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# UNIVERSAL BASIC PROSPERITY

SUSTAINABLE PROSPERITY FOR THE  
21ST CENTURY

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December 2021



Published by the Social Prosperity Knowledge Network at the Institute for Global Prosperity, University College London. The Social Prosperity Knowledge Network is co-chaired by Professor Henrietta L. Moore and Andrew Percy and leads the IGP's multi-disciplinary research into social welfare in the 21st century.

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**To be cited as:** Percy, A. (2021) "Universal Basic Prosperity" published by the Institute for Global Prosperity at UCL in December 2021. ISBN: 978-1-913041-26-7 DOI: 10.14324/000.wp.10138869

## **ACKNOWLEDGEMENTS**

The author acknowledges the invaluable direction of Professor Henrietta Moore, assistance from Juan Moreno, support of Bel Crewe, reviewers' feedback, especially Ann Pettifor and Jonathan Portes, editing by Joanna Higgins, and the support of all at the Institute for Global Prosperity, UCL.

**UNIVERSAL BASIC PROSPERITY**  
SUSTAINABLE PROSPERITY FOR THE 21<sup>ST</sup> CENTURY

**ANDREW PERCY**

# ABSTRACT

Technical development of economies leads to a conflict between the rising cost of collective needs and motivation. Without increases in welfare efficiency, safety is reduced. Reduced safety causes participation decay, creates a tax trap, results in lost productivity, incentivises environmental destruction, and leads to financial instability.

Developed societies will have to deliver effective safety efficiently, as a precursor to addressing other problems.

Effective satisfaction of safety needs at a cost that does not erode motivation would revive participation, foster reciprocity, boost productivity, license environmental sustainability, and enable financial stability.

Mal-adaptation to resource pressures in developed societies has caused macro instability across social, economic, and environmental dimensions. A conflict in developed societies, between social safety and motivated opportunity, has been unfolding for a century, and intractable for the last 40 years. Problems of insecure livelihoods, unstable finance, and environmental destruction are outcomes of failed attempts to resolve that conflict. To resolve those problems and prevent decline, developed societies will need to strengthen reciprocity in their tax systems, so that they can increase the efficacy and efficiency of their welfare systems.

This paper sets out to first clarify the roles of safety, opportunity, and participation, and the binding function of reciprocity in their arrangement.

It then reviews the path of taxation in developed societies as they progressed from industrial economies to technically advanced economies over the 20th century. It demonstrates how attempts to suppress taxation, while preserving development status, are connected to insecure livelihoods, unstable finance, climate destruction, and weakened reciprocity.

The last section proposes options for establishing strong reciprocity by reforming tax, fiscal and welfare arrangements, to align with achieving universal basic prosperity in the 21st century.

The National Contributions report, released as an adjunct report, details tax reform proposals for the UK that conform with the proposals in this paper.

## INNOVATIONS

1. Recognising that the broad specialisation requirements of post-industrial societies and economies requires similarly broad access to safety, opportunity and participation.
2. The corporatist and neoliberal episodes are part of a single trajectory in which the common, central challenge is increasing the safety of broad swathes of the population while simultaneously broadening opportunity, as dictated by the needs of the technical economy.
3. The confounding problem is that, absent greater efficiency, the level of resources needed to provide the safety required to support the economy intrudes into the share of output that motivates equally important opportunity. The central problem is the efficiency of collective safety provision.
4. Both financialisation and environmental destruction are direct outcomes of failed attempts to **avoid** the problem, and that addressing the problem removes the incentive for both.
5. An inflection point exists at which the costs of safety can be reduced to preserve opportunity. That point is a political declaration of unconditional access to safety that permits economies of large scale and efficiencies of small scale to be adopted. The economic and fiscal problems have a political solution: universal basic prosperity.

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# SUMMARY

## THE SAFETY GAP AND HOW TO CLOSE IT

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There is a fundamental conflict at the heart of societies in ‘developed’ societies. Failure to acknowledge that conflict is preventing us from having a broader discussion about how to collectively respond to the challenges that underlie it — insecure livelihoods, unstable financial systems, and climate change. Reforming tax and welfare is necessary to strengthen reciprocity and open the conversation.

Two features of the 21st century — technical development and limited global resources — have created the impasse. Advanced technical development over the last 100 years has required many more people to become more specialised, contributing their mental, as well as physical, effort to their work. That broadening of specialisation across the population has, in turn, required a massive upgrade in social infrastructure to support skills, livelihoods, health, and care. Developed societies now allocate four times as much of their production, through taxation, to collectively creating and maintaining those social conditions than they did a century ago.

As development spread across the globe in the 20th century, competition for resources increased and the possibilities for exploiting each other reduced. That has squeezed the colonial advantage that many developed nations had. In the 21st century, societies have greater needs than ever before, and still just the one planet.

The conflict — how societies ensure they have the social capacity to support a technical economy, while leaving enough to motivate everyone — came to a head in the 1980s. The world we live in today is shaped by that conflict, which was not resolved at the time nor has been since. Until the 1980s, tax takes in developed societies had been steadily rising as a share of production. Since then, they have stopped rising, while development continued and populations aged, creating a ‘safety gap’ between needs and resources.

Attempts to resolve the conflict between social and economic needs have revolved around two strategies: transferring responsibilities to individuals to restrain taxes, and increasing production to grow out of the conflict. Both of those strategies have failed to close the safety gap, and made its resolution more difficult. Insecurity is widespread across the populations of most developed societies, as socially provided support has been curtailed and individuals have struggled, and failed, to replace collective security with their own resources.

The drive for growth has failed to generate the resources needed for safety while granting permission to exploit, including raiding global commons. The mechanisms of finance have been essential to both transferring responsibilities to individuals and the promotion of nominal economic growth. This is why finance is such an overbearing presence in modern life. Using finance has coupled social and

individual safety directly to the value of an unstable mountain of financial instruments many times larger than the global economy.

The reason it appears to be so difficult to resolve the problems of insecurity, instability, and destruction is because the attempted resolution promoted individualism and growth. That has reversed the normal flow in the relationship between individuals and their society. Normally, individuals get greater safety from their society and that frees them to pursue their self-interest by seeking rewards for their contributions. In so doing, they improve the capabilities and capacities of their society in a sequence Adam Smith described as an “invisible hand” (Smith 1759, p184).

However, if a society advertises to its members that it will not provide adequate safety and that individuals should create their own safety, then their compensation must incorporate that right to safety. Resources that provide safety are not legitimately taxable in the same way as rewards. In the normal case, the society’s responsibility is to provide safety. The responsibility of the individual is to contribute to safety from their rewards. In the reversed flow, the society tells individuals to acquire their own safety, and individuals have no reciprocal responsibility to their society. In the normal flow, citizen and society are bound together in a pact for mutual prosperity. If that flow is inverted, the reciprocal relationship dissolves. This inversion of the social contract restricts the role of participation to the management of insecurity.

The safety that allows an individual to make their specialised contribution is not just a set of conditions that *have been* created, it is an assurance that conditions *will* exist if things go wrong and the best laid plans of the individual fail. Individuals are unable to create their own safety because real safety exists when an individual can rely on others to complete their capabilities. Safety cannot exist in accumulated material resources, it can only exist in the presence of a commitment by others to help in the future, when needed. Things break, weather happens, disease spreads and previously unheard of threats appear out of nowhere. Safety is knowing that, when those things happen, a force greater than the individual will rise to meet the challenge. That support must be larger than the individual and come from outside the individual. The quality of safety is, by definition, beyond the capacity of any individual to create for themselves. The argument that paying for collective safety robs individuals of their ability to create their own safety rests on the proposal that individuals can create their own safety. That proposal is no truer now than it was 10,000 years ago.

