

Escaping The State We're In



Will Hutton | 19 March 2026



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The online version of this report is at <https://fairnessfoundation.com/escaping>

About this report

Thirty years after *The State We're In*, Britain faces another moment that demands a fundamental rethink of its political economy. The old model, built on a financial architecture with little emphasis on investment, a disregard for production, a reliance on foreign capital, a general openness and an apparently endless rise in asset values, has left the country more exposed, less capable and more unequal. In a more dangerous and fragmented world, Britain needs a new economic and financial architecture that can harness the massive potential of its innovative and dynamic frontier-tech companies, reshape its financial system and address the monopolies that dominate parts of its economy.

About the author

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About the Fairness Foundation

The Fairness Foundation works to change the debate around fairness in order to build a fairer Britain. We are a registered charity (1044174). Our vision is a Britain where everyone has the 'fair necessities' (fair essentials, fair opportunities, fair rewards, fair exchange and fair treatment). We believe that inequality is not only unfair and unpopular but is also damaging our society, economy and democracy. We work to persuade UK policymakers of the moral, the political and the policy arguments for tackling inequality.

Executive summary

Thirty years after *The State We're In*, Britain faces another moment that demands a fundamental rethink of its political economy. The old model, built on a financial architecture with little emphasis on investment, a disregard for production, a reliance on foreign capital, a general openness and an apparently endless rise in asset values, has left the country more exposed, less capable and more unequal. In a more dangerous and fragmented world, Britain needs a new economic and financial architecture that can harness the massive potential of its innovative and dynamic frontier-tech companies, reshape its financial system and address the monopolies that still dominate parts of its economy.

Britain is entering a harsher and more volatile age in which the old geopolitical and economic assumptions no longer hold. The retreat of the US from its former stabilising role, the rise of bloc politics, growing mercantilism, supply-chain insecurity and heightened strategic competition mean that the UK needs a political economy that is built for resilience, autonomy and purposeful action.

At the same time, capitalism itself has changed. Economic activity is shifting away from the more transparent world of public markets towards a more opaque system of private capital, which can support innovation and fast-growing firms but also weakens accountability and concentrates wealth. This interacts with an increased pace of technological change to intensify 'creative destruction', the rise of the new and winnowing out of the old. In Britain, these pressures are compounded by the combination of a financial ecosystem that insufficiently supports investment together with a business structure biased towards extracting value and earning monopoly 'rents' rather than creating value. Too much finance flows into existing assets, especially property, rather than into the productive frontier of new industries, technologies and infrastructure.

This leaves Britain poorly equipped to convert its real strengths into broad-based prosperity. The country has world-class universities and scientific

expertise, Europe's largest venture capital sector, and an unusually large number of frontier-tech firms and scale-ups. Yet too many promising businesses remain undercapitalised, are sold too early, or fail to scale in the UK because of a lack of support.

Britain needs a new political economy that combines dynamism and fairness. Intensification of creative destruction, vital to the growth process, must be accompanied by attention to the social consequences. This paper rejects the idea that growth and solidarity are in tension. Instead it argues for a settlement in which innovation, risk-taking and creative destruction are actively encouraged, but their rewards and social consequences are governed by the principles of fairness, contribution and opportunity.

That means building an economy around high-growth, mission-driven firms in sectors where Britain already has significant advantages, from life sciences and advanced materials to robotics, quantum and defence technologies. It also means reforming pensions, scaling up the British Business Bank and National Wealth Fund, developing a vibrant British venture capital industry, using procurement strategically, and backing clusters around universities and growth sectors.

Economic reform cannot succeed without a stronger social settlement. Affordable housing, good work, active labour market policies, better technical education, investment in the early years, and fairer utility and consumer markets are essential to social cohesion and to sustaining consent for a more dynamic economy. Underlying all of this is the need for a stronger and more capable state.

This paper's central conclusion is that Britain can still become a stronger, fairer and more confident country, but only if it 'grips the reins' of capitalism more firmly, by mobilising investment, disciplining extraction, rebuilding state capacity and aligning growth with the common good.

Introduction

“Capitalism is a spirited horse; it takes off readily, escaping control. But if we hold its reins firmly, it goes where we wish.”

Professor Philippe Aghion, joint winner of the Nobel Prize for Economics 2025

Britain is part flourishing, part stuck and part broken. The national mission must be to spread what flourishes into the stuck and broken parts of our island. This requires a concerted fusing of the collective ‘we’ combined with the energies of the individual ‘I’, to deliver the necessary institutional and policy reforms that will trigger more much needed economic dynamism, together with the societal pulling together necessary to correct current social distress (let alone future potential dislocations). This firm ‘gripping of the reins’ to guide a more ‘spirited capitalist horse’ while building a good society requires a new alliance of the best of the varying progressive traditions - liberal social democracy, new liberalism and pragmatic socialism – to underwrite this fusion politically and philosophically. Given Britain’s many assets, the attainable prize is the creation of a new model of capitalism that delivers ‘common good’ economic and social outcomes. Britain could quickly possess the strongest 21st century economy in Europe, a reinvigorated society with rising living standards, a rejuvenated public realm, stronger defence and greater international standing. Within our grasp is the emergence of a less angry and fairer country that is prouder and more at ease with itself.

