

FOREWORD TO KEEN LECTURES 1998

Historians will be able to date the Chelmsford Cathedral Keene Lectures very precisely.

They were delivered in the autumn of 1998. On January 1st 1999 the Euro single currency was introduced in participating countries (though not the United Kingdom). Also in January, Peter Mandelson (praised by Will Hutton) resigned over an undeclared loan. By February, New Zealand's parliament was considering allowing chimpanzees and gorillas fundamental freedoms, while in Britain the debate around GM ('genetically modified') foods came rapidly to the boil. Both these were issues posted by Patrick Dixon.

Will Hutton, the chief editor of 'The Observer', came to us as the author of 'The State We're In', the book published in 1995 which anticipated the economic policies of 'New Labour'. His lecture, 18 months into the life of the Labour Government, was a searching and passionate appraisal of the progress of Messrs Blair and Brown to date.

Dr Patrick Dixon replaced Will Hutton at short notice for the second lecture. Dr Dixon was a doctor specialising in the care of Aids patients, whose Christian conviction and clarity made him a sought-after spokesperson on ethical issues. He offered a high-speed survey of current trends and technological development, portraying an inescapable future as already breaking over us.

Karen Armstrong concluded the series with a magisterial overview of the world's religious development, which was sane, measured and moving. In so doing, she challenged the Christian church to be aware of its inherent conservatism and to grasp afresh the mystery and sovereignty of God in the turmoil of change.

We are deeply indebted to our 1998 lecturers for so skilfully reading the signs of the times; and to the foundation which makes such lectures possible. Those who were present were privileged indeed. Now, through the printed page, may the observations and insights of those evenings continue to inform and stimulate a wider audience.

ANDREW KNOWLES

'The State We are in'

by Will Hutton

I've only ever been in the pulpit in an empty church before, actually. I like it! Maybe, preaching is my natural home?

What I thought I'd say tonight is just to make a few remarks about 'The State We Are In' three or four years on. I want to make a few remarks about the way the international situation is developing. I want to talk a bit about three major revolutions which I think are going on in our times - sexual, technological and the way our companies are run - and how these are changing the face of work, creating amazing new patterns of inequality. I'm going to try and argue that these patterns of inequality are menacing to us all, even the rich, and I'm going to examine to what extent the New Labour ideas around the Third Way can redress and address some of these patterns of inequality I'm going to talk about. All this may seem secular, but there are moral and Christian implications. It seems to me that the building of a political coalition depends upon demand coming up from below, that something be done about the situation in which we find ourselves. The Christian churches, and the Church of England in particular, have a potential pivotal role to play. In myriads of private conversations that we all have, we can construct a backdrop against which great policy decisions are made. We live in a democracy, and hundreds of meetings like this around the country ultimately prove not just the backdrop but actually the wider culture in which politicians and political parties operate. So, this kind of thing matters.

The international context against which a lecture such as this is being made and against which the country is operating is extraordinary. On some estimates there are, or there were last year in 1997, 60 trillion dollars' worth of financial transactions taking place worldwide against a world GDP of about 15 trillion dollars. In other words, there were four times more financial transactions taking place than all the value of what the world produced! That hasn't happened since the beginning of time. We have a situation in which the financial tail is wagging the dog of our economy and our society. A vast part of that pool of financial transactions was, and is, speculative. The world has never seen such a large pool of speculative money, trying to make short-term gains, through speculating against the value of any currency, any bond, any equity, anywhere in the world, be it Thailand, Finland, Brazil, or Britain.

This has been obvious for some time. I make reference to it in both the books *The State We're In* and *The State to Come*. This degree of speculation is very menacing, and over the last fifteen months we've watched it play itself out internationally. First, this tidal wave of speculative money hit Thailand. It swept through south-east Asia, knocking currencies down, and stockmarket values down, by extraordinary degrees, with currencies collapsing 20, 30 and 40% in a matter of days. What's followed on from that, as interest rates have risen to dramatic levels and countries under the aegis of the IMF have cut public expenditure, some of the biggest contractions in economies we have ever seen. The Indonesian economy has contracted by 15% in the last 12 months, with staggering increases in unemployment, poverty and hardship for the people at the bottom of these societies.

The crisis in south-east Asia interacted with a banking crisis in Japan to create a massive recession in Asia, a collapse in the oil price, and a collapse in quality prices in real terms. These prices were the lowest they've been since the depression of the 1930's; and that spelled trouble for Russia.

Half Russia's exports are in oil and gas. Those prices fell to new lows and it became impossible for the Russians to keep their international accounts together. They defaulted on 40 billion dollars of debt, which caused a fresh round of crises this August and September. For the first time, Western bankers began to really worry about what was happening to Western banks. Every pound that's lent to any of you, whether you are borrowing money through the building society to buy a house, or running an overdraft, has to be backed by an amount of capital. For example, for every 10p or 12½p of capital, a bank can lend a pound; but if banks suddenly find themselves with a staggering degree of losses (as they have found themselves over the last 12 or 15 months with all this mayhem), writing off

50 billion dollars' worth of losses, then that's 50 billion x 10 - 500 billion dollars' worth of lending that can't and won't take place.

