A Shining City Upon A Hill:

Rebooting Capitalism for the Many, Not the Few

By John Penrose MP

About The Author

John Penrose has been MP for Weston-super-Mare since 2005. His campaigns to make Britain's economy work for the many, not the few, include the Energy Price Cap (recently successful); making housing cheaper to own or rent by allowing urban owners and developers to Build Up Not Out, making Britain's economy more generationally-just and socially-just by creating a UK Sovereign Wealth Fund; and reforming formerly-nationalised utilities (e.g. energy, telecoms, water, rail) to put customers in charge, rather than politicians, bureaucrats or regulators instead.

A successful businessman before he entered politics, John has held a variety of posts since he was elected including PPS to Oliver Letwin, Shadow Business Minister, Tourism & Heritage Minister, Government Whip and Constitution Minister. He is currently the Prime Minister's Anti-Corruption Champion.

Contents

1. Why Reboot Capitalism?..3
 1.1 Failed & Stale: A System In Crisis
 1.2 The Balance Of Power: Is The Customer Still King?
 1.3 Generational Justice: Are The Kids Still Alright?
 1.4 Legitimacy: Is the System Rigged?

2. Making Customers Kings and Queens Again……………………………..………..……14
 2.1 A New Competition Act
 2.2 My Data, My Way
 2.3 'Natural' Monopolies: An Old Problem With A New Face
 2.4 An Industry Example: Co-operative Open Access Rail

3. Delivering Generational Justice………………………………………………….……...22
 3.1 An End To Boom & Bust: A Binding Fiscal Rule For UK Governments
 3.2 A UK Sovereign Wealth Fund
 3.3 Build Up, Not Out
 3.4 Make Builders Build

4. Morals And Merit: Restoring Legitimacy…………………………………….………28
 4.1 Fighting Corruption
 4.2 Stopping Fake News
 4.3 Fairer income Taxes

5. Summary………………………………………………………………………………..33

Chapter 1:
Why Reboot Capitalism?

1.1 Failed & Stale: A System In Crisis

We've Been Here Before.....

Every so often, capitalism goes wrong. Waves of bank failures in the early days of the industrial revolution led to the Bank Charter Act. Exploitatively-poor working conditions led to progressively more effective Factories Acts, beginning a long process of improving safety and equity for employees which continues to this day. The Great Depression which followed the Wall Street Crash gave birth to modern competition laws, to protect customers from being exploited by over-mighty companies who abused their power.

Each of these moments happened because capitalism had started to behave in ways which seemed immoral. Creating wealth is wonderful, but not at any cost and the tariff in human health or dignity had become too high. So, each time, the system had to change. Society demanded new laws to shape and frame free markets so they still drove vigorous economic growth, but humanely and without exploiting the weak and vulnerable. Capitalism was updated, modernised and rebooted.

.....And Here We Are Again

We are at a similar moment today, with many people feeling the entire system is rigged; stacked against them by a complacent, comfortable, out-of-touch global elite. For most people, wage growth since the 2008 banking crash has been anaemic at best, while a tiny number of merchant princes have become extraordinarily rich. And for some lower-skilled workers (but not all, and not higher-skilled ones) zero-hours contracts feel like exploitation.

Plus, too many of life's basic, unavoidable essentials don't work properly: housing is far more expensive (for renting or buying) than any previous generations had to deal with; energy firms rip off loyal customers with sky-high prices as soon as they forget to switch; railways are crippled by strikes and new timetables cause meltdown; water firms don't fix leaky pipes but still impose hosepipe bans; broadband works slower than it's supposed to.

Failed And Stale; A Debate That's Gone Wrong

So the status quo isn't working, and people are casting around for answers about how it should change. But in times of trouble we turn to what we already believe, and the discussion about what those alternatives might be has got stuck in a formulaic and repetitive, backwards-looking debate about the failed and stale options of the past.

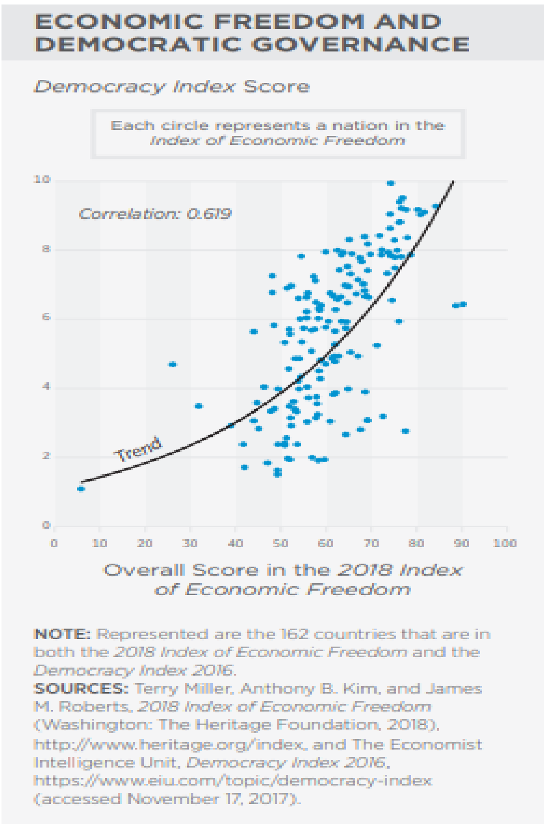
To its credit, the political left has realized there's a problem, but has retreated into comfortingly-familiar arguments about why capitalism itself is fatally flawed, to which the only solution is socialism, state ownership and renationalization. The political right has followed them, refighting the intellectual battles of the 1970s and 80s by explaining why the left's answers are wrong, but without offering a modern, attractive and fair alternative vision instead. And populists of both the left and right are exploiting this ideological vacuum, fanning the flames of unaddressed problems and grievances with divisive, often-racist ideas which would destroy wealth and set communities against each other instead.

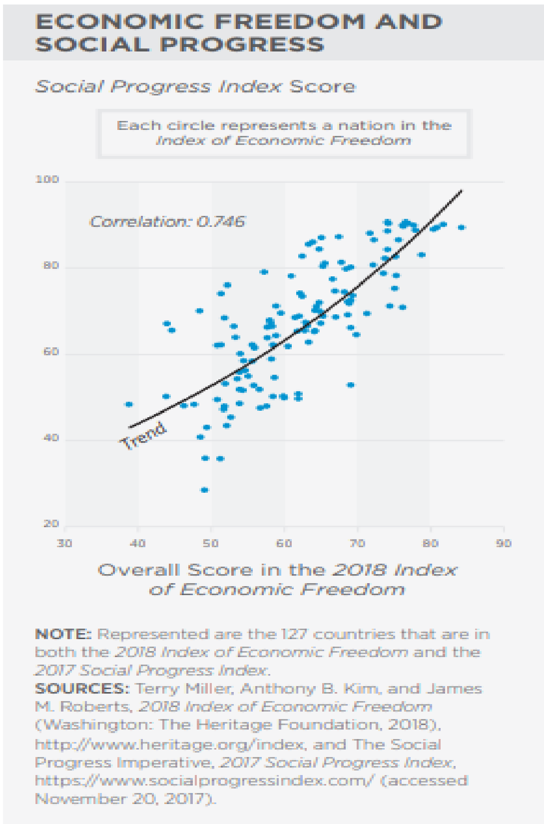
Modern Capitalism For The Many, Not The Few

This paper describes a modern, forward-looking way to fix these problems instead. It starts with the central principle that the answers to previous crises of capitalism have been political as well as economic, because capitalism is more than just commerce, and citizens are more than just customers too. Markets aren't the 'law of the jungle' as some anti-capitalists like to suggest; their rules aren't laws of nature or of physics which are inherently uncaring and impossible to change. They are political decisions, made by humans, and we can alter them if they aren't working properly.

The right kinds of rules are fairly simple. They include strong, free and independent political, judicial and regulatory institutions so contracts can be enforced, staff aren't exploited and products are safe to use. And they frame free markets so the rules put customers in charge, rather than politicians, bureaucrats or company bosses. Politicians call this democracy or people power; economists call it the 'consumer surplus', and industries (or countries) which do this are, in general and over time, more efficient, productive and competitively successful than those which don't[1]. In other words, democratic capitalism works best when its rules favour the many, not the few.