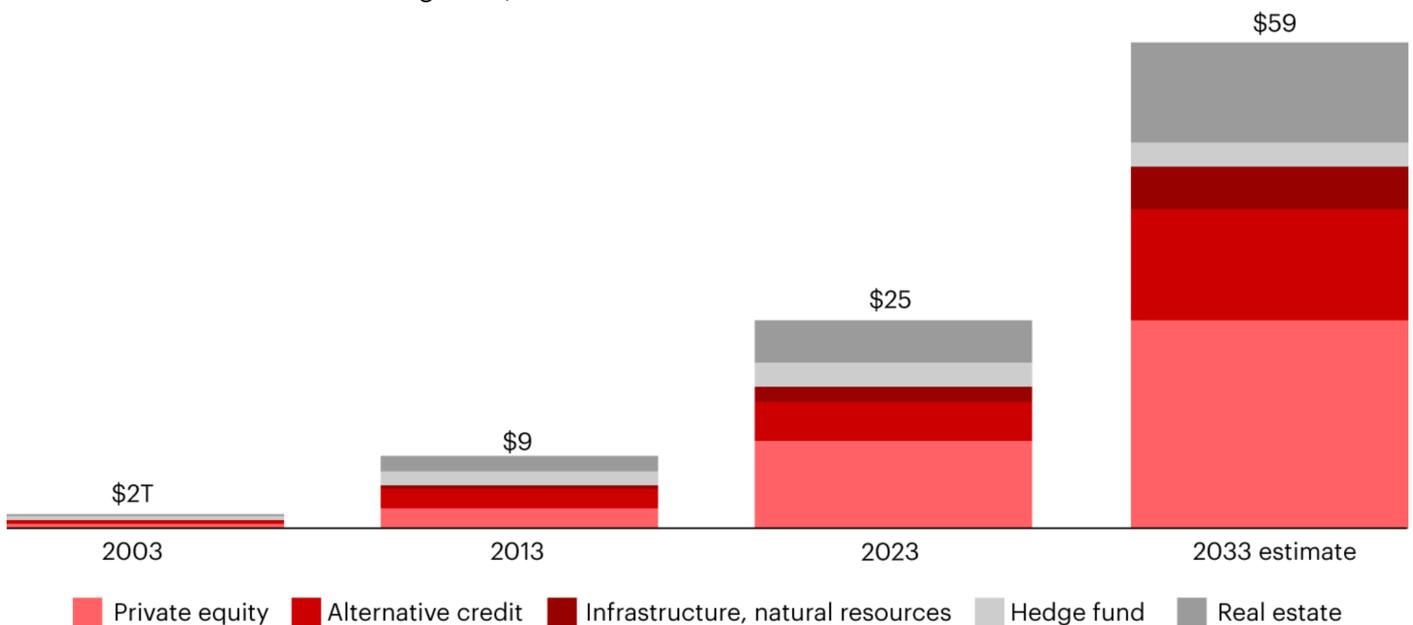
Britain's predicament

The postwar geopolitical order has ruptured. Pax Americana and the US underwriting of a global liberal trade, financial and rules-bound geopolitical order are in retreat, reflecting changes in American electoral sentiment and political thinking that are unlikely to be quickly reversed. In its place is emerging a world of shifting alliances in which the US, China and the EU are the principal actors. Might-is-right geopolitical competition reflects itself in mounting economic mercantilism and attritional cyber conflict. At its worst these tensions morph into actual war, obviously in Iran and Ukraine, but which could spread dangerously. The US can no longer be treated as a fully reliable ally, economically, militarily or geo-strategically. Britain is therefore compelled to think and act in more European terms.

Economically, the search across the West's advanced economies is for greater resilience. Accelerated by Trump's tariffs, supply chains are deglobalising. There is a new awareness of the need to reduce exposure to energy and raw material shocks (including in the food supply chain), and to rebuild domestic productive capacity with a new caution about offshoring.

Figure 1: The growth of private capitalism

Global alternative assets under management, \$ trillions



Source: *Avoiding Wipeout: How to Ride the Wave of Private Markets* (Bain & Company, 2024)

Greater autonomy must be secured in strategically vital sectors, especially defence. Inflationary shocks remain an ever-present risk.

These geopolitical shifts coincide with major changes in capitalism itself. Private markets are expanding fast and are projected to make up nearly half of global GDP by the mid-2030s. This points to a broader 'privatisation of capitalism', as economic activity shifts away from firms publicly listed on stock markets with a high degree of transparency and with accounts audited to demanding standards and subject to formal regulation. In the United States this has brought benefits, especially by encouraging risk capital to flow into high-tech firms and scale-ups in these burgeoning private markets, helping to explain stronger growth and technological leadership. That success rests on a wider ecosystem of strong venture capital, research universities, scientific innovation and smart public procurement, backed by the US's still-vibrant public stock market. But the downsides are serious: weaker accountability, greater concentrations of private wealth not seen since the 19th century, and the emergence of a large and poor 'precariat'.

Creative destruction, in which a plurality of young firms incorporating new technologies challenge maturer firms deploying outmoded technologies and business models, is the hallmark of capitalism and the origin of its dynamism. The rise of newly important private markets at the same time as intense technological and scientific change is intensifying creative destruction, and in the US it is leading to higher productivity growth and innovation. But the finance behind this shift ranges from productive venture capital to more extractive private equity, reviving the distinction drawn by political economists such as R.H. Tawney and Evan Durbin in the last century between innovative and 'acquisitive' capitalism. The destructive element in this equation is that labour markets are becoming more stratified, with insecure work spreading, living standards stagnating and social mobility weakening. In Britain, the social costs are already visible: life expectancy is falling in some disadvantaged cities and regions, disability has risen sharply over the past thirty years, and more than half of non-pensioner households in poverty include someone in work. Wealth and asset ownership increasingly shape life chances more than income alone.

The privatisation of capitalism requires a response asserting the public interest against monopoly and tackling concentrations of private power and wealth inequality – just as it has in the past. 'Public capitalism' must be defended and reasserted: it represents earlier generations' attempts to ensure that capitalism operates as fairly as possible to deliver outcomes furthering the common good.

Equally, this era of intensified creative destruction opens up the chance to create new business models extremely fast; witness the growth of the US's 'Magnificent Seven' within 30 years. There remain huge innovation-rich areas beyond AI that are 'open' to British business and can drive growth, such as engineering biology, advanced materials, robotics, life sciences, optical semiconductors, photonics, quantum, and space – all of which map on to British scientific strengths.

