

# Two lanes on the Third Way

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by Dr Diarmid Weir

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## Summary

The importance of the 'Third Way' debate is its power to provide a framework of ideas to bind political themes. The Prime Minister's words and actions suggest that he believes that when we increase the capacity of others to help themselves, we also increase their capacity to help us, both immediately and in the future. To ensure this, multiple independent sources of information are essential, as well as a just distribution of resources.

Genuine democracy which involves enlightened self-interest must give each individual the same real influence. In practice this requires delegation. Our present electoral system of delegation is flawed because it produces a representative body that does not accurately match the population as a whole.

Businesses are uniquely privileged in law and we must be sure that this privilege is justified. Their control of resources must take account of the interests of all affected individuals, according to the nature of those interests. This requires a change from the opposition of separate interest groups working to different ends, to a community of individuals working to the same end - that of maximising human benefit. If this happened then changes in attitude to work, remuneration and investment could enhance the quality of

innovation and development, while producing real change in the distribution of resources between rich and poor.

## Section 1 - Tracing the Route

### It's Important

There seem to be two groups who dismiss the 'Third Way' concept outright. There are those who see it as a quasi-philosophical cloak for allowing transnational corporations and ever-more mobile capital greater rein over our lives, and there are those who regard it as so much hot air designed to disguise the fact that the new Labour government really haven't got any ideas at all! But there is another view. Will Hutton, editor of the *Observer* newspaper recently expressed the need for a 'distinctive and coherent model of the way economy and society work'. Having attended the Downing Street seminar which British Prime Minister Tony Blair chaired, I believe that he does take the need for a 'new politics' very seriously, has an open mind about what its structures and policies might be and accepts that it may take up to ten years for these to be worked out. Yet he is very clear about what the principles of such a political and social movement should be - these are the need for: justice, liberty, progress and the understanding that the individual relies on others to fulfil him or herself. I believe that it is the last of these principles that is probably the most important, and also the one that clearly places this project on the left of the conventional political spectrum.

For those who still doubt Blair's sincerity, consider what else we know about his philosophical underpinning, and about how he goes about his business. John Macmurray, a philosopher whom the PM famously admires, wrote 'rational action is action in which I treat the other as a person rather than an object at my disposal'. Two crucial points in the Northern Ireland peace

process showed this belief in action, when the PM shook hands with Sinn Fein leader Gerry Adams declaring ‘that he had to be treated like a human being’ and Northern Ireland Secretary Mo Mowlam's brave venture into the Maze prison to speak to the Loyalist paramilitaries.

### **Building Capacity**

Human progress is an uncertain and incremental process which can only result from the step-wise exploration and experimentation of individuals. Which avenue for each individual is going to produce the greatest benefit is never wholly predictable, although it can be said that when given an adequate amount of knowledge and resources, each individual themselves is the one best placed to know what his or her most effective contribution to their own and society's well-being might be. We might sum up the message as being that when we increase the capacity of others to help themselves, we also increase their capacity to help us. If the recipients of our help are themselves aware of this we can rationally expect them to make use of this capacity. Indeed in many cases we can serve our own ‘enlightened self-interest’ better by intentionally directing particular resources away from ourselves and to others who have the skills or the potential to make greater use of them for our benefit. I believe it is this connection between what produces the greatest well-being for the individual and what produces the greatest well-being of others that defines solidarity, both when used by Catholic theologians and by socialists.

### **Information and Resources**

Information as to the merits of a particular action (and we can never act with 100% certainty) must be reliable and if from others given in good faith. If so the overall consequence of actions by individuals and individuals acting collectively could reasonably be assumed to be, over time, in favour of benefit. If, on the other hand, any of the information someone obtains is given for

ulterior motives, then the bias may easily swing the other way. Therefore there is risk of harm resulting when a small and powerful group controls information, and uses it for narrower aims. And for exploration and experimentation to produce the most beneficial results, the resources required to pursue these must not be arbitrarily withheld from any individual. And no individual should be barred from pursuing his chosen line of investigation except where he or she would reduce another's ability to use the same resources in a way more likely to produce benefit. Providing universal needs such as physical safety, adequate food and water, shelter, healthcare and basic education to all is of course a pre-requisite.