Societies which get their rules right tend to be more democratic, and socially progressive too, because putting customers in charge means putting citizens in charge at the same time, as the two graphs below show. It means unfairness, rip-offs and injustice can't last for long, because the people who are being ripped off don't have to put up with it. They can change things, whether it's by switching to a different brand of toothpaste, or voting for a different government. They're the bosses.





[1] For example: Miller & Kim (Heritage Foundation, Dow Jones, IMF) 2015

The rest of this paper will suggest ways to update and change Britain's rules so they put customers (and citizens) in charge, and so they reflect the way our society is today, rather than the way it was after the second world war. A modern, alternative view of how Britain's new, post-Brexit, digital society should reward hardworking consumers of all ages. Capitalism for the many, not the few.

These aren't an exhaustive set of proposals – this isn't a full election manifesto – but they are all big, necessary steps which should be at the core of any serious attempt to modernise Britain's economy for the 21st century, digital age.

But first we need to understand the economic forces which are fuelling discontent with the way 'the system' works. The rest of this section will describe what they are.

1.2 The Balance Of Power: Is The Customer Still King?

Most immediately, the balance of power between British consumers and the public, private and non-profit organisations which supply us with goods and services has been shifting away from consumers. This matters for two reasons: firstly, if British consumers end up paying more than they used to for the same things, because they haven't got the same bargaining power as before, it makes Britain's economy less efficient and productive. And secondly, it fuels the feeling that the system is stacked against ordinary people, in favour of big businesses and giant bureaucracies.

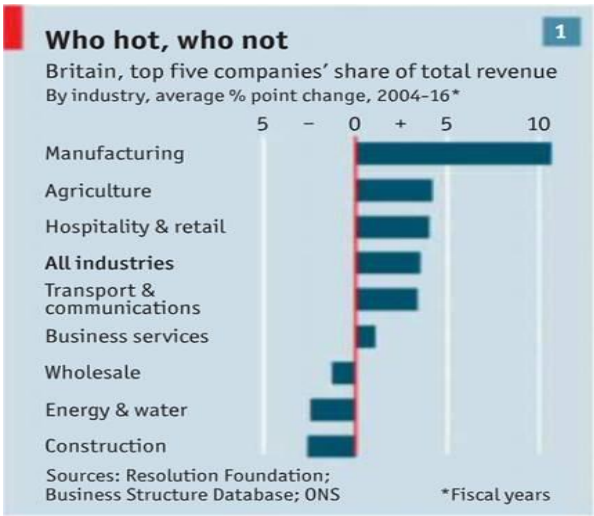
The antidote, of course, is to make the customer king (or queen) again. To reassert consumer power over and above cosy stitch-ups between big bosses and the organisations they run. The simple-but-fundamental ability that, if we don't like what we're getting from one company, we are free to switch to another one that's cheaper, or better quality, or faster, or slower, or has kinder staff. And where we don't have the whip hand, because we're buying something that's so complicated or long-term it's hard to tell in advance whether it's right for us, or where it binds us into a long-term contract which we can't change if we made a mistake, we expect the law to protect us from being ripped off unfairly.

But if this fundamental consumer power is threatened, so the customer isn't king or queen anymore, then the playing field is unfairly tilted against us. And that's what's been happening in Britain, for several reasons.

Bigger Firms Mean Smaller Customers

Britain's economy has been getting more concentrated. Big companies have been getting bigger, which gives them more power to charge higher prices, or lower quality, or pay their staff less, or all three at once. The chart below[2] shows how this trend is going the wrong way for most UK industries and the economy as a whole:

[2] Source: The Economist



And this second chart[3] shows the impact of all that extra power on their profit margins and the prices we pay in the shops:

Maintaining this balance of power, so companies can't get so big they're able to take their customers for granted, is the job of our competition authorities: the Competition and Markets Authority (CMA) and the European Competition Authorities too. These charts show they haven't done the job successfully for several years and, once we leave the EU, the CMA (and possibly local Trading Standards teams too) will need to be strengthened significantly so they are up to the task.

New Economy; New Challenges…..

The new digital economy is altering the balance of power as well. Digital data means the public, private and non-profit organisations that provide us with goods and services know far more about us than they used to. Knowledge is power, and we've gone from a pre-digital world where a very few organisations (our bank, plus perhaps a few firms where we'd opened an account or taken out a loyalty card) knew a little about our spending habits, to one where the data footprint which each of us creates every time we go online, whether we mean to or not,

[3] Source: The Economist

means firms know far more about us than those few pre-digital account-holders could ever have dreamt.

The effects aren't all bad, of course; there are important economic and business benefits too. Firms and organisations which know more about us can tailor what they're offering to our particular needs, without having to guess. They can suggest interesting, useful products or services we might need, which we might never have found otherwise. They can save us time by remembering our preferences, from favourite colours for sweaters to aisle or window seats on trains, so we don't have to explain what we want from scratch every time. And, because loyal customers are good business (they're cheaper to sell to, and a valuable source of competitive insights too) they can target us with rewards from free flight upgrades to discounts on our next purchase too.

But these improvements in economic efficiency, speed, convenience and customer understanding come with a price tag attached. For example, once we've set up our online shopping preferences with a particular supermarket, it's much less likely that we will go to the trouble of setting up and maintaining another one for a rival firm too. That means we shop around much less, compared to the pre-digital world when we could simply walk into a rival store next door. We become 'sticky'.

The digital world doesn't just provide more and better data to spot which of us are sticky and which are not. It also makes it easier to design interactions (like those online shopping preferences) that make more of us stickier than before. And since firms and organisations with sticky customers know they're less likely to switch, there's more danger they'll take us for granted. Some already use the ability to identify sticky customers to exploit and rip them off: energy firms offer sky-high 'default tariffs' rather than their best deals to customers who rarely or never switch, and some insurers offer higher prices to people who renew their policies automatically each year, instead of threatening to leave.

Britain's rules to protect customers from being ripped off are too old-fashioned to cope with these (and other) new-economy challenges. They need to be updated so consumers get the huge advantages and benefits which the digital economy can offer, without being exploited in new ways at the same time.

……And Some Old Challenges Too.

It's not just new challenges either; some old problems are being given fresh legs in the digital world as well. For example the new economy has created enormous new 'natural monopolies' like Google or Facebook, because network effects (where bigger firms can offer keener prices or better products and services than small ones) inevitably lead to single, enormously dominant firms or organisations in many areas. These aren't new problems; the old non-digital economy has plenty of natural monopolies too, in industries like telecoms and post (the 'last mile' of cable or mail delivery to the home) water and energy (wires and pipes to get electricity, gas and water to houses, offices and factories) and banking (payment networks and securities exchanges). Normally UK EU or USA competition authorities would worry these organisations were exploiting customers, but if the products are given away free the pre-digital laws which protect us from monopolies gouging customers with overpriced, poor-value goods and services don't apply so clearly in a digital world.

But that doesn't mean there's no harm. Monopolies create a monoculture of missed opportunities, where customers get less variety and choice than if there were lots of rival firms and organisations vying for attention and business. And they create the statistical certainty that, at some stage, the monopoly organisation will either allow or do something damaging – whether it's a data breach, a child-protection failure or attempted electoral vote-influencing – which consumers won't be able to avoid because there's no decent alternative available. Either way, concentration of knowledge and power in so few hands makes the system more brittle, and rip-offs more likely to be serious, when things inevitably go wrong.

Britain has always understood the problems of 'natural' monopolies, and set up special old-economy regulators like Ofcom, Ofgem and Ofwat to deal with them wherever they cropped up. But those special regulators have been struggling to get the balance of power between companies and customers right, with increasing customer dissatisfaction and ever-growing forests of red tape in most of the sectors they handle. And there are no special regulators to cover the new digital network monopolies at all. Our consumer protection regime has big holes in it, and needs to be updated.

1.2 Generational Justice: Are The Kids Still Alright?

Beyond the shift in the balance of power away from customers and towards companies there's another, broader problem: Britain's demographic timebomb of ever-more elderly people, with ever-bigger medical bills, social care costs and state pensions, funded by ever-fewer working-age folk.

Britain's economy in its current form won't be able to cope with this challenge, because the problem is structural; the demographic timebomb is exploding faster than our economy will grow, and because we increase state pensions faster than working-age people's wages too.

