

# I'll make capitalism work for the people

The Labour leadership election should be about a change from the approach of the past

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This leadership election must be an election for change for Labour: change from the approach of the past, which may have served us well for a time, but is past its sell-by date. Nowhere is this more true than in our approach to the economic model we advocate.

New Labour's political economy – highly flexible, liberal markets and a stronger welfare state – achieved great things: continuous growth with low inflation and the tax revenues which could be used to redistribute resources to invest in public services and tackle child poverty. But in the end, some of the limitations in our approach were exposed. We must be for the creation of wealth as well as its distribution, but we were too late to recognise this required government to act. We left our economy too exposed to the financial crash because we didn't build a diverse enough industrial base. And our faith in maximum flexibility and a hands-off approach to the responsibilities of the rich meant that we became more unequal as a country and many middle- and low-income families were left feeling squeezed and insecure, part of a society where we work the longest hours in western Europe.

We need a different approach. Britain's big question of the next decade is whether we head towards an increasingly US-style capitalism – more unequal, more brutish, more unjust – or whether we can build a different model – a capitalism that works for people and not the other way

around. For Labour to change and reconnect with those who turned their backs on our party, this is the project on which we must embark.

It starts with dignity at work. My proposal that corporate tax cuts should be conditional on the payment of a living wage of £7.60 – not just a minimum wage of £5.80 an hour – acknowledges how we need to change. We cannot go on with employers pushing so much of the costs of low pay on to the taxpayer. We must build on the approach we started to follow in our later time in government: action to encourage and build the industries of the future. High-skill industry and high-quality jobs depend on support for growth industries, unachievable if government is paralysed by an unwillingness to shape the economy. As part of this, we also need a financial services system which better serves industry. That is why we should look not just at selling off our stake in the banks, but at creating new financial institutions: mutuals, public-private banks.

A commitment to the environment and to a low-carbon future must also be at the core of Britain's economic vision.

Unlike New Labour, we must take seriously the responsibilities of the rich as well as the poor. I support a high pay commission for both the private and public sectors because it is plain wrong to think that we can build a stronger society when we are relaxed about bankers being paid 200 times more than their cleaners. This will look at issues not just of taxation but corporate governance and transparency in respect of high pay.

The tragedy of this government's approach is that they have no plan for growth, as we have seen with decisions on the cuts they are making . And as the Institute of Fiscal Studies showed, they plan to pay the deficit down on the backs of those with low and middle incomes, with a threat to universal benefits such as child benefit and the winter fuel payment. It seems even David Cameron's TV debate promises to families and the elderly are to be sacrificed.

It is essential that we defend these payments. The alternative is a dangerous erosion of the social solidarity that comes from a universal system. To do so, I would raise taxes on the banks over and above the timid levy proposed by the government and I would raise revenue from those at the top, continuing the 50p rate permanently at £150,000, and tackling tax avoidance. The government is simply too willing to return to business as usual on the banks. The right balance of maintaining the bonus tax, increasing the banking levy and introducing a new financial transactions tax can help rebalance our economy away from a reliance on financial services and raise in excess of £5bn revenue. Taken together, these tax increases will allow a better balance between tax and spending cuts and enable us to better protect those on middle and low incomes. They will be vital to our defence of the squeezed middle, of the universal benefits which are at the heart of our welfare system.

In 2008, a consensus existed that we should understand the lessons of the financial crisis, not just about regulation, but about the kind of capitalism we needed to build. So far, that opportunity has not been grasped. As Labour leader, I would be determined to do so and I believe we could build wide electoral support for a more responsible, more equal, more just economy. It requires retaining what New Labour got right but

moving on from what it got wrong. We must have the courage to change.

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