In the absence of a social commitment to safety, it follows that the society cannot reasonably limit the right of an individual to try gathering enough stuff to replace what the society will not provide. This results in two conditions that create barriers to resolution: inequality, and a coalition of the unsafe and the advantaged against taxation. When private accumulation inherits the right to safety, inequality becomes endemic and impervious to the social consequences of depriving others of the most basic safety. Two social rights come into conflict: the right of the individual to acquire their own safety, and the rights of others to their safety. In a less developed society this is merely suboptimal, but in a technically developed society the loss of productivity is a systemic problem.

In that context, taxation is necessarily reformatted as taking from those struggling to create their own safety, to create a social quality (safety) for some that is specifically denied to everyone who is not as disadvantaged. From this logic, any social support that is not universal must be extremely conditional, and that has been an increasingly common feature of social programs since the 1980s. The combination of this inevitable tendency toward conditionality with the basic inability of individuals to create safety, explains why cash transfers have failed to replace the only reliable source of the quality they seek to create: society. The outcome is a cultural context that presents everyone as an isolated individual, whose responsibility is to accumulate, to fulfil their ‘social’ obligation not to be a ‘burden’ on others. We have highly conditional cash transfer systems that are ineffective in creating safety for recipients and resisted by those who do not receive them.

The absence of a social commitment to universal safety also has negative impacts on economic performance through two channels: it creates an insatiable demand for claims on the future output of the economy, and it constricts economic dynamism. Through the first channel, business is repurposed to preserve value, over and above its role in the dynamic solution of problems through innovation. The most important purpose becomes to preserve the value of shareholdings, which are claims on safety vested in businesses by those able to try to secure their futures through financial contracts. Creative destruction is at cross purposes with the safety of the savings, so acceptance of arrangements that protect existing values becomes normal. Monopolistic consolidation (Gutiérrez, Philippon 2017; 2019), the protection of exploitative practices (Coady et al. 2019; Volz 2020), the inversion of corporations into debt factories (Lazonick 2014) and the preferencing of today’s financial values over tomorrow’s environment (Nauman 2021) become routine. The top 50 largest companies in 2020 were five times larger, three times more profitable, and taxed half as much, as the top 50 companies in 1990 (Orlick et al. 2021).

Barriers to entry combine with insecurity to suppress dynamism in the economy (Bell et al. 2019). Restricting access to safety and opportunity deprives the society of the full complement of its talents. Promoting opportunity as the road to safety — the proposed resolution of the conflict between safety and opportunity in the 1980s — put the cart before the horse and degraded the premise on which it was based.

Through these social and economic effects, attempts to resolve the original conflict between safety and opportunity have failed and created additional barriers to a resolution by cementing the safety gap. Insecurity is pervasive across populations (Moore et al. 2020; Obolenskaya 2021), resources are extremely unequally distributed (ONS 2019a; Federal Reserve 2021), and exploitative practices have become essential to the maintenance of what little safety has been acquired. The structure is dependent on the viability and validity of a complex web of financial contracts that claim to sequester future value for those who have had plenty in the past, as they were able to save. The preservation of those claims requires that social, public, political and economic arrangements protect

the value of those financial contracts against all adversity (Gabor 2021). The protection of financial values has become more important than social security, political stability, and the preservation of the environment. So, social insecurity, political instability, and environmental destruction have become features of developed societies. Those features are consequences of a failure to make a social commitment to universal safety. That failure is the result of being unable to resolve the allocation of resources to meet the twin needs for safety and opportunity out of a sustainable resource pool.

Given that, without a social safety commitment, a coalition against large changes in taxation exists (Hudson et al. 2020; Pike et al. 2021), a resolution of the conflict between safety and opportunity, which would restore the normal flow of reciprocity between society and individual, must be conceived within the existing limits on taxation. It is possible that, after reciprocity has been restored and a social commitment to universal safety reliably established, additional allocations to collective use would be commonly accepted. Until then, and given that action must be taken in the current context, a resolution will have to first enact a mutual commitment to the principle of collective safety. This suggests that the path forward must start with the re-establishment of the link between social safety and contribution. Restoration of the connection would be effective because it would restore the normal and expected flow of reciprocity (Mauss 1950).

The most straightforward connection between safety and contribution would be to link all tax revenues from individuals to the provision of universally accessible, social safety for individuals. This establishes the reciprocity principle. It would be easy to implement because the public budgets of most developed societies already raise four-fifths of revenues from taxes on individuals and spend the same on public services and social protection. To avoid the tendency toward conditionality, the use of tax revenues from individuals could be constrained to universally accessible services. Even without an immediate or dramatic change in tax revenues, such a reform would explicitly restore the implicit reciprocal relationship between the individual and society and enable a dialog about allocations that is currently blocked.

The possibilities that would arise after the restoration of a reciprocal social contract are enticing. A dramatic reduction in the cost of basic living could be effected by prioritising universal access to essential services, most immediately in housing, transport, and digital access. Relieving financial contracts of their basic social safety responsibilities could free the economy to operate more normally, recognising both losses and gains. A public commitment to mutual safety would allow the cessation of exploitative practices without endangering people's basic safety. It could secure livelihoods independent of the financial system, using only sustainable resources.

If they are to sustain their development, advanced economies will have to close their safety gap by instituting a reliable, social commitment to the common safety of their people. Without that commitment, the pressure to maintain unsustainable, exploitative practices and to keep shoring up an unstable financial system will mean waiting for the system to decline from political, financial or

environment causes (Wolf 2021a). By making a simple, no cost, declaration of intention to spend *all* taxes raised from *individuals on services for, and designed by, individuals*, the basic mechanics are transformed from individualised acquisition to collective, mutual purpose.

A three-step program would convert this proposal into reality: fiscal reform to dedicate personal tax revenues to public services; local democracy upgrades to enable responsive and responsible participation in public service design and delivery; and a focus on Universal Basic Services that result in broad reductions in the cost of living. Strengthened reciprocity is the necessary precursor to achieving the increases in efficiency and efficacy that would close the safety gap.

## PART 1

# SAFETY, OPPORTUNITY, AND PARTICIPATION

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## 1.1 THE SAFETY GAP

A ‘safety gap’ is the unmet need for the safety required to prevent decline in a society.

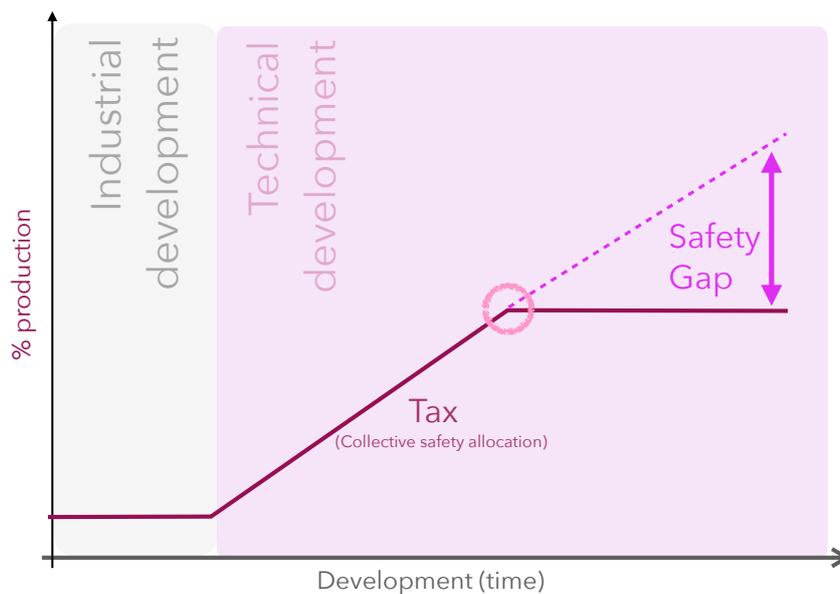
The proposal is that safety, opportunity, and participation are equally important and interdependent, and that a developing society must find ways to increase the accessibility and quality of all three conditions to keep developing. Safety requires resources to be allocated to collective use. That means that taxes rise in line with development, putting taxation on a collision course with the need to maintain incentives. By the time the collision takes place, the society has become highly developed technically, which leaves it no choice but to resolve the conflict at a time when safety costs are on the rise.

