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The Name of the Rose



by David Lipsey

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The name of the rose

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1 Power and principles	1
2 Why Labour lost	3
3 Equality and taxation	6
4 The economics of prosperity	12
5 New directions, new alliances	16
6 The name of the rose	21

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Power and principle

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This pamphlet starts from two premises. The first is that Labour wants to win. The second is that it wants to win to pursue objectives which bear at any rate a family resemblance to the traditional aims and objectives of the left.

The first of these premises is, thankfully, not controversial. After past Labour defeats, the party has not been immune from the temptation to embrace revolutionary defeatism. After 1951, after 1970, and most strongly after 1979, the left argued that the party should 'return to socialism,' that Labour should set out its stall in the hope that some crisis in capitalism or some spontaneous change in the temper of the people would sweep it to power.

Nothing of this character is intruding into the debate this time. Pure impotence has no attractions to the modern Labour party. From top to bottom it is hungry for power, and the defeat of April 9 has stimulated the appetite denied. The matter of objectives is by contrast controversial. Some would simply abandon Labour's distinctive philosophy, on the grounds that it is an obstacle to electoral success. Just as Neil Kinnock ditched public ownership and unilateralism, they want the new leader to ditch public spending, redistribution and the party's egalitarian thrust. This is the strategy of one more heave, the heave that shoves the rest of the ideological baggage over the side.

Some outside the party would go further. They want a root-and-branch reconstruction. *The Economist* argued on 18 April for a new radical Labour party, which was against redistribution, against vested interests including the unions, and pro-constitutional reform. At least this solution would give the party a distinctive philosophy. The concept of a party without ideas may have a certain appeal for image makers and politicians of the most pragmatic and least imaginative ilk. It has none for most people in the party, who would bitterly resist any such change. Labour, they believe, must believe in something or it is nothing.

So it must; but that 'something' must also be at least acceptable to the electorate. If it enthuses voters, that would be better still. Otherwise the ends of power will be lost because of a failure of the means to power, and 1997 will succeed 1992, 1987, 1983, and 1979. What should that something be? In April 1960, Anthony Crosland, the philosopher of Labour's democratic socialist

right, answered thus (in *Fabian Tract 324*):

British Socialists..... would all subscribe to the following basic socialist values:

1. An over-riding concern with social welfare, and a determination to accord a first priority to the relief not merely of material poverty, but of social distress or misfortune from whatever cause.
2. A much more equal distribution of wealth, and in particular a compression of that part of the total which derives from property income and inheritance.
3. A socially 'classless' society and in particular, a non-elite system of education that offers equal opportunities to all children.
4. The primacy of social over private interests, and an allocation of resources (notably in the fields of social investment and town and country planning) determined by the public need and not solely by profit considerations.
5. The diffusion of economic power, and in particular a transfer of power from the large corporation (whether public or private) both to workers (either directly or through their unions) and consumers (through the Cooperative movement).
6. The substitution of cooperative for competitive, and other for self-regarding, social and economic relations.
7. In foreign affairs, the substitution of disarmament, international action and the rule of law for nationalism and power politics.
8. Racial equality (both at home and abroad), the right of colonial peoples to freedom and self-government, and the duty of richer nations to give aid and support to poorer ones.
9. An increase in the rate of economic growth, both for the sake of a higher standard of living and as a precondition of achieving other objectives.
10. A belief, not merely in Parliamentary democracy, but in the rights and liberty of the individual as against the state, the police, private or public bureaucracy, and organised intolerance of any kind.

A few items in the list are out of date. The colonial problem is, fortunately, past. Few would now without pause advocate a transfer of power from corporations to Trade Unions. The notion of consumer enfranchisement through the Cooperative movement is alas!-implausible.

A revised list would contain new items, for example a commitment to sexual equality. Environmental objectives would rank high among the areas in which social interests must have primacy over private interests. But for the rest, Crosland's still serves as a natural checklist. Most socialists will agree with most of the objectives. Most Tories will disagree with many of them. The question then is: with such objectives, can Labour win?

Why Labour lost

2

'If necessary changes are not made, the Labour vote will probably decline...by about 2 per cent at each successive general election,' wrote Crosland in 1960.

In 1959, Labour polled 44 per cent of the vote. Counting 1964 and 1966, and the two elections of 1974 as one each, there have been six subsequent general elections. In 1992, Labour polled 34 per cent, two per cent more than the Crosland prediction would imply. That is disappointing, but not as disastrous as it sounds. The Tories too have declined, polling 50 per cent of the vote in 1959 compared with 42 per cent a third of a century later. They had 107 seats more than Labour in 1959, 65 more in 1992. Labour scored 47 per cent of the two-party vote in 1959, 45 per cent in 1992.

Taking a shorter perspective, Labour polled 11.6 million votes in 1992, compared with 8.5 million in 1983, an increase of more than a third. The party holds 52 more seats than it did then. If post-1983 trends continue, Labour could expect to be the largest party at, say, the second election of the new millennium.

This seems scant reward for its efforts. Necessary changes have been made. Unpopular policies have been ditched, unpopular personalities hushed up, the presentation of the party modernised and its campaigning style revolutionised. Until polling day, all this seemed to have worked. The opinion polls indicated that Labour was likely to be the largest party in a hung parliament. The bookmakers offered 7/1 against a Tory overall majority.

This progress was achieved despite one Labour disadvantage: the electoral unpopularity of the leadership. Labour dismay at defeat was amplified by sadness at the personal tragedy of Neil Kinnock. Here was a leader astute, energetic and brave. He led the party back from the abyss, achieving change that seemed impossible in 1983. He bore with dignity all the prostitute tabloid press could throw at him. Had he been born to a Scottish rather than a Welsh accent, he might be prime minister today. Yet John Major led him as preferred prime minister in the polls, and a Mori poll in the *Times* suggested that Labour's (then) 7 point lead would be sixteen if John Smith were its leader. There are no prizes for what if's? in history. But what if John Smith had been Labour leader, and two more Tory MPs had voted for Mrs Thatcher?

