



Ed Miliband speech to Social Market Foundation

Ed Miliband MP, Leader of the Labour Party, said today:

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I am grateful to Arup, and to the Social Market Foundation and Nationwide for making this event happen.

Today I want to return to the territory that I entered in my Conference Speech six weeks ago about how we build a new economy.

An economy based on the sense of purpose and responsibility which has always underpinned the best of British business.
But let me just say this before I do.

A year ago at the time of the Government's spending review, some people agreed with Labour that David Cameron and George Osborne were going too far and too fast and endangering our recovery.

But there were plenty of others who disagreed with us.
Today I ask those people to recognise that we have reached an economic turning point.

Not just one month's bad news, or some disappointing figures.

But the economy flatlining for a year;

Unemployment rising rapidly;

And growth prospects bleak.

We cannot carry on like this.

With austerity at home, collective austerity abroad.
It is no solution to the problems of jobs, growth or the deficit.

Don't believe those who would tell you that any change in course will make us like Greece.

As the Managing Director of the IMF said, the markets are as worried about the lack of growth in the economy, as they are about debt levels.

Why?



Because there is no solution to the problems of deficits without a solution to the problems of growth.

Slower growth, higher unemployment and higher inflation are why, according to the average of independent forecasts published by the Treasury yesterday, the Government may have to borrow £100 billion more over this Parliament than they had planned.

Knowing what we know now, about our economy, about growth prospects, about unemployment, about higher than expected borrowing, it would be the height of irresponsibility for the Government to carry on regardless.

Their plan is not working.

But it is hurting.

How will we ever fulfil the immense potential of our country – the promise of Britain – if we allow more than one in five of this new generation to be out of work?

This government appears to be out of touch with the real challenges facing businesses, families and young people. It needs to start listening.

I urge David Cameron: change course now

Change course for the sake of our young people

Change course for the sake of our country.

But as well as the immediate issues we face, and this is my theme, there is a deeper sense that things aren't right.

That the values of the British people and the values of the best in British business, are not reflected in the way our economy works.

Just in the last few weeks, top pay up forty nine percent, profits of energy companies at record levels, and concerns raised round the world about the system not working for the 99%.

Since my Conference Speech, I am delighted that the argument I made about the values we need to put back into the heart of our economy has been widely echoed, at least in part by voices as diverse as Bob Diamond and the Archbishop of Canterbury.



It shouldn't surprise us that people are looking for new answers because we live at a time of unprecedented uncertainty and insecurity.

But today I want to argue that this is not simply because of the more obvious moral case, that has rightly stirred people's anger, but also an essential economic case.

That our argument for a new, more responsible, productive capitalism is hard-headed - not soft-hearted.

It is based on how we pay our way in the world, build long-term wealth and deliver rising living standards for the majority of people.

I'm not suggesting that the answers are easy, quick or that I have all of them.

But I am saying that the debate about the future of our economy must turn in a new direction.

The most important place to start is by pointing to the strengths we have as a country:

Great industries, from creative industries to financial services, to some fantastic hi-tech manufacturing and engineering companies, like Arup.

Great people, who I meet every day I do this job, committed to good business and working to build a better Britain
And our country has other strengths too.

The English language, our location, even our time zone.

These are all huge assets for our economy.

But in order to understand the economic case for change, we need to understand what has been going wrong in our economy.

Events of recent years should teach us much. An economic crisis caused by poorly understood, and inadequately regulated, financial activity.

A deficit which went up sharply after the 2008 crisis, in part because of Britain's dependence on one sector in particular: financial services.

And long before the credit crunch, a crisis of squeezed living standards of those in the middle.



We must understand these phenomena not as separate events or as the result of a small and limited failure.

In fact, they are connected because they are the result of the rules by which our economy is run.

Rules which encouraged wealth creation focussed on short-term returns not the productive creation of long-term value.

Rules that created over-dependence on one sector, not just because of the relative success of financial services in Britain, but because that success was rooted too much in financial dealing, not enough in long term investment in the real economy.

And rules that led to a distribution of rewards increasingly skewed between those at the top and the rest.

That inequality did not just have bad consequences for our society; it had real consequences for our economy as well.

The struggle to maintain living standards for people became too dependent on higher levels of personal debt.

So the financial crisis should make us look deeply at the rules by which our economy is run.

And so must any examination of our future prospects.

The rise of China and India is possibly the single most striking feature of the 21st Century.

It offers great opportunities for British firms.

But it brings too the certainty that the old ways of working simply won't deliver.

Which European country sells most to China?

Germany.

Winning on the basis of high value production, where quality counts.

That is part of the new economy we need to build if we're to pay our way in the 21st Century.

And for my party, committed to social justice, the economic case for change is even stronger.