Unless we do something, the result will be ever-bigger borrowings to fund the extra spending. And, equally importantly, because big Government debts hamstring economic growth, crowding out private sector investment so wealth-creating projects can't happen and driving up interest rates so the remainder cost more than they should as well, we risk stifling growth and dampening wealth creation for years.

And even though the Office for National Statistics (ONS) figures for wealth inequality in the table below show little change overall, ownership of housing and financial assets (shares, bonds etc) has become far less equal.

Table 4: Gini coefficients for aggregate total wealth, by components[1,2]

Great Britain, July 2006 to July 2016

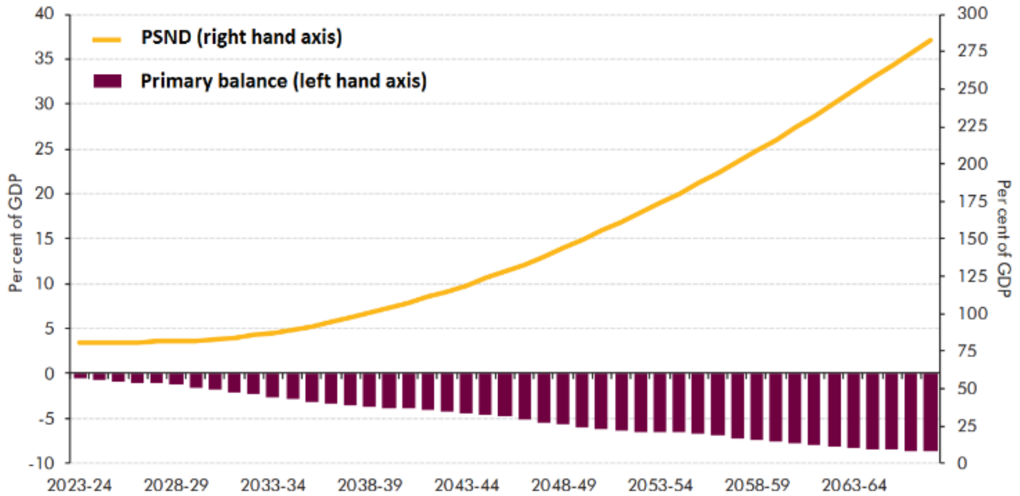
	July 2006 to June 2008[2]	July 2008 to June 2010	July 2010 to June 2012	July 2012 to June 2014	July 2014 to June 2016
Property Wealth (net)	0.62	0.63	0.64	0.66	0.67
Financial Wealth (net)	0.81	0.81	0.92	0.91	0.91
Physical Wealth[2]	0.46	0.45	0.44	0.45	0.46
Private Pension Wealth	0.77	0.76	0.73	0.73	0.72
Total Wealth[1]	0.61	0.61	0.61	0.63	0.62

Source: Wealth and Assets Survey, Office for National Statistics

This change matters because, in Britain, those assets are mainly owned by older people who were already on the housing ladder when the latest bout of price inflation put prices out of reach of their children, and who already had a portfolio of investments when the Bank of England's Quantitative Easing programme pushed up its value significantly after the 2008 banking crash.

Taken together, these factors make Britain's economy unfair to everyone younger than (roughly) 45. Housing costs – whether renting or buying – already make up a historically high proportion of their monthly bills, so they find it harder than previous generations to live well, let alone save for the future. And then, when the demographic timebomb goes off, they will either have to cut spending on really important things like health, pensions or defence dramatically, or raise taxes equally dramatically, to avoid being bailed out by the IMF. As the graph of Public Sector Net Debt (PSND) below shows, either option means they will have less disposable income and a lower standard of living than their parents and grandparents enjoyed.

Chart 2: Baseline projections of the primary balance and PSND



Source: OBR

This means that, as a society, we will have bequeathed a cold and mean future to future generations. And that is morally wrong. We cannot burden future generations with enormous bills because we were too lazy, or too cowardly, to fix the problem while there was still time. Demography should not become destiny, so we need answers which will make sure it doesn't, for our public finances and our housing too.

1.3 Legitimacy: Is The System Rigged?

Putting customers in charge and making our society generationally fairer will go a long way to making British capitalism work for the many, not the few. But those changes won't be enough on their own. The sense that British society is rigged in favour of a smug, global elite which has got rich while everyone else struggles with austerity is fuelled by broader issues too.

Undeserving Leaders

Most of us will ignore or quell a twinge of jealousy if someone has worked particularly hard or skilfully to do well. They deserve their success. It's been earned legitimately and, because they've done the right thing, we accept and applaud it.

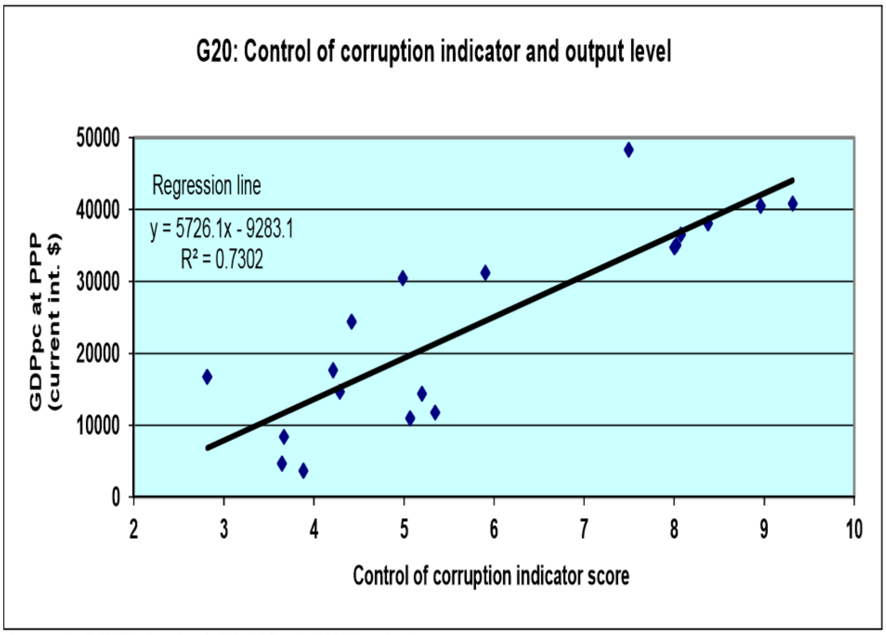
But we feel very differently if successful leaders are neither admirable nor deserving; corporate or public-sector bosses whose organisations deliver third-rate performance. Charitable and religious leaders allowing exploitation of vulnerable people they are supposed to help. Oligarchs, kleptocrats and criminals openly enjoying fabulous lifestyles even though their wealth comes from looting publicly-owned assets, or from people, drug or gun-smuggling.

So legitimacy isn't about whether our neighbours are earning more than we are, or own a bigger house. It is different and more fundamental than inequality. It depends on fairness, justice and morality instead: whether our neighbour's success is deserved and fairly earnt, or not.

Britain's existing governance rules for Trustees of public organisations and charities, or Directors of companies, mean that the poorest or least-deserving organisational leaders are (generally although not universally) moved or removed once their shortcomings are revealed. But, while the governance of legitimate organisations can always be improved, the far bigger and more severe problem undermining British capitalism is the ability of oligarchs, kleptocrats and criminals to enjoy their ill-gotten gains in the UK. We need stronger laws, more vigorously enforced, so hard-working and law-abiding citizens can see the system is on their side, rather than a rich international criminal elite.

Fake News

Customers will only rule the roost if they have honest, accurate information about the choices they're being offered, so the decisions they make are well-informed. This matters for pretty much all decisions in a free and open capitalist society, whether they are as simple and mundane as choosing a brand of toothpaste, or as important and strategic as voting in a General Election. Societies which are truthful, where most people and information can be trusted most of the time, tend to be more economically successful (because the costs of corruption are lower), as the graph below[4] shows, and – given the popularity and widespread popular support for anti-corruption campaigns – happier too:



Source: IMF, WEO data bank; World Bank, WGI data bank

In the modern world, most of the information we use to make these choices is accessed online. But it is much harder to know whether online data is reliable and trustworthy compared to the much more limited, old-economy analogue sources, because our legal frameworks are out of date. For example:

- In the pre-digital analogue world, the long-established distinction between authors and publishers, with clearly-understood responsibilities in each case, made it fairly easy to spot and stop fakes. But this distinction doesn't work well for new digital platforms like Google or Facebook, which don't fall neatly into either of these two old-economy categories.
- Some pre-digital laws don't cover information when it is published online, so it doesn't have to satisfy the same standards. As an example, all election campaign literature has to include information about who printed and published it if it is printed on paper, so someone is always accountable if it isn't true. But the same rules don't (yet) apply to everything that's provided online.