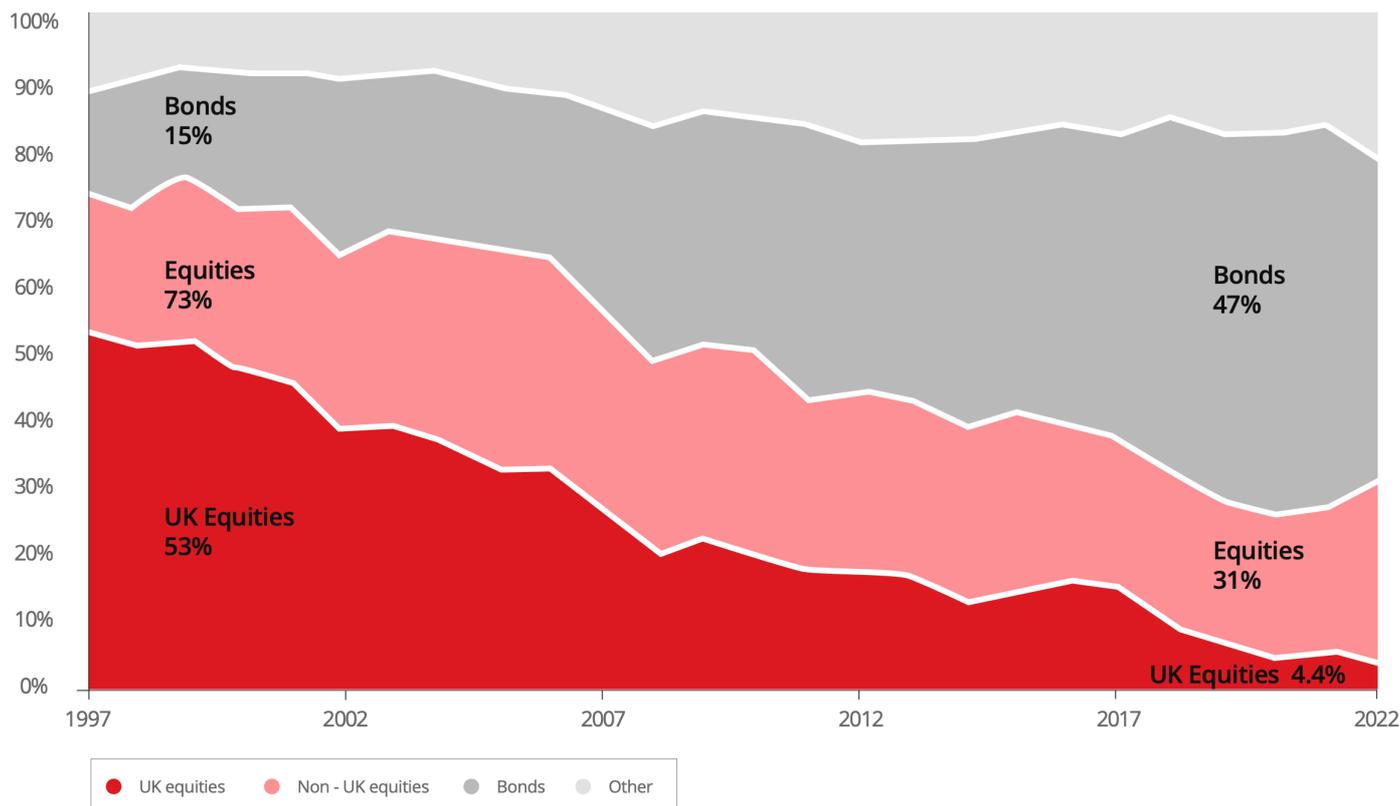
Britain thus has to devise successful responses to these twin challenges in a more volatile world of blocs, shocks and strategic competition. Yet it is disabled from doing this successfully because it

lacks a political economy that offers a compass for action. While there is rich potential in Britain's tech economy and scaleups, too much capital is channelled into extraction rather than innovation, and too many economic and financial institutions are not fit for purpose. Too much of the economy, as much as half of national output if not more, remains broken or stuck, oriented around fading legacy business models. There is only partial recognition that today's world demands the mobilisation of capital into companies embracing frontier technologies and innovation, the need to coordinate public and private investment, and the defence of strategic capacity. Above all, there is not enough awareness that mainstream capitalism must up its game in helping to sustain living standards and ensure the fair delivery of quality goods and services.

This problem is reinforced by the financial system's longstanding bias towards financing assets that already exist rather than expanding the productive frontier. Too much capital that could support new industries, technologies, skills and infrastructure is instead recycled into property or invested overseas, reinforcing the inherited economic structure rather than building the productive capacity of the future. Britain boasts the largest venture capital industry in Europe, but very little of that capital comes from British institutions. Pension funds invest only a tiny share of their assets in UK public equity (see chart overleaf), and even less in venture capital supporting British scaleups initiated in our fast-growing private markets. The result is that Britain often succeeds in generating promising firms, but not in mobilising enough domestic capital to help them scale and remain rooted here.

Figure 2: The decline in domestic investment by UK pension funds

UK pension fund asset allocation, 1997-2022



Source: *Comparing the asset allocation of global pension systems* (New Financial, 2024), via *The Growth Trilogy Paper 3: The Trillion Pound Question* (The Purposeful Company, 2025)

At the same time, there has been an uncritical acceptance of the virtues of openness that Britain has taken to extremes. International investment that strengthens domestic productive capacity is obviously welcome. But where openness means surrendering national capabilities, deepening dependency or exposing key sectors to extractive forms of foreign capital, it weakens resilience rather than strengthening it. Britain’s openness has too often been treated as an end in itself rather than as a tool of national development.

These dynamics have produced a zero-sum political economy. When living standards stagnate and the rewards to unproductive capital keep rising, political conflict intensifies, because progress appears possible only if someone else loses. This helps to explain the bitterness of current criticisms of excessive immigration, too little tax paid by wealthy asset holders, and fast-growing welfare spending. But these are symptoms of a deeper malaise, not solutions to it. Structural change is also widening divergence across sectors and places: high-performing science and technology clusters emerge besides

nearby left-behind towns and fragile local economies, increasing inequality, insecurity and political disaffection.

Finally, Britain’s state is poorly equipped to launch the necessary interventions. Core capabilities have been lost, expertise outsourced, delivery fragmented and accountability blurred across regulators, contractors and intermediaries. The rich possibilities of the future are not being captured. In the absence of a political economy that is right for the times and an accompanying sense of direction and coherent policy framework, the government finds itself locked in a sequence of ad hoc reactions rather than directing, co-ordinating and mobilising in the pursuit of a clear strategic goal. The price is an unparalleled collapse of electoral support, but worse still, a major opportunity for national rejuvenation is being foregone.

Towards a 21st century political economy

Responses to the privatisation of capitalism and the possibilities of creative destruction are now imperatives. Capitalism will not of its own accord find its way to an answer that promotes either capitalist dynamism or societal well-being. Radical uncertainty, information asymmetries and power inequalities make markets inherently unstable, which is why, in Professor Philippe Aghion's words, the reins of market capitalism have to be held firmly "if it is to go where we wish".

A special responsibility falls to progressive traditions – liberal social democracy, 'new liberalism' and pragmatic socialism – which, while they may differ in emphasis, share a common belief that markets cannot be relied upon spontaneously to deliver outcomes that are either economically efficient or morally just. In the face of new populist extremisms of right and left, the case for emphasising the common foundations of these varying traditions rather than what divides them has become more urgent. To be explicit, more unites the philosophies of social democrat thinkers like John Kenneth Galbraith or Philippe Aghion, new liberals like John Maynard Keynes and socialists like Thomas Piketty than divides them. It is time for their adherents to make common cause.

The task is to fuse a conception of solidarity and fellowship with individual duty, responsibility and ambition. Individuals have responsibilities to the collective as well as to themselves. Rights should not be automatically conferred, but must be earned through delivering the proportional duties that we must accept to advance the communal whole, so building a society that embodies solidarity, tolerance and respect.