However the leadership alone does not explain Labour's defeat. Relative

unpopularity did not stop Ted Heath beating Harold Wilson in 1970, Mrs Thatcher beating Jim Callaghan in 1979 and even Clement Attlee beating Winston Churchill in 1945. So what else mattered? There is no obvious candidate. In 1979, the 'Winter of Discontent' did for Labour. In 1983, it was the loony left and Michael Foot. In 1987, defence clinched it. But 1992's equivalent takes more identifying.

We do not yet have serious academic studies of 1992, though they will come. We do have the polls. Unfortunately their hopeless failure to indicate the eventual outcome - now the subject of an inquiry by the Market Research Society - inevitably devalues the evidence they supply. If people lied (or changed their minds) on how to vote, may they not also have lied (or changed their minds) about the issues? Do voters salve their conscience by telling the pollsters they care about the NHS, while really all they care for is the chink of the pounds in their pockets?

The polls indicated that Labour would win. They said so not only explicitly in reporting voting intention, but implicitly on most other indicators. Labour was ahead on four of the leading five issues as follows:

Issue	Best party: Con	Lab	Lab lead
Health care	22%	52%	30%
Unemployment	19%	43%	24%
Managing Economy	34%	30%	-4%
Replacing poll tax	20%	44%	24%
Education	25%	39%	14%

(Mori, The Times: fieldwork 23 March):

Though economic optimism was higher than in 1990, it was not so high as to indicate a Tory victory. The bulk of the polling evidence suggested that intending Labour voters were less likely to change their minds than Tories, and at least as keen to vote Labour.

Labour did have some disadvantages to overcome. Both the effect of non registration, and of votes being given to expatriates - neither captured by the polls - counted against the party. But these disadvantages were outweighed by one major advantage. Contrary to expectations, Labour did better in the marginals than in the country as a whole. The Tories won twenty fewer seats than they would have done had the marginals voted in the same way as the nation as a whole, according to Dr David Butler.

If elections were decided by the opinion polls, Labour won in 1992. As they are not, one is left with an enigma, and it is no good hoping that polls which got the result completely wrong will tell us why.

The commentators were no more right than the polls, which is not surprising since the polls are their principal source of information on the state of the

horse race. But, following the defeat, they have identified their suspect - Labour's proposals for heavier taxation of the better-off. Labour proposed to scrap the £21,060 ceiling for national insurance. In addition, a 50 per cent tax rate would replace the 40 per cent rate on income over £40,000 a year. This, it is said, terrified middle class voters. It worried those who, though not yet earning that much, hoped one day to do so. The hypothesis is discussed in the next chapter which reaches a verdict of 'not proven.'

Labour's own post-election analysis perhaps gets closer. It identifies as the culprit the triumph of the politics of fear over the politics of hope. As Gerald Kaufman argued in *The Guardian* (11 May), Labour's problem was lack of trust.

The policies were moderate. The men and women were cautious, and mostly capable. The presentation was good, sometimes inspired. Labour won the campaign. Unfortunately it lost the vote.

Perhaps this is not surprising. Most voters are not close students of politics. Their image of the parties is not defined or sharp. They vote in a haze, half reason, half prejudice, half the present, half the past. The past, for Labour contained few pluses and many minuses.

This may seem depressing. Since 1959, Labour has wrestled with the electability problem. Harold Wilson first time round, and Callaghan ended up governing against the party and lost. Neil Kinnock took the party with him, but still lost. He is in good company in failure, but failure it is. Too many voters doubt Labour's competence, not as individuals but as an institution. They dislike the way it gets its money. They abhor its constitution. They are not yet finally convinced that the far left is dead. They wonder if Labour really would govern in the national interest. Would it in office be a slave to that tyrant called the 'Labour movement?' Labour has attempted, but not yet in public perception concluded, the transition to modernity. Yes, it was 'time for a change'. But 'can you trust Labour?' On April 9, voters, for reasons of history and identity, answered 'no'.

Yet the picture is not entirely bleak. On this analysis, Labour was more punished for its past than for its present. Every year that passes since 1979, and even more, every year that passes since 1981-82, is another year for the electorate to forgive or forget. If the the party does nothing silly, the negative memories will gradually fade, especially if Labour provides new, positive images to supplant them. The rest of this pamphlet consider the elements from which a truly modern party might be constructed, and presented again to the electorate.

3 Equality and taxation

A belief in greater equality is the hallmark of the socialist. It embraces equality of economic opportunity; greater equality of outcomes; equality in social and economic relations between sexes, races and classes; and, in general, open relationships between people stripped of the incumbences of rank and social origin.

It does not, except in a Tory canard, embrace a belief in total equality which is certainly not possible and probably not desirable. Socialists may differ on all manner of things: on public ownership, planning, defence, trade union rights, and Europe (to take just some of the issues on which the British Labour party has been split over the last two decades). They may also differ on the degree of equality that they believe to be possible or desirable. But anyone who does not believe in greater equality is no socialist.

For most of the post-war period, the desirability of greater equality was scarcely controversial, even beyond Labour's ranks. Sir Edward Boyle - a Conservative - spearheaded the drive for comprehensive education. Ted Heath adopted a prices and incomes policy which offered special treatment to the low paid. That consensus is dead. Tories, from the prime minister down, pay lip service at least to equality of opportunity. But they do not want more equal outcomes. Mrs Thatcher went further. Her policy was avowedly anti-egalitarian, designed to reward the successful and penalise the unsuccessful.

This change did not come out of the blue. It resulted from a long and serious argument amongst Conservatives about equality. Von Hayek and the right developed a powerful critique of equality. They believed that it damaged the efficient economy. They feared that inequality could be corrected only by a use of state power that inevitably tipped over into tyranny.

A refutation of these arguments is beyond the scope of this pamphlet (though see Raymond Plant, *Equality, Markets and the State*, Fabian Tract 494, 1984). But it is worth for a moment considering what has actually happened to equality. For most of the post-war period, it seemed undeniable that practical equality was increasing. Economic growth itself, even under

capitalism, seemed to have a strong egalitarian bias. As measured by economists, the evidence was strong but not conclusive. The evidence of the eyes was more powerful. The gap between the rich man in his Rolls and the poor man on foot is clearly less great than that between the yuppie in his BMW and the motorised majority. The boom in consumer durables (TVs, central heating, microwaves and stereos) increased equality. Home ownership rose towards 70 per cent of the population. Foreign holidays are no longer exotic. Trade unions helped to ensure that working people obtained a share of growth through their wage packets. The state taxed the increment, and used the revenues to tackle the worst of poverty. It seemed plausible to Crosland, as to other social analysts, that capitalism was not only a powerful engine for growth, but also for equality.