Unsurprisingly, online information is far less trusted and reliable as a result. Crimes, scams and cons which have been both illegal and rare for years in the old economy have been given fresh life in the digital world. Fake news and disinformation have eroded trust in previously-admired institutions, and fuelled the sense that Britain's free and open capitalist society is rigged.

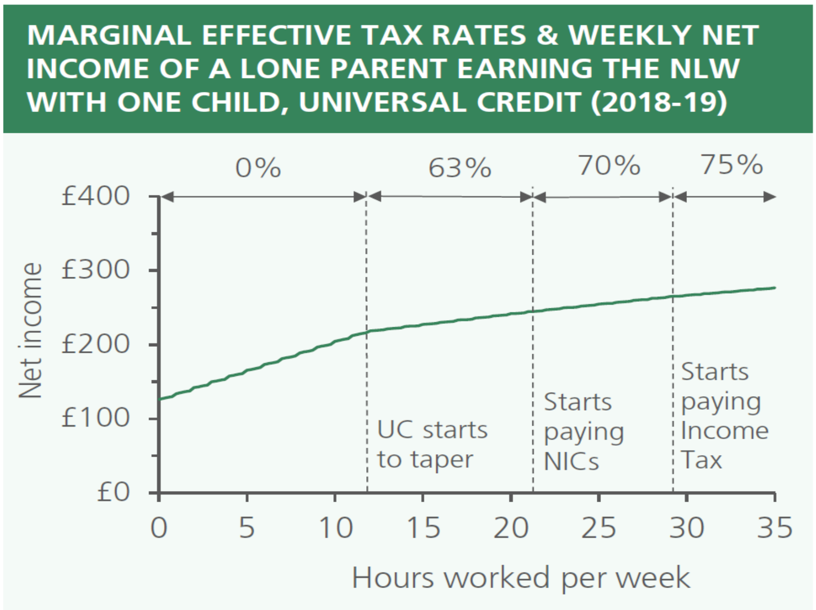
This won't do. If the old legal framework can't deal with new digital channels for dishonest or inaccurate information which is corroding the legitimacy of Britain's entire society, then we must update it quickly. We need solid, reliable foundations of fact and truth once more.

[4] Source: OECD, Issues Paper on Corruption & Economic Growth

Tax Favouritism

At the moment, the tax rates paid by people who work for a living are much higher than taxes paid by the very rich who have large unearned incomes from things like dividends on investments, or rents from property portfolios. Workers pay income tax at 20%, 40% or 45%, but the rich pay just 7.5%, 32.5% and 38.1% on dividends, 10% and 20% on capital gains, and 18% and 28% on gains from property excluding first homes.

The situation is even worse for the least well-off families in Britain, who pay higher rates than anyone else because their benefits are reduced for every pound they earn, on top of the taxes they pay. This combined rate is called the Marginal Effective Tax Rate (METR) and, depending on the types of benefits being claimed and the number of hours someone works, can easily rise as high as 75% as the chart below[5] shows.



These two problems mean Britain's tax and benefits system is structurally unfair; the rich pay the lowest rates of overall tax, and the least well-off pay the highest. The 'haves' are being subsidised by the 'have nots'. The tax system lies at the heart of Britain's capitalist system so, because it is rigged in favour of a rich elite, it's hardly surprising that so many people feel the system is unfairly stacked against them. This isn't sustainable; it can't go on.

[5] Source: House of Commons Library

Chapter 2:

Making Customers Kings And Queens Again

2. Making Customers Kings And Queens Again

The previous section explained how the balance of power has been shifting away from customers, and towards the public, private and non-profit organisations that provide us with the goods and services we need and want. This section will outline solutions to fix these problems, and put customers back in charge.

2.1 A New Competition Act

Britain’s and the EU’s competition watchdogs have allowed firms to get steadily bigger and more concentrated, altering the balance of power in favour of companies and against customers. At the same time, digital data means public, private and non-profit organisations know far more about their customers than ever before; and that knowledge gives them even more power over us too.

Britain’s competition watchdogs don’t have the resources they need to reverse the current trends and make British competition sharper and tougher, particularly after Brexit when they will have to take over areas which are currently covered by EU Competition authorities in Brussels. And their powers are based on the UK’s most recent Competition Act which was passed in 1998, in the era before email, Facebook, Twitter, Uber and the World Wide Web.

Both the watchdogs and their powers must be updated to cope with these new-economy challenges, so consumers get the huge advantages and benefits which the digital economy can offer, without being exploited in new ways at the same time. We will need a new Competition Act, enforced by a modernised and expanded Competition And Markets Authority and possibly a more muscular approach to local Trading Standards teams as well, to restore the balance of power so customers are the undisputed kings and queens of the new digital economy as well as the old, analogue world.

2.2 My Data, My Way

But these stronger competition laws and institutions should only be a last resort. Legal cases and CMA investigations are slow, ponderous and clunky ways of delivering customer rights in an ever-faster digital world. They are needed as a backstop, but practical day-to-day reforms are likely to be faster, more effective and more future-proof as technology changes over time too.

The Open Banking Reforms, where customers effectively own their own data and can give competitors or intermediaries permission to see up-to-date, real-time digital information about how they use their bank account, using a standardised data format (API) is a first-class model which we should copy and apply everywhere, to every other industry where it's relevant.

This has several important advantages:

- It will break individual firms' power over their customers, making the customer king again, because the data will be available to anyone the customer wants to share it with.
- It makes price and quality comparisons much easier, because the data is in a standardised format. This equips customers with all the information they need to make a properly-informed choice about whether to switch to a rival supplier or not.
- It will let rivals produce the kind of tailored, personalised services which customers want, without having to guess what they need. The improvements in each industry's productivity, customer-focus and efficiency should be very significant indeed.
- It makes it much harder for companies and organisations to rip off inert or sticky customers, because intermediaries can make them active and 'unsticky' by doing the price and product comparisons for them, and then organising the switch if needed. There are already examples in energy, where firms like Flipper and Labrador are doing this today.
- It makes it harder for companies and organisations to bundle products together if consumers don't want or need to buy them all, or from the same supplier. The data will show whether unbundling products and getting them from several different suppliers would be better value or not. Again, intermediaries will do this for customers who don't want to do it for themselves, putting customers back in the driving seat and making each industry more productive, customer-focused and efficient.

These new rules should be policed and enforced by an expanded and upgraded Information Commissioner.

2.3 'Natural' Monopolies: An Old Problem With A New Face

There are a clutch of old-economy firms which consistently disappoint their customers: utility firms provide unglamorous but necessary products which everyone needs to live in the modern world, like energy (electricity and gas), water, bank accounts and broadband. The common thread is that they have 'natural' monopolies embedded inside them, where network effects mean bigger companies can offer keener prices or better products and services than small ones, which inevitably lead to single, enormously dominant winners in each sector. As a result Britain has created specialist economic regulators with familiar names like Ofgem, Ofwat and Ofcom to keep them in check.

And now the new digital economy has created a series of huge new natural (or, more accurately, 'network') monopolies, which didn't exist before. Firms like Facebook, Google and Uber all have the same inbuilt network effects as these old-economy firms, and are dominating their sectors in the same way. For example[6];

Whether the network monopolies come from the old economy or the new, our existing rules are out of date:

- In the old economy, the specialist economic regulators like Ofgem and Ofwat aren't working very well. Over the last 20 years they have intervened ever-more-closely and intrusively in their sectors, in greater and greater detail, but customers are no happier. Their approach is expensive, creates slow-moving firms that are less customer-focused, takes economically inefficient and inaccurate decisions and is more prone to capture and lobbying by producers or consumer groups. They have allowed energy firms to rip off their most loyal customers, and shareholders in energy and water companies to strip out cash through extraordinary dividends. The system also allows more scope for politicians to influence, meddle and interfere, creates a culture of mutual dependence between firms and their regulator which encourages ever-greater and more detailed regulatory involvement, and forms an addictive habit that's hard for all sides to break.
- In the digital economy, the opposite problem applies; the new digital network monopolies are under-regulated, subject only to the same basic competition laws as the rest of the UK economy, run by the Competition and Markets Authority (CMA). But the CMA's rules aren't designed for network monopolies – those were supposed to be covered by the specialist economic regulators instead. And their old-economy rules are intended to prevent old-economy monopoly behaviours, such as price gouging, which don't translate easily into new digital sectors where products are given away free (at least to begin with).