As a society develops from an industrial to a technical stage, access to safety, opportunity, and participation increase to enable its development, as well as a consequence of it. The portion of production that is allocated to providing safety increases, as seen in taxation rates that increase from around 10% to around 40% of output. At that point, the equally important need to maintain broad opportunity in a technically developed society restrains further increases in taxation.

That collision creates an inflection point, after which safety needs continue to increase without proportionate resource allocations to meet those safety needs collectively. Once the conflict arises, a rift opens up between the society’s safety needs and allocated resources. This is the ‘safety gap’ and it needs to be closed for the society to keep developing and prevent decline.

Figure 1 presents a simplified model for the progression of a society from its industrial stage into its technical stage. Tax rates (solid line) increase up to a point, and then level off while their safety needs continue to rise (dotted line). The difference between the tax level and needed safety is the ‘safety gap’. The dotted line represents the allocation of resources that would be required *absent an increase in the efficiency of safety provision*.

**Figure 1.** Safety Gap



The conflict arose in most developed countries in the second half of the 20th century. But instead of addressing the core issue of the efficiency of collective safety provision, they tried to bridge the gap by reducing access to safety and promoting nominal growth. As a result, a safety gap became an established feature of their societies. In justifying their attempts to address the original conflict, societies inverted their social contract, thus creating more barriers to its resolution.

This paper argues that a safety gap must be closed by bringing down the cost of the needed safety. Safety must be sufficiently funded and opportunity maintained. This contrasts with the two main proposals since the conflict arose: to continuously increase the share of resources to create safety, or to reduce access to safety — without, in both cases, increasing efficiency. The alternative, which respects the equally vital roles of opportunity and safety in technically developed societies, must increase the efficiency of safety provision so that it is both sufficient and affordable, where affordability is a measure controlled by the need to maintain motivation, and influenced by the degree of reciprocity.

## 1.2 S-O-P

The proposal is that safety, opportunity, and participation describe three equally important conditions for development, bound together by reciprocity. So what is the logic for that proposal?

The logic for this proposal is built on the premise that a changing environment is a constant, and that all lifeforms must negotiate those changes if they are to survive. Successfully solving problems created by a changing environment presents three challenges. The situation has to be accurately perceived. Solutions to problems have to be developed. And solutions must be turned into actions.

If you take a tiger, any tiger, you will find in that tiger everything that it takes to be a tiger. But if you take a human, any human, you will find in that individual only a fraction of what it is to be human.

That is because the human species is committed to solving problems using distributed capabilities (DeSilva et al. 2021). They specialise, then combine forces to solve complex problems. Tigers are a solitary species whose adaptations must be incorporated individually, whereas humans are a group species. Humans may each differ and be individually weak, but together we are very successful. To gain the advantage from that arrangement, there are three necessary conditions.

- The group has to be sufficiently cohesive that the capabilities of each specialised individual are completed by others in the group.
- The individuals must contribute their specialisms for the benefit of the group.
- The group must be able to coordinate a continual exchange of perceptions, solutions, and options, in order to create holistic initiative out of individual differences.

### **1.2.1 DEFINING SAFETY, OPPORTUNITY, AND PARTICIPATION**

The terms safety, opportunity, and participation to refer to those group conditions that are essential if we are to gain advantage from a commitment to specialisation.

*Safety* refers to everything necessary to allow individuals to specialise.

*Opportunity* refers to everything necessary to incentivise individuals to contribute to the group.

*Participation* is the process that results in holistic action.

In this model of development, the problem-solving capabilities of each individual are incorporated with the capabilities of each other member of the group. So the sum of the group's capabilities and capacities is greater than those of any and every individual. That enhanced collective capacity depends on conditions that enable group cohesion to persist. In this light, the history of development is most obvious in the solutions to the problems that arose. But equally important are the conditions that enabled the emergence and practice of those solutions. In a modern context, we could say that development looks like the economy. But in fact the economy can only perform when safety and participation are equally effective — factors documented by Amartya Sen and Albert Hirschman respectively.

### **1.2.2 UNIVERSALISM**

Both the problems that arise in the environment and the emergence of specialisms in the population are chaotic and random. It is not possible to predict either the most valuable specialisms or the individuals who will have them. Therefore, the maximum advantage is gained through universal inclusion of all members of the group. Every individual with access to safety, opportunity, and participation is a resource to the group, possibly even a critically important resource that could help

to solve an existential threat to the group. So, the optimal operating procedure for a human society will be to ensure universal access to safety, opportunity, and participation so that capabilities are completed, contributions solicited, and perspectives integrated.

## 1.3 RECIPROCITY

The assertion that there is a normal flow of reciprocity rests on this logic: that before specialised capabilities can emerge in individuals, there must exist some assurance that their capabilities and capacities will be completed by others. The baker, the soldier, the shoemaker and the farmer all depend on each other to complete their needs, and together they have better bread, defence, shoes and produce than they would if each was trying to do everything alone. Each individual has to be confident that the others will fulfil their respective roles, or everyone is forced to abandon their specialism to become a survival generalist, thus halting development.

### 1.3.1 IRREPLACEABLE RELIABILITY

**Figure 2.** Reciprocity diagram



Safety provided by membership of a group has irreplaceable reliability, derived from qualities of a group that individuals cannot replicate: externality, temporality, and continuity. A reliable group is larger than and independent of any individual, it can make commitments across time and generations, and it embodies that temporal resilience in collective infrastructure. Those characteristics make the group a 'society'. The reliability of the group depends on mutual commitment to it, which is expressed and solicited through universal and unconditional access to the safety provided by the group, as embodied in the concept of citizenship. The group benefits from the individual, and the individual benefits from the group. They are locked in equity for their importance to the outcome, but there is a sequence. That sequence is generally followed because the usual preference of individuals is to secure their safety first and then turn to making their contributions. It is the safety available from the group that enables opportunity. Opportunity then makes better safety possible.

### **1.3.2 BALANCING RECIPROCITY**

Reciprocity is not a static condition, it is a continuous, reinforcing flow of actions and consequences — a trade. To maintain momentum, each part of the reciprocal cycle has to reach a qualitative standard. The safety provided must be sufficient to allow specialisation. That means it has to be reliable enough to liberate specialisation. It must also provide the infrastructures necessary to enable specialisations to develop, such as education. To motivate specialised contribution, there must be opportunities to earn rewards. That requires markets and social spaces within which rewards are earned, and taxation of those rewards that does not reduce motivation so much that contributions are not elicited. The productivity of a society is effectively an output of the combination of safety and opportunity. Insufficient safety and excessive taxes both interrupt the flow of reciprocity and reduce productivity.

The distinction between safety and rewards is key to the perceived legitimacy of taxation. In a reciprocal flow, the obligation to contribute rests on the satisfaction of safety. Collectively provided safety reduces the need for the individual to provide for their own safety. Conversely, the less safety provided by the society, the greater the reliance of individuals on their own resources. So, the degree of safety that is available from the group affects the individual's view of the purpose of their compensation. The lower the group provision, the higher the portion of compensation perceived as personal safety. Compensation providing personal safety is not a legitimate target for taxation. A hungry person will not perceive taxation of their food as legitimate. The legitimacy of taxation is in the reciprocal obligation to contribute from rewards. Rewards are compensation over and above basic safety satisfaction. The greater the portion of safety provided collectively, the higher the portion of compensation that constitutes rewards.

Reciprocity is an obligation to contribute in exchange for collective safety. That obligation arises

when the group uses its unique abilities to create safety. Tax and safety are two sides of the coin of reciprocity. No safety, no tax, no reciprocity, no solidarity.

That does not mean all safety, all tax, all reciprocity, all solidarity. That was the mistake of communism. Specialisation is random and must be solicited and selected, as well as being enabled. Safety allows random specialisations to arise, but opportunity solicits their development, and participation selects them for collective advantage.