This is the core principle of fairness: that benefits should be earned in proportion to the contribution made, while reducing as far as possible the role of undeserved good and bad luck in shaping life chances. Fairness, in this sense, integrates the left's concern with equality and the right's concern that the rewards of success should not be penalised. Fairness is about equity rather than equality, while accepting that high rewards are legitimate to the

extent of the greater contribution that has been made to achieve whatever outcome. In policy terms it means creating structures that support individual ambition within a fair economic and social bargain, trying as far as possible to equalise life chances to avoid the undeserved bad luck of birth, chance or circumstance and to share the spoils of undeserved good luck with everyone.

This approach opens the door to a 21st century political economy that allows social solidarities to be promoted at the same time as sponsoring responsibly delivered, fast moving, capitalist dynamism and prosperity. A social floor and ladders of opportunity are interdependent necessities. They become two sides of the same coin – a better framing for policy than the right's preoccupation with the shrinking of the state, lowering of taxation and regulation as trumping any form of public initiative.

Today's capitalism demands that this ideological fusion cuts across habitual left/right typologies. Creative destruction has to be encouraged: companies do not take big scientific and technological 'bets' without an ecosystem of support and some socialisation of awesome risk, as both the US and Chinese experience exemplifies. But equally the results - new monopolies, concentrations of power, wealth inequality and the wider social fall-out - must be managed.

This vital fusion (which must include key strands in Green and environmental thinking) is a challenge to the varying strands in progressive thought. Social democrats have to accept more economic and social policy proactivity. Socialists must acknowledge that the route to wealth creation does not exclusively lie in public ownership and the socialisation of production, but rather in a well-designed socialised ecosystem that fosters a plurality of company founders growing their companies to scale. Social (or new) liberals must accept that while markets offer a plurality of competing economic actors, of necessity they best meet their promise within a public architecture that encourages their growth. At the same time, all bring something distinct and

positive to the wider story. Social democrats understand the complementarity of the private and public; socialists bring the necessary steel to insist on public interest outcomes and take on self-interested lobbying; social (or new) liberals understand that virtue and morality do not sit solely in the public sector, charities, trade unions and NGOs.

Get this progressive story right, with fairness at its heart, and Britain has every chance not merely to withstand the pressures of a harsher age, but to flourish within it. The country still has world-class scientific strengths, deep reservoirs of talent and major opportunities in the industries of the future. The task is to align them behind a stronger, fairer and more confident political economy.

Addressing the growth / investment / innovation conundrum

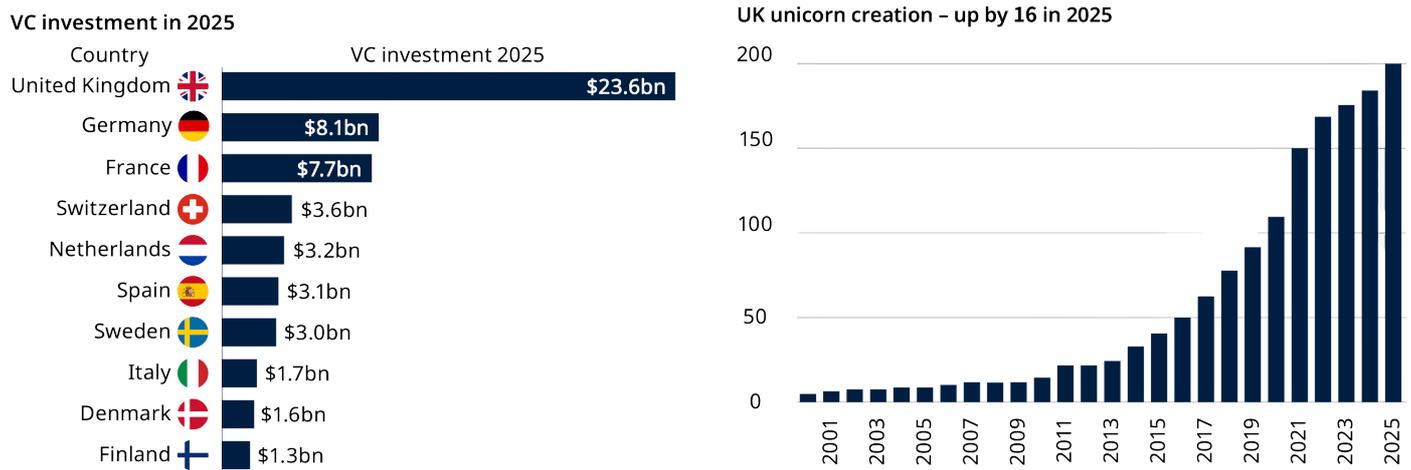
The indispensable catalysts for growth are capitalist dynamism, commitment to science and technology, and competitive markets, all housed in a publicly created ecosystem of appropriate support. This can best be achieved by recognising and harnessing the interdependence of collective and private initiative. Simultaneously, a commitment must be made to managing the economy and society to ensure that anyone left behind will enjoy a fair economic and social settlement.

There are well-known ingredients to support economic growth – high-quality physical infrastructure (especially transport), high levels of skills, a strong science base, the fostering of competition, and running the economy ‘hot’ via expansionary fiscal and monetary policies. However, these neglect the most vital ingredient, which, although obvious, is overlooked: the need to sustain a business-building culture exemplified by stimulating the creation of a critical mass of consequential companies, operating at the frontier of the gamut of technologies whose

growth performance is a tier higher than the average achieved by incumbent firms.

In this respect Britain has under-recognised strengths. It may only be the sixth largest global economy ranked by GDP, but it ranks third for innovation and first in Europe in a critical mass of frontier-tech categories. Venture capital investment of \$24 billion (£18 billion) in 2025 almost exceeded the rest of Europe combined, adding another 16 unicorns to Britain’s already impressive total, as the charts below show. Importantly, including unicorns, Britain now possesses at least 800 venture-backed high-tech scale-ups with turnover in excess of \$25 million – two fifths of all those in Europe. If unashamedly backed with orders, capital and people, they have the potential to become the backbone of a £1 trillion tech economy by 2040, employing a significant percentage of the UK workforce. Good in themselves, they will offer an across-the-board stimulus to inclusive innovation, higher productivity and stronger economic growth. ‘Tech’ is not just AI, but a range of interlocking technologies, as already outlined.