### **Hitting the Road**

The Prime Minister wishes to define pressing tasks which follow from the principles defined above. I believe that there are two crucial areas, both of which are already within the government's sphere of interest, and where initial steps are being taken for change.

### **Section 2 - The Outside Lane**

#### **Leadership or Democracy?**

A Royal Commission under the chairmanship of Lord Jenkins, former Labour Cabinet Minister and European Commission President has been set up by the government to report on an alternative to our 'First Past the Post' (FPTP) system of elections to the House of Commons, Britain's main legislative body. The support of Blair and his government is likely to be critical to the success or failure of the alternative proposed in winning support in the proposed referendum on the issue. Where might the 'Third Way' ideals guide us here? Where individuals have the freedom to exercise power on behalf of others, there is a natural tendency toward a shift of resources and benefit from those

on whose 'behalf' that power is exercised to he or she who exercises it. This will occur irrespective of how altruistic the 'leader' strives to be. The reason is this: - In the realm of human affairs there is constant change and there are many uncertainties. Therefore many decisions do not involve a clear-cut right or wrong choice for all on any currently available evidence. In these situations the 'leader' must invariably act in the way they see as likely, however unconsciously or marginally, to benefit themselves or as least likely to cause them harm in the long run. This is 'enlightened self-interest' in action. Yet the cumulative effect of all these decisions over time must inevitably be to favour the 'leader' and gather to them more resources. Given that the overall pool of resources over a specified time is finite this must imply a reduced share for the ordinary citizens. No doubt, a truly altruistic 'leader' would attempt to redress the balance from time to time (perhaps this is the origin of the 'Jubilee' of Hebrew and Catholic tradition), yet it is hardly likely that he or she would disadvantage him or herself, even temporarily, to the same extent as their subjects had been before the problem was realised. Invariably, in any situation where individual human beings are acting together, for the balance of collective action not to favour one or some individuals more than others, each individual must have the same real influence over that action.

### **Democracy as Bargaining**

If overall progress is a matter of balancing control of resources between individuals according to how they can make use of them, both to their own and therefore to society's benefit, how is it possible to achieve this in practice? For every individual has unique needs, yet no individual has the ability or the right to judge his own needs as necessarily superior (or inferior) to those of any other. For two individuals of equal power, a process of direct bargaining could suffice, until they are both happy they had the best possible deal which they could 'shake hands' on. When many individuals are involved

it becomes increasingly complex, and the process of effective bargaining eventually uses up resources and time which the individual him or herself could use more effectively. And so we come to delegate the bargaining role to politicians.

Ideally their role should simply be to broker the best deal between all individuals which maximises the effective use of resources by individuals and thus for society as a whole. But the existing political process itself may encourage a particular type of individual and certain patterns of behaviour to the exclusion of others. The result of this is that bodies consisting of elected politicians will have different characteristics from the population at large, and the outcome of decisions where direct consultation with the people as a whole is not possible will tend to some extent to reflect these characteristics.

### **Moving Over**

What features of an electoral system might bring it closer to our ideal? The system should produce a representative body which matches as closely as practicable the profile of the general population. In theory random selection would be the most accurate way of doing this, and has been tried on some national lottery fund allocation bodies. (See <http://www.parliament.the-stationery-office.com/pa/cm200203/cmselect/cmpublicadm/165-ii/2121203.htm>.) Random selection is probably a little too radical for now, but it may well represent the future of democracy, perhaps in an on-line second chamber. In the meantime, a system of election which allows accountability to flow more toward all of a politician's constituents rather than those of the political party he belongs to, and matches specific policy preferences (as reflected by the parties) across the electoral body and the population at large is a reasonable approximation. The oft-cited drawbacks of Proportional Representation systems - lack of 'effective' government and loss of the constituency link - can be avoided by eschewing veto powers and a bit of ingenuity respectively. I

believe in any case their roles in the current system are in any case much overstated. 'Effective' government can easily become unaccountable government, as the Tory poll-tax debacle amply demonstrated. The constituency link is pretty meaningless when under FPTP most constituencies have a built-in 'majority' for a particular party, and often the true electoral majority actually voted for someone other than their representative.

The merits of specific electoral systems is a complex issue, (See the Electoral Reform Society site at <http://www.electoral-reform.org.uk/article.php?id=5> if you're really keen) but if the general points I have made were taken on board, I think we would have a considerable change for the better in our political decision-making process.