Safety is not an end, it is a means. The purpose of safety is to create opportunity. Rewards, which compensate over and above safety, motivate individuals to pursue their specialities. Reciprocity is the obligation to contribute back to the group out of rewards. But retaining the motivational quality of rewards constrains that obligation. The cost of providing sufficient safety to liberate opportunity must be below the share of rewards that would reduce motivation.

Rather than debate the level at which taxation negatively affects motivation in the abstract, this paper uses analysis of tax rates in developed societies over the last 100 years to determine that level.

### **1.3.3 CHOICE**

This arrangement of conditions proposes that safety is a social imperative, not a kindness, whose ultimate purpose is to allow specialised capabilities and capacities to emerge in the population that benefit the whole society. The logic that establishes the case for assuring individual safety is the benefit that the *group* gets from it. The freedoms that stem from safety are what enable the distributed emergence of specialised capabilities and capacities, and chief among those freedoms is choice of activity (Unger 2019). So meaningful freedom of choice, in the sense that individuals may choose what to think and do, is key to the safety-opportunity-participation matrix.

Choosing between two forms of a safety does not have the same strong social logic. Providing individuals with choices between different forms of a safety can play a role in the improvement of its quality, once there is an abundance of it. For instance, having a choice of doctors has the possibility of improving an individual's satisfaction with the safety and improving the quality of the medical service, but it does not affect the accessibility of safety. The same goes for all the basic constituents of safety: shelter, sustenance, care, transport, information access, and education. One could not say that safety is being provided if some have a choice of doctors, but others do not have access to medical care at all. The first order must be to establish universal access to the safety.

Societies that have established universal access to comprehensive and reliable safety will have liberated the specialised capabilities and capacities of their citizens, even if there are limited choices about the form in which each safety is available. Societies that provide choices of safety forms could

have happier citizens and higher quality services, but if they have not achieved universal coverage they will not develop as well as those that have. Safety is the social and evolutionary imperative. Choice about forms of safety is an advanced practice that can be an aspiration after ensuring universal access to comprehensive and reliable safety.

#### **1.3.4 SOCIAL OPERATING PROCEDURE**

This model for development proposes a social operating procedure aligned with a prior commitment to use distributed specialisation within a cohesive group. Successful operation has three fundamental requirements: completing the capabilities of each individual, eliciting the contribution of individuals to the collective, and coordinating all the specialisms into a whole far more capable than any individual could be.

The model provides purposes for safety, opportunity, and participation. Those purposes allow evaluation of the extent to which arrangements in a society create conditions that stimulate and sustain positively reinforcing reactions in the individual members. The model suggests that the quality of each of the conditions are interdependent and must be promoted in parallel, or development will be constrained to the least satisfied condition.

## PART 2

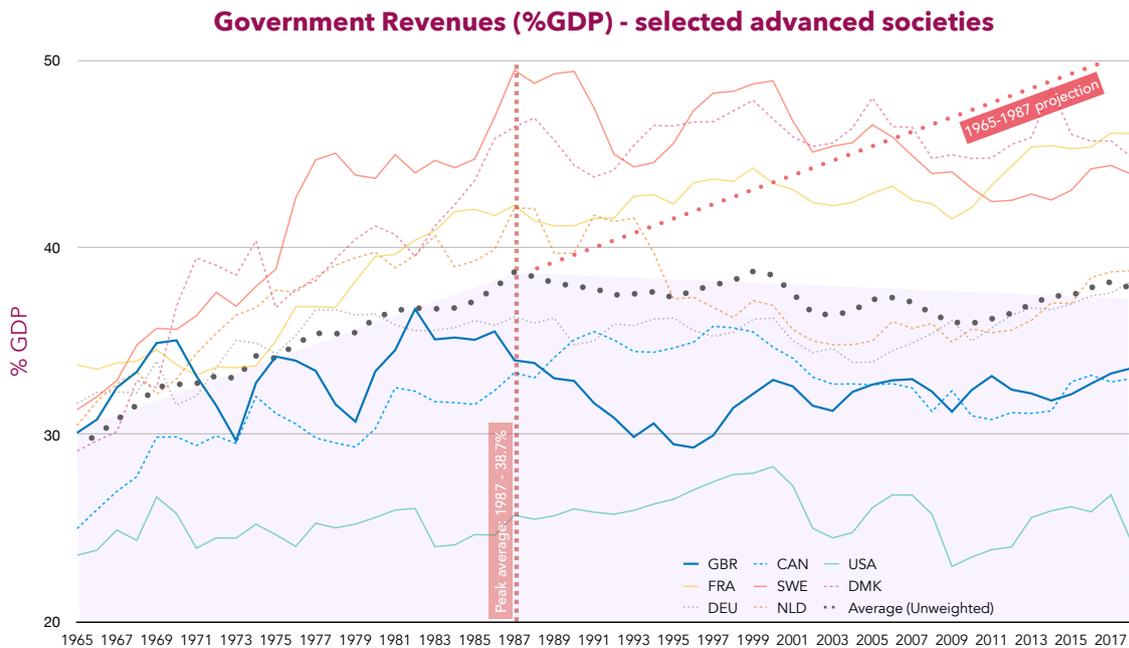
# CONFLICT, INVERSION & CONSEQUENCE

This section uses the previously outlined development model to analyse how technically developed societies responded to rising safety needs in the 20th century. This illustrates the long-term pressures to increase collective spending to support economic development, and frames the period since the 1980s as a hiatus during which experiments to avoid allocating collective resources have been attempted.

### 2.1 CONFLICT

The trajectory of taxation in advanced societies points to a collision between the cost of the safety required for development and levels of taxation that reduce opportunity. Tax take peaked in the UK in the early 1980s. By the middle of the decade, average tax take across the OECD's advanced economies stopped rising. If they had continued their 1965-1987 trajectory, they would have averaged 50% by 2017 (Figure 3). Sweden and Denmark have flirted with tax takes close to 50% since then, but both are several percentage points lower now.

**Figure 3.** Developed country tax rates showing inflection in average tax rates in the mid-1980s



Source: OECD (2020), Tax revenue (indicator). doi: 10.1787/d98b8cf5-en (Accessed on 08 November 2020)

When there is a consensus that taxes are too high, it is not a disagreement about the need for safety; it's about how to pay for it. It's because the degree of safety needed to sustain technical development requires an allocation of resources so large that it intrudes upon opportunity. Since most democratic societies will be equally concerned with both safety and opportunity, the conflict is intractable. Further development will be limited if either condition is unmet. So, until the cost of the necessary safety is resolved, the only debate will be whether to decline as a result of unmet safety or constrained opportunity.

Looking at the tax levels currently tolerated across a range of developed societies with differing levels of established safety, we can see two bands of tax rates (Figure 3). The North Atlantic countries in the mid-30s percent of production, and the European in the mid-40s (Figure 3; OECD 2020a). The US is comparatively low by OECD standards, 9.3% below average (OECD 2020b), and this is matched with low levels of social safety provision. Notably, none are higher than 50%, and where societies have approached that level in the past they have subsequently reduced their overall tax rate. This strongly suggests that, to allow incentives to remain effective, safety needs must be satisfied with substantially less than half of production.

Opportunity is the quality of incentives that remain after the deduction of safety costs. If taxation was 100%, there would be no material incentives. While one can imagine a society where all contributions are the result of a desire to contribute, even that would require an alternative means of communicating collective selection preferences with something as ubiquitous, efficient, and fungible as money. So in the real world, opportunity is dependent on the effective provision of safety at a cost that is lower than the share of rewards that would disincentivise contribution.

This reflects the sequencing of social reciprocity in Part 1. The quality of the safety controls the level of contribution, and the cost of the safety is controlled by its share of the rewards from those contributions. The specific level at any time is related to the quality of the safety available, the degree of reciprocity, and the cohesion of the society. When those are higher, there could be a tolerance for higher taxation.

## 2.2 INVERSION

Safety requires material resources. If there aren't enough, then the quality of safety falls, either evenly for the whole population or concentrated in a portion of it. This reduction in safety requires proponents to develop arguments that justify its inadequacy and paint collective provision as undesirable. Once this happens, the flow of reciprocity is broken and replaced with a lower order, anti-social and individually orientated relationship between individuals and their society.