People got so worried about the impact of this on the world economy (they were talking about raising interest rates); they're now talking about cutting them, because they fear we may be on the edge of a world recession. This recession would be precipitated not by economic mismanagement, not by companies or peoples doing things wrong particularly, but by this tidal wave of speculation, creating such a degree of financial losses that the banking system all over the West is rocking on its hind legs. This includes, by the way, Barclays Bank, which has lost a lot of money in both Russia and one of the great 'hedge' funds that lost a lot of money recently called 'Long-term Capital Management' in the States. This company was basically speculating, in that they borrowed a trillion dollars to speculate on 4 billion dollars' worth of capital. It's as if you, with a fiver in your pocket, went out and spent £250 or £300 backing some horses, knowing full well that if the bets went well, you could pocket the loot, and you'd be richer, but if the horses didn't come in, then that wasn't going to be your problem. That was going to be central bankers and taxpayers right round the world who would have to write off their loans to you. It is one of the most scandalous rip-offs that you can think of; and it's not only taking place in New York; it's taking place in London, Tokyo, Zurich, Paris and Frankfurt.

This is the unbalanced way that the financial system operates: the privatisation of reward and the nationalisation of loss. It's this asymmetry that has helped to fuel the tidal wave of speculation.

But there are other factors as well. Russia is teetering on the verge of we know not what. We have India and Pakistan threatening to exchange nuclear warheads with one another (both have exploded minor nuclear devices). Japan is in a slump. There is a tidal wave of speculation about to hit Latin America. These are disquieting, revolutionary times.

But against all this, there is, in my view, a sign of hope. The U.S. Cavalry is riding over the hill in the form of the Euro, which is going to be launched in January 1st of next year. In my view, the Euro is going to be a good thing against all this bad stuff that's about. It's going to produce low interest rates across the whole of Europe, and it's going to create, in my view, boom conditions in mainland Europe for at least the next five and possibly the next ten years. We're lucky indeed that the Europeans stuck to their guns throughout the 1990's and are in a position to give the benefits of 3% interest rates to a continent at a time when actually it couldn't be more needed. The Euro will be a hard currency, because everyone's going to want it. It will form a zone where low interest rates will spark business investment, a property boom, lots of spending, lots of consumption. It will be an offsetting force of recovery against all this mayhem.

Imagine this revolution. Think of Europe over the last two thousand years. For the first time really since Charlemagne, France, Germany, Italy, the Netherlands, Belgium, up into the Nordic countries, Finland, stretching across to Ireland, are going to be using the same currency. It is, in its way, as revolutionary a moment as 1939 when the Second World War began; and it happens against this wider backdrop of international financial disturbance. No pundit, commentator, politician, or philosopher can actually tell you which way these events are going to fall out. Maybe the Euro will fall apart; maybe this axis of stability won't actually develop. Maybe the international financial crisis will just simmer down of its own accord. None of us can make these forecasts with any sense of certainty, because we live in an ever more uncertain, and fast-changing environment.

Whilst all this is happening beyond our borders, there are major developments within our own country. In *The State We're In* I talked about the '30-30-40 Society'. If you exclude students and talk about all the adults in our country from 16 years old to 64 years 11 months and 29 days, (just before the retirement age of 65 for men; 60 for women);

30% of adults in Britain, are either unemployed, or economically inactive - that's to say they're living on incapacity benefit, or disability benefit, or they've retired before 60 or 65 and they're living off a small pension from their former employer or their own savings. They might like to work, but they just can't get work.

Typically they're men in their forties and fifties. In fact the average retirement age for men in

this audience is 55 and falling. Most of you can expect to retire at 55. This is now the average life expectancy of work for a man. Women actually go on longer.

30% of us who are not unemployed or uneconomically inactive have insecure forms of employment such as part-time and contract work. We don't have full-time employment rights.

And about 40% are in full-time work with secure forms of employment, either working for somebody else or working for themselves.

Now this 30-30-40 society has got complex causes, complex roots. Part of it is to do with the march of technology, part of it is to do with the deregulation of the labour market, with unions being less powerful and less able to protect the insecure. Part of it is about the increased power of business, about the chase for short-term products and short-term returns by companies driven by their foot-loose shareholders. Pension funds and insurance companies want ever higher returns, and are consequently saying to managements: 'you'd better make sure your labour costs are as cheap as possible.' *The Independent*, for example, has reduced its core staff to ever lower numbers and buys in journalistic work from part-timers and contractors who don't have full-time employment rights. That's happening all over. If you edit a paper like mine, *The Observer*, you are forced to behave like that yourself in order to have your costs the same as everybody else's. We are all compelled into behaviour we don't necessarily want to make. That's because of the 30-30-40 society.

Since I wrote *The State We're In*, I've been reflecting on three revolutions which I think are superimposed upon that and which are creating new patterns of inequality even more severe than the ones I identified when I wrote the book. For example, there is **the revolution in the role of women**. So many have entered the labour market that there are now nearly as many women working as men. OK, they're doing part-time jobs, but they are at work. Now women are living with men (unsurprisingly), and we have the development of dual-income households. 55% of households in Britain have two earners: the man and the woman. Their income is quite good. They can insulate themselves as a household against some of the worst current trends. They won't both be out of work simultaneously; they can support a big mortgage. Typically, with average earnings of about £22,000 a year now, a man might be making £22,000 a year on average and his wife, working part-time, might be making £8-10,000 a year. Their joint income might be £30,000 a year, and they can actually support a mortgage of £100,000. They can go out and buy a house for £100-120,000. It's not surprising now for houses or flats, which look comparatively poky, frankly, to change hands at that kind of money.