So we have old-economy specialist regulators which are supposed to manage network monopolies but don't do it very well, and generalist regulators whose powers don't cover

[6] Source: The Economist

network monopolies and weren't designed for the digital age either. As a result, consumers aren't being protected effectively from rip-offs. There are several steps which will be needed to put this right.

Freeing Potentially-Competitive Sectors From Stodgy Specialist Regulators

We should start by introducing structural, liberalising reforms to put consumers in the driving seat, as Ofgem has already (to its credit) begun to do in the energy market, so customers find it easier to compare competing offers clearly, and then to switch suppliers if they want. This would open more of the market to competition, making the customer king again and giving us the power to drive down prices. The result should be more productive, customer-focused and competitive utility companies, happier customers and a more productive, dynamic economy. Once this liberalising reform programme is underway, the specialist regulator's powers in these areas should be abolished with a 'sunset clause', and the CMA should take over in the same way as any other part of the UK economy.

Creating 'OfNet'

Once the competitive and potentially-competitive parts of each industry have been transferred to CMA, the network monopolies which lie at the heart of each sector will be the only remaining areas of economic regulation which each specialist regulator will still cover. The similarities between them will be very strong; they will all have the same cost-of-capital calculations, often for the same infrastructure or income funds which own shares or bonds in every business. They will have to ensure fair and equal access to the network, so there's a level playing field for all current and potential future suppliers (eg electricity generators, water companies, gas firms), and for current and future customers wanting to access the services which the network distributes too.

These common challenges need similar kinds of staff (mainly high quality competition lawyers and economists) rather than sector-specific experts (those can be hired whenever specific engineering and technological questions need answers). As a result, we should merge the current sector-specific economic regulators into a single, new, functionally expert cross-sector regulator (OfNet) instead, with powers to extend its reach to cover new network monopolies which are created by digital and other technologies in future. The advantages of a single regulator are:

- It reduces wasteful duplication where single-industry regulators have multiple teams of expensive staff performing the same work to address the same issues in each sector.
- It reduces cyclical waste too, because single-industry teams are more likely to be under-employed as competition questions naturally wax and wane in any single industry.
- It improves regulatory skills and expertise, because staff can learn from colleagues who have faced similar issues in adjacent industries, and because fewer experienced staff are lost during cyclical lulls, with fewer inexperienced ones to train up during booms too.
- It reduces the risk that 'the devil finds work for idle hands' – that clever single-sector regulators in a cyclical lull naturally create more red tape and heavier regulatory burdens.
- It is inherently less vulnerable to producer capture (persuading regulators to give an industry or firm an easier time, usually at the expense of customers) because regulators know they must provide equal, consistent treatment between industries, and because no single firm or sector can exert as much influence on its own.
- It would be future proof, because the powers to extend its reach to cover new network monopolies which are created by digital and other technologies in future (subject to

Parliamentary approval of course) would prevent the current problems with digital monopolies from recurring in future.

Once these responsibilities have been transferred, the specialist regulators will shrink to carry on with their (important) other responsibilities. For example, Ofcom is also the content regulator for broadcast media, the Civil Aviation Authority looks after air safety, and the Office of Rail Regulation handles rail safety.

2.4 An Industry Example: Co-operative Open Access Rail

Almost no-one is happy with the UK's franchised railway network. It delivered big initial improvements, with huge increases in passenger satisfaction and more than twice as many passenger rail journeys since privatisation. But recently progress has stalled. Rail has become a brittle, inflexible, complicated, expensive service with worsening industrial relations, delays and costs with declining passenger satisfaction and high political jeopardy too.

Renationalisation is not the answer. British Rail was uncomfortable, unreliable, was starved of investment and had shockingly bad industrial relations with many fewer passengers. Instead of the failed, stale old options of yesterday, we need a new, better alternative that puts passengers first instead.

Co-operative Open Access rail breaks up the franchises so passengers have a choice of different train companies on each route. If the timetable melts down, or a train breaks down, or there's a strike, passengers don't have to wait ten years or more for the next franchise to be signed; there'll be a different firm's train along in a few minutes instead. It puts passengers in charge, because rail firms can't take them for granted when things go wrong.

More Variety, Creativity & Choice

Rail firms say there's relatively little upside or incentive in the existing franchise system. The rewards for experimenting with a bold new route, or a low-cost fare offer, or high-quality service quality, simply aren't worthwhile compared with error-free execution of increasingly-detailed and complicated franchise specifications. Open Access reverses this.

Scale & Speed Of Change

As each existing franchise comes to the end of its contracted life, or new network capacity opens up, co-operative open access would take over. It would stop being a marginal add-on to franchising and become the central, mainstream way of organizing and running our railways. We would start with the East Coast Main line, which experts say is the best route to demonstrate the concept works in any case, and then roll it out across the rest of the network.

Co-Operation Is Operationally Proven

There are already examples (Hull Trains and Grand Central) where Open Access trains are working well, with high levels of passenger satisfaction. There are many more examples where multiple train firms already operate successfully on the same sections of track (for example where local commuter service operators share tracks with high speed intercity operators, or with freight trains), which proves that operational compatibility and co-operation between multiple train firms and network rail already works well.

Track Slot Auctions: Better Incentives For Network Rail

The foundation of Co-Operative Open Access would be auctioning the right to run individual services on Network Rail's tracks, rather like airport take-off slots. Network Rail's income would depend on these track slot auction revenues, giving them a continuous, strong, market-based incentive to maximise existing capacity and create more of it, targeting track improvements investment at increasing capacity where it is more economically efficient.

The auction process would discover the true market value of each slot (and so also of capacity improving investments) more effectively than even the best regulator could manage, and ensure it stayed up to date as patterns of demand and costs changed over time too.

Less Red Tape

Slot auctions would mean a much simpler, less-intrusive regulatory regime. Regulators would no longer set track access or other charges; they would be replaced by slot auction market prices instead. The current franchise specifications (hundreds of pages of highly complex technical and legal specifications down, sometimes, to the design of cloth upholstery) would be replaced by a few pages specifying standards to be delivered (eg safety, rolling stock performance, passenger comfort and – for some services – price).

Valuing Public Services, Stations & Routes

Some services (eg peak hour commuter trains or services to remote rural stations) are not profitable at present, but provide important public service goods such as taking commuter traffic off roads during rush hour, or connecting smaller or more remote rural communities to the rest of the network. Some of these routes may become commercially attractive under co-operative open access in future as different train firms experiment with new business models, routes and types of rolling stock, but it's impossible to know which ones yet, and many others will remain unprofitable under almost every possible scenario in any case.

As a result, the track slot auctions must be designed to allow public service goods (like taking commuter traffic off roads during rush hour) to be delivered efficiently. There are experts in this field who can work on the detailed auction design but, in outline, once the process is underway we are likely to see some track slots being sold in bundles (eg commuter stopping services during rush hour) which will resemble small, stripped-down franchises. In these cases the process will turn into a reverse auction where competition minimises the public subsidy required to deliver a particular public service, rather than maximising receipts to the Government.

This outcome will still be better than current franchising arrangements, as it will allow more creativity and variety in delivering public-service routes and destinations in ways which offer better value for passengers and taxpayers. It will also uncover previously-invisible value in some track slots which have been allocated to commercial services when they are worth much more if switched to public service routes, or vice versa. And it will adjust naturally to match shifting patterns of passenger demand, instead of expecting the dead hand of regulators to react to commercial opportunities.