Fifteen years on, this is less clear. First, though the prosperity of most working people has continued to grow (leaving aside recessionary setbacks), the picture is patchy. Those in old industries and isolated regions have tended to miss out. Whole social groups little considered by the socialists of the 60s suffer quite disproportionate levels of suffering. Single parents, disabled people and black people are still relatively deprived, and their numbers grow. The old socialists used to ask: why are the few rich, the many poor? The modern socialist faces a more complex question: why are the few rich, the middle not richer, and the poor poorer?

Rewarding the rich

Deliberate government policy during the 1980s provides part of the answer. Taxes for the rich were cut. So were benefits for the poor, which have not generally been uprated in line with rising prosperity. The result is an increase in measured inequality. Rising unemployment and a loss of trade union strength weakened the bargaining position of those at the bottom of the labour market, increasing inequality.

But this inequality is not the same as what went before. A slow social transformation has taken place. A rich ten per cent no longer lord it over a downtrodden ninety per cent. There still is a rich ten per cent. There is also a poor section, not ninety but perhaps twenty per cent, suffering absolute hardship and distress. That leaves perhaps seventy per cent who are neither the one nor the other.

This new social dispensation is not confined to Britain. A similar structure applies in the United States, though there race adds a further contour. It is true of France and of Germany. The Far East has not yet evolved to such a structure, and different familial and philosophical traditions there may mean that it never will. So far as Western advanced capitalist societies are concerned, however, the '10:70:20' model seems systemically universal.

The political significance of this change cannot be overstated. It transforms the character of Labour's natural vote. Labour can be reasonably sure of

3
winning most of the bottom 20 per cent, though this is the segment of the population least likely actually to vote. It will only win a few votes at the top. It has thus to appeal to the broad mass in the middle.

This is not to accept the currently fashionable argument advanced by JK Galbraith. Galbraith argues that, now the majority of people are relatively well off, the old welfare coalition which underlay the Democratic appeal in the United States has disappeared. Left-of-centre politics can no longer command a majority. This is too despairing. Contrary to Galbraith, and much Tory propaganda, those in this 70 per cent are not just like the top dogs, only poorer. But contrary to what would suit Labour, they are not like the bottom dogs, only richer. They are betwixt and between. This is true of their politics too. They are for private affluence but they are also for public affluence. Their votes are there to be grabbed by whoever seems best to offer them policies which reconcile their disparate aims and ambitions.

Brixton or Cheam

Labour's problem is that the middle 70 per cent may have less in common with those at the bottom of the heap than with the better off. Which does a technician living in his semi-detached in Walsall most resemble? A bank manager in Cheam? Or a single mother in Brixton? With whose interests will he more nearly identify? This is crude sociology and crude politics. But not many elections are lost through an excess of crudery. Neil Kinnock perceived the problem clearly. He wanted Labour to be the party not of the have nots but of the 'haven't-got-enoughs'.

At first blush, Labour's 1992 tax policy was constructed to be consonant with these social realities. The adverse impact on the well-paid would have been severe. A typical earner on £75,000 a year would have lost a quarter of his post tax income. The revenue would be used to fund an £8 a week increase in pensions and a £9.95 per week increase in child benefit.

80 per cent of the population would gain from its plans, John Smith said, and the independent Institute for Fiscal Studies broadly collaborated the claim. Labour, then, was seeking to ally the bottom and middle of the income distribution against the top. What went wrong?

The evidence that the policy failed electorally is far from conclusive. The policy would have hit a higher proportion of people in London and the South East. Yet *The Economist* reported on April 18 a swing of 4.6 per cent to Labour in London and 4.5 per cent in the South outside London, compared with a Great Britain swing of 3.0 per cent.

The strategy behind the policy was sound enough. What was not sound was the tactics. The party's plans went too far, and would have bitten at far lower real income levels and hit far more people than high tax rates did under previous Labour governments. The figures may show that a majority would have gained. But amongst that majority were people who hoped to join the

better off themselves, or who hoped that their sons and their daughters might be better off. To such people, the package was perceived as being unfair, penal while what they stood to gain seemed trivial.

The policy was thus sociologically suspect. Economically it might have been disastrous. This does not show up on economic models. These suggest that the increased spending of the poorer people who would gain from the plan would more than outweigh the decreased spending of the better off. Economic models, unfortunately, are not the real world. Many economists, not just Tories but those sympathetic to Labour, were deeply concerned about the effect that the party's tax policy would have had on recovery. The scenario was this: managers and entrepreneurs thrown into personal crisis; mortgages unpaid; negative equity value in their expensive homes; shares tumbling; school fees crushing in, holidays cancelled. Confidence would have been shattered. Those who could would have used their new freedom to seek employment elsewhere in Europe, or the world.

These economists may be wrong. Labour did relatively well in prosperous areas, and it may be that a spontaneous mood of national enthusiasm would have greeted a Labour victory, sweeping aside merely personal considerations. Nor does the plight of the better off, even in such circumstances, compare in hardship with that faced by those at the bottom of the heap every day of the week. Labour instinctively weeps no tears for the rich.

Unfortunately, if the economists are right, Labour needs the better off. No managers, no entrepreneurs, no capitalism, no wealth, and no hope for the long term amelioration of the condition of the people: understanding that is what coming to terms with the market economy is about.

The future of redistribution

Lessons will no doubt be learned. Do not give too much detail on taxes until you are in government. Beware the aspirant vote. Remember that no policy is more vulnerable to tabloid misrepresentation than tax policy. Phase change gradually. With sensitivities raised by the 1992 row, Labour will need to be particularly careful in 1997. But should a further lesson be learned? Is redistribution now a vote-loser, which Labour should drop if it wants to win? That, no doubt, will be considered by the commission on social justice proposed by Mr Smith, but it should start with a strong prejudice in favour of redistribution.