But there are other consequences of the dual-income household. These dual-income households are working increasingly crazy hours. Most men work 48-hour weeks or more now; a third of us work at weekends; most of us work into the evening. The 40-hour week, Monday to Friday, 9 to 5, is actually done by a minority of people. In dual-income households people are working crazy hours; one partner will be working at the weekend, while the other, or both of them, will be working in the evening for some time, or very early in the morning. To help them get by, they're buying in services that they used to do themselves. Laundering is being done increasingly outside the home. They're buying in gardening. They're beginning to use, in some cases, the Internet to do their shopping; and their shopping is being delivered to their door.

The range of services is really exploding and in the rich dual-income household the range of services is quite extraordinary. If you go to the States and spend any time in Washington or New York, where the dual-income household is now the absolute core idea, men and women are working not just part time but full time. These households have extraordinary incomes, but there is no time to do anything! They have to buy it all in! They buy in tutoring for the children; they buy in all manner of services. People buy not just their shopping for them but their clothes for them, design their houses for them, go out and buy the furniture to go in their house And it gets more crazy still. When they hold a party, they'll hire somebody to help them draw up the guest list, and then they'll hire personal conversational therapists (true!) who go round at the party and make sure that the right people get to talk to each other, and make sure that the conversation doesn't flag. In Washington dinner parties at the moment there'll be ten of you there and the eleventh will be the person whose job it is to keep the conversation going. And of course, that's a job, and it's in the service sector.

Some of the jobs are really extraordinary. Because many dual-income households don't have time to have children, they have pets. There's a huge industry of personal dog-walkers, personal cat-tenders. People are very anxious about their fitness, so the single biggest category of job generation in the States in the last eight years has been personal fitness trainers. Eight hundred thousand of them. They come to your door; you can go for a run with them, they'll work you out, they'll sort you out. They're very good, by the way. I can recommend them!

A second revolution that's happening in our Western society is ***the extraordinary march of technology***. We have the 'weightless' economy. We have an economy where we're producing much more than we produced at the turn of the century, but it weighs much less. Even a steel girder weighs much less than it did eighty or ninety years ago, because it is made of new light alloys so that two men can lift it. In the last century it took an army to lift a steel girder from one end of the quayside to the other when it was unloaded from a ship. With digitalisation, with the new micro intelligences that are in the back of a television or the back of a cooker, everything that you can think of, electric light, cooker, Hoover, car, is now lighter. Everything can be assembled from components that are mass-produced in robotised factories to order, and fewer and fewer people are needed to make them. Our manufacturing output is much higher than it was twenty-five years ago, but the number of people working in manufacturing has halved. Less than five million people are working in manufacturing now, even though we are still producing over a million cars a year, and fifty million tons of steel. The jobs are in the service sector I've described.

A third revolution that is happening is that ***our great companies are increasingly owned by our savings***. Everybody in this room, I will guess, will be a member in their firm of an occupational pension scheme; or they'll have a mortgage where they're paying it off not by simple repayments but their insurance broker or their building society has sold them an endowment mortgage which when it matures will pay off their mortgage; or they are saving in unit trusts or they have a PEP. All of us have our savings husbanded and stewarded by the great pension funds and great insurance companies. Now, in order to pay us the pensions that we expect when we retire and to pay off our mortgages in twenty-five years' time or whatever, they are all demanding of the companies in which they invest that they lift their profits year by year and increase their dividends year by year. The companies are responding, because they know that if they don't, they will be sold off to a predator company by the institutional shareholders who will say 'this management team can't do it, we'll sell you to another management team who jolly well can. And by the way, as across industry and commerce we get returns of 15% or more we expect you to make that, and if you don't, we're going to sell your shares and you'll find yourself taken over and if not by a British company by a foreign one.'

So you have everyone looking to maximize share-holder value, not worrying particularly about the other stake holders in the corporation, the customers, the workers, the bank, or the people who supply the company, but to make the assets sweat harder and harder. One of the best ways you can do that is by having as few people working for you on a full-time basis as you possibly can, with as few commitments to pay their pensions and give them paternity and maternity leave and sickness pay and all the rest; but to have a pool of people out there when times are good and drop them when times are bad. So you have all this superimposed upon the decline in manufacturing, the rise in services, the rise of the dual-income household, buying in all these services, because any service sectors that I talked about - personal fitness training or personal dog-walking - who are you? You're just a man or a woman, selling your services for an hourly rate to a household who if they don't like the look of you after a period will just drop you and move on. This is a fantastically insecure sector - personal fitness trainers, dog walkers, computer service people, people who do your laundry; and they're not in a position of power, they're in a position of extraordinary weakness. They hope that things will carry on next week but they can't be sure. So you have a 30-30-40 society - you have dual-income households, burgeoning demands for services, and people trying to make a living in this service sector which itself is very insecure. Meanwhile, firms are driving for ever higher shareholder value. This is the melting pot which is today's labour market.