Benefits

The benefits of co-operative open access are:

- It offers a proven, popular, positive alternative to the two stale, failed options of an increasingly unpopular, creaking and impractical franchising system or renationalization.
- It will deliver greater network efficiency and reliability (ie fewer cancellations and delays) for passengers and rail firms, as Network Rail gets clear price signals for the first time about what each track slot is worth, and strong financial incentives to improve reliability (so train firms can use more slots) and to add new capacity where extra slots will create most value in future auctions too.
- It will cost taxpayers no more and, if the network efficiency and reliability improvements are material, possibly a great deal less, than the current franchising system. The funding mechanism will also change: from train firms paying Government for buying a franchise, and Government then allocating money to Network Rail, to train firms buying track slots directly from Network Rail (plus probably a smaller net balancing payment between Network Rail and Government at the end).

Chapter 3:

Delivering Generational Justice

3. Delivering Generational Justice

The previous section explained how we can give customers the whip hand in British capitalism once more, rather than politicians, bureaucrats or the bosses of public, private and non-profit organisations instead. This section will outline ways to stop the demographic timebomb making Britain's economy unfair for everyone under 45, so their demography doesn't become their destiny.

3.1 An End To Boom & Bust: A Binding Fiscal Rule For UK Governments

'Lord, give me chastity, but not yet' has been the UK's economic motto for years. Economists of the political left and right all agree; we save less, invest less and build less economically-vital, growth promoting infrastructure than we should. We've got a rock-and-roll economy that lives for today, and doesn't invest for tomorrow.

With the current budget close to balance, we have a once-in-a-decade opportunity to rebalance the UK economy away from this historic and much-analysed over-reliance on consumer spending, towards a less brittle, more sustainable, higher-investment model instead.

This matters because borrowing to pay for the day-to-day spending which improves our lives today, rather than investing for the future, just pushes the bills forward in time, so our children and grandchildren have to pay them instead of us. That's immoral and unjust; we can't expect future generations to pay for things we consume today, like healthcare, defence or policing. But if we borrow to pay for them then we are effectively handing the IOU to our grandchildren, and expecting them to pick up the tab.

But other people have noticed the opportunity too, and are arguing for a return to Britain's historically-ingrained bad habits instead. Spending pressures are already rising strongly, with calls for 'an end to austerity', and a clear risk that any spending will be diverted away from modernisation or productivity improvements.

That would be a disaster. If we start splurging cash unsustainably, we'll just repeat the mistakes of the past. If eight tough years of austerity taught us anything at all, it should be that we've got to live within our means. By borrowing to spend money we haven't got, we'll go straight back to boom and bust.

The solution to these pressures, and to changing bad habits permanently, is to introduce a binding 'fiscal rule', to tie down future Governments so we only live within our means. We should introduce it as an Act of Parliament to enshrine the 'golden rule' that Governments' day-to-day budgets must always be balanced across the economic cycle, based on the existing and successful independent forecasting by the Office for Budget Responsibility (OBR) that's already in place. This would still allow Governments to borrow for long-term investments in genuinely-productive economic infrastructure like fibre-optics, roads or rail.

This matters economically, because businesses would have stronger, more predictable, stable foundations for wealth-creating investments in new jobs and technologies. Public spending on things like health, schools, police or defence could increase steadily, rather than in stop-go cycles.

But it matters socially and morally too, because we'd make Britain a generationally fairer society.

3.2 A UK Sovereign Wealth Fund

A fiscal rule means Governments have to put something aside when the economy is growing, to match expected borrowings during the next recession. So if we invest the fiscal rule's budget surpluses in (for example) investment grade commercial infrastructure projects rather than in Government bonds at rock-bottom interest rates, we wouldn't only be creating an enormous national 'rainy day' fund; we could create the seed capital for a British sovereign wealth fund, like Norway's extremely successful version.

The Treasury and OBR's recently-published Fiscal Risks and Sustainability of Government Accounts reports show the expected impact of the 'demographic timebomb', creating higher borrowings at an exponential rate from the mid-2030s onwards. Higher taxes and poorer public services are the inevitable result unless we act now. Starting a Fund immediately will reduce (but not completely solve) these future fiscal problems significantly.

Politically, the Fund would create a long-lasting social and economic legacy as profound as the creation of the welfare state, so we wouldn't be consumed or defined by Brexit. We would have made Britain a generationally fairer society, by refusing to leave todays IOUs for our children and grandchildren to pay. And, by making the Fund mutually-owned, a more socially-just society too because rich and poor would all own the same, equal personal stake. That would make us an asset-owning democracy on a scale that no other developed nation could match.

3.3 Build Up, Not out

Housing, whether it's rent or mortgage payments, is probably the biggest single monthly bill that most of us face. And, because we haven't built enough new houses for decades, no matter who's in Government, the costs have been getting steeper and steeper. We only add 1 or 2% more living space to our existing housing each year, which isn't nearly enough to keep up with demand.

This has left us with less living space, longer commutes, less cash left over for other things each month and, overall, a lower quality of life for everyone. But particularly for 'generation rent'; the twenty-and-thirty-somethings who are just starting out in life and can't afford a place of their own. Most of their parents could just about afford to jump on the housing ladder, so they've been the winners from spiraling house prices. But it's at the expense of their children, and that's unjust; we're being unfair to an entire generation.

The answer to rising demand and inadequate supply is, clearly, is to build a lot more homes. It doesn't matter whether they are to rent or to buy, we need a huge increase in the annual output of the entire housebuilding industry. One of the few proposals which could deliver the scale and speed of change that's required is to change our hideously complicated and expensive planning laws so we can 'Build Up, Not Out' in towns and cities.

Most of Britain's towns are, on average, about two stories tall. But not everywhere; there are plenty of examples of good-looking 4 or 5 story town houses and mansion blocks, rather than sky-high tower blocks, which look great and create vibrant communities where people want to live.

Build Up Not Out would give people in British towns and cities the legal right to build upwards, converting one and two story homes into those 4 or 5 story buildings that work so well elsewhere, without the hassle, expense and risk of planning permission. It would nearly double the amount of potential space for homes at a stroke; the biggest single creation of new, available living space for generations. Far bigger than the post-war building boom. Miles more ambitious than the new towns movement which gave birth to places like Milton Keynes.

The effect on the housebuilding industry would be electric, and generation rent would be the winners. Small builders would be able to buy one or two urban homes and create spacious new town apartments without all the pain, conflict, heartache and fat fees for lawyers and planning consultants that the current system demands. It would mean people struggling to own or rent would suddenly find they'd got far more choices than before. We'd go from a sellers market, where young would-be tenants or buyers have to go on bended knee to their parents' generation who own everything, to a new world where renters and buyers have the whip hand for the first time in decades.

We wouldn't need to change very much either; creating the legal right to build up to 4 or 5 stories in towns and cities is fairly simple. Local Councils could issue local building codes, so the new, taller buildings matched the local architectural style and used local materials. In fact, by matching the best of what's already there, we'd give our towns and cityscapes back their character, by stopping 'anywhere-ville' estates of identical houses. And we'd stop big developers from building where the local plans say they shouldn't, by including the newly-created sites in the local 5 year housing supply.

And that's it. We wouldn't want or need to change building safety regulations at all, for obvious reasons. Non-urban sites, plus any project taller than 4 or 5 stories, or which didn't follow the local Council's style code, or which converted shops and warehouses into residential homes, would still need planning permission in the usual way. And altering listed buildings would still need heritage consent too.

But the positive effects on Britain's towns and cities would be huge. Having mansion blocks, terraced streets or mews houses, would create communities to rival the most successful districts of London, Bath, Bristol, Manchester or Birmingham. Building Up, Not Out would bring hordes of smaller, local builders and developers back into the housebuilding industry, breaking the stranglehold of large housebuilding firms. It would attract much-needed new investment to regenerate and save tired or run-down town and city centres. And it would be greener, reducing both commuting (because people can live closer to their jobs) and urban sprawl by cutting the pressure from builders to concrete over green fields and green belts at the edge of towns and cities across the country.

Cheaper homes are one of the most important ways of raising living standards for everyone and improving economic productivity. Building Up, Not Out can go a long way to achieving it. A generation of potential house-owners and renters is watching.

3.4 Make Builders Build

The Government's Housing White Paper says housebuilding is in crisis, and it's right. The only way to make homes more affordable is to build a lot more of them. We haven't built enough homes for decades and the lack of supply has caused soaring prices and created one of the biggest barriers to social mobility in Britain today.

