

# **THE PEOPLE ECONOMY**

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## Acknowledgement

Alec Reed CBE, founder and Chairman of Reed Executive plc, founder of the Academy of Enterprise, and currently Professor of Innovation at Royal Holloway, University of London, has identified the change from a capital economy to a people economy, recognizing that capital investment is being replaced by personal skills as the economic base of output. He coined the term 'peoplism' to describe the successor to capitalism. In association with the Academy of Enterprise, organizations such as Demos and the Employment Policy Institute have examined different aspects of the subject. This book is a further development of that idea, and an exploration of its possible consequences.

# 1. Introduction

“Oh brave new world, That has such people in’t.”

- William Shakespeare (*The Tempest*)

There have been several developments in human history which have altered the way in which people live, often by developing new possibilities. The ability to make fire was one of the earliest. The development of the wheel on land and the sail on the seas also increased the range of what people were able to do. One of the most far-reaching was the domestication of grains and animals ten thousand years ago, which made agriculture a viable alternative to hunting and gathering. With the *agricultural economy*, value could be stored. People could stock up food for the winter, and could save it for times of need. Agriculture could generate surpluses, which could be exchanged for other supplies, leading to the spread of trade.

With the agricultural economy came the more settled lifestyle, and the possibilities of early specialization of labour. It represented a huge increase in living standards, and enabled populations to expand. It witnessed developments in pottery and metallurgy, as it did in textiles and many forms of craftsmanship. The agricultural economy, and the societies it engendered, make up the great bulk of what we know as history, the story of humankind since written records began.

It began to be supplanted just over two centuries ago when a further advance was made. The use of mechanical power to replace the effort of humans or their animals ushered in the age of the *capital economy*. It began in Britain with the application of water power to the textile industry. Water power was replaced in turn by steam power, and then by gas and electricity. The application spread rapidly beyond textiles to other industries, notably iron and steel, and then mass manufacture in general.

The basis of the new economic organization was capital. People invested in the new power intensive methods of production. They engaged in speculative ventures, foregoing present enjoyment of wealth, using it instead to increase production and create even more wealth in the future. At the root of this economic activity lay not land, but investment capital. The capital economy boosted the production of goods, rather than food, although the application of its methods to agriculture was to produce significant gains there also.

In bringing about the mass production of goods, the capital economy brought forth the age of mass consumption. As Adam Smith observed, “the end of all production is consumption.” It has been the capital economy which has made the most striking gains in human living standards. Its driving force has been behind the eradication of many diseases, and has led to advances in nutrition, hygiene and health care which have doubled human life expectancy in two short centuries. More than that, it has enabled ordinary people to

achieve a higher standard of living than that enjoyed by the aristocracy in the Middle Ages. It has been one of the most benign developments in human history.

It is easy, from the comfort of a twenty-first century lifestyle, to characterize the capital economy as one based on greed. Karl Marx thought that labour was the basis of all value, and that any profit must be the result of the exploitation of labour. He ignored the capital input, and the cost of forgoing present consumption in order to invest in future gains. He also missed the point that value has to be demand-based. No matter what a thing costs to produce, it will be worthless if no-one wants it.

Some commentators affect to scorn the material wealth which the capital economy has made available to ordinary people. It is true that mass production has made material goods widely available. Indeed, these add comfort and choices to life. Domestic appliances for example, have halved the number of hours which people need to spend on housework. The car and the train have brought travel opportunities to a population, most of whom did not travel five miles from their birthplace two hundred years ago.

The capital economy has also made possible mass education and public health programmes. It has brought the leisure time which enables people to pursue hobbies and artistic interests. Those who disdain its materialism would do well to contemplate the life of squalor, disease and deprivation which preceded it.

It is true, however, that the capital economy brought major dislocation to the more settled pattern of life which revolved around the agricultural economy. The proportion employed in agriculture typically declined from approximately 90 percent of the population to less than 5 percent. Cities swelled in population as those formerly employed on the land sought new life in the emerging factories of the new industries. The transition engendered huge social changes as the grip of the old way of life loosened its hold. The old authorities, landed gentry and church, found their position questioned and their hold diminished.

While Karl Marx has been proved wrong on economics, and wrong on politics, the Marxist view of history retains considerable explanatory power. Although it can be taken too far, the idea that the economic organization of society determines to some extent its institutions and its social order is a productive one. It helps to place in context the changes which take place when there is paradigm shift in economic organization.

### **The New Paradigm**

Some commentators have suggested that recent changes in economic organization represent more than a late development of the capital economy. They suggest instead that the disjunction is sufficiently great to justify the term 'new economy.' The supposition is that what is now happening represents not a development of the capital economy, but its replacement.

The phrase 'new economy' has been used liberally to describe businesses which deal in new technologies, in mass communications, or in anything

related to computers and the Internet. It has not been used so much since the impetus went out of the share prices of many technology sector businesses in the year 2000. There is, however, one aspect of many of these businesses, and others, which is new: it is in the degree to which their major resource is not financial capital, but the skills of people. Their driving force is no longer capitalism as such, but what Alec Reed calls 'peoplism.'

Fledgling businesses used to compete for financial capital, and many still do. But many new firms compete not for capital, but for a supply of talented or creative people. Their output is often not measured in material goods, but in services and software. They can be found in the new technology, in communications, in computers, in Internet-based activity, but also in services, including financial services and entertainment.

What is different about these companies is that it is no longer capital investment which is their life blood and enables them to function and develop. Where human talent, rather than financial capital, is the economic base, a rather different type of company emerges, and as it proliferates, so does a different type of economy and a different type of society.

For many of the new type of companies, the start-up effort is not necessarily to put together the financial capital needed for investment, but to assemble a team of creative talent. For many of them the investment up front is needed only to sustain them until the talent can generate a sufficiently high income stream to achieve positive cash-flow. For the dotcoms, there was often huge investment up-front in advertising, to get the address and the name across to people who would access the services. Many of them failed because they did not manage to achieve a sufficient income stream before the funds had run out.

The Internet companies are only a part of the people economy, however. Any business whose principal asset is the talent of its staff qualifies under that heading, including large sections of the service sector. Businesses like this are, almost by definition, part of the people economy. The City of London is dominated by such firms, and the culture of its investment banks might serve as a pointer to the way the economy of the future will be organized with respect to its workforce, and what its priorities might be.

### **A topical example**

Good examples are found in the entertainment and sports sectors. The motion picture industry is a major multi-billion dollar business which generates wealth and employment on a massive scale. Fifty years ago it was dominated by the studio system. Its moguls were the producers who put together the finance for the individual movies. They decided which ones were made. They were the big names of Hollywood, Sam Goldwyn, Jack Warner and the others. They owned the stars, told them which movies to make, and controlled a large measure of their private lives, too. The men with capital dominated the industry.

Present day Hollywood is very different. Increasingly it is talent which dominates. Far from being effectively owned by a studio contract, the stars have been able to establish more control. The top talent commands not only

a multi-million dollar fee for each movie, but often a percentage of the box office take of the movie, and sometimes even a proportion of the profits on spin-off merchandise. This is not surprising, bearing in mind that the presence of a star can make a movie commercially successful. Indeed, the agreement of a star to appear can be sufficient to get the movie made.

The other talent which has asserted its weight is that of the directors. It is names like George Lucas, Stephen Spielberg and Ridley Scott which dominate the production side. They make movies which generate enormous sums, and they take a proportion of this wealth themselves. They have the power to make a box office success.

This shift in fifty years has seen power and wealth in the industry shift away from the money men, and towards the talent. It has transformed the way in which the industry works, and the way in which its rewards are distributed. If one were to hazard a prediction about the industry's future, it might be that other talent might make its weight felt. A good script can make a movie, just as surely as a bad script can destroy one. Given this, it would be a reasonable guess that screenplay writers might perhaps join directors and stars in enhanced status, importance and rewards.

The *Blair Witch Project* is an example from film-making, too. Its makers managed to jump the queue. They did not 'pay their dues' in terms of a lengthy apprenticeship. They by-passed most of the expensive processes which require major financial backing. Instead they found a novel way to exercise their creative talents, and an even more novel way to publicize the results of their efforts. We may well see other innovative techniques by which talent manages to express itself in unconventional ways.

The sports sector, like the entertainment industry, has seen a similar shift of power and wealth into the hands of the talented players, managers, and coaches. Half a century ago, both football and cricket in Britain were remarkable for the very low wages earned by the principals. Star footballers like Sir Stanley Matthews earned trivial sums by today's standards. Despite providing entertainment for millions, both footballers and cricketers were not only paid low wages, but were prevented by rules imposed from above from gaining any financial reward from their game by other means.

They were not allowed to sign sponsorship deals, and even the winning of prizes threatened their status and their ability to continue as players. Once a tennis player accepted money, he or she was barred from competing at Wimbledon. Practically the only way in which talented players could augment their income from their abilities was by advertising products which traded on their popularity. Dennis Compton may well have been the finest batsmen of his day, but he earned money not by batting, but by having his picture used to advertise Brylcreem, a men's hair cream.

The decades since that time have seen the wealth and power derived from sport shift away from those who formerly controlled it, and into the hands of its talented participants. Footballers, who used to be traded like slaves at negligible benefit to themselves, now earn huge cash sums on transfer. They sign contracts worth millions of pounds a year, and amass personal fortunes derived from their skills. Tiger Woods, through his golfing ability, enters the

list of America's 40 richest people. David Beckham and Michael Owen easily rank among Britain's top earners.