For some people, of course, all this is a great opportunity. If you're 18, you might try working abroad maybe, doing personal fitness training, then come back and work for the church for a period, then go and do some retraining. It's a nice way to live - much better than forty years in the same place doing

the same thing. So it isn't all downside. But what is being generated is huge patterns of inequality: inequality of access to good jobs; inequality of income. The gap between the wages of the bottom 10% and the salaries of the top 10%, is the widest in modern times. Some economic historians say you'd have to go back to the Middle Ages to find a period where the rich have been so rich in relationship to the poor.

Some of the salaries that have been paid at the top echelons of industry are mind-boggling. The average salary of half the directors in the top hundred companies in Britain is £600,000 a year - *before* you talk about pension benefits, share option schemes and all the rest of it. Salaries of £300,000-£400,000 are now commonplace in management consultancy, partners in accountancy and solicitors' firms and all the rest of it. And if they're in dual-income households, they're married to somebody probably making similar kinds of money. But in the bottom 10%, hourly wage rates are static, in fact they are hardly going up at all. If the minimum wage is going to kick in at £3.60 or wherever, 10% of people make less than that on hourly wage rates (the exact figure is 8%). This inequality is extraordinary.

Now, why should we care? My argument is that we care because what's being generated at the top is an opted-out culture. There's lots of talk amongst the Conservative Party and New Labour (who some might regard as New Conservatives) that we've all got to work; we've all got to be pulled into the world of work. But my point here is that the inequalities of the world of work have reached such levels that we have to start looking at the top as much as the bottom.

Consider somebody making some of these staggering sums of money at the top. They can buy themselves out of the education system, out of the health system; and they live in housing estates where the railings are up to keep the poor out; these private housing estates where you have an enclave of houses almost insulated from the outside world. Everything is private. They drive to work; they don't use public transport. They send their children to private schools, and this creates a culture amongst the upper end of our society where what matters is individualism, standing on your own two feet. What the State provides, what the public sector provides, is second best; private is best. Actually, they don't have to make common cause with the rest of the public. You have this happening at the top just as much as you have what New Labour are properly concerned about at the bottom, where there is a cycle of people moving from unemployment to badly-paid part-time work, with other factors such as periods of redundancy, lack of skills, idleness, loss of confidence, illness and genuine need - and having to claim incapacity benefit because they are now physically and emotionally shattered. At worst, if they are very young, people are turning in on themselves and becoming a part of the drug culture, needing to steal or to feed their habit, on housing estates of the poorly paid, where we have most crime.

New Labour are properly concerned to address this issue, and the 'Welfare-to-Work' programme is trying to do it. But there's also a problem at the top. Both at the bottom and the top, people are declaring independence from commonly-held values. Actually, we all start to be reduced.

A very great social scientist, called Richard Wilkinson, has done a survey of North American cities. He plots inequality against road rage and violent incidents at traffic lights. Philadelphia, which is the most unequal city in the United States, has got the highest incidence of road rage. You are more likely to get robbed at a traffic light in Philadelphia than in some of the cities in the Mid-West which are much more equal. What Wilkinson says is that when you get violent levels of inequality, the people who do the robbing cease to empathise with the people they are robbing. They don't think: 'that's somebody who I understand would not want this happening to them because they're like me and my family'. They're so far apart from each other, and the peer group which they belong to is so reduced, that they can't empathise any longer. Trust relationships break down, the capacity to sympathise and understand what fellow men and women are going through becomes less and less.

Or take Education. The people in the top 1% educate their children at the top private schools. Of the top 200 schools in Britain, 170 or 175 are independent. The families who send their children to them are looking for high quality education for their kids. They don't basically understand what's going on at the bottom. A very unequal society becomes one of mutual incomprehension, and that mutual

incomprehension reduces our capacity to talk to each other, to find a common language and, at the limit, to be moral. 'Good Samaritans' become harder to find in a very unequal society!

And, of course, inequality has a very real impact on the economy. Unequal societies are economically and socially inefficient. It becomes harder to run economic policy in a society in which one part, say London, is booming because it's very rich and needs higher interest rates, while another part - Strathclyde - is poor and needs lower interest rates. It becomes very difficult in an unequal society to find the public support for the welfare state. 'Why', the rich say, 'should we pay progressive taxation, why should I pay more taxes into the common pool if I'm getting my children educated privately? I'm paying twice, I'm paying for your kids' education and for my own. It's not reasonable, it's not fair.' It's the same story on Health.

When the very wealthy believe in private choice and don't believe in the common weal, it becomes very hard to put the political coalition together that will sustain things like unemployment benefit and the old-age pension. The rich don't see the point, because they're not part of the organisation. Organisations depend upon everybody buying into the common mission, buying into the common sense of purpose; but if most people feel that the directors who run the organisation are feathering their own nests (and think they are going to be taken over tomorrow by somebody else), what's the point of all the effort, all that commitment? You don't make it! Meanwhile, public expenditure becomes higher. We have to spend more money on the depressed parts of cities and towns, to make some attempt to relieve the poverty that emerges. In fact, *unequal societies are bad news, for the rich as well as the poor* - that's my contention. These revolutions, and the international backdrop against which they are taking place, help to entrench these patterns of inequality still more.