The fiscal challenges we face mean we need to find new ways of delivering social justice.

The last Labour government made Britain a better place.

I believe our progress on the NHS, schools and crime shows that.

The Blair/Brown approach, with social progress resting on higher investment, was right.

But the failure of the Government's austerity plan means that the next Labour government is likely to inherit a deficit that still needs to be reduced.

So even then resources will have to be focused significantly on paying down that deficit.

Therefore if the next Labour government is to tackle the challenge of social injustice, reform of our economy will be vital.

Creating good jobs at good wages, with sustainable long-term business models.

A better, more responsible, capitalism would mean the taxpayer does not have to pay the price for financial failure by bailing out the banks or paying the welfare costs of spiralling unemployment.

That is the Labour Party's answer to the question of how we deliver social justice in straitened times.

So what are the key aims of the new economy we seek to build:

An economy that creates long-term value based on investment and commitment.

Better-quality jobs that reverse the decline of middle-class incomes, and set firms up to compete on the basis of skills and quality.

And a sustainable economy, diverse enough to protect Britain against external and fiscal shocks, with environmental sustainability built in rather than bolted on.

This cannot be reduced to a case for more government and less markets.

We should be passionate about the progress healthy markets can bring.



But passionate too about the difference government can make working with the private sector.

The change we need is about the rules of the system, it is about the culture of shareholding, it is about the norms our society expects.

Today I want to outline five areas in which fundamental change is necessary to build this new economy.

I do so in part because of what I have heard travelling round the country listening to, and talking with, business over the last few months.

First, we need to refound the relationship between finance and the real economy.

The old way told us that financial services were a separate sphere, disconnected from the rest of the economy.

It told us that the job of government was to stay out of the way, in exchange for a growing source of wealth creation and tax revenue.

But what businesses have told me is that it hasn't worked well enough.

Not for them or for the country.

And that it won't work, unless we start from the understanding of the hugely important role finance plays in serving the real economy, the economy of businesses, savers and investors.

The short term approach to finance, has held back investment for years.

And that was before the credit crunch.

And since then, not only has a financial crisis left a huge dent in the size of the British economy, but our recovery is now held back by a lack of credit.

I heard last week about a high tech company, bringing an innovative pricing display system to market.

They've put years of research and development into the product.

And they've got their first big order for over £10m.

Right now they're working with their suppliers to get the product



produced on a sufficient scale.

And that means they need working capital.

But they can't get it.

Banks don't seem to be interested.

And the one that is wants to charge an interest rate of 17%.

So in the new economy we need to see a finance sector, the success of which isn't measured simply by short term profits made and taxes paid.

But by whether those profits are sustained by fulfilling its role as the beating heart of the economy.

Getting finance to the right businesses at the right time, and so providing returns for savers and pensioners.

Standing behind, not turning away from, companies taking a long term approach to wealth creation.

Businesses deserve a finance system there for the long haul when it comes to creating value in the real economy.

Everyone should be clear that banks and financial services are important to Britain.

They employ thousands of people across the country.

Financial services will be important to Britain in the future.

But they must become part of the solution to our economic future, not part of the problem.

We need a more competitive banking system, so that there is genuinely a challenge to existing players in business lending.

There will be serious questions asked about the deal done today to sell Northern Rock, in particular about the scale of the loss to the taxpayer.

But whatever the right decisions about the timing of disposal, there does need to be greater competition in the market.

And we also need to address the market failure in the finance gap for SMEs that want to expand.



From Germany to the United States to Singapore, governments don't just shrug their shoulders and stand aside but step in.

There will need to be a greater role for the government in ensuring that market failures in our finance system don't leave British business behind.

That's why our policy review is looking in detail at proposals for a UK Investment Bank, and at the American experience of the programs run by the SBA, like the Small Business Investment Company which has helped firms such as Apple, FedEx and Intel succeed.

The second area where we need fundamental change is in the way companies have been told to think about their worth.

The old way said that short term shareholder value should drive business strategies, and that would deliver for everyone.

That the board should first and foremost be concerned with the short term share price.

That institutional investors were right to be impatient for quick returns.

But again what business has told me is that it is hampering their ability to create productive wealth.

Instead, our economy has been held back by the short-term pressures under which our companies operate.

Examples abound.

The inability of a great British firm like Cadburys to resist Kraft's takeover once speculating shareholders had decided there was a short term profit to be made.

The battles with institutional shareholders in which Rolls Royce had to engage during the 1990s, so that it could make the long term investments that have made it such a success today.

In recent weeks, travelling around the country, I have met business people over and over again who tell me they simply cannot get support for the long-term investments they need.

What is interesting is that sometimes it is different forms of ownership, from mutuals to family owned businesses, that provide protection against the predatory short-termism of the system.