The form of the inquiry is important. Experts will be queueing up to offer advice. Most will be keen redistributionists, motivated by the desire to help the poor. Left to themselves, they can be relied upon to design a policy which showers munificence on the bottom 20 per cent of voters. Enormous ingenuity in finding new imposts on well-off beneficiaries of this and that loophole is guaranteed. The policy will be logically impeccable, but politically fatal. Only strict political control will avoid this.

What issues need to be addressed? First, the policy needs to be fair. It must not be punitive. The principle of the integration of tax and national insurance, which underlay the proposed abolition of the earnings ceiling is sound. But it must be done in such a way that no particular group is too hard hit. A new system should be phased in, over the life of a parliament. In the interests of fairness, the party should give an unbreakable commitment that no taxpayer will face a marginal tax/NI rate of more than 50 per cent.

Secondly, the inquiry should not be transfixed by direct taxation of incomes. The impact of indirect taxes needs to be looked at. A two-tier or multi-tier VAT which weighs rather more heavily on 'luxury' items might form part of the armoury. Labour should also look again at the whole tangle of taxation of capital and wealth. Inheritance tax, when not avoided, bites heavily at a 40 per cent rate on quite modest fortunes. The threshold should be raised and a lower rate introduced for small legacies. Meanwhile, a steeper rate should be payable on large fortunes of £1 million or more. Though no scheme will ever be entirely proof against the tax avoidance industry, loopholes, particularly for gifts, can be closed. An annual wealth tax, again confined to large fortunes in excess of £1 million, should again be examined. Final conclusions on the results of this investigation should not be published, any more than the Tories published their decision to double VAT in 1979. But the spadework for a Labour Chancellor needs to be done.

Thirdly, the inquiry needs to consider public expenditure. Labour should remain the party instinctively favourable to a relatively high level of public provision. There are sound arguments for collective supply of certain services (for example, health care) and for a state safety net for the worse off. Individual choice is a great thing, but so is collective choice. The collective choice of voters seems to be in favour of substantial public provision, as John Major acutely perceived when he approved the huge rise in state spending projected by the government in last autumn's pre-election Autumn Statement.

Cash for Covent Garden

Labour support for a decent level of public spending needs to be reaffirmed. The inquiry should go on to consider how public expenditure might be made more effectively redistributive. Public spending accounts for 42 per cent of total national income. Much of it is redistributive in the right direction, for example income support for the poor. Some however is redistributive in the wrong direction, for example, grants to Covent Garden and subsidies to British Rail.

In general, Labour is prone to the temptation to think that because it approves of the objects of particular expenditure (for example, public transport) that means that the state should subsidise or fund that expenditure. But there is nothing intrinsically superior about public funding, or subsidy. Nor is the efficiency of public dispersal such as to make one think that all such

disbursements are applied with maximum efficiency.

Indeed, Labour should think harder than the Tories about getting certain expenditures off the state's back. There is no logical reason why the state should provide the road system. It could be privatised. Tolls could be levied according to use, congestion costs and damage to the road track imposed by different vehicles. The Exchequer could benefit both from the privatisation receipts and, if desired, by taxing the tolls. Some of the proceeds could be used to bolster those forms of public transport most used by the less well off, especially buses.

The review is being urged to consider one further aspect of state expenditure: universal state benefits. The burden of universal benefits on the taxpayer is formidable. In logic, such benefits are hard to defend. Why should Joe Soap's taxes be used to provide the child benefit with which Lady Muck pays her cleaner?

But this is swamp territory. Any proposal to scrap universal benefits will meet fierce resistance. In the United States, despite the budget deficit, the administration has not dared touch 'social security' as the Americans call pensions. Targetting benefits is cost-effective, but may be poor politics. Altruism is not what makes the middle 70 per cent tick. They support state spending not because of what it does for the poor, but because of what they want it to do for themselves. Confine benefits to the poor and a populist wave of opposition may be expected from folk who think their cash is going to shirkers, scroungers and immigrants.

Balance is all. Labour would be very foolish to repeat its error of 1992 by promising big increases in universal benefits such as pensions and child benefit - a policy, incidentally, which appears to have won it no votes at all. There should be no generous commitments to uprate pensions by the best of prices or earning next time; and it would be wrong in principle and in practice to promise a real increase in child benefit. The illusion that taxpayers can be bribed with their own money should die. But equally, Labour should remain the party of universal services and decent state provision, not only because that is right, but because that is what the middle 70 per cent of the population want.

4 The economics of prosperity

As Anthony Crosland pointed out, redistribution is much easier in a growing economy. In such an economy, more can be done for the worse off without diminishing in real terms what the better off are getting. If Labour could convincingly demonstrate that it could produce faster economic growth, then its other aims would appear more attainable too.

This perception forms the central thrust of one critique of Labour's 1992 policy. Labour's policy, it is argued, was too orthodox. It needs to convince voters that it has an alternative way to run the economy which will ensure faster growth. The alternative proposed is a devaluation of sterling within the Exchange Rate Mechanism of the European Monetary System.

This policy is reminiscent of the devaluationist policy advocated by Peter Shore in the run-up to the 1983 election. It was implausible then. After a few more years of European integration, it will be more so. The pitfalls are (or should be) obvious. Devaluation increases the price of imports, and thus inflation. To combat that requires a tight monetary and/or fiscal policy, which in turn snuffs out the reflationary effects of devaluation. Then there are the consequences for confidence to consider. A government which devalues once will not be trusted by the markets not to devalue twice. At whatever level sterling is set, an interest rate premium will be required to hold it there, again snuffing out the benefits of a more competitive exchange rate. In government, there just might be circumstances in which those cost had to be born, with the consequences mitigated through discussion with our European partners. To embrace such a policy in opposition is dangerous, defeatist, and will lead to defeat.

This is a particular example of a wider dilemma which Labour must address. The party says it accepts a market economy. But it has not yet faced up to the realities of such an economy. It has not faced them on redistribution, where its 1992 policy would have damaged the incentives which make such an economy tick. It has not faced them on the international front.

Capitalism is no longer, if ever it was, a national system of economics. It is

increasingly an international system of economics (and an international system which no longer faces serious competition from any other economic system). Within that system, national economies are tightly bound together. The capacity of the individual nation state to affect its own economic performance is limited. By 1997, it will be even more limited, as the single European market develops and (perhaps) as Europe proceeds towards monetary integration. Sometime in the seventies, the option of a truly independent national economic policy began to disappear. Never in history have the attractions of autarchy seemed so few as they do today. By the time of the next election, the national option will be dead, deceased, gone to its maker, no more. To pretend to the contrary is to sustain an illusion which can only end in disappointment and despair.