A circle in which individuals are enabled by their society and contribute back to it, is replaced with a line which starts with individual opportunity and ends in individual safety. The individual's responsibility is to look after themselves and not be a burden on their society. In this linear view of life there is no reciprocal obligation to others. Nothing was received, so nothing is owed. Society ceases to be context, and becomes happenstance.

### **2.2.1 THE PARTICIPATION GAP**

The consequences of this inversion are profound and reinforcing. The less safety is provided collectively, the greater the reliance of the individual members on their own resources, the more that tax resembles a threat to their safety. Moreover, the realm of participation, the process by which exactly these kinds of problems are resolved, is restricted. People can only participate in decisions about what is shared, common, collective and resolvable. A zero-sum framing causes a paralysis of participation, and solidifies the conflict.

Of the three essential conditions, participation requires the least resources and so does not get headline treatment in a conflict dominated by the allocation of resources. This lack of attention is sometimes excused by pointing to the absence of democratic reform from voter priorities, which tend to be dominated by concerns for safety or opportunity. But decisions made with less breadth of input are suboptimal, diminish group solidarity, and degrade implementation.

While a society is locked in a seemingly unresolvable conflict between safety and opportunity, the purpose of participation is denied. Every choice is negative: to preference social safety is to deny individual opportunity, and to promote private safety is to deny the holistic capabilities of society. This zero-sum presentation leads to disengagement, to resignation that nothing that can be changed, and to techno populist government (Bickerton, Invernizzi-Accetti 2021). It opens the door to depoliticised, managerial preservation of an unsatisfactory status quo, whose only claim to legitimacy is that it is better than bad alternatives.

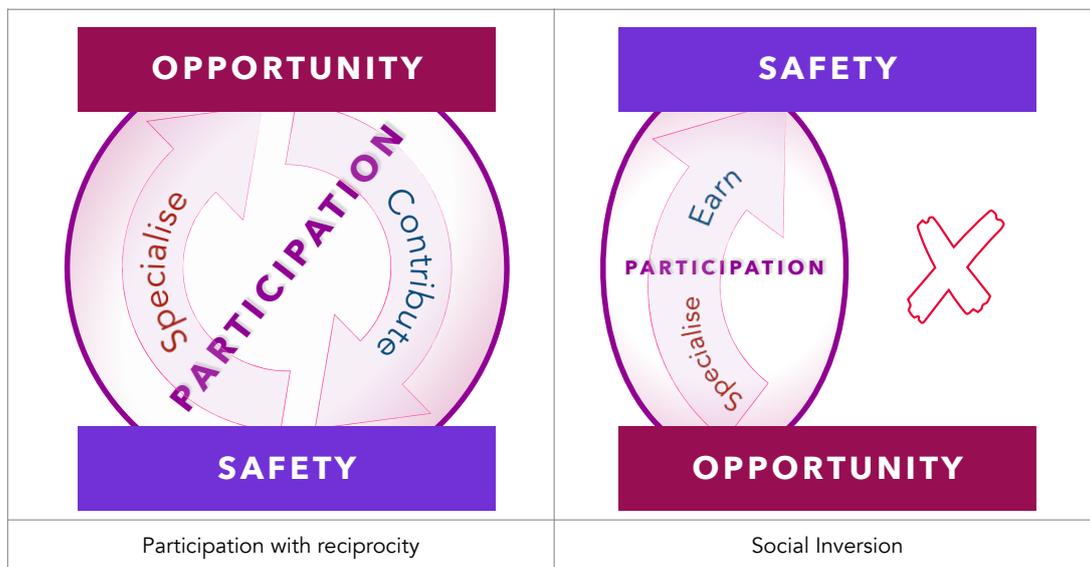
The purpose of participation is to create holistic initiative in the definition of problems, and the selection and implementation of solutions. Effective participation engages a broad group, representing distributed inclinations and sensibilities, to best judge actions and reactions. Stakeholders in both the benefits of society and the contributions to support it, bring their perspectives instead of just representing their interests.

Separated interests, denied participatory resolution, become conflicts between opposing sides. The more unsafe, the lower the reciprocity, the less purpose in participation, the lower the contributions. If unsafety is declared an unresolvable and interminable feature of reality, then the role of participation is restrained to the management of that crippled state. Closing the participation gap (Woodcraft et

al. 2021) requires that the important decisions, the ones that direct resources to build prosperity, are available to change. Safety must be possible for participation to fulfil its role.

Participation is directly related to and dependent on the flow of reciprocity. When that flow is active, then participation includes all aspects of safety, opportunity, and contribution. If the flow is blocked because safety is not available, then the role of collective participation is similarly narrowed, to individualistic concerns where the common interest is weak.

**Figure 4.** Participation gap in social inversion



So participation falls victim to the conflict between safety and opportunity, stultifying the normal mechanism by which a society would solve its problems.

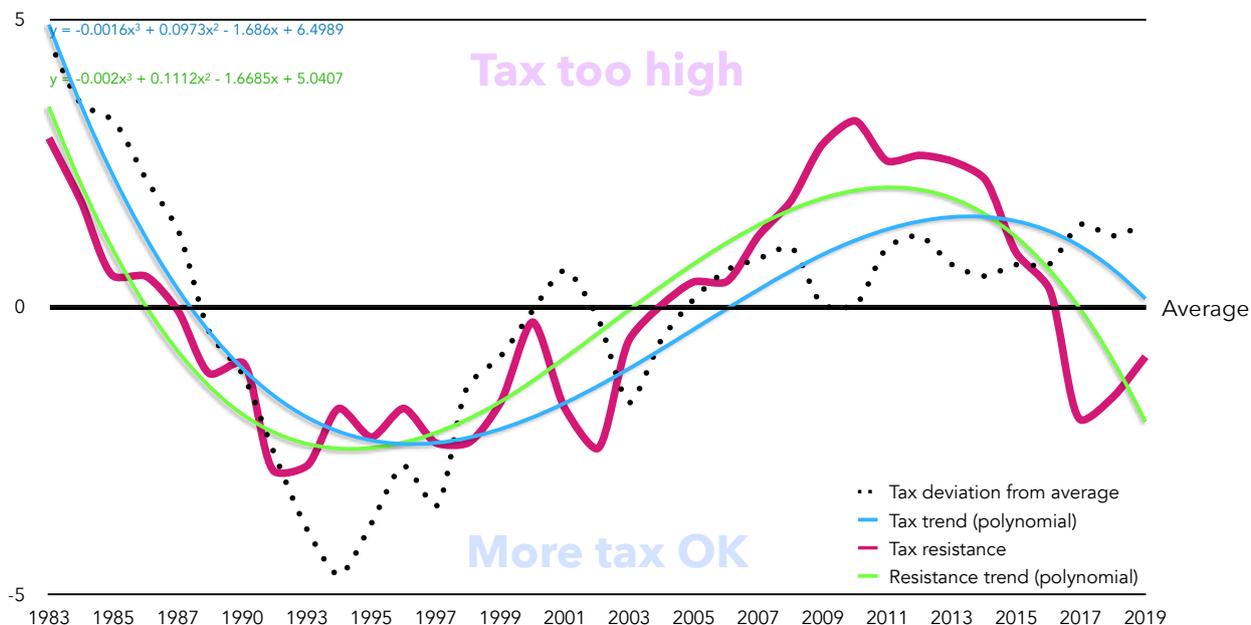
### 2.2.2 TAX TRAP

The allocation of resources follows the balance of responsibilities between individuals and the collective. Tipping responsibility towards individuals inevitably drags resources in the same direction. Once started, the inversion of the social contract is self reinforcing.

