

# 21st Century Economy: Consultation Paper 128 Liberal Reform Response

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Liberal Reform (LR) was founded to bring together Liberal Democrat members and campaigners committed to “four-cornered freedom” – personal, political, social and economic. We aim to propose policies that are in keeping with the party’s liberal heritage and to argue for personal freedom and free trade. Through active debate, policy initiatives, and broad campaigning, we seek to foster an understanding of the party’s heritage and philosophy.

**Introduction:**

Liberal Reform is pleased to comment on the Consultation Paper and is grateful to the 21st Century Working Group for their efforts so far. The questions the paper poses are rightly wide ranging. We have tried to avoid duplication in our answers which therefore should be read as a whole.

Our overall impression is that this paper does not place the appropriate level of emphasis on liberal economic policies, instead favouring theories more at home in green or socialist parties. It is also unclear what a simple summary of Liberal Democrat economic policy might be at the next election after reading this consultation paper. In Tim Farron's York conference speech, he set out a simple pitch that we believe ought to be reflected in our party's economic policy:

*There is only one party in British politics right now fighting to keep [us] in the world's biggest marketplace, who wants to encourage an economy built on dynamism, innovation and opportunity, who believes in a genuinely free market; who wants challengers, ideas, innovation; who wants a liberal economy.*

*And that party is the Liberal Democrats.<sup>1</sup>*

We also detect a limited sense of what the party's policy will be in terms of growing established business in general, as most of the content relating to growth concerns green technology, small business and firms in areas of industrial decline. While it is undoubtedly important to have policies that seek to assist such firms, an offer to the economy overall that can be applied across industry, region and company size would be a useful inclusion. We also hope that more attention can be given to the causes of low productivity and growth such as insufficient housing development in our inner cities and the increasing burden of red tape and fees that come-with employing foreign workers.<sup>2</sup>

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<sup>1</sup> [www.libdemvoice.org/in-full-tim-farrons-speech-i-love-my-country-and-i-want-it-back-from-the-nationalists-53681.html](http://www.libdemvoice.org/in-full-tim-farrons-speech-i-love-my-country-and-i-want-it-back-from-the-nationalists-53681.html)

<sup>2</sup> The party has already been setting out a clear line opposing the hard Brexit anti-immigration viewpoint adopted by the Conservatives and UKIP. However, the clear line we are delivering in the press is not reflected in this policy paper. While we understand another working group is charged with developing a migration policy, setting out concerns over the red-tape and cost to business of the Immigration Skills Charge and other measures falls within the remit of economic policy. See example of the party's position regarding immigration here: [uk.businessinsider.com/leave-means-leave-steven-woolfe-unveils-post-brex-it-immigration-proposals-2017-4](http://uk.businessinsider.com/leave-means-leave-steven-woolfe-unveils-post-brex-it-immigration-proposals-2017-4) and details on the recently introduced Immigration Skills Charge here: [www.globallegalpost.com/blogs/commentary/changes-to-uk-immigration-rules-for-sponsored-non-eea-workers-17225948/](http://www.globallegalpost.com/blogs/commentary/changes-to-uk-immigration-rules-for-sponsored-non-eea-workers-17225948/)

## Section 1: Major Trends in the British and World Economies

*Question 2: Do you disagree with any of the analysis above, and if so how?*

LR have several concerns over the analysis presented in this section of the consultation paper. We address each below (according to section number).

### **1.2 New Technology**

New technology and artificial intelligence may replace jobs in many sectors. However, there is no reason to believe that the same processes that have taken place repeatedly in the past - that the jobs lost get replaced by new types of jobs - will not happen again.

### **1.5 Resource depletion and environmental constraints**

There is a significant difference between single-use fossil fuels and elements that can be recycled such as lithium, cobalt and tantalum. This distinction should be made clear.

Materials such as lithium are also rather far from depletion. The US Geological Survey produced a reserves' estimate of lithium in early 2015, concluding that the world has enough known reserves for approximately 365 years of current global production.<sup>3</sup> While demand for lithium is accelerating, past experiences and economic theory lead us to predict that production constraint or (eventual) depletion of lithium will spur innovation in efficient use, as well as research into substitutes. This has occurred in other industries, for example technology enabling oil and gas extraction from unconventional sources (oil/tar sands and coal seam gas respectively); and it is unclear why we might expect the more recently sought-after materials to defy past trends.