Market discipline

Labour therefore will be strictly constrained in its macroeconomic policy. Even if it were not for the Maastricht rules on borrowing, the markets would impose their own discipline. If growth cannot be assured by macroeconomic policy, how is it to be secured?

As it did in 1992, Labour will be tempted to answer: 'by investment'. In place of the supply side policies of the Tories, which aim to free up markets, it will impose its own supply side policies to increase investment. Agencies, boards and corporations will be set up to help industry. Infrastructure will be improved. Training and investment in skills will be increased. Few will oppose such policies, whose merits depend on specifics and scale. The Tories have underinvested in skill, run down trade promotion, been insufficiently activist in attracting foreign investment, and insufficiently aware of the imperatives of international industrial restructuring. That needs to be put right.

Markets are a means to an end, not an end in themselves. Where they fail, or where there is a disparity between private costs and benefits and public costs and benefits, as in these cases there is a theoretical case for intervention. Many Tories accept this, though doubtless the Tories find it harder than Labour to intervene in practice.

Nevertheless, Labour should be cautious in advocating a more interventionist strategy. To start (as few socialists do) with the obvious: successful investments are made by firms, in pursuit of long term profit. Firms can be assisted and encouraged. They cannot be replaced or circumvented. They will invest most successfully if the government pursues a consistent macroeconomic policy. They will invest least successfully if they are hamstrung by regulation, burdened by endless negotiation with unions, and if profit-making is frowned on. Their performance will be hindered if they are artificially restricted in what they choose to pay their workers.

Labour may decide that it is prepared to pay a price in economic efficiency in order to achieve certain social gains for workers. That price will be lower

4
growth, less successful investment, and probably lower employment (though the more these things are done in concert with EC partners, through the mechanism of the social chapter the less serious these side effects will be.) It is no good bemoaning these facts. That is how a market economy is.

One example is Labour's policy at the last election of introducing a minimum wage. Though the scale is in dispute, the serious economic studies of a minimum wage agree that it would destroy jobs. Indeed, party spokesmen all but conceded the point during the election. In this case they argued that the benefits of a minimum wage in eliminating poverty would make up for the jobs lost.

This is a dubious argument. Most of the poor are not low paid. As they are outside the labour market, they are not employed at all. Most of the low paid are not poor. They are second earners in two earner households. Had the party been wiser, it would have thought twice before proposing to meddle with the labour market in this way. Poverty is better tackled through the tax and benefit system.

The perils of intervention

This is but one example of the perils of interventionism. Two caveats should be born in mind whenever intervention tempts. First, the party should be mightily cautious about intervening in individual markets, whether the labour market or product markets. Such intervention is always liable to have unintended and damaging consequences. Where intervention really is desirable, it should work with the grain of markets rather than against it. For example, if the party wants to help low paid workers, it might raise the threshold for national insurance contributions, creating a market incentive for employers to hire more of them. This would tip the balance of supply and demand towards the latter, and increase wages at the bottom of the income scale.

The second caveat is that, because intervention must be cautious, it would be a mistake for Labour to think that any interventionist policy is going radically to improve the performance of the economy as a whole. Growth rates depend in the short run primarily on the national and international macro-economic climate, and the current state of the trade cycle. Growth depends in the long run primarily on cultural factors, including the animal spirits of entrepreneurs, the dedication of management and its ability to carry its workforce with it, the quality and motivation of that workforce, and the structure of corporate governance, taxation and company law.

Government can influence these factors, for good and ill. If they want to influence them for good, they had best proceed slowly, cautiously and by consensus. The less Labour promises of its industrial policy next time round, the greater the chances that it will in fact be one capable of improving Britain's performance.

Indeed, I would go further. The notion persists that the conduct of economy

policy remains an ideological battleground, on which Labour and the Tories hold systematically different views. This is not, or ought not, to be so. The Tories have changed, as Michael Heseltine's appointment as President of the Board of Trade signifies. Labour claims to have changed, to accept the market economy. Economic policy should no longer be the area in which the difference between the parties is defined.

Unless the new Tory government performs better than the last one, Labour will find plenty to criticise in its conduct of economic policy. Monetary policy was too lax in 1987 and too tight in the spring of 1992. Fiscal policy, thanks to the irresponsibility of the Tories' spending plans, is currently profligate. Public spending will have to be cut; indeed, if Labour were in office, it would be doing the cutting. This is stop-go economics at its worst.

Mr Heseltine needs watching. He is quite capable of wasting billions on hare-brained schemes for industrial restructuring. Labour ought also to attack the government on areas in which it has been insufficiently radical: for example, the promotion of competition in the professions, so that the sweat of the workers' brow no longer provides lawyers, accountants and consultants of every ilk with such a rich living. This would strike a popular chord, but such criticisms would no longer be ideological. Voters would not think 'Labour only says that to please party activists/the unions/the bureaucrats/its councillors'.

In principle, Labour wants a market economy, though one in which measured intervention remedies obvious market failure. In practice, it has yet to complete the transformation of its attitudes that that requires. It cannot say that it accepts markets, and then do so grudgingly, half-heartedly, carping at this and moaning at that. That will merely ensure that the markets work badly. They need to be embraced whole-heartedly, and with understanding.

The market can be made to serve socialism. But socialism must understand that the golden egg is fragile. Nothing will be served by attacking it with pickaxes. Nor can even the best Labour government hope so to transform the economy for the better that the problems of distribution wither away.

5 New directions, new alliances

Crosland had nothing interesting to say on the constitution. He believed (like 99 per cent of his contemporaries) that the post-1945 Westminster system served national, and could be made to serve democratic socialist, ends.

Such insouciance is no longer possible. The facts have changed. By the time of the next election, a single government will have been in power for all but eleven of the 45 years since 1951, though now commanding the support of just four voters in ten. National government as an institution has passed its peak, sharing power above internationally, challenged for power from below by regions and tribes. The essential benevolence of government is more questioned, and therefore the desirability of its holding a monopoly of power is more debated. The arms of state power, the police, the judiciary, and the civil service, have had their flaws revealed. Public servants no longer self-evidently serve the public.