Now, what to do about it? I believe we elected the Labour Party because the country understood (though not in an 'intellectual' way) we weren't living in a good society under Mrs Thatcher and Mr Major. By 1997 we'd had enough, and voted New Labour for a general sense of change. We wanted fairness to be put back at the heart of public policy, in my view. Hence the attempt by everybody to vote tactically to make their votes count. If you couldn't get a Labour person in, you got a Lib-Dem in. If you were a Lib-Dem you'd hold your nose and put a Labour person in, because you wanted the Tories out that badly. So, for a comparatively small share of the vote, the Labour Party and the Social Democrats together got a landslide of seats; and the Tories got the lowest share of the popular vote and the lowest representation in the House of Commons since 1832. That tells you something, and *The State We're In*, which I thought would sell 5,000 copies, actually sold 300,000 copies.

People aren't asking for a 1917 revolution to storm the barricades, to nationalise everything and instate a command economy and public planning and incomes policy. They don't want all that. But what they do want, I think, is the political leadership of the country to actually explain why this degree of inequality is unreasonable, and to do things which make it a fairer society. And the question is: is New Labour doing this?

New Labour is the curate's egg, I think. I think Mr Blair is a good man, and I think this is a well-intentioned party and a well-intentioned government. The things they have done on the constitution in Northern Ireland and in Europe are great, I think. I think the 'Welfare-to-Work' programme is very good. I like the fact that a minimum wage is being introduced, and I think there is a big build-up of public expenditure over the next three years which will be very good for Education and for Health. These are not trivial things to have achieved and they wouldn't have happened if we hadn't elected them.

But! If we are going to do anything about this degree of inequality, someone has got to stand up and say it's not good enough! This kind of society that we're living in is going in a wrong direction! Someone has to explain why this degree of inequality is unreasonable; has to construct a political story about why something should be done and then go out and do it. And I submit that this is not taking place. Such moves as there are, are taken by stealth. Consider, for example, how inequality hits the Premier League in football at the moment. Manchester United was taken over by BSKyB, or is in the process of being. They've agreed to this take-over approach by BSKyB. Only one director said 'But what about the fans, and when we get the money how much are we going to put back into

the game?' And he was sharply reminded that his responsibility as managing director of Manchester Football Club was only to shareholders, only to maximise the sale value of the club. Even 15 years ago, the Premier League had a complex system of redistributing gate receipts from the rich clubs to the poor clubs, to keep the game alive, to keep the game even, to keep the chances of any particular club within a league more or less equal. This isn't true today. The top four or five clubs corral the money and spend fabulous sums on good players, who are then corrupted by the tens of millions of pounds that are thrown their way. Some clubs even keep substitutes on the bench so that other clubs can't have them. So we find Manchester United or Chelsea or Liverpool are at the top of the league again, as they are at the moment.

No one says redistribution matters; no one says inequality matters. It's not just in church that we need to worry about the poor; the impact cascades throughout society. When that lone football director spoke about inequality and redistribution, there was no support, no allies, nothing out there for him to reach out to and say that if we are so selfish there will be consequences. There was no counter-vailing thought. This must come from the top. We have to get it from the top. My argument is that redistribution matters and that arguing about it matters, and doing things that reduce it matters.

The same story is true of Education. We cannot build a first-class state education system in Britain when the critical mass of Britain's middle class opt out of our schools. The experiences of our kids in the state schools will always be difficult because the achievers, the ones from the stable homes, will not be there in many state schools. State education becomes second-class; private education becomes first-class. Nobody makes that point in public life at all in contemporary Britain, but everybody knows it to be true.

So, I like Tony Blair, and I like New Labour. My paper (*The Observer*) and I wanted them to win the last election. They won. We will undoubtedly support them in 2001 because they're better than the Conservatives. But are they doing what needs to be done? Here you have a dialogue in Tony Blair's own brain. Part of Blair is a Social Democrat, a Christian, a man who is trying to construct a coalition to do the things and to address the issues that I've raised tonight. But he has to go step-by-step; he has to get where he's got to, consolidate his position, and then move on. He's moved on a bit. He's increased the public expenditure on Health and Education; he's brought in the minimum wage. He's going to do more in the next parliament, and the most radical thing he can do is win twice! No Labour government, no *non-Conservative* government, has won twice in Britain to keep the Tories out two consecutive terms since 1918. The best thing we can do for this country is to shatter the assumption in the Conservative mind that they are the natural rulers of the country, even though they don't represent the people. They'll sell off school playing fields, or they'll cut upper rates of tax; they'll turn a blind eye to tax avoidance; all the other things the Conservatives do. They don't actually have people's interests at heart. Blair will hope to win twice this way, and in a second term move on in the direction we are suggesting. **But** there's another part of Mr Blair's brain in which he says to himself, 'Nobody, frankly, gives a damn'. By this view, the foundation of the Labour Party was a historic mistake. It split the progressive vote over the last seventy or eighty years. Without the Labour Party, it would just have been Liberal versus Tory; and a lot of people who joined the Conservative Party (like Winston Churchill, who was a Liberal and became a Tory), would have stayed in the Liberal Party which would have been a governing party throughout the twentieth century, as it was in the nineteenth century.