So to address this short-termism we will need to address a whole range of areas.

Including those raised by Richard Lambert, the former Director General of the CBI.

We need to look at why so many funds of institutional investors seem to be managed as if the only important issue was the next quarterly announcement.

We need to look at whether the voting rights of shareholders should always be the same from day one of ownership.

And we need to look at how the tax system can encourage and discourage short-term behaviour that holds Britain back.

Third, we need to understand the inadequacies of our system of skills in the UK, particularly vocational skills.

The old view was that in the modern labour market, time honoured vocation skills and apprenticeships were simply out of date.

But the reality is that business has been telling me the current system is not working well enough. For them, for our young people and for the future of our economy.

We face the paradox that many businesses say they can't find workers with the skills they need, while many employees feel their skills go unused.

Firms are held back from adopting the high value, high skill business models we need.

Recently a high-tech welding firm based near Cambridge told me that they'd spent three years trying and failing to fill one job, because there just weren't people with the vocational skills they needed.

So on skills we need a new something-for-something deal between government, business and employees.

That is the only way to make progress in a world where the benefits of training are shared between the firm, the worker and society.

The new deal should be rooted in the different sectors of our economy.



With the firms involved given a leadership role by government in setting the standards for the vocational skills they need.

And, in exchange, accepting a shared responsibility to bring on the next generation with the training that is required.

Government must do its bit. Making sure our secondary school system produces students with the basics on which firms can build.

Realising that walking away from supporting skill provision now is the most short term of decisions.

And where it can, setting the rules of the game to support those firms that do the right thing.

That's why Labour has said, for example, that major government procurements should only go to firms that offer apprenticeships.

Fourth, we need a new commitment to responsibility at the top as well as the bottom of society.

The old view was that rewards at the top were irrelevant to the rest of the economy.

That it didn't make sense to ask if they were right or wrong.

But my sense is that most business people don't take this view.

They believe, as do I, that those who create wealth, particularly those who take risks, should do well.

It is right that they are properly rewarded.

We must be a society that encourages entrepreneurs and those with aspiration.

But the system isn't working well enough when top pay seems to have become disconnected from the value created.

That is bad for our economy because it fails to distinguish between success and failure, fails to link the individuals and the firm's interests together.

And beyond the individuals involved, if people see those at the top making unjustified rewards it corrodes the sense that our society rewards those who do the right thing.



Just as in our welfare state we need to ensure a greater relationship between contribution and reward, so too at the top.

What does this require?

As a starting point, a revolution in transparency about pay for those at the top so shareholders and others can come to view about what is justified.

A change in who makes the decisions about pay, and an employee on the remuneration committee of every major company.

This simple reform would help forge a new compact between workers and employers.

Building trust that salaries at the top are deserved.

That long term decisions are being made.

Fifth, we need to recognise that beyond the banks, it doesn't make economic sense to allow large concentrations of unaccountable private power which do not work in the interests of the country.

The old view was that some companies were too big to be challenged, never mind too big to fail.

They would threaten to leave the country or not invest in Britain.

The old view that we should let predatory behaviour continue unchecked has let down our country and business.

Vested interests, predators that do long term damage, are bad for our business and our economy.

They raise prices, exploit consumers, and lead to inefficiency.

Government has a responsibility, on hard-headed economic grounds, to use its power to break up vested interests.

This will sometimes require regulation, sometimes require the strengthening of markets.

It is true in finance, where high bonuses can be a sign of lack of competition in investment banking.



It is true in the energy sector, where the grip of the big six freezes out other companies and the consumer loses out through higher bills.

It is true in parts of the media, where as I have said in the past, I believe a company like News International has had too much power.

So these are the five areas areas that we will focus on in the months ahead.

Signalling a new direction for our economy.

But I also believe the change in rules I am talking about—built on a different ethic—is about more than our economy.

It is about putting the values of the British people back at the heart of the way we run our country.

I will return to this in future speeches but this about a different way of living together.

With values of responsibility, fairness, concern for each other at the heart of it.

Where we reward contribution and respect talent, not privilege.

If we don't rise to that challenge, we cannot address the lack of faith the public have in politics and politicians. Or indeed in business and finance.

Because to do otherwise is to tell the public that there is no hope for a better future.

And that takes me to my final point.

I want to end on the nature of the challenge.

There are some things, notably the problems of unemployment and growth, that must and can be tackled right here right now.

But beyond that, there is a longer term task which will not lend itself to instant solutions.

It is about how we develop our economy and society in a different direction.

By its nature, this agenda must be led.



But it can only happen with the broadest possible alliance.

Across business, civil society.

It is a profound challenge.

But it can make our country a better, more prosperous, fairer place to live.

I look forward to working with you to try and make it happen.

Ends