Figure 3: The growth of venture investing and unicorn creation in the UK



Source: *The UK is home to Europe’s Silicon Valley – and its venture market could match it, too* (Schroders, 2026)

It is these emerging, potentially consequential companies, incorporating new technologies into their business models, which create new goods

and services together with new modes of productive operation. They are the indispensable drivers of growth. This is the process of creative

destruction at work – the winnowing out of the old and its replacement by the new. The Chinese have self-consciously embraced creative destruction, emulating the US but within a state-run system, of encouraging Chinese scale-ups in their ‘little giant’ programme, in which they support, encourage and permit the best to emerge via intense competition while allowing the weaker to fail. For all its strengths in creating new scale-ups, Britain is weak at creative destruction in terms of weeding out the old: unlike the US and China, our top companies are much the same as they were 30 years ago. Only 1 per cent of UK stock market capitalisation is in tech, compared to 30 per cent in the US. Now is the opportunity to change this.

Importantly, tech and science-based scale-ups tend to be mission or purpose-driven. Their founders, generally mobilised by a visionary purpose, are business builders, liberal in outlook, and want to give their employees a motivational stake in the enterprise by offering them share stakes and/or profit shares. They tend to be allies rather than enemies of progressivism and fairness – natural supporters of the concept of purpose-driven companies. They can and should be the bridgehead into developing a more responsible business community and stakeholder capitalism.

Two thirds of the 800 venture-backed start-ups in Britain are estimated to be in the eight Industrial Strategy priority sectors and are spread around the country. This is the opportunity to identify geographic areas where companies operating with similar technologies can be clustered, to create self-reinforcing local growth dynamics. Clusters can be built, for example, on existing strengths in our leading universities: Bristol in quantum, Manchester in advanced materials and life sciences, Leicester in space, Sheffield in robotics, Oxford in life sciences, Cambridge in AI, London in defence and security, and Glasgow in chemistry. There is scope to energise significant parts of Britain’s ailing coastal economy by committing to the construction and management of offshore wind farms and tidal energy production.

Cluster-building can be accelerated by more aggressive skills policy based on the identification of local economic strengths and skill needs, ensuring that local populations are

aware of the openings and possibilities and that, in the light of this knowledge, public and private training providers are designing fit-for-purpose curricula. The East Midlands Combined Authority’s adoption of an ‘opportunity escalator’, aligning training opportunities with identifiable growth in particular categories of jobs, is a forerunner of what could be rolled out nationally.

Problematically, too many of the UK’s scale-up predecessors have sold out before reaching independent maturity – in broadly equal proportions to UK corporates and to overseas companies, especially American. Typically, shortage of UK venture capital is made good by US venture firms, so that majority ownership becomes American, although the companies remain domiciled in the UK. US purchase and exit then becomes inevitable. Exit is part of the capitalist dynamic, but not on this scale. The Purposeful Company’s Growth Trilogy estimates that the average loss of economic value for each such exit to a foreign acquirer over a decade is \$5 billion. With an estimated 1200 such sales between 2011 and 2021, this suggests that by 2026 the cumulative loss of economic value will approach \$1 trillion. This process, along with Brexit and the continued plight of the stuck and broken elements in the economy, largely accounts for the halving of the UK’s growth rate since the financial crisis.

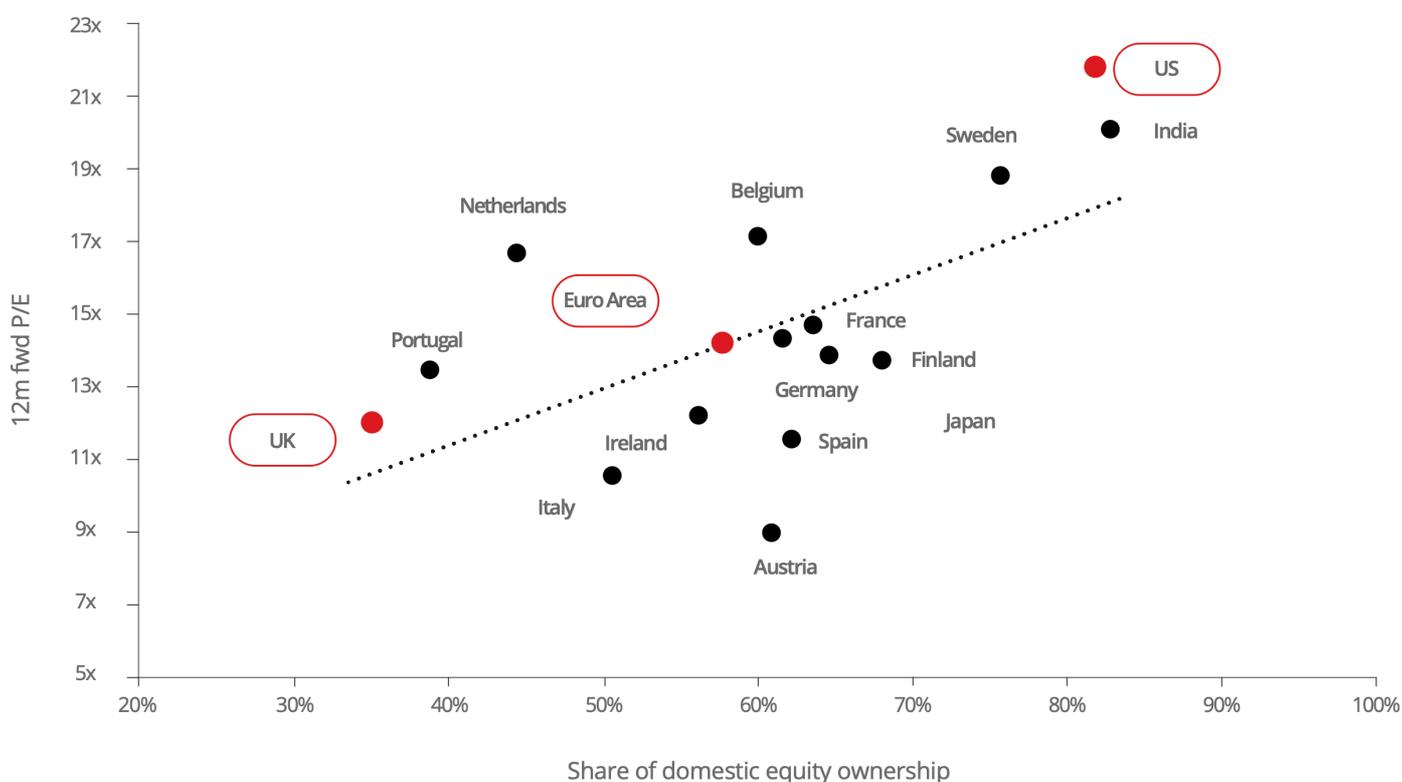
Labour in government has laid the partial foundations of the necessary ecosystem of support and retention in Britain for our scale-ups, some of which policies command cross-party support. An additional £1 billion per year has been earmarked for the British Business Bank to invest in UK scale-ups from 2026, and additional growth equity has been made available to the National Wealth Fund to invest in established scale-ups once they pass the \$25 million annual revenue threshold. The Sterling 20, a group of major pension providers and insurers, has committed to investing £25 billion into UK private markets up to 2030: this should imply at least a matching £1 billion of private investment per year into scale-ups. Pension fund consolidation has been advanced by the Pension Schemes Bill to create superfunds that are capable of investing in riskier equity propositions, including those in the private markets. There is the AI Opportunities Action Plan, and the Industrial Strategy identifying eight sectors as priorities. The

sustaining of research and development tax credits, and public investment at around 3 per cent of GDP, are also important growth enablers. Some minor but salient incentives have been introduced to promote investment in initial public offerings, and initiatives are expected requiring foreign acquirers to repay grants to the government after a tech takeover.