Discussion on the economy and environment should also recognise the recent remarkable achievement of decoupling global economic growth from coincidental rises in emissions, as Chris Huhne has argued.<sup>4</sup>

### **1.6 Growth in intangible assets and monopolies**

While monopolies resulting from government regulation (including overly generous patent laws) should be resisted due to their negative impact on consumers, we ought to be careful in seeing high market concentration in the absence of real constraints on competition as a reason to intervene. Large consumer followings built off the basis of a compelling product offer (e.g. Google's search engine) should not be considered interchangeably alongside government sanctioned monopolies.

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<sup>3</sup> <https://minerals.usgs.gov/minerals/pubs/commodity/lithium/mcs-2015-lithi.pdf>

<sup>4</sup> [www.theguardian.com/commentisfree/2014/aug/24/growth-enemy-planet-gdp-burning-fossil-fuels-technology](http://www.theguardian.com/commentisfree/2014/aug/24/growth-enemy-planet-gdp-burning-fossil-fuels-technology)

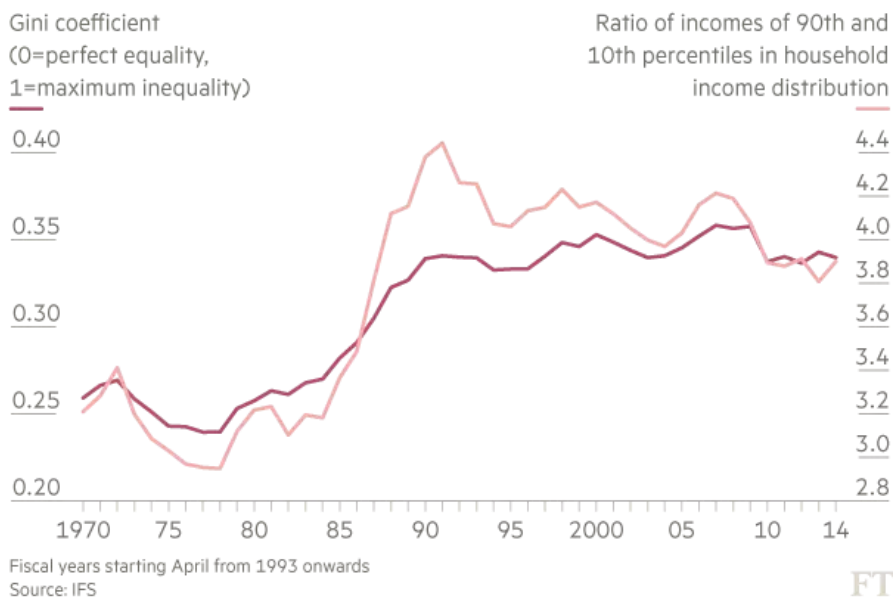
## 1.7 Rising inequalities

This section fails to take account of three crucial matters. First, that the evidence on growing wealth inequality is extremely mixed and, in the case of Britain specifically, unclear.<sup>5</sup> Second, that income inequality is much lower from a lifetime perspective than a single-year perspective - a relatively new finding not often reported. As an Institute for Fiscal Studies paper found:

‘The Gini coefficient – a common measure of inequality – for gross income is 0.49 in a single year compared with 0.28 across the whole of adult life. This indicates that a lot of the inequality between individuals is temporary in nature, reflecting either the stage of life they are at or some short-lived shock to income, such as a period of unemployment.’<sup>6</sup>

Finally, the section does not touch on more recent trends in income inequality which show levels to be broadly stable since the increases in the 1980s, and ignores the fall during the Liberal Democrats’ time in government (see graph below).<sup>7</sup> The section also ignores the relative decrease in worldwide inequality.<sup>8</sup>

The big rise in income inequality was during the 1980s.  
Since the financial crisis inequality has fallen slightly



Collectively, these three issues bring up the uncomfortable question of whether Liberal Democrats should be overly concerned with inequality of outcome, particularly given that the main driver of greater equality in developed economies tends to be economic downturns which make everybody poorer but hurt the richest. Instead the party may want to concern

<sup>5</sup> [www.economist.com/blogs/freeexchange/2014/05/inequality-0](http://www.economist.com/blogs/freeexchange/2014/05/inequality-0)

<sup>6</sup> <https://www.ifs.org.uk/publications/7987>

<sup>7</sup> <https://www.ft.com/content/24e88c30-bc5f-11e6-8b45-b8b81dd5d080>

<sup>8</sup> <https://ourworldindata.org/global-economic-inequality>

itself more with unethical and unfair means by which some businesses enrich their owners (i.e. by exploiting consumers or lobbying government for preferable treatment).