As Labour's old economic certainties collapse, a new creed responding to these issues has grown up. Charter 88 attracted wild enthusiasm in some quarters with its programme of constitutional reform. The Labour Campaign for Electoral Reform persuaded the party to set up the Plant Committee, and to show a new open-mindedness about voting systems. A Crosland list of what socialists now believe would be very likely to include a reference to democratic reform, including a Bill of Rights, Freedom of Information, Lords Reform, and Devolution to Scotland and Wales. Such legislation would have taken up much of the time of a Labour government, if only because it has the inestimable advantage of not costing much.

Many advocates of constitutional reform regard it as the very stuff of modern left politics. It appeals to ex-marxists, brought up on Gramsci and 1968, who somehow see it as an expression of underlying social realities. It seems a candidate to succeed the politics of class, which has proved so disappointing for socialists. Since it does not require personal sacrifice, it attracts well-heeled lefties and the right-on rich.

Little of what is proposed will do any harm. Much of it might do some good.

And to give an enthusiastic welcome to such proposals will refresh Labour's image and gives the party a modern feel.

But constitutional reform cannot be a solution to the political problems of the left. The issues raised are of near zero salience for the great bulk of voters (outside Scotland and Northern Ireland). They show up on none of the pollsters' lists of important issues. The arguments, for and against, are inevitably abstract. They are remote from most people's experience. Few voters are budding investigative journalists, dying to read Whitehall files. Not many see a glorious future pursuing their constitutional rights through the courts. Constitutional reform may be desirable. It is not the open sesame to the door to power.

There is, however, one exception. Electoral reform, in one form or another, would make continued one-party government improbable. Under proportional representation, Mr Major might not now be prime minister. He would certainly not enjoy an overall majority. Electoral reform then does more than change the constitution. It changes the hands on the levers of power.

Government by Paddy Ashdown

The theoretical constitutional arguments for and against PR, brilliantly discussed in the Plant Committee's first report, are well balanced. On the one hand, it can lead to weaker government with (as in Israel) small parties able to dart in and out of office compromising stability. It also gives disproportionate power to pivotal minor parties, as the example of the German Free Democrats illustrates. Under PR, the answer to the question 'Who governs Britain?' might be Mr Paddy Ashdown. PR might bring the extreme right into parliament. On the other, PR prevents great lurches in policy from left to right and back again. It permits a greater flexibility in politics. On the whole, countries with PR are at least as well, and arguably rather better governed than those without it.

The purely Labour party arguments for and against PR are also balanced. There are real dangers for the Labour party. The Labour party is a broad church. This is a virtue in itself, but under the present voting system it is an essential one: unless all those of a broadly left wing disposition stick together, they will not achieve parliamentary representation. This would not be so under PR. It would be open to Labour's fundamentalist left to set up on its own organisation. It could expect parliamentary representation, unless the system set a high threshold. Though there would be some advantage to the majority of the party in seeing the back of the far left, the division of the left wing vote is not something to be contemplated with equanimity.

More broadly, PR may be seen by the party as an alternative to making necessary changes. Under PR Labour could stand for what it wants to. If in consequence it polled fewer votes, it could still, in alliance with others, keep the Tories out. That way lies the prospect of a Labour party which is beloved

of its activists, but not of voters, and an ever-declining share of the national vote.

The seriousness of these objections depends partly on the form of PR chosen. Under a system of strict proportionality, and under a system which set only a low threshold of votes above which a party was eligible for parliamentary seats, they would be grave. More modest reforms are, however, available. One such is the alternative vote. This retains single member constituencies. It merely allows voters to register a second preference vote, so that if their number one choice is eliminated, their vote is transferred to their number two choice.

The alternative vote has immense attractions. Under it, an overall majority is still a realistic objective, but requires a higher share of the popular vote than it does under the present system. Under it, party discipline remains important, fragmentation is discouraged, and extremists are still excluded from parliament. It is to be hoped that the Plant committee ultimately decides that this is its preferred choice.

Plant can recommend, but in the end, the party's power brokers will decide. In reality, whether Labour does or does not embrace electoral reform will not primarily be decided by constitutional considerations. Realpolitik will be decisive. If Labour thinks PR (or some variant of it) will help break the Tory hold on power, PR will be its policy. If not, not.

There is a Catch 22 here. The Tories will not introduce PR since its probable consequence is that they will lose office. So in order to get proportional representation, the Tories must be defeated. But how are they to be defeated except under proportional representation?

Learning to love the Liberals

Here, nebulous constitutional chatter turns to real politics. The question is whether some arrangement is possible between Labour and the Liberal Democrats which will somehow act as a surrogate for PR at the next election. The Tories having been dislodged, the two parties could then introduce a system of PR which would end the Tory hegemony, before going their own separate ways again. The arithmetic is promising. The two parties between them polled over half the vote in 1992. Take simply those seats where the Liberal Democrats came second to the Tories in 1992. In 25 of those seats, the Labour vote exceeded the Tory majority. If then in those seats Labour had stood down, and its voters had backed the Liberal Democrat, Mr Major would have been deprived of this majority, and the centre left would now be deciding who was in Downing Street.

Is such an alliance possible? Both Labour and Liberal Democrat politicians are adept at distinguishing the two parties. They have different traditions, but share a tradition of mutual antagonism. The Liberal Democrats are naturally more trusting of markets and individual action, naturally more

suspicious of the collective, including trade unions. But these differences are difference of nuance and emphasis. An objective observer, reading the two parties' 1992 manifestos, would find them broadly compatible. The thrust of both parties' policies is the same: cautious radicalism. There is no disagreement between them that could not be sorted out by a drafting committee. In any case, cooperation need not last long - just long enough to win one election and pass a PR bill.

The politics of mutual cooperation, however, are much more difficult than the policy issues. Under first-past-the-post, successful cooperation means one party standing down, or at least urging its supporters to back another party tactically. As veterans of the SDP/Liberal alliance know, this is a recipe for local conflict, which easily translates into national conflict. More difficult still is the problem for the Liberal Democrats that getting on for half its voters prefer the Tories to Labour as their second choice. Mr Ashdown might urge them to vote Labour in certain seats. Any man can summon spirits. Will they come to his whistle? Liberal Democratic voters, least loyal to party as they are, might refuse. Cooperation with Labour might lead to mass voter defection from the Liberals as they lose the attractions of being an independent third force. Mr Ashdown is proceeding with caution, and with good reason.