It is no longer the promoters and organizers of sporting events who corner most of the money derived from them. The players themselves are increasingly able to command a share of the riches which their talent generates. Television, in particular, has enabled them to perform before an audience of millions, and part of the cash which flows from that ability has found its way to those whose talent is the vital element of the industry. Sport, like entertainment, epitomizes the people economy, and the changes in the distribution of rewards which it brings.

## 2. Mobility

*“We step and do not step into the same river, for new waters are ever flowing about us.”*

- Heraclitus

The move from an economy dependent on land to one dependent on capital to one dependent on people represents a progressive increase in mobility for the sources of wealth creation. Land can be worked, it can be improved, but it cannot be moved. Mines cannot be moved. Factories cannot be moved. They could in theory be physically taken apart and relocated, but this does not happen in practice. More commonly the capital which sustained the factory can be moved. The machinery can be dismantled, and production transferred to a new plant established elsewhere. Such an operation has its costs.

People, unlike land and factories, can be moved easily. More to the point, they can move themselves. Land is fixed permanently: plant and machinery can be moved clumsily and with difficulty: but people can move in a trice. When it is human talent which sustains a business, that business can be as mobile as its personnel.

This progressive mobility creates difficulties for government. They levy taxation to finance their expenditure. When land was the basis of wealth their task was easy, in that land is fixed, and is not going to flee from tax inspectors. This is why land taxes were once the bedrock of taxation. In an industrial economy government has been able to tax both the business and the salaries which drive from it. Even here, though, they have faced problems deriving from the fact that capital can move.

Governments which taxed more than business was prepared to tolerate have found it ready to move abroad, and have sometimes found themselves having to take part in a business-friendly tax competition in order to discourage firms from moving their operations elsewhere. The British government's tax treatment of gambling showed how easy it is for some businesses to move off-shore to circumvent an unpopular tax regime. The gambling industry made plans to leave, and the government backed down.

The move to an economy based on talent multiplies these problems. Individuals can move much more readily than can land or factories. If government levies an unacceptable level of taxation, it faces the loss of that talent as it seeks friendlier environments elsewhere. Their departure results in a brain drain which lowers the tax base of talent. The Republic of Ireland, by contrast, has achieved a huge success in attracting creative writers and artists to its shores by giving them exemption from income tax.

Even if people do not physically leave, they can choose to work for foreign companies which have their base and most of their activity in a tax-friendlier

environment. They can patronize foreign firms. All of this makes life more difficult for tax-collecting governments.

Creative talent generates wealth outside of itself. It constitutes a huge loss to society if it leaves. The high earning individual buys property; he or she buys goods; they patronize restaurants; they buy personal services; they buy financial services. Their wealth circulates, generating wealth and jobs as it does so. The government which loses them loses more than the tax it took on their income. It also loses the tax on their spending, and the tax on the incomes and spending of the individuals whose own jobs depended on their wealth. Even if they do not physically leave the country, they can direct much of their spending to foreign firms if government burdens its domestic businesses with excessive taxes.

The problem for government is that it needs taxation to finance its expenditure, yet those who would pay the tax are able to move beyond its incidence. Land had no choice but to pay: capital had a choice, but faced a difficult and sometimes expensive operation if it wished to escape. People can escape easily, which means that government tax policy faces restraint. Imprisoning its subjects is not reckoned to be acceptable policy in a modern democracy, so government has to entice its talented people into remaining, and to attract, if it can, talented people from overseas.

The difficulty is that government has acquired a history of expenditure which cannot easily be curtailed. Most governments provide state services, such as some degree of health or education. Most of them have welfare programmes. All of them are major employers and have huge payroll costs to meet. Given that they face a tax base more mobile than any previous one, they have the problem of raising enough tax to meet their needs, without setting in train a mass migration of their tax base.

In some cases the services and infrastructure which have to be financed help to make the country attractive. On the one hand they can provide a degree of comfort and security which attracts people, but on the other hand they might necessitate an unattractive level of taxation to sustain them.

International competition exacerbates the problem. Other governments are trying to make their own tax regimes sufficiently attractive to lure talented people to settle there. It is a competition in low tax rates which puts pressure on each of them. Indeed, some idealistic advocates of high government spending have suggested that a world government would be a solution. There would be no escape, they say, from its tax regime.

The European Union speaks of “unfair” tax competition, by which they mean *any* tax competition. They see that people do, indeed, tend to seek low tax environments, and seek to prevent it. Instead of lowering taxes to eliminate or at least minimize the differential, they seek to prevent lower tax rates altogether. This can only work if there is sufficient coercion on tax havens to eliminate them. In practice it would take a world government to achieve this. The OECD now makes the same point. The EU, the OECD, and the UK Treasury are putting pressure on traditional tax havens such as the Isle of Man and the Channel Islands.

If the EU succeeded in banning lower taxes within its remit, countries beyond its borders would exploit their advantage, happily making themselves magnets for the tax-oppressed talent seeking friendlier homes. And if they could be bullied into submission, no doubt the United States would act as a beacon for those seeking an environment which appreciated their abilities and contributions, and which was prepared to let them reap the rewards which they produced. Even if the United States were brought into line, no doubt Russia, India or China would be among those clamouring to take its place as part of the world's economic future.

The EU is in something of a quandary. It seeks the end of 'unfair' tax competition, because free movement of its peoples between jurisdictions will lead the talented to seek out lower tax environments. On the other hand, that same free movement might lead some people to seek out higher service environments, and move to countries which have the most comprehensive public services. The ones seeking lower taxes will tend to be the net contributors, whereas the ones seeking higher services will tend to be net recipients. So long as there are differential taxes and service levels, combined with free movement across borders, the EU faces an adverse self selection.

Britain itself faces a dilemma. It faces political pressure for services at the level of those provided by its EU partners. Increased foreign travel has finally persuaded the British that their services, far from being the envy of mankind, are actually quite poor by the standard of comparable countries. On the other hand, British tax policy has been to position the UK roughly between US tax levels and those of our European partners. This has made Britain relatively attractive as a low tax country, and encouraged thousands of talented citizens from other EU countries to choose Britain as a base in which to live and work.

If Britain were to raise its taxes to the levels of its continental partners, in order to sustain their level of public services, it would lose the advantage which has enabled it to create jobs and economic growth. The rise of the people economy, and the need to encourage its further development, have probably foreclosed the option of a high-tax Britain. Since this, in turn, means that the funds for continental levels of service will not be forthcoming from taxpayers, the rise of private alternatives and private supplements to public services is a likely development, and will mark a further divergence between UK policy and that of its EU partners. This, in turn, could cause further friction between a Britain which moves in one direction and the rest of the EU which moves in another.

A high-tax country with high levels of service could be as acceptable in theory as a low-tax country in which people had to spend money on private services. In practice, however, the British and the Americans seem to prefer the lower taxes which enable them to make their own choices about the appropriate level of private services they wish to command. Certainly, in an economy whose base rests on the talents of its people, the creative and the energetic seem to resent any assumption that government is a better judge than they are as to how the rewards of their talent should be spent.

It appears that, despite the apparent equivalence between high-tax with high-service or low-tax with low-service, it will be the lowest headline rate of

taxation which wins out. Any UK government which ignores that will be putting the nation's economic future at risk.

### 3. The Company

*“The business of government is not the government of business.”*

- Anon

Some firms have already adapted to the people economy; others are struggling to do so; and some have not understood the changes which they have to make. The basic rules are that people are the new source of value, rather than capital, and that people are more mobile than capital.

Firms in the people economy do not make their money from the investment of capital, and do not succeed by virtue of their ability to attract and exploit capital. They make it by virtue of their ability to attract talented people, and to use them to make money. Crucially their success depends on attracting, retaining and exploiting talent.

This is exemplified by such activities as investment banking, public relations and management consultancy. Huge areas of the financial, or ‘City,’ sector represent this phenomenon in action. It also covers sectors such as entertainment and sport. Even relatively mundane areas of employment, such as the restaurant trade or estate agents, are characteristic of the people economy. At the heart of them lie the talents of individuals, rather than pools of capital.

Investment banking exhibits the characteristics of the new people economy. Investment banks put a great deal of effort into recruiting talent. They concentrate on bringing in the best graduates they can locate and attract. Entry is very competitive, in that a handful are admitted out of dozens, even hundreds, of applicants. The same is true for many other areas of City activity, including, for example, the fund management sector.

Once admitted, the talent is nurtured. Training is intense, and new graduates are often encouraged to spend time with different teams covering different activity areas, to find out what they do best, and what are their inclinations.

The aim is to make money for the firm. The resources are talent, and the time for which it can be used. At senior level the day is typically packed with money-making activity, sometimes with every minute accounted for.

Rising stars tend to rise very fast. If they are not allowed to follow opportunities, and the rewards which accompany them, or if their talents are not being used to best money-making effect, they will probably move somewhere which is more appreciative of their abilities. There is little company allegiance, and this is exemplified by the empty desks after each bonus payment as people move in search of better terms. The capital, which stays relatively fixed in a more conventional old-style business, has no counterpart. The people-value is not fixed; it is owned by the individual and it moves rapidly. A typical team will have at least one call a week from a head hunter offering someone a better deal elsewhere.

Head hunters are a threat to the business, in that they risk the poaching of its talent to other firms, but they are also a potential source of value enhancement insofar they can be used to recruit talent to come in. Sometimes a whole team will transfer its allegiance by moving en bloc to another employer.

The culture is quite a tolerant one. A team might feature people from many countries and cultures, even. Its members will come from a variety of backgrounds, speak with different accents, and espouse a range of attitudes. Yet they are all judged by their ability to make money for the firm. This is the quality on which they stand or fall.