While these are good moves and the right direction of travel, they fall far short of the necessary mobilisation. The dosage is too low. To build a trillion-pound tech economy before 2040,

Britain will have to raise its investment in scale-ups fivefold, demanding a greatly enlarged role for both the British Business Bank and the National Wealth Fund. A step change by UK pension funds to raise investment in UK private and publicly quoted equity is also vital, the latter important to create a more flourishing stock market. The chart below demonstrates that the more home investors support their domestic stock market, the more vibrant and highly valued their companies. Britain needs more institutional support to anchor both its innovation ecosystem and the wider business system.

Figure 4: The relationship between domestic equity ownership and stock market valuations



Source: *A very British problem: Low equity ownership and potential solutions*, Strategy Matters (Goldman Sachs, 2025), via *The Growth Trilogy Paper 3: The Trillion Pound Question* (The Purposeful Company, 2025)

There need to be at least a dozen pension superfunds of between £50 billion and £100 billion in size created before 2028, large enough to move the dial in the scale of their investment in UK public equity, infrastructure and scale-ups in private markets via venture fund-of-funds. The far-sighted creation of Australia's superfunds in the early 1990s is the exemplar, foundational to the country's current economic success. In addition, incentives should be introduced to

support pension fund investment in UK publicly quoted equity, for example requiring a minimum threshold (say 12.5% of total public equity holdings) to qualify for pension fund tax relief, and scaleup reinvestment relief from capital gains tax (as in Sweden) when investment gains are reinvested in British scaleups.

The process of consolidating both defined contribution pension funds and local government

pension funds, enabled by the Pension Schemes Bill, needs to be more ambitious and urgent. This must be matched by creating funded pensions for all public sector employees, with the NHS a top priority. The Pension Protection Fund must be given the powers to go beyond buying defined benefit funds in distress and to proactively recruit and consolidate funds from all closed defined benefit pension funds, worth £1.3 trillion, and to become a superfund in its own right.

On top, a funded British Pension Plan should be launched that will both pay the state pension in full by 2100, from income from its investments, and invest in Britain. It must be constituted as independent from government, and be able to make investment decisions purely in the best long-term interests of pensioners. This should be part of the package of phasing out the triple lock and replacing it with an average lock. Under this proposal, pensions would increase by the average of the triple lock components, and the savings used to help pay interest on the bonds issued to fund the British Pension Plan. There could be a fourth lock to keep the state pension fixed permanently at, say, one third of average earnings, when that is achieved. This is a fair intergenerational bargain.

Britain should build a powerful UK venture capital industry as a prime policy focus, initially with venture funds-of-funds as vehicles for consolidated pension superfund investment run

on commercial lines. Simultaneously, private equity should be scaled back, with its capacity to take majority control of companies in sensitive sectors prohibited. These would include social care, water, special needs education, public health and strategic defence technologies. This is putting flesh on the need to lean against extractive capitalism and instead support value-creating capitalism – actions recommended for more than a century since the publication of R.H. Tawney's *The Acquisitive Society*.

Public procurement should unashamedly provide British scale-ups with orders, which should be matched by a determined effort to engage UK public companies in doing the same. Britain's large companies are poor at doing what US companies, and Germany's and Japan's to a degree, do well: sponsoring, giving orders to, and taking stakes in young scale-ups in their supply chain. In the US, over half of venture capital deals by value are done by big companies – a much more entrepreneurial and dynamic business sector than our own. New Labour tried to address this with tax incentives for corporate venturing that were scrapped by Chancellor George Osborne: they should be redesigned and reintroduced. Sweden's Ignite Programme is a potential model to promote this engagement. There is a strong case for the state, via an arm's-length body, to take equity stakes in the companies from which it procures.

Taxing, spending and borrowing

Britain's fiscal rules must be retained, even if they need reform. Western economies are reaching the limits of public indebtedness, with the bond markets becoming increasingly hawkish as G7 debt-to-GDP ratios exceed 100 per cent and are projected to rise further. Although UK public debt is not as proportionally high as the US, France, Italy and Japan, around 30 per cent of our national debt is foreign owned; a further 20 per cent is held by closed defined benefit pension funds, and another 20 per cent by the Bank of England after its Quantitative Easing programme; neither of these last two are continued buyers. Disproportionately reliant on what former Bank of England Governor Mark Carney described as the kindness of strangers, and with net international financial liabilities, Britain has to demonstrate that it has a credible fiscal policy. However, the flexibilities that allow investment must be better and more fully exploited to permit further infusions of public capital into the National Wealth Fund and the British Business Bank, along with the extension of the [Sovereign Infrastructure Guarantee](#). A more appropriate metric for promoting long-term public investment is [Public Sector Net Worth](#), which extends beyond the five-year planning cycle. This could be introduced alongside the recently introduced metric of [Public Sector Net Financial Liabilities](#). The [National Infrastructure Plan](#), focusing on building homes around railway stations, can thus be properly resourced and pump primed.

There was already a clear need to raise British defence spending, closing the backlog built up over decades, to meet promised commitments to NATO before the Iran war. Now, however, an immediate and substantial response, estimated to cost an additional £25 billion to £30 billion before 2030, is a geopolitical and strategic necessity. With departmental spending already under pressure and taxation set to reach postwar highs, the route must be public borrowing – but through mechanisms that the bond markets recognise as in a different category from normal public borrowing. A [proposition](#) floated by Sir Nicholas Lyons, former mayor of the City of London, is to issue defence bonds exempt of

inheritance tax. In his view, this category of bond would be so attractive to a new category of retail buyer that it could carry a nominal interest rate 2 per cent or more lower than current 25-year gilt yields, and so would still comfortably find buyers for £30 billion. The cumulative loss of inheritance tax over the life of the bond would be partially or wholly offset by cumulative interest rate savings, depending on the rate of interest that buyers would accept.