## 2. The Liberal Democrat Approach

*Question 3: Are these the key Liberal Democrat approaches to tackling the challenges of the 21st century economy? Has anything been missed?*

A rather large omission to this section is the role of competition and entrepreneurship. These forces, where not held back, drive down prices for consumers and spur innovation. Where governments seek to limit competition, the result is a worse deal for consumers and larger profits for established companies.

A case study showing the good that increasing competition can do is found in the EU's 'Open Skies' policy. This policy lowered airfares by creating a single aviation market among all member countries, which increased competition and stimulated greater choice and lower fares. Comparisons to the US and Canada - where domestic route competition is sheltered from foreign competition - show that the EU's policy of competition has resulted in substantially lower airfares.<sup>9</sup>

At the forefront of any Liberal Democrat economic policy we should identify where government policy hinders competition and seek to legislate for openness, using proven means to fight concentrations of power, stimulate innovation, and lower the cost of living.

LR also have several concerns with several assertions in this section of the consultation paper, as detailed below.

### **2.1 Challenge entrenched concentrations of power and allow people to take more control over the economic forces that shape their lives**

*'In many ways the world of work has become more alienating and less empowering for employees.'*

As there is no reference given, LR is uncertain on what grounds this claim is made. Many changes have been made in the world of work, but many of them are positive. Women are now able to work as professionals rather than only secretaries in fields like engineering and law. Relative to many of the jobs lost in manufacturing and (thinking further back) mining, it's not clear that the jobs now on offer come with worse or more dehumanising conditions, or are inherently less empowering.

*"...Many work for national or international companies who are not felt to have a commitment to their workforces or their local areas."*

Again, LR is unclear on what basis this assertion is made. In many ways, large companies offer much more structured training and benefits than small firms. An EU study found that large firms "are more productive, they pay higher wages, enjoy higher profits, and are more

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<sup>9</sup> <https://www.aei.org/publication/open-skies/>

successful in international markets.”<sup>10</sup> A 2010 study from the UK Commission for Employment and Skills also found that larger firms are also more likely to invest in workforce training, and that 36% of UK small firms undertake no workforce training at all.<sup>11</sup> While national or international companies will no doubt close operations that become unviable, Liberal Democrats should focus on ensuring business regulation is not contributing to this, rather than going down a path of promoting smaller businesses at the expense of larger ones.

*“Some areas of the economy remain dominated by established monopolies or oligopolies, such as the banking sector.”*

Our party should champion businesses challenging existing concentrations of power and wealth, as Uber did in the personal transportation sector.<sup>12</sup> It is important Liberal Democrats develop policies that support challenger firms and are alive to the dangers of over-regulating a sector. For example, onerous regulations can make it hard for start-ups to enter markets as they don’t have legions of compliance, HR and legal staff on call. LR hopes the working group will consider the harm that over-regulation - however positively intended - can do.

This is particularly clear in the banking sector, where highly complex and onerous regulations create enormous barriers to entry and stifle competition because of the fixed costs associated with compliance. The working group should consider areas like this where more straightforward regulation (for example higher equity capital requirements for all banks) - which the large banks do not favour - could replace the complex regulation currently in place.

## **2.4 Empowering dynamic local growth**

LR agrees with the thrust of this section, and suggests we explore a realignment of local government boundaries (and other service delivery boundaries, e.g. CCGs) to reflect economic geography and enable better coordination of local service delivery.

***Question 4: Will these approaches do enough to promote diversity and reduce inequality in our economy and society?***

We found this question odd. It is the role of the welfare and tax system to reduce inequality. Diversity of businesses (which is the only way LR could understand this point to be taken) is a worthy goal, but the absence of any mention of inducing more competition would seem to preclude an increase in the diversity of UK businesses.