There is little sense of any class-consciousness in the old fashioned sense. People do not, for the most part, spend time and effort on disputes with the management, or on office gripes of one sort and another. They realize that they have to get on with the business they are there for if they are to do well. *Make money and succeed* is the prevailing ethos.

The other side of the coin is that people this valuable have to be coddled. They are the firm's value, and they know it. The loss of an individual can be a blow: the loss of a team can be a catastrophe. They have to be given a sizeable share of some of the wealth they generate, and have to be made comfortable and contented to the best degree.

The rewards structure is well known. The bonus is the pivot about which many firms revolve. Some of the most talented take their annual bonuses in millions; even for those lower down in the stratosphere, it is often reported to be the main talking point and focus of office thoughts and aspirations. In addition there are the stock option schemes, and the prospect of promotion to a higher salary level. In some firms the possibility of being admitted to partnership can be tantalizingly dangled to keep employees motivated. The rewards can be as trivial as the quality of the cafeterias, or as consequential as the generosity of the pension scheme.

It is when the non-monetary benefits are examined that one sees what detailed and exotic services can be provided by employers in order to earn the loyalty of their staff by making life easier and pleasanter for them.

Microsoft offer 'recreation zones,' with fish tanks and pastel sofas in 'anarchy areas,' and with pool tables and board games. According to Richard McClure (writing in *Sunday Business*), in Britain there is "an ever expanding array of company perks from career breaks, concierge services and crêches to pedicures and pet insurance and even membership of dating agencies." His report on what firms have *stopped* providing after the dotcom downturn makes it clear just what was on offer. Morgan Stanley is saving £27,000 per year by *not* baking birthday cakes for its bankers, he reports, while Goldman Sachs saves £1.7m by *not* filling fruit bowls.

Meanwhile, in the USA, source of most of these trends, employee perks include concierge services, dog-walkers, nap rooms, jogging trails, basketball courts and beach parties. SAS Institute (software) spent £36,000 a year on M&Ms to fill sweet jars, pushing it to number six in *Fortune's* league table of top employers.

The aim is to make the office feel more comfortable, and in the process, perhaps, to blur the line which divides office from home. It works in two ways. Firstly, the employees might be more satisfied and feel themselves valued, and therefore stay put. Secondly, they might devote more thought and energy to money-making work if some of life's trivia and distractions are taken off their hands.

Either way, this trend is changing the relationship between employer and employee. People are the value; they know it, and so does their employer; and they can make demands accordingly. A stream of on-line perks is adding to what workers can ask and increasingly expect to receive.

At the far end of the scale is the contract negotiated by an entertainment star's agent, setting out not only the size of typeface and the position on the poster where the name will appear, but also the limousines, hairdressers, manicurists, personal therapists and the like who will be included and specified. Some stars have food flown over to them from their favourite US restaurant to whatever location they are performing in. Amusing and far-fetched though it is, it is a good indicator of the ability of today's talent to command top prices and top treatment.

One can imagine the taxman in Britain assiduously trying to calculate how much tax should be paid on 2,000 boxes of American cheesecake flown over (does he count the freight costs?), or on the imputed tax value of the use of a nap room and pool table. The point is, once more, that taxation is very difficult in a people economy. Its attitudes and techniques were developed in simpler, slower-moving days. Ploughing, planting, tending and harvesting were annual events. It was because agricultural production took place on a yearly basis that it was taxed annually.

Accounting has similar problems, although it does tend to be faster and more flexible than government in adapting to change. Many of its practices were developed first for an agricultural, then for a capital economy, and are difficult to apply to an economy centred on individual talent. It is relatively easy for capital stock to be depreciated over time; it is one of accountancy's routines. But while the worth of plant, equipment and stock can be assessed and valued, it is much more difficult to set a figure on the economic worth of an individual employee, or on their value, if any, to the company.

It is even more difficult to calculate on how that value might depreciate over time, and how that might be dealt with in the annual accounts. It is somewhat similar to the problem of valuing a 'brand' as an asset, in that it is less tangible than the things normally listed. There is the added problem that the talent can walk out tomorrow, taking its value with it. People own their own 'brand.' Yet it seems odd that something which might be the firm's biggest asset should have a balance sheet value of zero.

The taxman has always had problems with the unpredictable nature of earnings based on talent. People can spend years of financially unproductive work, and sometimes hit spectacular success quite suddenly. The taxman tends to think annually for his receipts, even though welfare outflows are usually measured in weekly terms. He wants to tax the huge earnings in the

year in which they are received, whereas a fairer system would be to average them over the unproductive years as well. Authors can smooth their earnings over a period of years, but this is less easy for footballers, pop stars, or investment bankers.

What has been true for a long time of individuals is becoming true of companies which depend on unpredictable talent, and in which years of unproductive work might eventually reap concentrated benefits. The tax authorities will need to develop profit-smoothing techniques to deal with this phenomenon, and to institute a fairer tax regime. They will need to recognize that employers have contingent liabilities, even in unproductive years. They have hitherto tried to use a tax system developed and honed to deal with an entirely different type of economy. A new economy will require a new basis of taxation, and new techniques for operating it.

### **Regionalism**

Governments have tried in the past to even out economic success on a geographical basis. The representative democracy based on geographical constituencies has encouraged politicians to do this. If they want the votes of various parts of the country, they have to try to ensure that some of the economic success is spread around. This is why they have promoted regional policy, and encouraged firms to locate in economically deprived areas to create new jobs there.

There were drawbacks to this policy even in a capital economy. A firm might indeed be encouraged by subsidy or support to locate in an area it would not have otherwise chosen. It might have chosen a location close to its suppliers or its markets, or with easy access to export routes, or somewhere pleasant enough to enable high quality staff to be attracted and retained. All of these might feature among the commercial reasons for its choice. If it allowed itself to be enticed elsewhere by government, it might find itself economically disadvantaged as a result. It might find itself marginally less competitive than its rivals in consequence. When the subsidies and supports are ended, it might find itself struggling in a less-than-ideal location which it would not otherwise have chosen.

The point is that in a capital economy it is difficult for it to move again, once enticed by government. It has committed its fixed capital to the area and cannot easily relocate it. This does not apply to a people economy. A firm which finds itself in a less-than-ideal location can relocate much more rapidly and easily than can a more capital intensive firm. There is little point in efforts by government to attract people-intensive firms into economically deprived areas, because they can too easily be moved once the subsidies and supports are ended. The temptation will be for them to be attracted by whatever is offered, and then relocate to somewhere more attractive once the benefits have been consumed. It has to be said, also, that economically deprived areas, with their lack of services and attractions, are less likely to appeal to talented people in the first place. Companies which are attracted by subsidies might find it difficult to persuade their talented workers to move with them.

This suggests that regional policy will have to change in response to the shift to a people-dominated economy. The old tactic of dangling carrots to give deprived areas a share of economic growth and prosperity will not work nearly as well, if indeed it will work at all. The other factor is that success will feed on success, as more and more people will seek to locate in areas of economic growth, with all of the attendant services which this engenders.

In the UK it is London and the Southeast which act as the magnet. Their economic success attracts successful people. They have the 'buzz' which accompanies achievement; they have the most restaurants, theatres, clubs, cinemas and access to transport. They constitute the biggest market, and the largest concentration of high achievers. Not surprisingly, it is where more and more people choose to live. This seems to be especially true of young people, many of whom will choose a job there in preference to one elsewhere, simply because it is where they want to live. This is despite the higher prices, especially for housing, that this demand engenders.

Since quality staff are more easily attracted and retained in a desirable location, the attraction of London and the Southeast is reinforced in a people economy. Combine this with the comparative ineffectiveness of regional policy in such an economy, and a pattern begins to emerge in which geographical inequalities will be magnified and intensified, without the traditional remedies being available to policy-makers.

The conclusion might well be that Britain will become even more economically divided by its geography than it has been hitherto, and that government will find itself helpless to spread economic success more evenly. The traditional market solutions, could they be applied, have been that lower costs and lower wages will make less developed parts of the country more advantageous, and cause them to attract firms on that basis. But if less developed areas offer lower wages, it will be low-wage jobs which are attracted or created there. The talented high earners will not be attracted by low wages to an unattractive area, and the native talent can move too easily to the big magnet of London and the Southeast. It will not seek to stay for lower wages.

The result could well see a polarization of Britain into a high wage, talent-centred economy down South, and a low wage, relatively low skilled economy in other areas. It does not bode well for the ability of the regions to share in Britain's future success. At the very least, government will have to rethink its regional policy. Perhaps it might have to take a more holistic approach. Instead of trying to attract some businesses and jobs into an area, it might have to contemplate upgrading the area in its entirety, creating an environment which will itself prove sufficiently attractive to attract and retain the kind of jobs which a people economy generates. This was attempted in the regeneration of the old dock area of Liverpool. It was costly, but it was in some degree successful.

## 4. Ownership

*"Property has its duties as well as its rights."*

Thomas Drummond, 1838

When an economy's main source of value is the talent of its people, the mobility of that talent causes problems for companies as well as for governments. People are not only mobile between countries, but even more so between companies. Just as they can leave the jurisdiction of a government with unattractive tax policies, so they can leave the employ of a company whose reward structure is unappealing.

In practice this means that the retention of its top and middle talent has to be one of the key strategies of a company. It has to make its workplace attractive, and has to ensure that its rewards package is sufficiently generous to keep its employees loyal. This manifests itself in policies designed to make the workplace more pleasant and relaxed, with innovations such as "dress down Friday," games and leisure rooms, crèches, soft drinks and snack facilities, and allowing employees to wander in and out of their work stations at will.