The tax system is not just a tool for raising revenue. It is also a powerful instrument for shaping economic behaviour. The tax code needs an overhaul and simplification, distinguishing more clearly between income and wealth derived from productive activity and that derived from rent-seeking and asset appreciation. Fixing this would not only help to fund public services more fairly; it would also reorient incentives towards genuine wealth creation, long-term investment and sustainable growth. One option would be to differentiate capital gains tax, so that the rate on property disposals would be raised to align with higher-rate income tax, while the rate on disposals of businesses and shares in businesses would remain at current rates or lower.

Two areas suggest themselves for potential savings in public spending. Had pensions been increased by an 'average lock' (averaging earnings growth, the consumer prices index and 2.5%) since 2010, it is estimated that the state pensions bill would now be £21 billion lower. This policy should be introduced at the beginning of the next parliament, entrenching the substantial gains in pensioner incomes, and promising more real growth – albeit at a slower rate – while making generous state pensions affordable. If announced in 2026 or 2027, forward-looking calculations by the Office for Budget Responsibility for spending and deficits in 2029/30 and beyond should be based on assuming the introduction of an average lock, which will help to meet the forward-looking fiscal rules in the 2027 and 2028 budgets. This could be done, as argued above, in tandem with launching the British Pension Plan. Secondly, the growth of in-work benefits, notably personal independence

payments, needs to be slowed down. To win political support it must be clear that savings will first be allocated to former claimants as a reward for rejoining the workforce, then as an incentive to employers, with the Treasury last rather than first in the queue (the first-order mistake made in 2024).

Europe as a growth driver and strategic ally

Britain's economy, with its strengths notably in internationally traded services but not only in finance, is especially reliant on the liberal international framework as it has developed since the second world war. We have a particular interest in fostering trade in goods and services, threatened by Trump's tariffs and wider economic mercantilism. Internationally, the building of like-minded coalitions, especially with Europe, to protect these interests is now an imperative. It is also clear that distance and geography matter hugely. The much-touted trade deals with the Americas, India and Pacific nations since Brexit necessarily produce paltry results; they are just too far away. Today these facts of life are more vividly obvious than they were in 2016, when the Brexit referendum was held. British GDP is now estimated to be between 6 to 8 per cent smaller as a result of Brexit's impact on trade and investment. If the referendum were held today, Britain would vote to stay in the EU.

The task is to build back the relationship as far as we can and to minimise the costs of being a 'third country' outside the EU. One pole on which this must be done is to intensify defence collaboration. The UK must be part of SAFE, the new European Defence compact, aimed at creating pan-EU defence industrial capacity with national militaries increasing the inter-operability of their weapon systems. This will involve defence production meeting common regulatory standards – a de facto single market in defence production.

Britain should do more proactively to foster other links. We should offer to co-found a European Innovation zone in which all signatories accept common rules, regulations and a single labour market for fast growing tech scaleups, with access to venture capital on common terms. This would be formal recognition that northwestern Europe, with the 'golden triangle' of London-Cambridge-Oxford at its heart, generates more tech scaleups than anywhere else on earth except Palo Alto. This 'New Palo Alto' includes Paris, Amsterdam, Eindhoven and Aachen, and in Britain (in addition to the 'golden triangle'), Bristol, Manchester, Birmingham, Leeds, Glasgow

and Edinburgh. The EU has proposed a '28th regime' in which signatories move faster in harmonising rules ranging from company registration to corporate governance, particularly in the digital economy. The European innovation zone would be the first tangible expression of this aim, with Britain offering European partners the opportunity to join its rapidly growing tech ecosystem together with access to its venture capital industry, the largest in Europe.

These two measures would create a de facto customs union and single market for scale-ups and defence contractors. It would be the bridgehead to making further gains elsewhere, and would help negotiations over the 'made in Europe' initiative and moves towards creating a single European energy market complete with additional storage capacity, whose necessity has been underlined by threatened oil and gas shortages during the Iran war. With each move justifiable in its own right, this would create the economic and political momentum for eventually rejoining the entire single market and customs union, and perhaps even the EU itself.

The state we need

Some of the sense of stuckness and the attraction of zero-sum politics will dissipate as growth picks up, but not all. The **social contract** has frayed. People sense that they work harder and get less, that public services are barely holding the line and some are deteriorating while taxes go up, and that decisions are taken elsewhere by people who do not seem to have their interests at heart. All this contributes to a disaffection that undermines the atmosphere of confidence and security that underwrites economic growth. Economic advance and social cohesion march hand in hand. Addressing this deficit is an imperative.

The new politics must spell out the necessity of having each other's backs in a spirit of fellowship, the drive to address cost-of-living and affordability issues, and the importance of living in a fair society where reward is more plainly linked to contribution than to luck or exploitation. The resulting functionality of society undergirds and promotes growth. Ladders of opportunity rest on a firm social floor. A more dynamic economy requires the right social and institutional infrastructure if it is to command consent and to endure.

Affordable **housing** is a central component of this. Britain, after 50 years of ill-considered financial deregulation, low building rates, poorly designed property taxation and restrictive planning laws, has created some of the most expensive residential property on earth, and some of the oldest. There have been some useful early moves by the new government – new towns, reform of the planning system, the Budget beginning a more rational council tax system, prioritising railway stations as centres for building – but they need to be turbocharged and sold as part of a coherent story. The aim is to build beautiful homes and new towns that are above all affordable. We need a country of homes, not speculative gambling chips. Council house sales that are not replaced should be banned, and a major social housebuilding programme is needed. To support more home ownership, long-term 25-year fixed-rate mortgages should be introduced through a UK variant of Fannie Mae and Freddie Mac – especially important as the bulk of mortgage borrowers use fixed rate

mortgages and need a reliability that the market is not offering, particularly since the start of the Iran war. These changes should be followed by council tax reform, freehold and leasehold reform, lower transaction costs with lower stamp duty levels, and standardised conveyancing.