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<sup>10</sup> [www.euractiv.com/section/trade-society/news/bigger-is-better-large-companies-good-for-the-economy-study-finds/](http://www.euractiv.com/section/trade-society/news/bigger-is-better-large-companies-good-for-the-economy-study-finds/)

<sup>11</sup> [http://dera.ioe.ac.uk/1305/1/PRAXIS%20Edition%205%20WEB%20PDF\\_1.pdf](http://dera.ioe.ac.uk/1305/1/PRAXIS%20Edition%205%20WEB%20PDF_1.pdf)

<sup>12</sup> As Uber has now in turn become a dominant player in the market, we hope the party considers how we can encourage more entrants into the ride-share market, rather than reinforcing barriers to entry.

### 3. Possible Policy Interventions

*Q5 What are the best parts of our legacy from the Coalition years? Where do we need to take these policies further?*

The Midata programme, launched by Ed Davey, and pushed forward by Jo Swinson, is a policy that is worth taking forward and expanding.<sup>13</sup> The programme - which facilitates consumer access to their own utility usage data (such as gas and electricity, banking records) so that people can better locate deals that save them money - is a prime example of smart liberal policy that increases competition without damaging the dynamism of the market.

The Midata programme is also an interesting example of the state using regulation to lever competition into rather uncompetitive industries, and this approach should be accelerated and explored in other areas. Jo Swinson has recently called for this programme to be enlarged to include the insurance sector<sup>14</sup>, a move in keeping with the direction LR hopes the working group will take.

#### 3.1 Challenge entrenched concentrations of power and allow people to take more control over the economic forces that shape their lives

LR believes this section is unduly narrow in focus - there are concentrations of power in sectors outside of finance. We hope the working group will take a strong stand against crony-capitalist benefits that favour incumbent businesses and inhibit competition. LR notes that there are many areas where this might apply - ridesharing<sup>15</sup> and the rail system for instance.<sup>16</sup>

*Q8 Which areas of the economy are most vulnerable to abuse of market concentrations of power and how can these be reformed?*

As for reforming, where competition in a market is weak (e.g. low switching rates between businesses despite cash savings to be had<sup>17</sup>) the state should intervene to ensure that consumers are made aware of other providers and that pricing structures facilitate easy comparison (an issue in Foreign Exchange provision, mobile phone plans, etc.). A more aggressive extension of the Coalition's Midata programme could help achieve this.

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<sup>13</sup> <https://conversation.which.co.uk/technology/midata-personal-data-jo-swinson-energy-bills-mobile-phone-tariff/>

<sup>14</sup> [www.linkedin.com/pulse/how-turning-big-data-midata-can-help-consumers-jo-swinson](http://www.linkedin.com/pulse/how-turning-big-data-midata-can-help-consumers-jo-swinson)

<sup>15</sup> Transport for London's recent attempt to legislate many Black Cab competitors out of existence, while largely defeated, is a case in point. The Competition and Markets Authority response is a very good read on why murky 'service quality' considerations should not be used to unduly restrict a market:

[www.gov.uk/government/publications/cmas-response-to-tfls-private-hire-regulations-proposals](http://www.gov.uk/government/publications/cmas-response-to-tfls-private-hire-regulations-proposals)

<sup>16</sup> [www.cityam.com/256538/why-unleashing-competition-would-deliver-lower-fares-and](http://www.cityam.com/256538/why-unleashing-competition-would-deliver-lower-fares-and)

<sup>17</sup> See Figure 1.1, Page 10: <http://38r8om2xjhhl25mw24492dir.wpengine.netdna-cdn.com/wp-content/uploads/2016/06/Applying-behavioural-insights-to-regulated-markets-Final0.pdf#page=10>

In other areas, imposing a standard pricing structure on businesses would allow for clearer comparisons to be made by consumers. For instance, in the Foreign Exchange section the use of nominal fees obscures the revenue banks make on transaction margins. The extent to which this kind of revenue props up large bank profits is only now becoming apparent to the public and media.<sup>18</sup> TransferWise, a tech start-up in this area, has developed proposals for what more effective regulation in this area might look like.<sup>19</sup>

The working group should also consider how formerly-nationalised industries can be reformed further, as these are often areas where botched or partial privatisation has led to corporatist concentrations of power with consumers having little or no influence.