Limited objective

The Liberal Democrats are the overwhelming second preference of Labour voters so Labour would have much less difficulty in delivering its vote to the Liberal Democrats. This is important. On any sober assessment, cooperation is not going to create some grand and powerful coalition of the left which changes the entire political complexion of the nation. It has the limited objective of denying the Tories the seats mentioned above; and possibly helping Labour to gain a handful of Tory marginals with Liberal Democratic help. It is about swinging perhaps 30 seats net from the Tories to the opposition, removing their majority, and then changing the system so that they will find it harder to reestablish it.

This is a prize worth having. But there are substantial risks. The Liberal Democrats are good at elections. Once they are bedded down in an area, they are not easily dislodged. Once they have taken parliamentary seats, they hold on to them. Labour has remained the larger party nationally (though it was a narrow squeak in 1983), partly because it has been able to campaign with some vigour against them. If some sort of electoral pact was in being, it would have to pull its punches. The outcome could be that for which Mr Ashdown hopes: that it is the Liberal Democrats, not Labour, that comes out as the second party of the realm.

Ultimately, Mr Ashdown may decide that the gains for the Liberal Democrats exceed the risks. To be for ever the third largest party is even worse than being for ever the second largest party. But tangoing takes two. The new

Labour leader should think hard before stepping out with Mr Ashdown. And certainly he should not be deluded by the starry-eyed advocates of cooperation into thinking that a deal is a substitute for sorting out his own party. The same effect as a national deal could be achieved with less risk if Labour decided quietly at local level not to put up candidates against the Tories in the 25 seats where only the Liberal Democrats can plausibly win.

For now, doors should be kept open, avenues explored. No one can yet say what potential there is for cooperation between the parties, nor how far it might develop by the next election. It would cost Labour little to explore the options, even though at a later stage, it may decide against a changed relationship. There is a window of opportunity, at most two years, in which explorations could take place without hopelessly compromising the parties at the next election should nothing concrete emerge.

The first step should be to identify a forum or fora in which members of the two parties could meet to explore particular issues. The Fabian Society, whose members wisely refused to exclude Alliance members from associate membership when the SDP was set up, could provide one such forum. Less publicly, it is to be hoped that the new leader and Mr Ashdown will dine together. They might care to ask sympathetic psephologists to examine the potential gains in detail. The Plant Committee should continue its work on electoral systems; no harm would come of the Liberals setting out their views before it. Meanwhile local CLP chairs might care get to know their Liberal counterparts. They will find few of them bite. And with more hung councils, following the May 1992 local elections, cooperation can be experimented with.

Labour has learnt the defects of blueprints and plans. It understands better the virtues of organic growth. Those virtues should inform the development of relations between the two parties. Cooperation would involve high risk and great cost.. But is the risk as high, or the cost as great as the risk and cost of permanent Conservative government? Over the next two years, the party must decide.

The name of the rose

6

On this prospectus, Labour would present itself at the next election as conservative on economics, but otherwise as the party of public service, sensible redistribution, and political reform.

It should also enthusiastically adopt policies with wide appeal to the electorate on which the Tories have nothing to offer. Space does not permit a full exposition of such policies here, but Labour should be *inter alia* the party of women, the party that cuts money wasted on defence and law and order, and the party preeminently of the environment. Will that be enough?

Whatever Labour does, it cannot be sure of winning. No one knows what the state of the economy will be. No one knows whether Labour is favoured by a boom, making people more willing to take risks, or by recession. No one knows how the new leader will perform under critical battery. We do know that the boundary commission proposals, being cynically rushed through by the Tories, will cost Labour up to 20 seats. Despite the Prime Minister's opposition, a further act of cynicism cannot be ruled out: one that reduces Scotland's representation at Westminster in return for some measure of devolution. If Labour does all the right things, it has no more than an even chance of victory.

But even if Labour does everything so far advocated in this pamphlet, its chances might not be as good as even. For specific changes in Labour's policy and programme are not of themselves enough. That was shown by the 1992 result. They need to be moulded together into something coherent. The word 'image' has been devalued, by its association with hucksters and spin merchants who seek to substitute it for substance. So, rather than say the party has an image problem, it might be better to say it has an identity problem.

What is the Labour party? What is it for? Is it a party of the working class, or of the trade unions, or of all the people? Who owns the rights in it? Does it belong to its MPs, its activists, those who fund it or to Labour voters? And does its own constitutional structure adequately reflect the modern answers to these questions?

These are immensely difficult questions. They are not confined to the British Labour party. They trouble left wing parties in all advanced Western

capitalist states. Some socialist parties have remained in power, though only by losing many of their distinctively socialist policies. This is true of the French socialists and of PSOE in Spain. Some have remained distinctively socialist and lost power (Sweden). Some have blurred their socialism without regaining power (Germany). None has devised entirely satisfactory answers.

Doubtless no one should expect too much precision. Endemic to electorally unsuccessful parties, such questions seem to cause no trouble to electorally successful parties, including the British Conservative party. All that is required is that a party gives some sense that it knows its direction, and that direction is consonant with modern social realities.

One such reality looms large for the Labour party. The trade unions still have immense power within the party. They dominate its conference. They have the largest share of the vote in the choice of leader, and special privileges in the choice of candidates. In return, they provide the bulk of national funding. Yet trade unionists are declining as a percentage of the workforce. Nor do trade unionists vote monolithically Labour any more; Mori election polls for the Times showed that only one in two trade unionists planned to support the party. The party's close links with the unions appear to damage it with voters.

This is not to say that all links between Labour and the unions should be cut. There are perils that way too. The party could be captured by well meaning progressive liberals. Its platform then could easily become one dominated by progressive concerns: saving whales and advancing the arts, all jam, no bread and butter. Trade unions provide a necessary counterweight to all this. What is damaging and wrong is that this trade union influence should be entrenched at the heart of the party constitution. This gives voters a wholly misleading impression of the nature of the party's true nature.