Changes to the rewards package have been more significant. Just as the sports and entertainment industries has seen more of their power and rewards cornered by its talent, so people-centred businesses have seen a shift in the allocation of their resources, as their diverse talent has been able to assert a stronger bargaining position. It is no longer enough to be paid for their time, as manual and office workers were paid. Today's talent wants, and is increasingly able to secure, part of the wealth which they have added to the company. They want a piece of the action.

There has been a huge rise in the use of stock options to reward talented employees, and to provide 'golden hellos' to attract newcomers to join. If they add value to the company and see its shares rise in value, their options enable them to claim part of that value for themselves. There has also been a rise in the use of equity as part of the reward package. People do not simply work for a firm as hired hands: increasingly they are becoming co-owners. By receiving part of the firm's equity on top of ordinary salary, their fortunes are identified with the firm. They become partners in its future, as their own personal rewards rise and fall with those of the firm itself.

People are less likely to leave a firm if their fortunes are bound up with its own, and if they think of themselves as partners and co-owners. As people have become a greater part of the value of an enterprise, so they have managed to command a greater share of that value. This has been claimed to some extent from those with capital. It is ordinary investors, the shareholders, who have had to share the wealth created with the talent which has helped to create it.

This has not necessarily been an adversarial relationship. After all, the talent

makes the shareholders richer in the process of making itself richer. There may be arguments over the spoils, but both gain from the relationship. What this does do, however, is to break down some of the boundaries which separated different types of economic participants. The old division saw shareholders, employees and management as separate players. Now it is increasingly common for at least some classes of employees to be shareholders, by virtue of the reward structure.

It has long been a commonplace to see management rewarded by stock options. Indeed, their particular talent, that of knowing how to run a company successfully, was a skill recognized early as one worth attracting and worth retaining. There has been some criticism by shareholders of management reward packages and bonuses, but not from an objection to seeing managers benefit from rise in the value of the company. The criticism is of those who reward themselves when the value of the company is falling.

Talented people are not prepared to be employed for wages and see their work make only other people wealthier. Firms which treat their talent like this will find increasingly that they lose their best people to firms which understand the new economy and are prepared to make their people genuine stakeholders. All of the proceeds used to go to shareholders once wages and other costs were paid. Now those proceeds have to be shared with the talent which helps to earn them.

This does, however, have its effects. It opens a wider gulf between those who can command this type of treatment and those who cannot. If the reward comes increasingly from a stake in the company, rather than from wages, it widens the gap in income between those who have access to this, and those who do not.

Consider, for example, the status of public employees. They are paid wages, often on the basis of what those who are deemed to be their approximate counterparts are paid in the private sector. Government does not have shares, or rise in value through the efforts of its employees. There is no counterpart in the public sector to stock options or an equity stake. People cannot augment their rewards in these ways. The nearest equivalent might be performance related pay, but performance is notoriously difficult to measure in a public sector not generally exposed to market disciplines. In any case, many public sector workers might prefer not to face the uncertainty which usually accompanies the high rewards.

The implication is that public sector workers could be among the losers in the new economy. They will not have access to the financial stakeholdings which increasingly will transfer wealth to talented individuals, and will fall further behind. Given the difficulties which governments face in trying to tax ever more mobile sources of wealth creation, even the *jobs* of public sector workers cannot be guaranteed. This means they will face neither the high rewards, nor the job security which used to compensate in part for the lack of them.

A consequence of the ability of talented people to command an equity stake in their business is that of a wider gap between rich and poor. The new class divide is between those who can gain access to this form of wealth, and those

who cannot. Society may well become less equal than it is now.

Government might further take concern at the prospect of being less attractive than it is now to employees of the highest quality. To attract and retain such people, it already depends on a certain degree of vocation and public service on their part. But faced with an even larger gap in the rewards available in the public and private sectors, it might face a talent drain which would limit the civil service to second rate talent, a prospect it would not welcome.

One option might be to proceed with the privatization of as many government functions as possible before the rewards gap has led to a mass desertion by talented civil servants. The reorganization of much civil service work into *Next Steps Agencies* has created a structure well suited to privatization. The new bodies, with ring-fenced budgets and devolved authority, could be awarded contracts to perform their task, and could therefore be reconstituted as private bodies with share-option schemes to reward and motivate their high flyers.

As a way of retaining top talent within public administration, this has many attractions. Not the least of these is that it introduces private sector practices and incentives, and promises greater efficiencies in the administrative sector. It also makes it easy for people to transfer readily between the business world and that of the civil service. Since the one would mirror the other to some extent, and rewards would be more comparable, people could move in and out of the two worlds more readily.

Any future government which did *not* have such a policy would need to put in place some alternative means of preventing a talent drain caused by the new ownership structures of a people economy. Without it they would see a steady decline in the quality of people who could be attracted and retained in public service.

## 5. Solidarity

*"The deeds that ye do upon the earth, it is for fellowship's sake that ye do them."*  
 William Morris (*The Dream of John Bull*)

Although Marxism is defeated and discredited as a political force, there is a part of Marxist analysis which continues to add insight and understanding to our interpretation of the world. It is the Marxist view of history. In essence, it teaches that the mode of production which dominates the economy will ultimately determine other facets of the society which emerges. The political organization, the laws, the ideology, and even the art and literature will be determined by that economic base.

This is perhaps too deterministic for most people to accept, but a milder form, which admits that the economic base has considerable influence on the shape of society, can aid understanding. "The corn mill," said Marx, "gave us the society of the feudal landlord. The steam mill gave us that of the industrial capitalist."

If, indeed, economic changes have their social consequences, what might follow the shift from an economy dominated by capital to one whose base is the talent of its people? If the move to a people economy will see major social changes following in its wake, it is pertinent to ask if government can do anything about it, and whether, indeed, it should.

In a more mobile economy which centres on the talents of individual people, it is quite possible, even likely, that people's sense of belonging to groups, classes and communities might decline. A person working at a factory bench might be working alongside others of roughly equal skills, and feel a sense of identity with them. They might have roughly equal economic importance to the firm, and receive wages of the same order of magnitude. A feeling of solidarity might be sustained by this rough similarity. This, in turn, might engender group loyalty as workers perceive their common interest.

This approximate equality is much less evident in a people economy. In terms of talent there is much more variation. One person might have an economic value to the firm which is a thousand times greater than that of the person next to them. Common interest is less, as is the likely emergence of a sense of solidarity and class or group identity. This suggests that workers might not perceive common interests at tension with those of the firm's managers or owners. There may be less "us and them" attitudes because people will have much less sense of belonging to an "us."

What may be true within the firm may be true within the country. The new mobility may well mean that people identify much less with their geographical communities. A MORI poll we commissioned found that young people feel less loyalty than their elders to every level of geographical community.

The ability to trade talents and sell services in a global economy which spans

national frontiers may well contribute to a decline in national loyalties. People may simply feel that countries matter less, and that their sense of belonging to a nation becomes less than it was. Patriotism may not be enough.

The implications for government are profound. If people feel less sense of identity with their groups, communities, or even their nation, they might be less inclined to support social programmes. It is out of an affinity with their fellow citizens that people are ready to see part of their income diverted to assist others.

It is also probably true that less social identification will result in less social cohesion. This, in turn, might mean there will be less of the support networks, formal and informal, which derive from strong community bonds. Commentators have already noted that our readiness to move away from our traditional neighbourhoods has resulted in a decline in our sense of community, and the sense of belonging which it once brought. People have become more rootless. For the people economy this effect will be magnified.

It is sometimes argued that global communications will allow people to form new virtual communities of interest. No longer tied to meeting people with whom they happen to share geographical location, they can meet like-minded people in cyber space from anywhere in the world. While this is true, these are not people with whom they share living space, or pay taxes to support in their misfortunes. Governments may find increasing reluctance to support social programmes or community projects.

A people economy might mean that people have little in common with their fellow citizens except the living space which they share, and even that association may be a temporary one, in the light of greater mobility and readiness to move to more attractive locations.

One implication of this is that people may be less ready to do things collectively with their fellow citizens. This means they will be less ready to do things through the political process, and more disposed to making personal provision for themselves and their family. Again, this could reinforce a trend already discernible. When people worked in similar jobs and led similar lives, they did a great deal more collectively. Mass state health and mass state education in Britain were the ancillaries of a mass production economy. People in large numbers looked to government to provide not only these, but housing, jobs and pensions. As the economy has become more fragmented, peoples' lives have become less similar, and they have done less through the political process.

It could be that with the decline in group solidarity, and group similarities, which the people economy brings in its wake, politics itself will become very much less important as it plays a smaller part in people's lives. Just as government will find it difficult to sustain its tax levels in an economy whose sources of wealth are more mobile, so it might also find that less is expected of it because people will want to do more for themselves.

It is entirely possible, however, that lack of strong community identity and solidarity might lead to increases in mental illnesses and crime. One could

make the case that living in real, physical communities is a more natural life. It is certainly one which humankind has lived until recently. Having little fellow-feeling for one's neighbours is new, and may not be conducive to a balanced life.

Again, crime levels might rise. If people feel less sense of community with their neighbours, some of them might feel less respect for their persons and property. Others might be less concerned to keep careful watch about what goes on in the vicinity. People might expect government to take a lead in new anti-crime initiatives. It is quite possible that crime could make some areas inaccessible, and that people will choose to live in 'safe' areas which the police are able to protect.