***Q10 How can policy address the needs of the increasing number of self-employed people who lack traditional employee benefits, e.g. sick pay?***

LR believes that while self-employment offers genuine advantages for many who choose it, regulation needs to ensure that firms cannot use contracting as a means of avoiding their responsibilities to staff. The Government has commissioned a review by Matthew Taylor into these new types of employment - the party should carefully consider the recommendations of that report.

On the growth of zero hours contracts, it is worth noting that while this has been demonised in some quarters, and in particular the Labour Party, independent research by the CIPD has found that many of those working on zero hours contracts and in the 'gig economy' are happy with their working arrangements.<sup>20</sup> The majority of those on zero hour contracts do not actually want to work more hours either.<sup>21</sup>

***Q13. How can the trends towards monopolies and oligopolies in some growing sectors of the economy be countered without creating an overbearing state and/or losing the economic benefits?***

While companies such as Facebook have very large user bases, many individuals have several layers of social media usage (SnapChat, Twitter, Instagram etc.), so the dominance of certain platforms has to be seen in perspective of users not being locked into just one network.

## 3.2 Good growth and sustainability

***Question 15: How should the GDP measure of economic growth be reformed?***

As Chris Huhne has argued, the decoupling of economic growth and harmful emissions in recent years demonstrates that growth and protecting the planet do not have to be mutually

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<sup>18</sup> [www.theguardian.com/money/2017/apr/08/leaked-santander-international-money-transfers-transferwise](http://www.theguardian.com/money/2017/apr/08/leaked-santander-international-money-transfers-transferwise)

<sup>19</sup> <http://stophiddenfees.co.uk/payusback/>

<sup>20</sup> [www.cipd.co.uk/about/media/press/041215-zero-hours](http://www.cipd.co.uk/about/media/press/041215-zero-hours); [www.cipd.co.uk/knowledge/work/trends/gig-economy-report](http://www.cipd.co.uk/knowledge/work/trends/gig-economy-report)

<sup>21</sup> <https://fullfact.org/economy/zeroing-zero-hours-contracts-facts/>



exclusive.<sup>22</sup> We think there is little merit in the party making proposals on how a key measure of economic performance used around the world should be reformed. But we should look at how GDP is set in context with the use of other important statistics (measures of inequality and carbon emissions).

### 3.3 Investing in people

*Question 20: What skills will be needed in the 21st Century?*

The government should focus primarily on educating citizens with the knowledge necessary to train, re-skill and succeed in a rapidly changing economy. While many may argue that advancing beyond the 'traditional' subjects of numeracy and literacy is key to doing this, the fact that these foundational skills are far from well-developed in the British population<sup>23</sup> should make further investment in teaching literacy and numeracy a priority, before developing 'cooperation' and other content-decoupled skills.

*Question 22: How can mid-career retraining be funded? What are the roles of the individual, the state and the employer?*

As Liberals we should place primary responsibility on retraining individuals and giving them the resources they may need to decide what is right for them.

We believe that in the same way that we encourage people to save for their retirement through pensions, we should encourage people - in conjunction with employers - to put aside money to pay for re-training. For instance, a small proportion of employee and employer National Insurance contributions should be set aside in individual 'Self Development' accounts which individuals could draw on to pay for training and retraining. The Singaporean Government has already set-up a variation of this, and coupled it with a campaign emphasising the need for lifelong learning (note, the design of this programme may also have relevance for Q24).<sup>24</sup>

### 3.4 Empowering dynamic local growth

*Question 25: What institutions are needed to enable strong local economies? For example, do we need a local banking system?*

LR does not hold a specific view on which institutions may be capable of enabling stronger local economies, but envisages several potential risks in a local banking system. In particular, banks with confined geographic remits are likely to be poorly diversified, especially in regions where a high share of workers are employed in one industry.