Liberalism means that you've basically got to live with capitalism as it is. You make minor adjustments at the margins, but you can't do much really. If anybody wants to educate their children privately, well that's fine. We'll try and help the poor a bit, but not so much that it hurts the pockets of the middle class and the rich. We won't really challenge the operation of hedge funds, even though they're destabilising the world financial system, and probably bringing a world recession in their wake. We can't even change company law. Mr Blair develops a philosophy which he calls the Third Way, which allows him one day when he gets out of bed to be a Social Democrat determined to do good things, and the next day to say, well, actually, I'm not so sure. Maybe the best thing he can do is to win twice, but not to do very much with the power he's got; to deny it to the Conservatives but not to do very much with it.

Now, it's an open question, I think, which way Mr Blair will jump. He's been brave in Northern Ireland, he is developing quite a brave position in Europe by suggesting we should join the common currency. He's quite correct in that. He's been brave in the constitution, I think, and he's showing signs of bravery with Gordon Brown by not being panicked into cutting public expenditure despite the fact that's there's a recession going on. There are lots of reasons to suppose that he could be OK, but he's got to be kept up to the mark. There are considerable temptations to go the other way, and this is where, I think, the Church enters the fray.

It seems to me that the Church of England is one of the great moral communities in the country. Not every man or woman in it is a perfect moral being, but the ambition is there, and it seems to me that the Church has to continue doing what it's been doing, and perhaps even to speak out more strongly in favour of what it thinks to be a just order. I don't quite know whether the Church of England can borrow the idea of Papal Encyclicals, but some kind of statement of what the ground rules of a good economy, of a good society, might not go amiss. Mr Blair himself takes the Church of England very seriously. There's this pressure coming up from beneath to say we want to live in a different kind of order. Unless we make sure we have a voice, we are neglected

So, we live in revolutionary times. We live in times that are not conservative times, but in times that are pregnant with opportunity and, potentially, very rich and fertile. Men and women are more truly equal than ever before, and there's lots of opportunity out there and really exciting things to be done. But menacing it all are the self-interested actions of a financial system and a world financial system that needs, in my view, to be re-engineered and redesigned; and at home there is the by-product of all this: a massive growth of inequality and unfairness which, unless we challenge it, threatens the well-being of our society. And that's all I've got to say. Thank you.

Question: What do you think of Gordon Brown's optimistic budget statement this week?

Answer: I think Mr Brown is being optimistic. I think the prognosis for the economy is poor next year and not very much better the year after that. Beyond that I don't know. If the Euro works and the international financial disorders I've described fall away, which they could, we could see the economy going much better quite quickly. In fact, if you've got a bit of property, perhaps you should 'sit tight'. If we join the Euro, British mortgage rates will fall to about 4%.

In Dublin and in Ireland there has been an absolutely extraordinary boom. They call Ireland the Celtic Tiger. They have economic growth rates of 8, 9, not quite 10%, quite staggering over the last three or four years. The Irish have begun to realise that moving from a country whose interest rates are pegged to what happens in London, to one where interest rates are pegged to what happens in Paris, The Hague and Bonn (soon to be Berlin), spells wonders; and there has been a boom in the Dublin property market to end all booms.

Interest rates are 7¼%, will probably go down tomorrow; if they don't they'll certainly go down next month. We're moving into a world where your mortgage rate may be 9% at the moment, or 8.99%, to a mortgage rate where it will be 4% in 2000 or 2002. If that's the case, every house price in Chelmsford will go up by at least 50% in real terms over the next three or four years, and this will create a lot of jobs and a lot of wealth. On the back of that, Gordon Brown's economic projections don't look that bad. On the other hand, if this rogue international financial system carries on running amok like a wild elephant round the world, and there is a real credit crunch with banks toppling, we could have a depression like 1929-31. It is very difficult to predict, and all you can talk of is probabilities. There is a one in five chance of a world depression; there is a one in five chance of a boom; and the most likely outcome is somewhere in between.

What Gordon Brown has done is to plant his flag at the more optimistic end of this range of probabilities and, frankly, if I were him I'd do just the same. You can't plan on the basis that there is going to be a slump! Once you've said that, you find that the budget position of the government is quite strong. The figures in the pre-budget statement show that the public borrowing which we

thought was borrowing was actually a surplus. But I suspect that, quietly and surreptitiously, there was a big cut in public investment in this budget. Last June Mr Brown was saying he was going to spend 8 billion next year, 11 billion the year after that, and 14 billion the year after that; but in this budget he was going to spend 6, 9 and 11, which is a cut of a quarter. Which means that Mr Brown will be able to do only as much in public sector investment as Ken Clarke planned to do. There's no increase at all, which I'm not happy about.

So my answer to your question is that I think this optimism is not unreasonable. Does it mean that they will deal with the things like inequality that I've been talking about tonight? I suspect, no change. I'm particularly worried about the private finance initiative, which is a way of financing public investment by using private money. I think this is very pernicious. It's quite good if you're doing it for a railway or an underground, but when you start doing it for health it gets very pernicious. Private finance initiatives mean, in the hospitals that introduce them, a real, calamitous fall-away of acute beds; and it's been extended now to community services, which I think is bad news. The private contractors now own these assets and they contract to provide pre-specified services. They have to make profits from their operations. Now, that's reasonable enough in a railway or an underground or a bus service; but where you get into the heartland of public provision, education and health, I think it has very poor results. It creates inequalities, because if there are fewer acute beds, the best way of getting one is to make sure you've got private insurance or that you live in a better part of town, with a fundholder who's got a population of rich patients. Because they're rich, their health experience is better; therefore he or she can stretch the fundholding budget further. Therefore they can do good contracts with the local hospital and get *you* to the top of the acute bed list rather than somebody from the poor side of town. New Labour shouldn't allow this to go on, but they are doing.