The point which is illustrated by these examples is that a new type of economy will beget a new type of society, and people will have different needs and different expectations. Inevitably, government's role will change. It cannot perform the same services which it did for the society which derived from a mass manufacturing economy. In a people economy people's lives are more varied and their needs more individual. Mass services will have to give way to individual ones, and government, if it is to succeed, must find ways of making that easier for people.

Government has a more immediate role in preparing for that transition, and in making it easier for people to anticipate it and to adjust to it.

### **An example of policy change**

One of the ways in which policy will have to adapt to the changes is in the field of pensions policy. People at one time led similar lives, had similar needs, and could be catered for by a one-size-fits-all pension policy. One size fitted all because they had similar job experience, similar security, and similar expectations.

One of the facts of British life since World War II has been the steady decline in job security. When large parts of the welfare state were put in place in 1947, most employees were male, left school at 16, and could expect to work for the same (manufacturing) firm until they retired at 65. After this, incidentally, the government could expect to be paying them a pension for only two years until they died.

Over the course of half a century the position has been transformed. Firstly, more stay on to higher education. The 5 percent who undertook it then is now 35 percent, with a government target to take it to 50 percent within a few years. Secondly, people cannot now expect to be with the same firm throughout their working life. They change employers, and many of them change types of employment, sometimes several times during the course of their lives. Women in work now slightly outnumber men, though not yet in full-time equivalents. And many more are now in services than in manufacturing. If a man retires at 65 these days, he can expect to live 6 times as long as he could have 50 years ago.

The economy moves faster and changes faster. It is as if the slow predictable bridge which took people across their working lives has been replaced by ice-floes across which they must jump. Pensions provide one example. First it

was a state pension. Workers paid taxes and National Insurance and were promised a state pension at retirement. Of course, since there never was a pension *fund*, it depended on an acceptable ratio of those in work paying the pensions of those who had retired. As that balance began to tilt, private occupational pensions became a more reliable option to an unfunded and uncertain state scheme based on tax transfers.

It used to be an easy decision, in that people could decide to join the company pension plan, usually a final salary scheme which paid retirees a portion of their final salary for as long as they lived. It was appropriate to a time in which people could expect decades of service with a particular firm, so that contributions from employer and employee would be calculated to cover the coming liability.

Final salary pension plans always discriminated against early leavers, to some extent diverting their contributions to reward long-servers. As more and more people change jobs more frequently, more become 'early leavers,' and thus found final salary schemes inappropriate. Furthermore, as people are living longer, they remain a liability on the fund for longer than their predecessors did.

It is hardly surprising that no new final salary schemes are being started, and that firms such as ICI, BT and Barclays have closed their final salary schemes to new entrants. Most new pensions are money purchase schemes, called "defined contribution" as opposed to "defined benefit." The pension promised is not a given proportion of final salary, but what can be provided from the funds built up by contributions over the years.

It differs in another important respect: it is an individual thing, rather than a group activity, and it is property, as opposed to an entitlement. It can be moved, bequeathed, and in theory, alienated. It is appropriate to people who change jobs, and does not present an unfunded liability. It is not a claim on future taxpayers, but depends on what the individual manages to accumulate. Significantly, it largely removes pensions from the political arena. Instead of having to flex political power to secure pension increases at the cost of other, even future, taxpayers, people have to concentrate instead on making sure they pay enough in to secure an adequate return later. It hugely diminishes the conflict implicit in transfer schemes, in which wealth is transferred to some at the expense of others.

### **Public services**

In another example, people's different lives mean they have a very different demand for local services. The traditional formula, which evolved to meet the needs of a different economy and society, saw the full range of services offered to everyone. People increasingly need the ability to pick and choose services appropriate to their needs. The technology of charging and billing has developed to the stage where a 'smorgasbord society' is possible. This is one in which people opt in for the services they need, and are billed accordingly. It is like putting services onto their tray, and being charged for the selection they have made.

The same principle could give us a variable BBC licence fee, paid by putting a

smart card into the decoder box, and which offered a range of programme packages and services at different levels of payment. There might be a small charge for the basic service, but variable charges depending on which options the viewer chose to access. Some might select the documentary programmes, while others might opt for drama. The selection would determine the charge to be deducted by direct debit, and could be widely different for different viewers.

The different needs people have for health and education could be catered for by introducing much more choice into their delivery, and by the use of voucher mechanisms to give effect to people's choices. Again, the aim would be to meet the individual and varied needs of a diverse population by enabling each to put together a unique package tailored to their own particular needs.

If the people economy does indeed bring a decline in group solidarity, it will be added to the decline in regional solidarity as governments find it harder to spread economic success more evenly around the country. These two will be added to a decline in family solidarity which has already been under way for some time. As people are more ready to move to where their talents can be used and appreciated, the greater mobility breaks up the pattern of family support and dependency.

In the old economy people moved less. It was typical for many families to live within a few streets of each other. A child leaving the parental home might move to a house in the next street. It left families within range of each other, able to see each other every day, and to support each other when needed. It created a web of family support which was especially useful to the sick and elderly.

The economy which has them moving to another part of the country, or even to a different country, inevitably weakens those ties. Help, when it is needed, is simply too far away to be immediately effective. People cannot look in on their way to and from work if work is 300 miles away.

With a weakening of family solidarity added to the weakening in regional and group solidarity, society becomes more atomistic, and individuals find themselves in need of alternative support mechanisms. Government can help in this by facilitating the emergence of alternative forms of social insurance to replace the support which could previously be counted on.

New insurance and savings packages can protect people to some extent from the absence of the previous support networks. People can be encouraged to make timely provision for their future needs by taking out new forms of social insurance. Government's role is to recognize this need, perhaps to advertise it, and to make it easier for new schemes to be introduced and marketed which fill the gap left by the decline of the old systems of support.

It would be worthwhile to look at the experience of our European partners. In some of them there are competing social funds, offering slightly different packages so that individuals can pick one which best suits their needs. There is sufficient cross subsidy or government subsidy to ensure that the poorest are protected, as are those with a chronic illness or disability.

The fact that most of those now reaching retirement age have an income in addition to the basic state pension is due, in part, to government's role in promoting and facilitating occupational pensions over the years. Legislation and tax incentives have led huge numbers to secure this type of provision against poverty and insecurity in old age. The principle could be extended to cover future medical needs and residential care, among others.

The new economy does indeed generate a new society, and that society has needs beyond those felt by previous generations.

## 6. Upward Opportunity

*“And hey! Then up we go!”*

Francis Quarles (*The Shepherd's Oracles*)

The spread of a global economy has been rapidly increasing the ability of talented people to succeed. The people economy's basis is the ability of people to market personal skills to generate wealth for themselves and the companies which employ them. People have done this ever since the first craftsmen sold their wares in the first communities. A diversity of talent from skilled financial management to accomplished entertainers has been able to sell its services. The difference is that this is now achieved more rapidly, on a much larger scale, with fewer impediments.

One salient fact in this is the availability of information made possible by modern communications and the Internet in particular. Desired items can be located and compared with little effort. The antiquarian book trade, for example, used to be characterized by arduous 'book searches' in booksellers magazines, complete with experts who had spent a life's career building up appropriate contacts, whereas now one can find the most obscure works imaginable, and often compare prices for the same 18<sup>th</sup> Century first edition in several shops across several countries.

The same is true with online auctioneers such as e-Bay. A collector can find many more pieces of Indo-Persian weaponry or South Indian bronzes than when they would have to go to several auctions a year and pore through several specialist catalogues. More information, more sellers, more buyers, and most of them in touch with each other.

This means that dealers can move more items than ever before, but probably not extract such high prices because of greater competition (although of course they can get even higher prices for unique items). In general, though, it means that the market becomes more efficient and prices fall.

The same is happening with people and this process will accelerate. They can make information about their services available to a wider market, and known to that wider market. It will almost certainly result in more specialization and division of labour. In some areas it could result in lower rewards.

Where specialization is not so necessary, as in most of life, prices for expert services may fall slightly as the talent pool grows larger and it becomes easier to find talent. Instead of contending against local competitors, people increasingly have to compete against the world.

But it is destroying the old obstacles which placed so much emphasis on social or business contacts. Talent is always needed, but in so many areas people need the contacts in order to gain a chance to demonstrate their

talent. For example, established dealers in good French antique furniture command exorbitant prices because of their expertise. You are reassured that you are buying the real thing, and you might save weeks or months of hunting out what is required for the new penthouse apartment when you might prefer to spend the time running your company.

So young people with good ideas, products, or services are increasingly able to progress more quickly, freed from needing to go to what others might regard as 'the right school' or move in 'the right social circle,' or to serve as underpaid apprentices at fashionable auction houses, often for many years, in order to make the contacts needed to succeed. If they know their stuff, they can succeed.

What is true of the art & antiques trade serves as an example of what is becoming increasingly true of the personal skills and talents which form the background of the people economy. Its access to wider sources of information, and its ability to market itself on a hugely extended scale enhances efficiency and eliminates many of the traditional obstacles to success. It means a further breakdown to the old system of hierarchies and contacts. People will not need to 'know their place,' or serve long and arduous years working their way into the charmed circle at the top. On the contrary, with talent and ability, they will be able to bypass all this and head straight for the top.

Thus the people economy is more meritocratic, less deferential, and gives more scope for individual qualities to shine. Commentators have already noted, some with regret, that the new money in Britain does not seem to have involved acquisition of the manners and habits of the old. It seems to some more raw and confrontational because the new rich does not clothe itself in the modesty and self-effacing style of the old rich. It may be that as it becomes easier for people to succeed without the softening process of a long apprenticeship, there will be less reason to expect them to conform to the old standards.