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<sup>22</sup> [www.theguardian.com/commentisfree/2014/aug/24/growth-enemy-planet-gdp-burning-fossil-fuels-technology](http://www.theguardian.com/commentisfree/2014/aug/24/growth-enemy-planet-gdp-burning-fossil-fuels-technology)

<sup>23</sup> <https://www.nationalnumeracy.org.uk/what-issue>

<sup>24</sup> General information: [www.straitstimes.com/singapore/singapore-budget-2015-every-singaporean-above-25-to-get-500-for-a-start-under-skillsfuture](http://www.straitstimes.com/singapore/singapore-budget-2015-every-singaporean-above-25-to-get-500-for-a-start-under-skillsfuture); website of the 'SkillsFuture' programme itself here: [www.skillsfuture.sg/](http://www.skillsfuture.sg/)

*Question 26: How do we make the shift from a local regeneration strategy based on attracting low paid, low-skill jobs to one targeting high-skill, high-pay jobs in areas of industrial decline? Are there particularly good examples of this?*

As Liberal Democrat economist Tim Leunig has argued, there is little evidence of success in local regeneration strategies in areas of significant industrial decline.<sup>25</sup> In particular, the reason for this in regard to luring high-skill jobs to areas in economic decline, relate to the existence of “agglomeration economies” (the benefits that come when firms and people locate near one another in cities and industrial clusters). There is little government can sensibly do to convince firms to ignore these benefits.

What the government can do is ensure that young people in areas of industrial decline receive a high quality education and have access to services like quick transport links so they can travel to high-skill, high-pay jobs.

*Question 29: On protecting individuals and areas that lose out from economic trends, what are the alternatives to a large tax-and-spend redistribution by central government?*

We can protect individuals by providing a world-class education in schools, and providing access to retraining opportunities in later life. Another key policy is making available cheap housing in areas with vibrant economies so that low-income earners are not priced out of economically dynamic areas (or faced with intolerably long commutes). Areas, on the other hand, are harder to assist and LR suggests the focus should be on assisting individuals.

*Question 30: Can we use monetary policy to support growth in disadvantaged regions, for example through use of quantitative easing to create assets in those areas?*

This policy was adopted by Jeremy Corbyn’s Labour Party and—holds little attraction or resonance amongst the general public. QE was resorted to in the extremes of a financial crash (with arguable levels of success) and is not a sustainable long-term answer to underdevelopment in disadvantaged areas. Such a policy is also likely to significantly reduce the independence of the Bank of England.

### 3.5 Securing infrastructure investment and access to finance

*Question 32: How can we ensure a more strategic, long-term policy on infrastructure investment?*

This ultimately requires a fairly fundamental change of mind-set in the Treasury, so that investment spending is not seen as the easy option when seeking balanced budgets. Liberal Democrats should maintain a stance of fiscal prudence but one that should be squarely aimed at balancing current spending and revenue (and even achieving surpluses in order to reduce the cost of debt servicing) whilst recognising the importance of borrowing to invest over the long term (as Vince Cable has frequently argued).

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<sup>25</sup> <https://www.theguardian.com/commentisfree/2008/aug/13/regeneration.conservatives>

Furthermore, properly-run and democratically accountable local government should be given greater powers to borrow and to raise funds for investment in other ways, such as bond issuance.

### 3.6 Harness the forces of innovation and new technology

*General comment:*

We propose Liberal Democrats champion innovative business models that make more efficient use of existing resources. As such, the party should develop a set of principles to regulate the sharing economy, which would ensure that:

1. Due tax is paid, but collection is not burdensome;
2. Regulation exists to satisfy necessary safety, labour law and environmental concerns, but does not stray into gold-plating service standards or creating advantages for traditional operators;
3. The burden of regulation is proportional to participant engagement in the market (e.g. renting out a bedroom on Airbnb for 50 nights per year should be treated differently to renting out several homes on such a platform);

Further detail on principles that could be applied to regulating the sharing economy can be found in our recent publication, *The Sharing Economy*.<sup>26</sup> Developing a coherent set of ideas from a liberal viewpoint should not be too difficult for the party; even social democratic parties in similar countries have managed to craft sensible positions on this area.<sup>27</sup>

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<sup>26</sup> <http://www.liberalreform.org.uk/sharingeconomy/>

<sup>27</sup> <http://www.alp.org.au/sharingeconomy>