In terms of macro-economic management, I think Gordon Brown's being quite sensible, but behind that sense lie trends which have been exacerbating inequality in the last five years and remain not as sufficiently checked as they should be by a Labour government. One of the things I sometimes say to Gordon Brown is, 'Is this what you want, Gordon? Is this what the fight was all about, all those years of student politics and fighting away at the Labour party, becoming the Chancellor of the Exchequer, the intellectual author of New Labour, is this really what you want?' Anyway, he never answers me! But I like Gordon Brown a lot.

Question: In your analysis you fail to make any mention of the environment. The cost of energy alone will plunge us into further crises.

Answer: I accept the rebuke in part. One of my weaknesses is that I don't build the environment and environmental concerns into my thinking enough. This is what my wife and two daughters and son keep telling me, so I now go to the bottle bank every Sunday afternoon. But I find this a very difficult one. Is this the worst October for many years because of changes in ocean currents, jet stream patterns, because of global warming; or is it just a wet October? There is evidence that we are warming up, but you'll find people who say, well not at such a speed that it's going to go critical.

Where I've ended up on the environmental question is this: where there are identifiable problems in the here and now; the food chain, exhaust emissions and asthma, drinking water, which we're processing with chemicals which seem to be affecting sperm counts, because there's too much oestrogen in it because of the Pill... these are affecting us as human beings in a scientifically proven manner, which we must redress. But doing something about it requires precisely the same value system and political coalition that I require to do something about inequality and about the way the financial system operates. These have been my two main preoccupations throughout my working life, so that you can make common cause with me, even while I recognise that I probably don't give enough weight to environmental factors.

Question: What advice would you give to an active member of the Labour Party, to make sure that Tony Blair keeps his nose to the grindstone?

Answer: One of the great things about British politics is the Labour Party is stubbornly refusing to be modernised - if modernisation means the abandonment of the principles that make

people join the Labour Party. If you join the Labour Party, you join because you want a fairer society; you believe in the redistribution of income, you don't believe in large concentrations of wealth. You believe that, as a minimum, capitalism can be reformed to be more humane and, as a maximum, that you can socialise it.

I don't believe in the socialisation of capitalism. I'm a Social Democrat rather than a Socialist. I'm a reformist. I'm a Keynesian in my economics and that's where I come from.

Now, if we believe all those things, then we have to ensure that they are in front of Mr Blair's agenda, and that he recognises that there are limits that the party won't go beyond even if the public will. He is the Labour Party leader, after all. Now, how can you as a party member do your bit? First of all, one of the major revolutions over the last thirty years has been the sexual revolution. The position of women in relation to men has been absolutely transformed, and most men and women regard themselves now as equals and different. Women do not accept the notion that they're subordinate to men any more. It's fantastic, it's great, but it wasn't like that even thirty years ago. The feminists insisted that every single engagement of a woman with a man, or a man with a woman, was actually political with a small 'p'; that a woman required to be treated properly, to be respected in all her personal relationships; and thirty years later all women's position has actually been transformed. Part of that is the way the economy has changed, part is the way society has changed, and part is about the hundreds and thousands of small fights that women have had with men over thirty years; some of them with me!

The point is that every conversation, in a sense, and every exchange, when an issue is raised, has political implications. We shouldn't let things go by unremarked. I think it shouldn't go unremarked when people send their children to private schools, for example. Now, people can do that and they often do it with the best of motives, but it's not unremarkable. There are hundreds of occasions where just by standing for a certain culture and value system, you actually become part of the national conversation. You can do it particularly inside the Labour Party, at party meetings. But choose flagship things locally, which represent iconically or totemically what you think would be a good order, and back them, campaign for them, and do it in a way which is charming and engaging. You can be charming and likeable and still believe that school playing fields matter! The Left, for so long, has been so bloody dreary, and very difficult to have a joke. All that culture needs to be changed, so that it isn't only New Labour modernisers who have fun - not that they have much fun, by the way, they seem to be rather 'Roundheads'. In my view, the Labour Party needs to reassert itself, formally through the channels that you know, and informally, which is the manner which I have described. It needs to do so nationally; and it doesn't deserve people like Frank Dobson or David Blunkett or Tessa Jowell, unless they have some groundswell of opinion that backs them, so they can take a few risks.

Question: Do you think the Clinton administration in the States will continue to be a model for New Labour in this country?

Answer: Good question. We were discussing it today at an editorial conference. One of my colleagues was making just this point, saying we've got in the Brown budget yesterday, a promotion of Employee Stock Ownership Programmes - that's ESOP; and of course ESOP is one of the great things that President Clinton backed: independent central bank, council of economic advisers, balancing the budget, welfare to work, and now ESOP. The Americanisation of New Labour is very evident; so I think that it's quite a fertile area in which to look. However, the tradition of interns at Number Ten Downing Street is much less well-established!