Whether or not one regards this as a regrettable thing depends entirely on one's point of view. For everyone who deplores the decline in manners and gentility, as every age does, there will be those pleased that talent and aspiration are no longer held down by snobbery or by lack of birth and breeding. Some might even say that the major difference is that those at the top used to be more hypocritical than those who succeed today.

There are implications for the Civil Service, in that the 'fast track' has recently grown faster. People identified as future high flyers have long been given special treatment in the Civil Service, and access to the top jobs. The problem now is that many of those with talent will be impatient of the rigid grade structure within the service, and envious, perhaps, of the way in which their private sector counterparts can scoop up the rewards of their skills.

Universities accommodated themselves to the greater rewards of industry by allowing their employees to exploit their ideas commercially and benefit from their success. University-based inventions have mushroomed over the past two decades as a result. It may be that the Civil service will have to develop

ways in which its own employees can exploit their ideas in a commercial sense. Otherwise they risk losing their most innovative talent.

The public services as a whole will certainly have to embrace innovation, and allow new providers to come in with innovative practices. They will have to focus much more on output delivery, rather than on the traditional ways of doing things.

The lack of deference fostered by the new attitudes might help to explain the low regard in which politicians are now held. They used to be treated with respect and regarded as lofty and remote figures. The rise of popular journalism has helped to spread a more critical attitude in which MPs are regarded as fallible mortals, and perhaps self-seeking ones at that.

Although Members of Parliament (naturally) talk of trying to reverse this trend and win back the trust of the public, the reality is that their behaviour is now more open to inspection, analysis and criticism than it used to be. They cannot get away with things which their predecessors did routinely, any more than members of the royal family can. It is doubtful if this can be reversed, even if it should, short of undoing the social and economic changes of several decades.

## 7. Development

“As their wealth increaseth.”

Christopher Marlowe (*The Jew of Malta*)

The switch to a new economic paradigm based on people portends significant changes to the pattern of growth in the developing world. To some extent these changes are already beginning to show, as personal skills are added to the goods made in developing countries for advanced markets.

Many people erroneously think that international aid, meaning the transfer of resources from rich countries to poor ones, is the key to economic development. In fact it is not, and has not been. Those countries which have succeeded in moving from subsistence economies to comparative wealth have not done so by way of international aid, but by producing goods to sell in international markets. It has been achieved by way of trade, rather than aid.

One of the absurdities repeated ad nauseam so that, like *the big lie*, it seems to be many to be true, is that the rich countries are growing richer, while the poor are growing poorer. It is true that some countries in Africa, beset by civil wars and genocide, have seen their economies spiral downward. This has not been caused by rich countries, however, but by some of their own people. The more general pattern throughout the rest of the world has been of economic growth.

The gap between rich and poor is best illustrated by a gini coefficient, an economist's term which measures the distribution of income within and between countries. A gini of 0 means that everyone has the same income, whereas a gini of 100 would indicate that one person had all the income, the others nothing. Most advanced countries have gini coefficients in the mid-30s or thereabouts.

Paul Ormerod, the economist and author of *Butterfly Economics*, calculates that the distribution of income throughout the world is much more equal now than it was 50 years ago. The reason is simple. Once there were the rich Western countries and some of their dominions, with the rest of the world mired in poverty. Within the last half century, however, several countries, led by Asian ones, have made the transition to modern economies which generate wealth. First was the Japanese 'miracle.' Then came those of South Korea, Hong Kong, Singapore and Taiwan. Then came the next wave, including Thailand and Malaysia. Bustling activity has replaced abject poverty. True, the West has grown richer, too, but not as quickly or as dramatically.

This was achieved largely by the production of goods firstly for international, then domestic markets. Outside investment helped, providing in some cases the resources needed to set up factories and initiate mass production. In some cases government took an active role in directing private economic activity; in others it did not. The key factor was the

creation of the right conditions for investment, access to investment, and access to foreign markets. Most countries in the world are now set on that upward path, particularly since the demise of the socialist alternative model which brought and perpetuated so much human misery.

This, however, took place in the capital economy, where investment capital and goods ruled the day. In the emerging people economy it is the talents of people which count, and which can be traded. We see this to some extent in the use of skilled labour in developing countries, using new technology communications to perform services in First World countries. People in India, for example, enter up the medical records at night for hospitals and doctors in the United States. The publishing industry has for several years now used the services of English speaking people in the Orient or on the Asian sub-continent to do its proof-reading, editing and production. The telephone bank which answers calls could be located anywhere, and increasingly makes use of the skills of people in developing countries.

Of course this is happening because of a price advantage. People in the poorer countries can be employed for lower wages. The same is true of manufactured goods in the capital economy. But just as the location of capital business raises living standards in a poorer country, so does the location of people businesses. Moreover, it does so with lower investment costs.

For many years the West has also seen an influx of skilled people from poorer countries. Their brightest and best have not been content to wait for the new jobs to come their way. They have sought education in Western schools and universities, and tended to stay on to take advantage of the higher living standards they have experienced. Even those educated in their own countries have often sought to market their skills by emigrating to Western countries.

Silicon Valley in California has seen a huge influx of workers from India, for example, in the software industries located there. The British NHS depends upon the skills of foreign doctors and nurses who come to settle in Britain. The Chinese in many countries form a pool of talent which serves several of the new industries. This movement has been viewed in two ways. Firstly, foreign governments are appreciative of the cash inflows as many of their expatriates remit money home to their families. On the other hand, though, they constitute a brain drain which takes away the most talented and has them creating wealth in countries other than their own.

The greater mobility of the people economy, and the ease with which it can use the expanded global communications network to locate where it chooses, will make it less necessary for talented people in poor countries to emigrate if they are to have their abilities rewarded. Some of them see the new business coming to them, rather than vice versa. This is notably true of the software industry. There is still a gap between what software engineers receive in India, say, and what they would receive if they emigrated to the rich countries, but the gap is much less than it was, and much less than it is for other, non people-based, industries.

A government which wishes to help its country to embrace the people economy and make the transition as smoothly as it can would do well to

examine its immigration policy. Since people are the basis of the new economy, and since success is aided by attracting and retaining the talented, a country might do well to encourage such people to come to live and work within its borders. Instead of resisting all immigration, as some do, enlightened governments should be encouraging an influx of talented people. Instead of setting quotas based on numbers, or admitting those who can establish family connections, governments should be letting in all those who can demonstrate educational qualifications or skills.

For many decades the United States has admitted a class of immigrants who promised to create jobs and wealth in the USA by bringing in a minimum capital investment. While this is still their policy, it looks backward to the importance of capital investment. In the new economy it is talent and skill which counts. In place of capital, or as an alternative to it, governments should stipulate educational qualifications or other evidence of marketable abilities.

The German government announced in 2000 that, in addition to its current immigration policy, it would admit large additional numbers of qualified people from abroad, with India expected to feature as one of the source countries. In outlining the new policy, the government put the case that Germany as a whole would benefit, and that current German citizens could only gain from the resulting influx.

The late Paul Simon, an economist with the US Hudson Institute, calculated that the rich countries benefit as a whole from general immigration, on the grounds that immigrants tend to be younger, and to pay far more in taxes than any claims they make on social security. If this is true for the immigrant population as a whole, it will be very much more true for qualified immigrants with marketable skills. They will be the ones paying even higher taxes, and with even less chance of claiming substantial amounts of the social budget.

Analysis like this, put forward forcefully, could overcome resistance to immigration among groups which have hitherto opposed it. Furthermore, the admission of an immigrant group of proven benefit to society might help break down some of the reserve and hostility shown in some countries to immigrant groups. Either way, immigration policy is yet another area which has to see adjustments made to accommodate it to the new realities of the people economy.

There are ways of helping those from less developed countries without attracting away their people of talent, ability and energy. It is to promote trade on a much wider scale. If people in poorer countries gain access to the markets in the rich ones, it becomes less necessary for them to move physically to those rich countries in order to share their wealth. They can produce goods and services at home, and gain wealth by selling them in the developed world. They can use global communications to market their skills across frontiers. They can live and trade in a world economy.

## 8. Government

*"They augur misgovernment at a distance."*

Edmund Burke

With a few notable and laudable exceptions, British governments have shown a depressing tendency to act against change. They have looked to where the future is taking us, and tried to stop it. The Harold Wilson government of the 1960s observed a decline in manufacturing jobs and a rise in jobs in the service sector. It might have noted an economic transition from a manufacturing to a service economy, and tried to make it easier for service jobs to be developed to replace the ones lost in manufacturing.

Instead it passed the Selective Employment Tax, putting an extra tax on service jobs, in order to discourage the development of them. It did not like the look of the future, so it tried to stop it. This short-lived tribute to futility is one of several instances of similar actions, in which the British government has put its thumb in the dyke in an attempt to stop the future's flow. They would have been better employed trying to anticipate the future's problems and in trying to make them easier to cope with.

It would not surprise many people if the British government were to decide that it did not like the look of this people economy, and tried to make life difficult for it. There will, it is true, be consequences of that economic transition which will not all be favourable ones, or to our liking. This is not a reason to try to stop the development of a people economy, but to concentrate instead on trying to ease its passage.

If the economic base of the future is to be built upon the talent of individual people, government's attitude should be one of trying to develop as much of that talent as possible in the British people, or trying to nourish it, encourage it and sustain it, or trying to attract it from elsewhere, and trying to make conditions attractive enough in Britain for it to stay here.