How do we do it? By Making Builders Build: getting developers to build much faster once planning permission has been granted on a particular site, and giving local communities a share in the value that is created when permission is given.

At the moment, the value of an acre of land goes up by at least 10 times—often by a whole lot more—when it gets planning permission. That happens before a single brick has been laid or a single home has been built. The value of actually designing and building beautiful houses to rent or buy is far less than the trading gains made by land speculators. As a result, and entirely logically given the economic incentives which have been created, a large part of the sector's business model focuses on capturing the speculative gains on the price of land which might get planning permission, rather than on the value created by actually building things once it has.

But that's completely the wrong way around. It should not be easier to buy land, do nothing, aim to get planning permission and then flip for a profit than it is to build houses. From a moral and an economic standpoint, design and construction should be the things that add value to land, not hope or speculation. Planning permission is a huge and value-creating decision, taken by each local community. So they should see some of the value that is created.

So we need a tax on the speculators' profits, paid straight to local Councils on the day that planning permission is given or changed, to give neighbourhoods a financial incentive to grant more planning permissions for new homes, and to fund the local services like bigger schools, GP surgeries and fibre connections, that turn dormitories into communities.

Fortunately, we don't need a new tax to do it. The Community Infrastructure Levy (CIL) could do what's needed with a few (small) tweaks:

- Most of CIL's exemptions and limitations would go, making it much simpler and easier to understand.
- Councils would publish their Community Infrastructure Levy rates for each area in advance, so speculators and developers would have certainty about what they would have to pay when permission was granted or changed.
- Paying the levy on the day planning permission is granted or changed means the money for local services arrives when it's needed, so they can be built and ready when people move in, rather than dribbling along a couple of years later.

Best of all, it would completely replace the hideously overcomplicated section 106 agreements, with all their uncertainty, unpredictability and lawyer-friendly viability assessments. It would be simpler, faster, cheaper and more predictable for developers, planners and landowners alike.

And that's pretty much it. The only other change would be to give local Councils the power to charge business rates and council tax based on the date planning permission was granted, rather than when construction finally begins on site. We could give big developers a few months' grace to get their crews on site, but then the meter would start running. They would have a huge incentive to build and sell promptly, rather than to take their time.

Equally important, the same forces would apply to the hedge funds that own derelict brownfield land in town and city centres. These sites already have old, unused permissions, so the clock would start ticking immediately. Just think of the enormous shot in the arm—the jolt of adrenaline—that we would give to urban regeneration projects everywhere, right across the country, if the owners could no longer sit on them for years waiting for something to turn up.

Chapter 4:

Morals and Merit: Restoring Legitimacy

4. Morals & Merit: Restoring Legitimacy

Putting customers in charge and making our society generationally fairer will go a long way to making British capitalism work for the many, not the few. This section will outline ways to restore the system's underlying fairness, legitimacy and justice too.

4.1 Fighting Corruption

Shutting Kleptocrats Out Of Britain

One of the most corrosive trends undermining the legitimacy of modern capitalism is a foreign criminal elite of human rights abusers and kleptocrats living ostentatiously bling lifestyles off their ill-gotten gains in Britain (mainly London). The answer is to make Britain far less welcoming to people who've committed crimes or abused human rights when they want to buy property or stash their cash in the UK, freeze the property and investments of the ones who already have, and deny them visas so neither they nor their families can get into Britain to enjoy life here, do business or send their children to our schools.

From a technical and strictly legal standpoint, many of the legal powers we need to do these things are already – or about to be – in place. Our problem isn't a shortage of legal muscles; it's knowing whether we're flexing them often enough, and strongly enough, to grab enough property and deny enough visas to make a difference. We may have passed the laws, but are we really using them in practice?

Naming & Shaming

The thing which these criminals fear as much as legal sanctions is the glare of a public spotlight exposing what they're really up to. If a previously-legitimate oligarch appears on a list of people who have had property confiscated or frozen, and visas refused, it matters. Formerly-willing business partners won't sign contracts with someone they know they can't trust. Banks will close their accounts and turn them away. Lawyers and accountants too. The law firm at the heart of the Panama Papers, Mossack Fonseca, went bust because their name was so tainted.

So to shine a pitilessly-bright spotlight into these murky shadows, we must produce and publish the list of people whose assets we've frozen, whose property we've confiscated, and whose visas we've refused. We already do it for suspected terrorists who are subject to financial sanctions, and for proscribed terrorist organisations as well. The US publishes a Magnitsky list every December too. If we don't do this, the British public will rightly ask if those oligarchs and kleptocrats are quivering in their boots, or happily planning their next shopping trip to Harrods. And whether the unfair system is really going to change.

Grabbing Dirty Money

And let's make sure the spotlight reveals precisely where the criminals and kleptocrats have stashed their cash too, because you can't freeze or confiscate assets you can't see. That's why the new public registers of who owns what shares in British companies are so important, so oligarchs can't hide behind dodgy, anonymous shell companies. But those same arguments mean we should be just as open and transparent about Trusts as well, so they can't be used to launder dirty money either. And why the equivalent public register for real estate is so vital too; it's due to start being implemented in 2021 but, until then, it will be hard to spot British homes or offices which have been bought with dirty money.

4.2 Stopping Fake News

A New Information Act

We will need a new Information Act, which systematically updates and amends all our existing analogue information laws so they cover online and digital media as well. Like the Deregulation Acts passed by the coalition Government, it will have to cover a great many areas with a comprehensive set of upgrades. For example the section intended to fix the outdated rules for election literature outlined earlier would include:

- Online election material should have the same information about who published it as is already required for printed material, so someone is always accountable if it isn't true.
- The existing election-day limits on radio and TV political broadcasts and news should apply to online channels too;
- The existing rules banning intimidation and pressure around polling stations should apply to online bullying as well.

Clearer Responsibilities For Digital Platforms

We will also need a new legal framework to deal effectively with dishonest or inaccurate information which is delivered through new digital channels, to stop it corroding the foundations of solid, reliable facts and truth which underpin not just Britain's economy but our entire society too.

The new framework must recognise that digital platforms like Google and Facebook are a completely new, third type of organisation, in addition to the two long-established legal categories of publishers and authors (outlined in section 1 above), and that they must have equally clear – although distinctly different – responsibilities too. Through their search and selection algorithms they create a 'filter bubble' for each of us, which affects what we see, and (equally importantly) what we don't. The decisions in the filter bubble algorithms are hugely important, because they decide whether we are exposed to information which is mostly honest and accurate, or fake. The new legal framework should include:

- Any factual or news content which goes viral (ie which is seen by more than a set number of people) or comes from a widely-distributed source should have a factual accuracy rating attached to it, so everyone will know whether to believe it or not. The rating systems could be based on who had produced each item of content (for example, whether they had a track record of producing factually accurate information in the past) or whether other reputable providers were reporting the same facts too. The ratings systems would be new, although related examples have already been developed and widely used in, for example, the established ebay trustworthiness or uber driver ratings systems. The ratings systems would be developed by the digital platforms themselves, although their quality and outcomes would be regulated by Ofcom, to make sure they worked well enough for consumers to trust what they said.

- Online news that's provided by, or through, digital platform filters and selection algorithms (the 'filter bubble') should be factually accurate. So filter bubble algorithms should give a low priority to any factual or news content with a low accuracy score, so the only people who see it are those who expressly seek it out themselves. Again, Ofcom would regulate the filter bubble algorithms to make sure they achieved this properly.
- But factual accuracy is only part of reported news. A free press means that different editorial teams will, entirely legitimately, report the same facts in widely diverging ways. Currently, filter bubbles reduce variety by selecting news that matches our existing preferences, so we are only exposed to a single version of reality. In extreme cases this can mean a diet of exclusively alt-right, radical left or jihadist views. For everyone else the effects are more subtle, but just as profound, because it puts a spoke in the wheel of the debating process which forges democratic consensus in modern Britain on everything from sports to taxes, foreign policy or sexual morality, by allowing weak arguments, prejudices, assumptions and half-truths to escape being exposed or challenged.. It erodes Britain's centre ground and creates a less cohesive, more splintered, factional and divided society instead. This matters because, in a world where online is often the only source of news for many modern digital citizens, it gives filter-bubbles the same control over what we see and hear as radio and TV news channel editors in the old economy. But the rules about ensuring balance and fairness which already – rightly – apply to British TV and radio news broadcasters don't cover online filter-bubble digital news feeds at all. So the existing rules must be updated to apply the same principles to filter bubble algorithms as well as to human editors, and then policed by Ofcom since they already have responsibility for TV and radio news broadcasters anyway.