I thought the results of the American elections were very interesting. The Senate stayed stable and there were four gains for the Democrats in the House of Representatives. The American public are much more tolerant about the Lewinsky affair, or at least less tolerant of Ken Starr, Newt Gingrich, and a kind of Republican attack to get the President. On the other hand, Blair and Mandelson in particular are very pro-European. I always think that one of the best things about Peter Mandelson is his bravery over Europe. I attended a conference with him in Germany about three years ago, before they took office, and it was full of Eurosceptics. It would have been very easy just before taking office not to rock the boat, but Mandelson stood up and gave ten minutes of passionate commitment to the

European cause. He was Vice President of the European Movement. He gave a speech at the CBI this week, when he said it's not *if* but *when* we join the Euro. He, of all the people in the Cabinet, is the most committed pro-European and the one willing to be the bravest about pushing the boat out. That's because he believes in European culture and the European social model to a degree. But it gets complicated, and Peter Mandelson gets a terrible press. I've been wondering whether the time has come to write a pro-Peter Mandelson piece! I thought his remarks on Pinochet were good; his remarks on the Euro were good; and his decision about his sexuality was no one else's business really. I think he's had a bit of a hard time; and I'm not sure that he is a vehicle for the Americanisation of New Labour.

Question: Do you think New Labour is resisting the pressure of the Murdoch-controlled media?

Answer: The answer is I do. I was thinking a lot about the Jenkins Report about proportional representation recently and why I am in favour of it. And I've been thinking a lot about tactical voting in that context. I was very struck at the last election by how much tactical voting there was. People really wanted to make their vote count, and in some constituencies they were lucky because they *could* make their vote count by voting for the principal challenger to the Tory; and in other constituencies they couldn't. In a way, all that Jenkins is saying is, let's make that systematic. People want to make their vote count. We should have a voting system which allows them to do that nationally, rather than the kind of lottery which depends on which constituency they live in. I think the people who are behind New Labour are particularly anxious to make their vote count. They're upwardly mobile, they're impressed with the kind of things that Blair says, and they'll vote for him again in 2001. As long as we have a first-past-the-post system I think New Labour are likely to win again. I also think the Conservatives are a busted flush this side of a referendum on Europe. As long as the Europe question is not decided, the Tories have got no chance of putting a coalition together of middle England, business interests, financial interests, and the Church of England! The business community is split down the middle, the financial community is split down the middle, the chambers of commerce are split down the middle, and they find themselves a minority. At the moment the interaction of tactical voting and the collapse of the Conservative Party, its inability to articulate what people's concerns are, and its inability to put together a political coalition given the Europe question, means that New Labour are cock of the walk. Why, then, aren't they brave about Rupert Murdoch? Well, this week might be a bit of a watershed. They are taking on the 'Sun' over the European question, and are prepared to take a few risks. It means they recognise that the interaction of tactical voting and the interaction of what's happening to Conservatism does give them more of the new than they thought they had 18 months ago. Your question may speak to the last five years rather than the next five years.

But having said that, I am concerned about the power of the right-of-centre press in Britain. The 'Independent' group of papers and the 'Guardian' group of papers, are the only two broadsheets that keep up the liberal tradition; but we are, with the exception of the 'Guardian', all struggling. We lose money, and it's very hard to build circulation because we've got super-rich tycoons pricing their papers the way they price them; the 'Telegraph' with its subscription scheme and 'The Times' with its cheap Saturday and cheap Monday editions. It's very hard to fight against, when they have these resources. Good journalism is expensive and time-consuming and demands committed people. It becomes harder and harder to hold them. I don't think we should be overly critical. The 'Independent' finds it much harder (and the 'Independent on Sunday' finds it much harder) than we at the 'Observer' and the 'Guardian', because they are under such financial pressure. But I can't pretend we're not under financial pressure as well.

Television and radio are also under immense cost pressures. The multiplication of channels means the decline of audiences; it fragments the audience, fragments the financial base, and means we can't spend the money on quality journalism and quality programmes in the way we used to be able to. And then what starts to matter is what the political views of the tycoons are. If you edit the 'Sun', or edit the 'Times', you do what Rupert Murdoch says; and he makes sure he appoints editors who will do what he says. It's so important to have in power a government which will stand up to this cultural and media juggernaut that comes our way. As the editor of a national newspaper, you're aware of how difficult it is for one voice in one paper to stand against it.

So my answer is complicated. I think there are some trends which may be making the politicians more confident than actually the people are behind them. I think what's happened in America is going to be very significant. The Republicans thought they had the media behind them, and were really scapegoating Clinton. But they didn't get the resonance they expected. The 'Sun' went down to Clapham to try and find people on the Clapham Omnibus who would vote to castigate Ron Davies and couldn't find a soul. The country is more tolerant and it's one of the great saving graces of Britain. It's a liberal, tolerant, humane place. There's nothing in our culture, nothing in our literature, nothing in our poetry which speaks to violent 'isms', hatreds and intolerances; and a lot of people are wise enough to allow the 'Sun' and the 'Daily Mail' just to float past them. They can see what's false and what's right. I suspect some of the power of these media moguls may be over-done. In fact I'll leave you with this thought: there will be a referendum to take Britain into the Euro; there's been a referendum in France already and there's been one in Denmark. When the vote takes place, I think the 'Sun' will be opposed, but I think the majority in favour of going into the Euro in Britain will be the biggest of any EU country. We will vote more massively to be in, notwithstanding Murdoch and notwithstanding Conrad Black when the moment comes. And I'll come back in three or four years and you can try me out on that.