### Section 3 - The Inside Lane

#### **Corporate governance and responsibility**

The second essential issue is that of corporate governance. While individual action is constrained by its effects on the actions of others, whether directly or through its relationship to the law (the community's regulator of what is or is not acceptable behaviour for individuals), Government action and the actions of public bodies are constrained by the democratic process, however inexactly. In the eyes of the law businesses, companies and corporations are neither communities nor representatives of communities, but are actually separate entities. Business entities, by being separate from their 'owners', reduce the risks involved in initiating particular activities by restricting the consequences to purely financial ones (given adherence to the law) and to financial loss no greater than that risked. This encourages 'risk taking' for innovation and product or service development. Where this produces advances which benefit humanity this is clearly good. But are the protections of limited liability so very different in theory from telling someone that the personal consequences of any action (however disastrous to others) will simply be limited to the loss of those resources they put into that action? To put it extremely it is as if one was told that the maximum punishment for murder was the confiscation of the murder weapon. This may sound far-fetched but perhaps we should remember the role and activities of the tobacco industry?

#### **Control of Resources**

Money, to have value, always represents control of resources - including human labour. In advanced capitalist society a significant share of the money stock must automatically confer control of a significant share of resources. With control of resources goes the power to shape society and direct the lives of the individuals who depend on these resources for their well-being.

Where these resources are controlled by businesses, the unique nature of which I have described, then the individuals affected include employees, shareholders, taxpayers, customers and the community at large affected by pollution, traffic congestion and so on. Decisions over the nature of business structure are then conscious choices over the relative merits of democracy and some other form of governance. Is the balance in favour of allowing all those affected by business activities a genuine say - according to the effect on their lives - or do we believe that some person or persons outside this sphere or some particular group within it; directors, shareholders, trade unions or government in the case of nationalised industries, should make those decisions? The arguments are already described. Only democracy will suffice. The difference between democracy as it applies to businesses and as it applies to national government is that a citizen's relationship to his country is fairly standard, but the relationships of shareholders, employees, customers and the public at large to businesses varies with their role and with the nature of the business. Their degree of input into the decision-making process must approximate to their overall stake, whether this be in one or more roles.

Of course this is not to suggest that everyone conceivably affected by business activity should be involved in every decision, or would have to avail themselves of every piece of information about the running of a firm - this is clearly impractical. It doesn't happen in democratic government, yet the direction and parameters can be set, and those appointed to match these most efficiently (because that is where their talents lie) can be held accountable for the achievement or otherwise of these aims.

**Common Aims, Common Benefit**

If any reduction in communication between individuals reduces the potential benefit of all, by reducing the number of independent sources of information, then the opposition of separate interest groups is damaging, because it limits the area of dialogue artificially, with the result that exchanges between the groups become polarised, and what should be common aims are ignored. This pattern of 'organised antagonism' has often been evident in the field of union/management relations.

Capital, as represented by company directors, believe their primary aim to be the maximisation of money profit for their shareholders, trade unionists the securing of the highest possible remuneration and the best possible working conditions for their members. Any 'co-operation' must inevitably become no more than a compromise between these non-compatible objectives, with neither party feeling particularly happy and thus unlikely to maximise their contribution. And externals, such as the quality of goods and services and the adverse effects of particular processes of the businesses are reduced to secondary considerations which may be sacrificed altogether for the need to reach a workable 'contract' between capital and labour. Yet this is not sensible. Externals must also affect the individuals who are under the collective 'umbrellas'. They too have to gain from getting these right, and this gain multiplies across the economy.

The UK in the late 1970s, with the powers of 'capital' and 'labour' seemingly in balance, demonstrated this well. The response of the Thatcher government, elected in 1979, was to shift the balance of power and resources decisively to 'capital' with the result that management's view of the world predominated. Corporate profits and management salaries rose at the expense of lower pay for other employees, deteriorating working conditions, loss of job security, and relative under-resourcing of public services. Since performance was measured in profits and GDP (Higher salaries at the top

making up for lower or no pay at the bottom) success could at first be claimed. Yet in the end the chickens of poorer health, higher crime, falling standards of education and training, drug abuse and so on came home to roost in economic terms, with taxes and government borrowing actually having to rise, despite all the ‘rolling back the frontiers of the state’ rhetoric.