Aware that proper safety comes from others, the common preference is for more collective safety. But the need to acquire safety in the immediate creates individual preference for retaining control of personal resources. The resulting dichotomy is evident in the British Social Attitudes (BSA) survey (Hudson et al. 2020). It shows a continuous preference for higher public spending over the last 40 years. On average, over the period from 1983 to 2019, 8% more people wanted higher spending and taxes than wanted to keep the same. However when taxes actually rose the margin in favour fell, and even turned negative in the period 2007 to 2015. The BSA's authors describe this as reacting 'thermostatically' to levels of tax (Hudson et al. 2020, p3).

As one would expect of a democracy, levels of taxes and spending tend to follow public opinion (Figure 5). The dotted line shows that tax rates tend to head down or up a few years after marginal public opinion in the same direction.

**Figure 5.** Thermostatic : Tax revenues (%GDP) and British social attitudes; deviations from average 1983-2019



Tax resistance: Inverse of desire for more tax and spend relative to average margin in favour of more tax and spend.

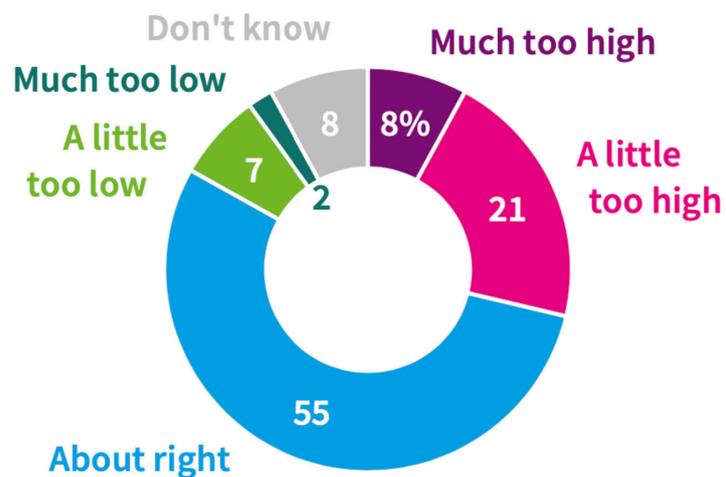
Sources:

British Social Attitudes 37th Edition - Key Time Series 2020, The National Centre for Social Research  
 A Millennium of UK Data 2017, Bank of England OBRA dataset: A26, A27

The “Not for Patching?” report (Pike et al. 2021) shows that there is greater support for higher spending than for higher taxes. There is strong support for more public spending, especially on services, but people appear reluctant to give up their personal ability to purchase safety with their own money. A large majority of people consider their own taxes to be about right or too high (Figure 6).

**Figure 6.** Personal tax perceptions, UK survey results from ‘Not For Patching?’ report (Pike et al. 2021, Fig 10)

On balance, **would you say that the amount of tax that you and your family have to pay is too high, too low or about right?**



*Fieldwork: 19-22 March 2021. Base: 1120.*

In a society where dependence on personal resources is high, we would expect to see a general desire for increased collective safety spending. In a society with low levels of reciprocity, we would expect to see a disconnect between desires for more collective spending and personal contributions via tax. When people do express support for increased taxation, it is commonly for taxes on others (Oxfam 2019; Tax Justice 2020) rather than themselves.

This situation is a tax trap. Despite a general desire for greater spending that would create greater collectively provided safety, rises in taxation reduce the ability of individuals to acquire their own private safety. Substantial increases in taxation would have to be accompanied, or even preceded, by a stronger collective commitment to the provision of accessible safety that is seen to be a reliable replacement for private safety.

In this inverted social contract, the group has declared itself to be unreliable and automatically stimulated the self-preservation instincts of its members. The group has lost its purpose and its purchase on the reciprocal obligation to contribute to society’s upkeep. Tax becomes “theft” and government an impediment to striving individuals. The connection between those anti-reciprocal attitudes and the conflict for resources is logical and negatively reinforcing: if social safety declines, individual rights to replace that safety strengthen.

A conflict over a few percentage points of production in the late 20th century, that could have been resolved by increasing efficiency, instead precipitated an inversion of the social contract. Undermining the group cohesion that is the foundation of human advantage.

## 2.3 MODERN DEVELOPMENT

The progression from industrial to technical eras in developed nations over the last 100 years bears out the connection between safety, opportunity, and participation. In each society there has been a parallel development of broad social safety and widening participation to accompany their economic advancement. Having lots of specialists requires lots of safety and lots of participation. While there has been a ‘push-me-pull- you’ sequencing of the social, political and economic advances in the micro, it is clear in the macro that further development of the economy has necessitated upgrades to social and political infrastructures. The driver of those upgrades has been the increasing breadth of specialisation that distinguishes technical development from its industrial predecessor.

Developed economies are not only deeply but also widely specialised. That is because the implementation and maintenance of the sophisticated infrastructures that are the benefit of deep specialisation require a much greater proportion of the population to be specialised. If we think about computer chip design as one of the pinnacles of technical development, it is clear that that capability rests on top of the ongoing maintenance of the technical development that came before it. Without a vast fabric of supporting infrastructures, from power generation to sanitation, chip design would be neither possible nor useful. Depth requires breadth, and that means broad safety, broad opportunity and broad participation.

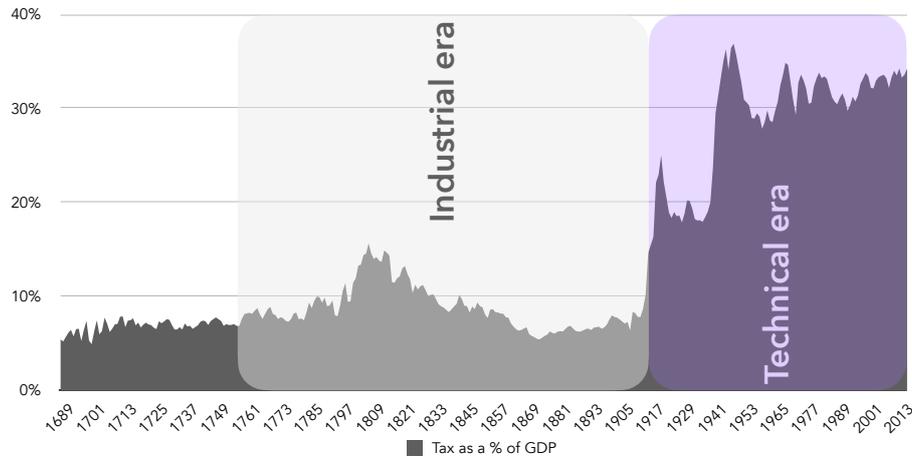
### 2.3.1 PRO-PORTION

The escalation of specialist depth and breadth during technical development means that an increasing share of total production must be allocated to collective safety provision.

As the breadth of specialisation increases, so too must the portion of production used to complete everyone’s capabilities. The breadth of specialisation, not total output, determines the safety budget.

Looking at the progression of taxation as a share of production in the UK over the 20th century (Figure 7) provides evidence for the increasing share of resources allocated to collective use. The great bulk of public spending is on socially provided safety, either as compensatory redistribution or, increasingly over the century, on universal public services.