Good **work** is equally important. The Employment Rights Act is a welcome achievement, but more stress could and should have been placed on reciprocal behavioural change from trade unions. The fundamental objective must be to create good work and good workplaces, especially in the context of the advance of artificial intelligence. AI can augment workplace capacities and increase productivity; or, via its capacity to routinise and robotise, it can remove work. In this respect 21st-century trade unions have no option but to become trusted good work champions in the name of fairness, in particular developing AI as a work augments rather than a job destroyer. Traditional instinctive opposition to the 'boss' class is, in this context, a dead end. One mechanism contributing to acceptance would be to phase in the Danish system of 'flexicurity', essentially managed by trade unions, who accept the privilege and the associated responsibilities of redesigning work, accepting flexibilities and managing training and retraining as skills become redundant. It is little short of scandalous that Britain does not have active labour market policies embedded in its system; a first step towards flexicurity could be the creation of a work/skills/training programme targeted at 18-to-24-year-olds, nearly a million of whom are not in employment, education of training (so-called NEETs). It is a disgrace that unemployment benefit is fixed at a mere 12 per cent of average incomes after a job loss, a quarter of the average rate in industrialised countries. Most of the British working class want to be part of an ecosystem that generates good work with adequate support if for any reason they suffer unemployment, not class politics via dysfunctional industrial relations.

Education and training belong in the same frame. Entrenching the 'four Cs' – critical thinking, creativity, collaboration and communication – in the curriculum and exam

system is a large agenda, but the direction of travel should be established. A beginning can be made by a proper national early years programme and the roll-out of Sure Start at scale. Teacher salaries should be raised sharply, especially in deprived areas and in underperforming schools. Training and apprenticeship places should be available on demand, not rationed. The ongoing class bias in post-16 education is outrageous and unfair: working-class children have their ambitions rationed while university places are available on demand. It offends the first principles of fairness. Research-based universities are crucial for 21st-century growth and should be hooked much more directly into clustering policy. Clusters may be led by scale-ups, but their success depends on the extent to which they can make skilled workers available with the appropriate formal and tacit knowledge to translate scientific advances into manufactured artefacts. This is part of the infrastructure of dynamism.

Britain is an open economy and open society, with nearly a fifth of the population non-white British citizens. **Immigration** brings considerable benefits, adding to the workforce, addressing skill shortages, fuelling the number of successful founders of business start-ups and promoting a welcome diversity and cultural energy. It is imperative to sustain the culture and values supporting openness, integration and the creation of a multi-cultural society at ease with difference. Yet successive waves of immigration, culminating in net migration reaching a peak of 900,000 in 2023, created a backlash, placing pressure on housing and public services and becoming the principal grievance of the populist right, which has mainstreamed ugly racist tropes. Against this background it is vital to visibly control borders and manage immigration inflows, especially illegal migration. This momentum needs to be maintained while insisting that the long-run commitment remains to openness. After a period of lower immigration numbers it will be possible to remake the argument that British interests are best served by ongoing openness and managed migration, but from a lower controlled base. A dynamic economy depends on openness to talent and ideas, but that openness must retain public consent.

Utilities show why the character of markets matters. If by the 1980s the nationalisation of

utilities was widely felt to have failed, the same can be said of privatisation by the 2020s, with the water industry a particular flashpoint. The authors of privatisation believed that any form of private ownership, whether by a publicly quoted corporation or private equity, could only be an improvement on public ownership. In 2026 we know differently. The water industry is a case study of the impact of the privatisation of capitalism. Held to account by its shareholders, the publicly quoted Severn Trent was the only one of nine English water companies to achieve the coveted four-star rating for across-the-board good environmental performance every year between 2021 and 2025, with publicly quoted United Utilities also doing well. By contrast, private equity-owned Thames, Yorkshire and Southern Water have performed poorly to atrociously. Thames Water in particular has been looted by its former private owners, with disastrous results. Improved regulation will help, but the medium-term solution is to solve the sometimes-perverse incentives offered by different ownership structures and corporate governance systems. Privatised utility companies should be constitutionally organised as public benefit companies with a minimum of a quarter of their shares quoted on the public markets, in which delivery of public benefit is defined as the overriding business purpose to which profit, while necessary, is subordinate. Consumer panels and regulators should hold them to account to deliver this constitutionally entrenched business purpose.

Reform of utility pricing policy, including that of water companies, is one of several reforms proposed by Liam Byrne MP, Chair of Parliament's Business and Trade Committee, to tackle what his committee identifies as a wider problem: "Rip-off Britain". A combination of scams, fake reviews, hard-to-cancel subscriptions and digital deductions, unsafe products, and the practice in many supermarkets of restricting discounts to loyalty card holders together cost the British consumer an estimated £71 billion per year. Byrne proposes a combination of proper enforcement of consumer protection measures, regulation to ensure adherence to shared standards, and an attack on market concentration and collusive behaviour. Restoring **trust**, he argues, will be fundamental to restoring consumer confidence and economic growth. He is right. A more dynamic economy depends not just

on innovation and competition, but on markets that people can trust.

All this requires a more capable **state**. Britain's public realm is degraded and needs rejuvenating, and state structures need to be re-engineered to ensure more agile delivery. Britain needs a more effective state and a better functioning democracy. With only three years to the next general election, there is a limit to the impact that any reforms can have. In their absence, a stronger narrative that imparts a greater sense of direction and purpose to government will be vital to ensure better pull-through of policy and implementation. Some measures are feasible within this timeframe. Number 10 and the Cabinet Office need to be strengthened around several core capacities – strategising and policy development, co-ordination and implementation, redesigning and refocusing policies in the light of experience, and sustaining a robust political narrative. Without a stronger state, the innovation, investment and dynamism sought elsewhere will not be properly supported, embedded or politically sustained.

Conclusion: holding the reins firmly

The proposed mix of policies suggested in this paper - accenting growth through a commitment to a broad-based tech economy while differentiating between 'extractive' and 'value' generating capitalism, and taking care of the social consequences as an imperative organised around the core principle of fairness - should have broad appeal. The political economy undergirding of these proposals is based in recognising that 21st century growth will be grounded in fast-moving, creative destructive technologies and waves of mission-driven founder scaleups. They require both an ecosystem of support, necessarily put in place by the state, and the management of the social consequences, to ensure fairness and the capacity of everyone to flourish.

This forgeable ideological hybrid between the varying progressive traditions is the best way of capitalising on Britain's considerable strengths. It marries growth and fairness; ladder and floor; having each other's backs; reasserting the best in British values. It is the route to becoming the top tech economy in Europe around inclusive innovation, and beyond that to creating a purposeful stakeholder capitalism supported by a refashioned social contract. It will make us a less angry country, with rising living standards and restored economic growth. Becoming the European economic and social model to emulate will be a source of pride.

The Fairness Foundation has identified five 'fair necessities' as underpinning the good society. They are the means to bind liberal social democracy, new (or social) liberalism and socialism into a coherent creed that is sufficiently attractive to head off the wilder limits of right-wing populism, and which the best in the right will want to shoe-horn into a more attractive conservatism. Britain can rejuvenate itself: it has the ideas, the people and the assets. The hope is that this short paper, in however a modest way, can help to catalyse the necessary changes.

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