4.3 Fairer Income Taxes

At the moment, Britain's tax system contains two huge, structural injustices which mean the 'haves' are being subsidised by the 'have-nots':

- Tax rates on unearned income (like dividends on investments, or rents on properties) are lower than the normal Pay As You Earn rates for people who work for a living. These lower tax rates mainly help the rich, since people earning over £1 million a year get a fifth of their incomes in dividends, interest and property income, compared to just 5% for people earning between £20,000 and £30,000.
- People claiming benefits pay a Marginal Effective Tax Rate (the combined effect of taxes and benefits reductions for every extra pound they earn) which can easily reach 75% depending on the mix of benefits they're claiming and the numbers of hours they work.

This means Britain taxes income in a thoroughly regressive way, systematically giving a better deal to the rich at the expense of the poor. No wonder so many people feel the system is unfairly stacked against them.

Britain's tax system used to tax earned and unearned income (although not benefits) equally from 1988 to 1998, when Nigel Lawson was Chancellor. Lawson argued that taxing different types of income at different rates was nothing more than political favouritism; a taxpayer-funded subsidy for whichever side has the best Westminster lobbyists.

The answer is to tax all income the same, whether it comes from benefits, work or wealth. The advantages of this would be:

- Taxes would be simpler and harder to dodge, because we would have removed the incentives for self-employed people and high-paid bosses to use complicated schemes to reclassify income as capital gains or dividends to avoid higher tax rates.
- It would be fairer, more progressive and more legitimate. The system wouldn't be rigged in favour of a gilded elite because we would have stopped subsidising the rich at the expense of the poor.
- It would create clearer and stronger work incentives. At the moment, less well-off families have weaker reasons than rich ones to apply for a promotion, or work extra hours of overtime, because they keep less of the extra money that they would earn if they did. This hampers social mobility and reduces social justice, because it cuts less well-off peoples' chances of moving up the income ladder.
- It would reduce in-work poverty, because it would mean les well-off families would keep more of any extra money they earnt.
- It would be more economically efficient, making everybody richer by raising Britain's productivity and rate of growth because investment and jobs would flow to wherever they could be deployed most productively, without distortions from the tax system.

Chapter 5:

Summary

5. Summary

Crisis, What Crisis?

Britain's economy isn't working properly anymore. In the wake of the 2008 banking crash, and in the face of new digital challenges and disruptive technologies, it simply isn't delivering the goods. Wage growth has been anaemic for most of us, while a few have become extraordinarily rich. Too many of life's basic, unavoidable essentials (like housing, energy, water or transport) either don't work properly, or are so expensive they're rip-offs. The system feels rigged; stacked against hardworking families by a complacent, comfortable, out-of-touch global elite.

Part of the problem is that politicians haven't responded properly to these issues. Rather than proposing exciting, attractive ways to modernise Britain's economy and equip our society to prosper and thrive in a digital, post-Brexit, post-crash era, we are refighting stale battles (such as whether to renationalise railways) from the 1970s instead. And the vacuum is being filled by populists who would make us poorer and polarise our communities as well.

Root Causes

There are three profound, structural problems which have to be addressed:

1. Britain's economy has got too cosy and easy for big businesses, whether they are in old-economy sectors like water, energy or banking, or new digital industries like social media and online search. Instead of pedalling hard to attract and delight their customers, they've got so big that they can take us for granted. Plus the online world means they know more about us than ever, which is shifting the balance of power away from consumers and towards the public, charitable and commercial organisations which hold our data. The playing field is tilting so the customer is no longer king (or queen), which fuels the feeling that the system is rigged against ordinary people.
2. British society has become generationally unjust, because of the demographic timebomb of ever-more elderly people, who have been promised ever-bigger medical bills, social costs and state pensions, funded by ever-fewer working-age folk. Even worse, skyrocketing prices for things which are mainly owned by people over 45 (like housing and shares in companies) have put saving and home ownership out of reach for anyone younger. In other words, we are handing a cold, mean future to our children and grandchildren, of poorer lifestyles, worse public services in everything from defence to schools and health, and higher taxes too. This is morally wrong; if we allow someone's demography to become their destiny, the system really will be stacked against everybody under 45.
3. The moral legitimacy of Britain's open economy and enterprise society is being called into question. Partly by the ostentatiously bling lifestyles of undeserving and often criminal oligarchs and kleptocrats (mainly in London) when honest and hardworking families are struggling to make ends meet. Partly because trust in Britain's previously-reliable old-economy foundations of honesty and truth is being eroded by a digital world that's full of online scams, frauds and fake news. And partly because core structures and institutions which lie at the heart of our enterprise economy, like parts of the tax system, systematically give a better deal to the rich at the expense of the poor.

Making Customers Kings and Queens Again

To shift the balance of power back to customers and citizens, we will need:

- A new Competition Act, to modernise laws which were written before Google, Facebook, Amazon or Uber existed, to put customers back in charge so big companies, charities and public bureaucracies can't take us for granted anymore.
- Stronger and more modern competition watchdogs, particularly after we leave the EU when Brussels competition authorities no longer have powers here. This will mean a tougher and bigger Competition and Markets Authority, plus possibly more muscular local Trading Standards teams too.
- Merging the individual sector regulators (Ofgem, Ofwat etc) into a single, specialist network monopoly regulator (Ofnet), with powers to extend its reach to cover new-economy digital networks such as Facebook, Google so citizen-consumers can be protected from exploitation or frauds if needed in future too.
- My Data, My Way. Customers should have much stronger control over the personal data which organisations hold about them in the new digital economy. Not just confidential information like bank details, but commercially-useful information about our likes and dislikes too. This will let us share it with, or refuse access to, whoever we want, so the people who currently collect and hold it can't take our custom for granted anymore.
- A modern, up-to-date vision of how to update struggling old-economy industries like railways, rather than allowing politicians to refight stale political battles from the past, for example by introducing Open Access Rail so we can choose a different train if the one we were planning to take is too expensive, or overcrowded, or delayed instead.

Delivering Generational Justice

To make Britain fairer for anyone under 45, so someone's demography doesn't become their destiny, we should:

- Introduce a binding fiscal rule so UK Governments can only borrow to pay for long-term investments in things which will be used by our grandchildren and great-grandchildren as well as us, like roads, bridges or fibre-optic networks; and are legally forbidden from writing IOUs which hand the bills for things which support our lifestyles today – like health, police or defence spending – to future generations.
- Create a UK Sovereign Wealth Fund, so we are putting something aside for all the IOUs which have already been written (for things like the state pension and benefits schemes), rather than expecting our children and grandchildren to pay for our retirements.
- Build Up Not Out to make homes affordable for everyone under 45. Our towns and cities would be prettier, with much stronger local character and style. It would avoid sky-high tower blocks, and it would be greener, because people could live closer to work, shops and restaurants so commuting would be cut.
- Make Builders Build, by giving developers a ticking clock which costs them money for every day they don't finish building after they've got planning permission, to fund local Councils so they have the money to build the new schools, roads or GP surgeries which turn newly-built dormitories into communities.

Morals & Merit: Restoring Legitimacy

To restore the moral legitimacy of Britain's open economy and society we must:

- Shut out criminals and kleptocrats, by going after the dirty money which they invest in Britain, or launder through the City of London. We should freeze their assets, refuse visas to them and their families, and name and shame them once they're been convicted of crimes involving corruption so no-one will do business with them here.
- Pass a new Information Act, to update our old-economy laws about reliable information so they work equally well in the new digital world, for everything from election laws to advertising.
- Create a new legal framework so the 'filter bubble' algorithms of digital platforms like Google or Facebook, which effectively decide what we see and don't see online, have to prioritise information which is factually accurate ahead of frauds and fake news, and apply digital versions of the duties of editorial balance which already apply to broadcast TV and radio channels.
- Ensure we tax all income the same, whether it comes from benefits, work or wealth, so the system isn't stacked in favour of a gilded elite who live off income from interest, dividends and rents from property, but who pay lower tax rates than less well-off people who work for a living, or who claim benefits too.