The government has already made two bad mistakes which serve as ominous indicators that it is not presently alert to the policies which it should be pursuing. Firstly, a Treasury ruling, IR35, has led to people in high technology service firms being classified as employees of the firms they are contracted to. This hugely increases the costs of these firms, and erodes their competitive position. The sector itself predicts that much of the business will be lost to Britain as a result.

In fact the Treasury has fought a running battle over several decades trying to get as many self-employed people as they can classified as employees. From the Treasury's point of view this is more convenient. They get employers to collect their taxes for them, and they get it straight out of wages as PAYE. With self-employed people it is less immediate and less certain, and there are expenses to offset against income.

Unfortunately, in the case of IR35, the convenience of the Treasury has been put before the good of the country, or Britain's stake in the new economy.

Secondly, the Treasury has also acted to treat stock options and equity stakes as income. It taxes people at 40 percent on the difference between the price at which they were offered the options, and the price at which they realized them. This crucially undermines start-up businesses which often buy services they cannot afford by giving part of their equity in exchange. Indeed, many who work in such firms take equity holdings rather than salary, hoping that the firm's success will give them their reward later.

Both of these Treasury actions act against the very sector of the economy which should be receiving protection and encouragement, or at least a benign neglect. They show that government has little understanding of the significance of the economic changes which are under way, and little sympathy with them.

What the government should be doing is monitoring the development of a people-based economy, and working out how to let it thrive and prosper. In most cases this will involve removing the burdens which previous governments have put in its way.

Government can help the transition by making it easier for people with energy and talent to turn new ideas into practical reality. All too often innovators find themselves thwarted by rules and regulations which were established to deal with factory-type conditions, and were designed to eliminate hardship and exploitation. Too often these days they serve to eliminate talent and creativity. They build insuperable hurdles which innovators find it impossible to climb.

What governments should do is to unloose creative talents by establishing an easy regimen for start-up activities, rather like a hot-house encourages and fosters new plants until they are hardy enough to survive. We should be treating our entrepreneurial and creative talents as if they were exotic and delicate blooms, needing support and encouragement in the early stages so they can be viable later. They should be sheltered in a special zone of light regulation which recognizes the force of the people economy, and protects the new developments which its talents create.

## **Education**

The first requirement of a people economy is an educated and talented work force. Since 90 percent of schooling in Britain is provided by the state and financed by taxation, this is an area of government concern. Britain as a nation simply cannot afford to turn out people from its schools without any skills which are marketable in the new economy. A depressing 40 percent are currently rated unable to read or write to the level expected of an 11 year-old. An even more depressing 23 percent are rated 'functionally illiterate,' meaning that they possess only the most rudimentary of skills in reading or writing.

The key to educational improvement lies in making it very much easier for new schools to be established, in promoting greater variety of types of school, and in giving parents a free choice between them. The schools themselves would be free-standing, independent bodies, setting their own

agenda, and receiving funds based on their ability to attract students and to achieve worthwhile results. What this would achieve is a consumer-focussed schools system. In place of the centrally directed and bureaucratically controlled system would be one in which the choices of parents counted for most. The need to attract students would make schools strive to achieve the standards which parents were seeking. Too many low quality schools today are filled not because parents value them, but because they have no other choices.

The principal change is that education will have to become output driven. Instead of trying to measure its quality by the qualifications of the teachers, or the amount spent per child, it has to be measured by the attainment levels reached by the students. Again, there needs to be innovation in provision, and easy entry for new providers.

A combination of these reforms could make an immediate improvement to the quality of education in Britain, after decades of sub-standard performance. It could equip all British children to take part in the economy of the future.

As far as career instruction is concerned, the possibility of self-employment should feature alongside the more usual jobs as a career possibility, and children should be given special career classes to prepare them for that option, upsetting though this might be to Treasury officials. After all, a MORI poll showed that “owning and running my own business” was the leading career goal (48 percent) of the 15-21 age-group.

There is certainly scope for greater involvement of the private sector in state education. Failing schools are already being taken over and turned around by 3Es and similar companies. Private firms could be asked to take over and run whole educational authorities in cities or regions, with the mission to raise standards, and be paid according to their ability to do so.

## **Taxation**

There is much that could be done with tax policy to encourage the creation of new businesses, and to make Britain an attractive place for companies to locate in. Various chancellors have made adjustments to Capital Gains Tax, trying to lower its incidence on newly formed companies which rise in value when they succeed, without lowering what the Treasury regards as its rightful quota of newly created wealth.

The Treasury expresses the fear that too big an imbalance between income tax and Capital Gains Tax could encourage high earners to switch their rewards from income to capital gains as a way of avoiding taxes. In reality there is no evidence that this choice is accessible to most people, or that they would attempt to do it. In the meantime, however, people might be deterred by the prospect of Capital Gains Tax from taking the risky step of starting new businesses. If they have to forfeit much of the gain from risk-taking, why should they take the risk? In seeking a rough parity between income and capital gains taxes, the Treasury is ignoring the higher risk which attaches to the latter. With that higher risk should come the prospect of greater rewards.

If the Treasury were to abolish Capital Gains Tax, one immediate effect would be to speed up the velocity of investment, since people would no longer leave their money locked into out-of-date investments simply to avoid incurring the tax. New small businesses which sought to market expert services would find their rise in value made the effort and risk worth while, and others would be encouraged to emulate them.

Obviously the Chancellor has to reverse his policy on IR35 and on his treatment of stock options, but he should go further. Instead of trying to force self-employed people into the status of full time employees, the Treasury should actively promote self-employment. All the signs indicate that this is the way the future economy is headed, with talented people providing services under contract for others. Instead of trying to stop it, as the Treasury has done so far in a rearguard action, it should be encouraged as a way of developing the jobs and wealth of the future. It would probably cost more, as the Treasury fears, but it might be a price worth paying for the greater transparency, accountability, and stake in the future economy which it would bring.

There is a wider set of questions which the Treasury should be asking. When the economic base was capital, governments did what they could, with varying degrees of success, to make the UK an attractive place to put it. London has been for some time a world financial centre. The new issue is that if people are increasingly becoming the new economic base, how can the UK be made an attractive place for people? How can we encourage the development and retention of people-based businesses here in Britain? The first step would be to introduce tax exemption for creative artists, on the model so successful in the Republic of Ireland. We should extend this category as widely as we can, setting out the activities which qualify, and being ready to add new ones.

An important additional step would be to pursue a low tax policy generally. People do not like paying taxes. All other things being equal, they generally prefer a low tax regimen to a high tax one. Polls are trotted out from time to time which purport to show that British people would be ready to pay higher taxes if public services were better funded. More detailed polls, however, show that those who say this think that other people will be paying those taxes, rather than themselves. When people have been offered a choice at local government level, they have regularly voted for the lowest tax option.

There is a strong case for sorting out the incentives, particularly for lower income households. Too many people with marketable abilities are trapped by the present system, some of them stuck in an unemployment trap because the advantages of work are diminished by taxation.

Britain must have a low tax regimen if it is to encourage and attract talent, and to retain it. This means a re-think about tax policy. To some degree lower tax rates can bring in more revenue, provided they are correctly judged. More importantly, government should be looking for ways to reduce its spending, and therefore its need for so much tax revenue. In practice the most efficient way yet found of doing this has been by the transfer of entire programmes to the private sector. Government should be

examining each of its activities to see where this can be done.

### **Quality of life**

In addition to making Britain an attractive base for talented people from the tax point of view, we should look as well at the other things which contribute to making a place attractive and pleasant to live in. Crime is certainly a factor, as the emigration of talented people from South Africa illustrates. People do not want their property stolen or their lives and persons threatened. This might mean that we should change the priorities of the police, so most of their time and resources are devoted to curbing crime. It might mean that we should change sentencing policy, and take action to ensure that criminals are kept off the streets. It might mean that we put more emphasis on developing high technology ways of making crime more difficult to commit.

As well as crime, the physical environment makes a difference in determining whether a place is somewhere people would want to live. A tidier, neater, prettier place is undoubtedly more attractive than its opposite. This might suggest that we should pay some attention to the physical appearance of our towns and cities, and bring forward incentive schemes to encourage people to make them look better.

Some analysts suggest that a more pleasant physical environment might itself cut crime rates, and might also involve less suicide and mental illness. If so, a programme to upgrade it might bring externalities which themselves reduce social costs.

Attention might also be given to the facilities, private and public, which are available, and the role which they play in making areas attractive. Attention might be paid to the impediments which prevent more facilities being made available, and to the measures which might be taken to diminish them. This could mean a review of regulation and planning laws, to examine where their impact is harmful and restrictive.

### **Transport**

Location is less important when personal skills form the basis of a business. Not only is the firm more mobile, it is also less rooted to a particular place. Many skilled services can be performed from virtually anywhere, using global telecommunications. The stockbroker or financial advisor who used to work in the financial district of the nation's capital, might now choose to locate in the Bahamas.

While it is true that people can work more readily from home, those who predicted the rapid spread of home working have been about as right as those who predicted the paperless office. They forgot that most people enjoy the social exchanges and interaction brought about by working with other people. They go into work because they choose to, rather than because they have to, but they still do it.

The ease of travel and the quality of a nation's transport system can make a big difference to the way in which it is perceived. A Britain without a modern

and efficient transport system is less attractive than a Britain which has one. If travelling to work every day is an ordeal, it makes the UK less attractive as a place in which to live and work. In a more mobile world, this might matter.

Part of the problem is that governments have looked at transport systems in terms of public sector transport. In many of our cities this has resulted in the practice of making life difficult for private motorists, whereas a more sensible policy would be to try to make travel easier and more efficient. Since much of our transport system is based on private vehicles, this is where improvements should be targeted.