Could not ‘capital’ and ‘labour’, management and unions, the public and private sectors all unite on the common aim of maximising human benefit, through an appropriate democratic consensus? We might then see the efficiency and effectiveness of the economy in producing human benefit and meeting local needs increase markedly. This would truly be ‘wealth creation’ from which all of us not pathologically obsessed with counting wealth in terms of money, must stand to gain. Anita Roddick of ‘The Body Shop’ has recently described the already convincing evidence of the success of the ‘stakeholder’ approach (even by conventional parameters of share value and sales growth) that has emerged from research in the US and in Britain. But it is important to make sure that there is a real change from businesses as ‘independent economic vehicles’ driven by directors, to businesses as ‘interdependent human entities’ (Roddick’s terms). This can only be achieved by real democracy of the type I have described. As managers grapple with the unfamiliar concepts of sustainability and ‘human’ capital, there may be a window of opportunity here.

### **Pulling Ahead**

The UK government are already committed to a review of corporate governance, with a consultation document *Modern Company Law for a Competitive Economy* recently published by the President of the Board of Trade. Mrs Beckett tells us that the review will ‘actively consider the current balance of obligations and responsibilities’. The Green Paper considers the issues of limited liability, and of how ‘directors duty to act in the interests of

their company should be interpreted'. If business are to genuinely to consider wider interests than simply the maximisation of isolated financial outputs over inputs this cannot happen without extending the powers of directors to all relevant individuals, not just trade union groupings or pension fund managers. (Although that is not to say that both groups do not have important functions to fulfil.) Since the White Paper is due to be published in 2001, such a program could form the core of Labour's next manifesto.

Business run on the lines described would have three novel features:

- Shop-floor workers, knowing that they have a real long-term stake in the business and that the business aims matched theirs, would surely be more likely to achieve 'flexibility' in working hours and remuneration to tide the business over difficult times or give added impetus for development and innovation. The managers of such companies, appointed for their efficiency in achieving the chosen aims of all in the business, could be prepared to see the gap between their money earnings and those of other employees with more manual skills if they were convinced that they were participating in an activity which contributed directly to human and national development from which they too stood to gain. Such an attitude - if allowed by changes in investment legislation - could even encourage cheaper access to materials and money capital, because those providing them could see benefits for themselves other than financial profit.
- The difficult distinction between public business - supposedly democratically accountable, but often inefficient and slow to respond and contribute to change, and private business - innovative and flexible yet often poor at providing adequate standards of product and employment and insensitive to concerns of the wider community, would be ended. All business would become directed to the human aims and development of those involved, but retain an independent status which allowed for

innovations and their development and testing in a 'free-market' of good ideas, rather than that of money power. Areas which could benefit the many; cheaper and faster public transport, better and cheaper medical technology, healthier and yet attractive food, should expand and develop more rapidly, at the expense of those which did not. And business could find ways of doing this which did not require any employees to work long hours, for low pay and in poor conditions with the chance that in any case their jobs may disappear at the whim of a foreign investor.

- There might ultimately be no need for financial 'profit' greater than that required to service debt, invest in product/service development and perhaps meet unforeseen contingencies. This could allow firms to provide valuable goods and services that are not currently commercially viable. Would not shareholders, who knew that their investment was being used to improve their lives, their health and their environment, be willing to forego at least part of their dividends - particularly if the lines of information and influence for individual investors were improved? The increasing popularity of 'ethical investments' suggests that this is a possibility.

### **Conclusion - Redrawing the Map**

And there would also be redistribution, not the problematic one of money beloved of the British Labour Left (problematic because the elite of the economy retain control of its effective value) but a far more valuable redistribution of the control of resources; and because of the increased production of 'public goods', greater incentive to real innovation (not just new marketing ploys) and reduced human deprivation, a redistribution that obeyed the dictum of Abraham Lincoln: 'Don't make the rich poorer, make the poor richer'.

The evidence available to persuade the people of Britain (including many of those in business) of the need for a radical new approach to the internal structure of our economy is increasing, but eventually we will have to convince our international colleagues also, and this will require considerable commitment and courage. Tony Blair has acquired considerable stature since coming to office - both in Britain and abroad - based largely on a real ability to inspire trust. To make use of this in this endeavour will be his greatest challenge, but it would also be his greatest triumph.