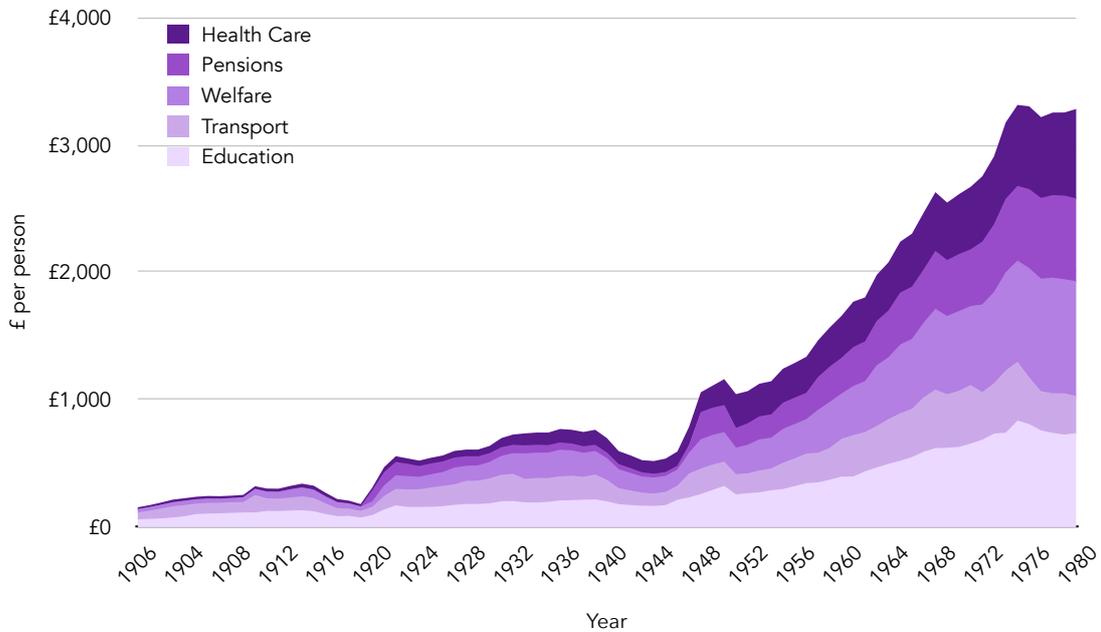
**Figure 7.** Collective allocation : UK Tax as GDP %



The Bank of England's collection of historical macroeconomic and financial statistics, Version 3.1  
 A26. Central Government Revenue, England 1263-1691 Source: O'Brien and Hunt (1999), from the EUROPEAN STATE FINANCE DATABASE <http://www.esfdb.org/Default.aspx>  
 A27. Central Government Revenue and Expenditure: Great Britain 1688-1801, United Kingdom 1801-2016 Source: Mitchell (1988) pages 575-593 for 1688-1945, ONS from 1946 onwards

If we look at per-person real spending on collective safety (Figure 8), we get a picture of the dramatic increase in resources necessary to support technical development. The progressive increase in the portion of production that a technically developed society has to allocate to safety means that a simple pursuit of economic growth does not resolve the conflict.

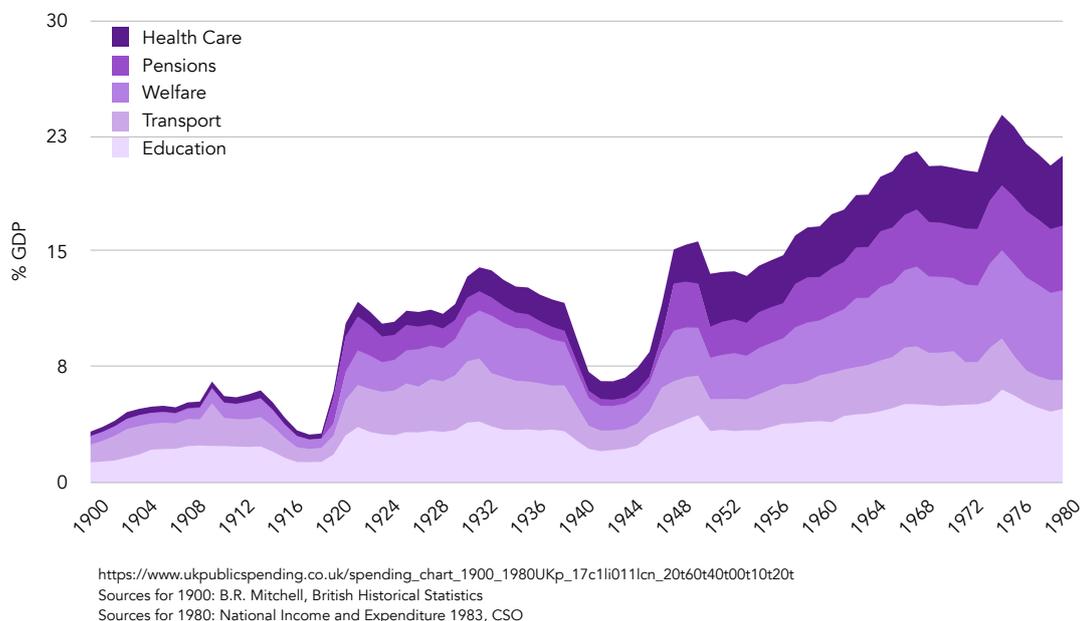
**Figure 8.** UK safety spending per person (2016 £s) 1900-1980



[https://www.ukpublicspending.co.uk/spending\\_chart\\_1900\\_1980UKd\\_17c1li011cn\\_20t60t40t00t10t20t](https://www.ukpublicspending.co.uk/spending_chart_1900_1980UKd_17c1li011cn_20t60t40t00t10t20t)  
 Sources for 1900: B.R. Mitchell, British Historical Statistics  
 Sources for 1980: National Income and Expenditure 1983, CSO

Safety spending rose faster than output, as Figure 9 demonstrates, showing the same spending as a percentage of the whole economy (GDP). (The dips are during periods of war, when spending was diverted to the military budget.)

**Figure 9.** UK safety spending, % GDP 1900-1980



### 2.3.2 CONSEQUENTIAL COSTS

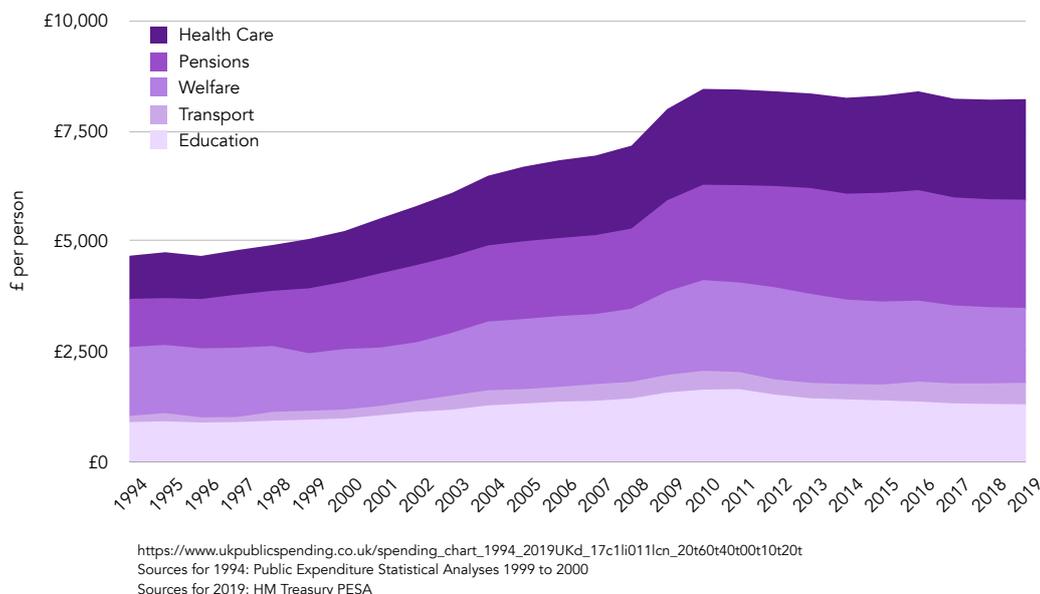
There are consequences of development that also increase the proportion of output that has to be allocated to safety. A technically developed society has greater capabilities for more support, such as advanced medical practices and higher education. As the investment that has to be made to enable each person to achieve their specialised contribution increases, so does the viability of more sophisticated support. The more productive each person is, the greater the justifiable safety spending. So the breadth and depth of specialisation is matched by a widening definition of sufficient safety. More specialised people need to spend more time in education and skill development, which means they become economically productive later in their lives.

In a technically developed society, advanced healthcare has the effect of extending people’s lifetimes beyond typically productive ages. This effect takes a lifetime to fully materialise because healthcare at very young ages is a significant determinant of longevity. But eventually the portion of the population that is in retirement increases.

So three consequential effects contribute to escalating safety demands on the resources of developed societies: increasingly justifiable advanced safety, longer incubation periods, and extended unproductive ages that arrive around half a century after expanded healthcare.