The trade unions must give up the block vote, and their special role in the election of the leader, or give up Labour's chances. The structure of the party's National Executive Committee needs to be reconsidered, to reflect changes in Labour's true power base. Direct representation should be granted to local councillors and to Euro MPs. These changes, together with the valuable reforms in the way party formulates policy introduced by Neil Kinnock, would create the outlines of a modern reformed party.

These are important changes, but will the electorate perceive them as such? Voters have an imperfect understanding of the party's constitution. The Tories and their newspapers will do nothing to put that right. One grasps therefore for some change that would somehow dramatise the revolution in the Labour party, so its nature was apparent to all. And here, a radical party ought seriously to consider a proposal that would declare its changed identity: a change in its name.

Once the name 'Labour' was an asset. Party members were steeped in the history of the Labour movement, and its valiant struggle for good. Voters

respected that tradition. Unfortunately, it has now been overlaid with negative associations. The party's name is a reminder of its origins as a party of labour, that is, of people who worked, mostly with their hands, usually in heavy industry. The number of such people is declining, as their industries and skills decline. Labour's name is also a reminder of its links with organised labour, itself in decline.

For potential Labour voters under pension age, Labour is not the party of Clement Attlee. It is the party that lost its moral integrity in the first Wilson government; the party that caused the Winter of Discontent in the Callaghan government; the party that made Michael Foot its leader and which was well-nigh captured by Tony Benn; the party that Shirley Williams and Roy Jenkins left. Time will heal such wounds, but time takes time.

Labour is the name of a class party. Controversy surrounds the question of whether Labour is taking a declining proportion of the working class vote or is suffering because there are less working class voters. But the practical effect is the same in either case. The name 'Labour' no longer serves to attract working class voters. Fewer and fewer people say on the doorstep that they vote Labour because it is the party of the common man. The name does, however, serve to alienate many in the broader 70 per cent of voters to whom Labour must appeal. Labour for those people means shoddy, old-fashioned. Labour is 'not us'. The presentation gives one message. The brand name delivers another.

New brand name

As every capitalist knows, brand names are powerful, to be ditched only with care. But every capitalist knows that, sometimes, a brand name has attracted such negative overtones that there is nothing for it but to change. So Woolworths becomes Kingfisher. This is not a substitute for change. It is an embodiment of a commitment to change. The name is different because the game is different.

All names for parties are faintly absurd. Any combination of words such as 'radical', 'democratic', 'liberal' and 'social' would probably serve to replace Labour, though 'socialist' would be risky. The word 'new' would do no harm. 'New Democrats' though a trifle wishy washy, might fit the bill.

There are however two powerful objections to a change of name. One concerns the voters. The days are gone when the most usual reply to a canvasser's question as to voting intention was 'We've always been Labour' or even 'my husband's Labour.' But a loyalist vote exists still. A change of name might lead some of these people to change their vote, or else abstain.

The second is the reaction of party activists. The shadow of Hugh Gaitskell's abortive struggle to change Clause 4 still hangs across the party. Though this clause in the party's constitution served (and still serves) no useful purpose, and though it did (and does) some harm by misrepresenting its true position

on ownership, it somehow retained (and retains) the affections of party members. By common consent, the effort to ditch it was not worth the cost to party unity and morale. An effort to change the party name might run into the same problem. It might cause active members who on the whole favoured modernisation to ally with active members who on the whole oppose modernisation of the party. The cause of true reform would be set back.

The judgement as to whether a change is worth the internal price must be left to the party leadership. But in deciding, they should bear one thing in mind. The party has made many 'necessary changes.' The trouble is that it has tended to make them one election too late. Social and political change has been more rapid than the party's accomodation to it.

Labour has done enough to prevent its vote from collapsing. It has not done enough to rebuild it. Change lags behind the challenge; and the share of the vote behind what is needed for victory.

The new leadership will be tempted to be conservative. All the inertial forces of the party will come into play. This, that and the other group within the party will seek to veto this, that and the other change. Compromise will be tempting. As the election nears, the old appeals against rocking boats will gain in resonance.

The chances must be that such thinking will prevail. Further change will be made. Radical change will not. The party will again fight as the Labour party, on a platform not very different from that of 1992 - 'one more heave'. Who knows? Labour might even win.

There is however a more daring route. The new leadership will enjoy a honeymoon, though probably a short one, in which it will be powerfully placed to impose its will. During the leadership contest, the candidates have necessarily been careful in what they say in public. But it is to be hoped that the winner has made his private plans. Once installed in office, he will have a unique opportunity to put Labour ahead of the game. This pamphlet sets out the basis for a manifesto for change. The Labour Party would not rely for its appeal on dubious claims that it has a magical economic alternative. The institutional obstacles to a Labour victory could be demolished, with the link with the unions cut down to size, and naturally beneficial cooperation with the other party of the centre. Labour would stand for a fairer society, in which wealth was redistributed from rich to poor. It would be a party with radical proposals for the environment. Women could expect a new deal. In a number of other areas, radical policies could be adopted: for a redistribution of power in the workplace, for better delivery of social services, for empowering the citizen. Choosing his priorities for reform, and speaking the language of those priorities, the new leader could bring new vitality to the party, and to its electoral appeal. This is Labour's best chance. It may also be its last chance. Let the new leader seize it with both hands.

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The name of the rose

Leading Labour figures seem agreed that the Party needs more than 'one more heave' to win the next General Election. But what radical changes should Labour make? Should it end its commitment to equality and redistribution? Cut itself off from the trade unions? Seek an alliance with the Liberal Democrats?

David Lipsey, leading political journalist and former adviser to James Callaghan and Tony Crosland, argues that Labour must remain committed to redistribution, but that it needs to pursue this as a long-term rather than immediate objective. He advocates a more enthusiastic embrace of market economies, including an end to plans to intervene in the labour market, and a scaling down of expectations on industrial policy.

He goes on to propose that the new Labour leader should consider the case for a limited alliance with the Liberal Democrats, and whether to bring the process of modernisation to a symbolic culmination by changing the Party's name.

The Fabian Society brings together those who wish to relate democratic socialism to practical plans for building a better society in a changing world. It is affiliated to the Labour Party, and anyone who is eligible for membership of the Labour Party can join; others may become associate members. For details of Fabian membership, publications and activities, write to:
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