust’ that powers successful economies, and the ‘social capital’ that helps successful societies flourish. Indeed, one of the great insights of the third way was that individuals do better in strong communities. So alongside new measures to empower individuals, we will need new measures to strengthen what ties individuals together.

64. From busyness and time pressure, movement of women into the labour force, residential mobility, suburbanisation, TV, changes to marriage, the welfare state, to the 1960s (Vietnam, Watergate and the cultural revolution against authority)

65. Robert Putnam, *Bowling Alone*, Touchstone, 2000, p16

Amitai Etzioni has put it like this: we have to fill the gap – some would say a gulf – that opened with the breaking down of the norms and traditions of the 1950s and 1960s:

‘If you go to the 1950s, norms were clear, crime was very low, drug abuse was very low, people didn’t have to lock their homes or their cars, people knew what was expected of them, people took responsibility, and it was a God awful society, because it discriminated against minorities, it discriminated against women, it discriminated against the handicapped, it discriminated against gay people; it was a very authoritarian society.’<sup>66</sup>

Since that era, a whole host of forces have broken down the norms of the past, norms that Etzioni is not arguing that we return to: ‘I know very few people, very few people, even on the extreme right, who want to go back to 1950s society.’ But, he continued:

‘The question we have not fully confronted is what new norms we are going to share. What will replace the shared basis of good conduct? We talk a lot about market failure, but there is also such a thing as social failure, and in a good society most of the people most of the time do what’s expected of them without being coerced or forced, because they believe it’s the right thing to do.’<sup>67</sup>

We have often stayed too silent about this great mainspring of our tradition, yet with this tradition our party was born and with this tradition progressives shaped the new communities of the industrial revolution. Throughout our political history our movement has nurtured those who reacted to tough economic conditions or local monopolies with a strategy of association and cooperation, rooted

66. Amitai Etzioni and Liam Byrne MP, Joint Lecture to the RSA, Do People Need Community Any More? <http://www.thersa.org/events/video/archive/amitai-etzioni-and-liam-byrne-mp---do-people-need-communities-anymore>

67. Etzioni, *ibid*

in shared values. Bernard Crick once called community ‘the most rhetorical, potent, but least defined of values’.<sup>68</sup>

Yet, back in the 19<sup>th</sup> century, when our great cities were born, it was progressives who helped invent our great civic traditions and spaces. Now we need a new revolution in ‘civic inventiveness’ where we renew old, powerful identities and find new ways of bringing people together to get things done.

Between 2004 and 2006, the US Democrats rebuilt their local party machine. This was community organising in the truest sense. Local Democrats were asked to come and help out in their local community, not to talk about policy but to engage in tangible change. This could be recycling, picking up litter, or other visible social activism.

This built on a pent-up desire to engage in doing good and to improve things. It was the model inspired by the campaign of Democrat presidential hopeful Howard Dean, and again developed by the Obama campaign.

In the UK, Labour has embraced Refounding Labour, a thorough process of grassroots reinvigoration, and has adopted a new statement in its constitution in favour of community organising.

## 5. A new politics: personal – and global

Progressives have to show that government can make a difference in a world where voters are sceptics. That means public services have to work for modern aspirations – and modern expectations.

More and more, people want personal control and influence over the way their services are delivered. Progressives have to stand for people – not bureaucracies – and deliver the public sector reform that is needed.

Right now, the willingness of voters to spend more on public services is limited by a basic worry that the money will not deliver.

68. Bernard Crick, 1987, cited in Hazel Blears MP, ‘Communities in Control’, Fabian Society, 2003, p8

Policy Network polling in Britain, the US, Sweden and Germany showed that more people agreed than disagreed with the idea that centre-left governments tax too much with too little benefit. That means progressives need to offer answers to a basic problem: in an era of deficit reduction, how can we make sure that standards in public services are going up, when budgets are often coming down?

When in government, centre-left governments tax too much with too little public benefit.

	UK	United States	Sweden	Germany
Agree strongly	16	27	20	22
Tend to agree	23	19	14	26
<b>TOTAL AGREE</b>	<b>39</b>	<b>46</b>	<b>34</b>	<b>48</b>
Neither agree nor disagree	21	17	24	26
Tend to disagree	23	15	15	13
Disagree strongly	10	17	18	6
<b>TOTAL DISAGREE</b>	<b>33</b>	<b>32</b>	<b>33</b>	<b>19</b>
Don't know	7	6	8	6

Source: Policy Network/YouGov

Only innovation can square this circle and innovation cannot be mandated from the centre. Devolution is the best way forward but in a devolved system we have to guard against inequity. That is where public service guarantees can make a difference. Our starting point should be the same as it ever was: an uncompromising focus on delivering higher standards. Not for a privileged few, who can afford to go private, but for all. That is why we are proposing rights to high-quality public services – rights for all, not just the lucky few, and which are backed by fast, effective means of redress.