### **Attitudes**

There are many things which governments can do to prepare Britain for the ongoing transition from a capital economy to a people economy. The country can be made more attractive as a place for people to settle and work from in a variety of ways. We should watch carefully to ensure that proposed changes to employment laws do not introduce rigidities into reasonably flexible labour markets, and make us less attractive as a place to do business. We should avoid jacking up the social costs of employment to the extent that we lose our competitive edge, and become too expensive a place to hire employees.

Taxation, crime, education, the physical environment and transport are all areas in which government can make a difference, but there are other, less tangible areas which can make a difference to the quality of life in a country.

If a country is trying to make its living and working environment into a pleasant one, the way in which people treat each other can make a huge contribution. It helps, for example, if people in general are neither racist nor xenophobic, if we are trying to encourage talented people to choose Britain as a place to settle. Japanese investors and potential investors, for example, when asked to list the most attractive features about the UK, cited "absence of racism" among their top three items. What they probably meant by this is that anti-Japanese sentiment is not prominent, and they are probably right that Britain does better than many continental countries in this respect.

Britain should be open and welcoming to people of all races and countries, not only because it is the right thing to be, but because it will benefit us as the new economy develops. What applies to people's backgrounds applies equally to their lifestyles. Britain is at its most attractive when it is easygoing and tolerant, and laidback about the way in which people choose to live. It gives the country an attractive, cosmopolitan air, and makes it appear more open.

The mixture of different peoples and values can create an exciting dynamic, Not only does it make for an attractive living environment; it can even create an atmosphere conducive to creativity. Different groups interact, and ideas cross-fertilize each other. It is exactly the kind of setting which fosters and encourages emerging talent to express itself.

Young people in particular say that London, with its heady mix of different cultures and backgrounds, has a real "buzz" which is lacking in most other capital cities. This is precisely the sort of thing which can help a nation to sell

itself as a place to work from.

The role of government in this respect is necessarily a limited one: the qualities which make a nation like this are those espoused and expressed by its people. Government can help, however, by setting a lead. If government and its spokespeople are themselves tolerant, easygoing, and exhibit a welcoming attitude, they can establish a tone which encourages others, and which helps to project an image of the country and the attitudes of its people.

Governments should recognize that in a people-centred economy, its citizens will almost certainly be more individualistic, and less ready to be told how to live, or to have their lives regulated in fine detail. They will want to make their own decisions. In the society engendered by this type of economy, government should exercise a loose rein if it wishes to retain the goodwill of its citizens, and make the country a place in which they can find fulfilment and satisfaction.

## 9. The Challenges

*“Thus do I challenge all the human race.”*

William Barnes Rhodes (*Bombastes Furioso*)

Government and public policy face immense challenges posed by the economic transition. The task is nothing less than the transformation of Britain into a modern nation. If nothing is done, the country will find itself with institutions which are simply inappropriate to the modern world. Designed to help citizens in one type of economy, they will no longer be able to give that help, and will, instead, serve only to hold people back from what they might achieve. Meanwhile, the lack of modern facilities will deny people the assistance and support which they could be receiving to enable them to live and trade on their resources in an economy and a society which values them.

At heart is the problem that many of our social institutions were devised for an economy which was based on capital investment. This, though more mobile than land, is relatively immobile compared with the personal skills which are replacing it. The lives of those who sold their labour, skilled or otherwise, in a capital-dominated economy were more similar to each other than are the lives of those in an economy dominated by individual talent. Furthermore, those lives were more predictable than those of their counterparts today. They could be planned for, provision made, and resources allocated. This is no longer true.

In areas such as housing policy, for example, the assumption was that people who acquired a house would probably live in it for most of their lives. The method of buying and selling a house reflected this: so did the method of financing the purchase of a private home, or the allocation of state housing on the basis of priority lists. Rented accommodation was pushed into decline by the policies of successive governments. Its comparative scarcity today denies people a more flexible and useful option in an age of greater mobility.

Government, after much pressure over several decades, has begun to simplify the process of private house purchase, and to alter the way in which council priority lists lock people into their home and deny them the option of moving to where there are jobs. It has yet to begin tackling the problem of regional price variation which prices people out of the prosperous regions of the new economy.

Government is unable to spread the new wealth to the less successful regions, so their house prices are lower. Those who live there are unable to afford the house prices prevalent in London and the Southeast, and are often imprisoned in deprived areas, or only able to move with great hardship. The clear solution is more housing in the successful areas, but government has only been able to nibble at the edges of this.

London provides a classic example. It has two policies which militate against more housing, and which conspire to keep prices high. It has a green belt around it with a virtual prohibition on new housing, so London cannot expand outwards. It has a skyline conservation policy to prevent London expanding upwards, as other cities have done. With no new housing either outward or upward, prices rise constantly, effectively prohibiting those from deprived areas to come and share in its success. The high prices are quite acceptable to those who already own property in the area, and like to see it constantly rising in value.

The challenge to government is to overcome the political opposition and to allow more house building in the economically successful areas in which people want to live. Undoubtedly the planning laws need to be changed to reflect the needs of a new economy.

Transport provides yet another example. The policy of preventing the outward development of most of the places where the new economy would take them has led people to live beyond the exclusion areas and to commute into them every day. This, in turn, has proved a major contributing factor to the traffic congestion which blights the daily work experience of so many people.

Transport planners have approached the problem with the thinking of the old economy, regarding people as units to be planned for and co-ordinated along fixed routes in manageable and predictable ways. The economy based on the skills of individuals is not like that. People have diverse needs which can change rapidly. They need a transport system which is personal, flexible, and which can cope with rapid changes. They also want one which is comfortable.

Politicians and planners have typically regarded the problem as one of getting people out of their cars and onto buses, rather than one of constructing a transport system which allows them to do what they find most convenient. People have not chosen buses voluntarily; so planners have tried to make the alternatives so unpleasant or so costly that they will be forced to take them.

The challenge is to devise alternatives that people *will* find attractive. Greater attention has to be devoted to securing more efficient use of existing roads, and of keeping traffic on the move. New public transport alternatives have to be put in place. It is interesting, to say the least, to note how populations seem to take to tram systems in cities such as Vienna, Prague and Amsterdam, in a way that they do not take to buses. Trams and monorail systems should be looked at afresh, this time factoring in the externalities of congested traffic and polluted air, and considering the impact they have on the attractiveness of cities as places in which to live and work, and on their ability to attract high achievers.

One of Government's greatest challenge lies in the need to find new modes of social security which fit along with the grain of the new economy. The old systems of pensions and welfare were designed for a mass society with similar needs, a society which no longer exists. The challenge is to develop systems which can cater for varied lives with versatile needs. Pensions have

to be based on individual and employer contributions over the course of working lives spent with a succession of employers and including periods of self-employment. The odds are that such a system, to function properly, should be no less compulsory than the current, but inadequate, system of National Insurance.

Welfare, similarly, needs to be tailored for individual needs. This almost certainly means that it will be based on individual insurance against future needs. It could even be combined with the pension fund as a personal account, perhaps part saving, part insurance, and which is there to be drawn on for future needs. This could cover unemployment, incapacity, future health needs, and residential care, as well as providing the fund for a retirement pension.

That said, even the notion of retirement might be re-examined. It was appropriate, perhaps, after a life of toil in an economy dominated by factories and manual work. Is it still relevant in an economy dominated by services and personal skills? Perhaps people might prefer to scale down work activities rather than do nothing? The economics of working for 40 years and then taking 40 years of leisure would be difficult to arrange, to put it mildly.

Government faces a serious challenge in putting its own house in order. In a people economy it is neither appropriate nor possible for it to do many of the activities which governments have regarded as part of their role. It will find raising taxes increasingly difficult, and will also find itself unable to provide universal and standard services for a citizenry whose lives and needs now incorporate such wide variations. The surest way to have services which cater for individual needs is to have them provided individually, tailored to the requirements of those who seek them.

Inevitably this involves a retreat by government from areas which it has thought of as its own. It will have to let its citizens obtain some such services for themselves, and leave them the resources with which to do so. Unpalatable though this might be to some of those in the political process, it could be seen as part of a long term retreat by government from areas of economic activity. In Britain and in other countries the state has retreated from the ownership of industries. It no longer involves itself in the provision of most utilities. It has seen in some areas, notably pensions, that people have chosen for the most part to make their own provision, rendering the state's own service increasingly vestigial.

A further retreat by government as the people economy advances could be seen as just another development in a long term process of withdrawal. The new economy creates a new reality which governments would do well to pay mind to. They have the power to limit it, to constrain it, to make life difficult, and perhaps even to delay it. A more useful role, however, would be to acknowledge the diminished role which they will play, and to spend their energies and their intellect in making that adjustment easier for the lives of their citizens.

Finally, and of no less importance than any of the other challenges they face, governments have to acknowledge that one factor which might contribute to success in a people economy is *how attractive is the country as a place in which*

*people might want to live and work?* This is perhaps the least tangible, least measurable, of all of the things which might count. They have to ask themselves what governments can do to improve the quality of life, to make the country a better place to live in. The answer might well involve government in areas with which it has not hitherto concerned itself. It might involve government in a partnership with its citizens, and in a joint determination to make Britain a better and nicer place.

As challenges go, this is a big one. But if Britain is to make itself into a sympathetic home for an economy whose base is the skills of its people, and if it is to retain the loyalties and affection of people increasingly free to move, it is a challenge which must be met.