With new rights must come responsibility: to look after your health, to report crime. With rights to high-quality services in place, we can give frontline public services much more freedom to use their professional judgement, to innovate, to do more, better. If we get this right, we can cut back on the overheads at the centre, and sell the things we do not need any more. And with the money that saves, we can help protect the frontline, so we can use our national resources to pay down the national debt.

The right will always want to blame 'big government' as part of the problem. But its alternative rarely offers the public much of a guarantee to good services – just a gamble.

For example, in the UK, the Conservative-Liberal Democrat coalition is promoting an ethos of decentralisation under the banner of the 'big society'. However, this ideal is being translated into budget cuts for charities, youth work, volunteering groups and local authorities, thus undermining localism and civil participation, and removing the 'social glue' which adheres communities together.

## 5. The return of self-belief

In the last 20 years progressives learned the hard way that we campaign in poetry and govern in prose. Not so for the right. Its campaign carries an unremitting message of pessimism, designed to destroy the hope that change is possible through the force and action of government. It wants populations to be supine, anxious and unwilling to contemplate radical change.

Progressives have to be different: we have to be the optimists. We have to be the party at the table with a clear message: let's have a little more self-belief; through politics we can change life for the better. Where markets have failed, politicians have to broker solutions not simply on paper, but in practice. Like Joseph Conrad's captain facing the storm, the progressive approach should be 'Facing it, always facing it. That's the way to get through.'

In the bleakest of conditions, when gaining office seemed a remote prospect, progressives have often engaged in their boldest and most imaginative revisionism. In the midst of the economic slump in the 1930s, with the Labour party at a low ebb in parliament, revisionists such as Evan Durbin and Douglas Jay constructed an alternative. In 1945, Labour won by a landslide. In very different economic circumstances in 1956, but with the Labour party again on the back foot, Tony Crosland wrote *The Future of Socialism*, and Hugh



Gaitskell refashioned the party programme, paving the way for victories in the 1960s. In that same period the German SPD revised traditional social democracy at Bad Godesberg, lighting a beacon for social democrats around the world, from Sweden to Israel.

In the 1980s, with the Thatcher-Reagan hegemony seeming invincible, progressives in the UK and around the world fashioned a new social democracy, built on progressive values, steeled by the struggles against sexism, racism and homophobia, and harnessing global markets. In the 1990s, Blair, Clinton and other third way leaders again revised progressive thinking to cope with their own times, and the challenges of globalisation, mass migration, religious fundamentalism and climate change.

In each generation, the values are the same, but the means are different. What unites each generation of successful progressives is confidence and self-belief. At every stage of its development, social democracy around the world has shown itself remarkably durable and adaptable, no matter how tough the social and economic environment.

Today, our task is no less difficult than our predecessors'. But we can have confidence that our values are shared, our politics can be popular, and our broad approaches are the right ones. The founder of the British Labour party, Keir Hardie, once remarked that 'socialism does not come by shouting'. The politics of protest, while satisfying to short-term frustrations and anger, is not the same as the patient theoretical reconstruction of the progressive movement that is required now. Nor will wishful thinking get us very far,

“Today, our task is no less difficult than our predecessors'. But we can have confidence that our values are shared, our politics can be popular, and our broad approaches are the right ones”

hoping that our opponents make such a mess that electorates turn to us in despair.

As Ed Miliband has suggested, the next election in the UK will be fought against a backdrop of austerity and reduced public spending. But that does not mean it will not be ambitious, radical and fizzing with new ideas. The same is true in every country where progressives are tackling similar problems

We are the optimists. We believe that society can be harmonious, that collaboration can be rewarding, that democratic politics can deliver a better world. We believe that society can develop in ways which make our ever-longer lives more enriching, that our economy can develop in ways which makes work stimulating and rewarding.

During the darkest of nights, against fearful odds, progressives have proved that self-belief, coupled with willingness to challenge even the most sacrosanct of orthodoxies, can win the day. We should be emboldened, not daunted, by the size of the task; the scale of the crisis makes progressive values and actions more, not less, necessary.

In dark times, we are reminded it is better to light a candle than curse the darkness.

# Progress

## Labour's Progressives

Published by **Progress**

83 Victoria Street,  
London SW1H 0HW

Tel: 020 3008 8180

Fax: 020 3008 8181

Email: [office@progressives.org.uk](mailto:office@progressives.org.uk)

[www.progressonline.org.uk](http://www.progressonline.org.uk)