Safety spending per person in the UK has continued to rise in the 21st century and is now double what it was in 1980 (Figure 10). Costs related to old age have been, and will continue to be, the largest drivers of safety costs in the 21st century. By 2050 those costs are estimated to increase by 3% of GDP (OBR 2017), compared to the costs of transitioning to Net Zero of 0.5% of GDP (CCC 2020).

**Figure 10.** UK safety spending per person (2016 £s) 1994-2019



A large industrialised society with little technical specialisation can increase output without increasing the share of output that has to be assigned to providing safety. However, a technically developed society, with high degrees of specialisation, must allocate a large share of production to safety, irrespective of total output. A technically developed society grows by increasing the depth and breadth of specialisation, with a required increase in the share of production that must be allocated to safety. At some point, allocations to safety inevitably come into conflict with the share of resources remaindered to provide the incentives necessary for broad opportunity.

### 2.3.3 1980s

This helps to explain what happened in the 1980s, when developed nations had grown rapidly, allocating ever-larger portions of their output to safety until further allocations intruded into the share of production left for opportunity.

The consensus at the dawn of the safety gap in the 1980s was that collective costs would be avoided if individuals took more responsibility for themselves. Finance would be liberated to help individuals substitute for collective guarantees of safety. Unleashed entrepreneurial dynamism would increase economic growth and create the resources to close the gap.

The safety gap created in the 1980s was relatively small, but the changes in narrative and framing necessary to justify those changes have compounded the gap. To prevent taxes rising it was necessary to invert the relationship between citizen and state, breaking the reciprocal relationship and ushering in a period during which social, financial and ecological debts accumulated, pending a resolution of the conflict.

Many of the features of today's advanced societies are consequences of the strategies adopted by developed countries, most aggressively by the UK and US from the 1980s onwards, in an attempt to reconcile safety costs with revenues from taxation.

Instead of increasing the efficiency of their safety provision, advanced societies elected to prioritise opportunity over safety. Responsibilities for safety were pushed back to individuals where possible, and the extent of collective safety curtailed where not. To enrich the economy, production shifted to societies where costs could be externalised; where safety costs were lower, and where unsustainable resources could be exploited as much as possible.

Because it is politically difficult to roll back collective safety already in place, the focus has been on diverting new, consequential costs, of which the largest is the retirement safety of an ageing population. Pre-existing safeties have been left to wither on the vine with insufficient resources to maintain their efficacy (Vizard, Hills 2021) and partially substituted with individual responsibility for those able to secure sufficient rewards to access private replacements.

## **2.4 UNSAFETY**

Attempts to live with and justify a safety gap over the last 40 years have failed, and created additional barriers to prosperity. Individuals cannot create their own safety, so the net provision of safety has fallen. That has led to a decline in specialisation and stagnant productivity. The exploitation of unsustainable resources has proved predictably short term. Both the net losses of safety and the temporary enrichment of nominal economic output are incorporated as 'value' in financial contracts, now nominally worth between four times (Sharma 2021) and eight times (Shvets 2020) global production. Those 'assets' are reliant for the preservation of their phantom value on a collective refusal to recognise the losses (Pettis 2021). That refusal is an oblique inheritance of the social commitment to mutual aid, but perversely applied to private contracts covering only a small portion of the population.

Without a plan to increase the efficiency of safety provision, the decision-making apparatus of developed countries is locked into maintaining the charade of financial asset values, the ongoing suppression of domestic safety provision, and the continuing allowance of unsustainable exploitation

of the global commons in order to hold down expressed safety costs.

This section reviews the ways in which attempts to transfer social responsibilities to individuals and grow nominal economic output have led to widespread insecurity, financial instability and environmental destruction.

### **2.4.1 INDIVIDUALISATION AND FINANCIALISATION**

Over the last 40 years, finance has been handed the poisoned chalice of responsibility for social safety. In its attempts to conform to that responsibility, it has contorted its workings so much that it is ineffective in its proper role of allocating capital to productive needs. Instead, it is supporting the destruction of global commons, while dependent on public guarantees (Gabor 2021). Finance is now both powerful and crippled, at once the tentpole for the system and the poster child for instability. To support the attempt to hand off responsibility, reciprocity and participation have been devalued.

If individuals are to take on responsibility for their own safety, they have to have a way of imitating society's ability to make commitments across time — for instance to secure old age. The only way for individuals to do this is with financial contracts or assets, which can be converted into money later. So, to enable individuals to attempt to provide their own safety, access to financial products needed to be greatly expanded and the risks reduced. This explains two changes that are key to understanding the situation today: the liberalisation of financial regulation, and the protection of financial asset values with implicit public guarantees.

Safety is a quality that is created outside the individual through relationship with others, has a long-term reliability because of the commitment by others to help in the future, and is made real through the existence of institutions and infrastructure expressly open for access when need arises. Replicating those qualities is impossible with private agreements between individuals, and yet it is only through private contracts that an individual can even attempt to acquire some safety. So, when a society transfers responsibility for safety back to its constituent members, their only option, outside unreliable familial ties, is to accumulate assets that offer the possibility of being converted into safety when needed. Assets come in three types: things that can be sold, debts that can be legally enforced, and investments that are unreliable but have a higher return. Examples of those are a house, a bank account, and a share in a company.

### **SAVINGS AS PRIVATE SAFETY**

The prevailing notion that financial contracts and assets can stand in for collectively provided safety is flawed. Despite decades of concerted policy effort, a combination of inaccessibility and contorted mechanisms has restricted safety for most and created phantom safety for some.

If finance was successfully replacing the collective provision of safety, access would be widely

available, the effects on business operations positive, asset values sustainable, and the safety and security of the population assured. Risks and losses would be internalised in asset values, without recourse to collective funds. Yet if we look at the actual results, none of these is happening. Access to financial security is widely unavailable, the effects on business are negative, values are dependent on public guarantees, and unrecognised liabilities have accumulated in debt, stocks, and property.

Even the safety has been secured by the minority with financial wealth rests on the assertion that existing assets have sustainable value. But rectifying fundamentally destabilising imbalances, such as housing and climate destruction, will reduce the value of existing assets. And growth may not be compatible with general wellbeing (Harrington 2020), which would require substantial revaluations. It is also likely that political protection has inflated financial asset values. Increasingly unconventional monetary policies, practised at the extreme end of technocratic management, support those values today. Taken together, these factors suggest that the safety represented in financial assets is unreliable.

The pivot on which the private savings proposal hinges is confidence in the ability to elevate social solidarity to take on the great challenges of our time, while also maintaining the value of the mountain of financial assets. As it is, that looks more like bravado than reason.

Let's look at the results after 40 years of attempting to use private finance to replace collective responsibility.

### **UNEVEN ACCESS**

To acquire private safety you have to have spare money in the first place, to be able to save for it. Across the UK (ONS 2019b) and US (GAO 2019) only a minority have been able to accumulate private savings and assets that could provide a private claim on safety. Without spare money, you cannot even attempt to replace collectively provided safety, which reflects the first quality of safety: it is external to the individual.

Internalising safety in an individual requires that they be compensated above commercial rates for their contributions, over and above the motivational premium in their compensation. However, this explicit need to compensate at above commercial rates to enable private access to safety is neither aligned with the social operating procedure of a society, nor is it recognised in the proposal to transfer safety responsibilities to individuals.

The proposal implicitly attempts to equate safety with opportunity and suggest that safety can be carved out of the fruits of opportunity. But it fails to acknowledge that to do so must eat into the motivation that drives opportunity, unless compensation exceeds the value add of the contribution. Whether safety is expressed collectively in taxation or transferred to individuals, it is still limited by

its impact on motivation. Unless everyone is paid more than is necessary to solicit their speciality, safety cannot be transferred to individuals. If they have to use some of those rewards for their own safety, those rewards are removed from the incentive, just like a tax. Trying to square this circle without recognising the inherent contradictions has led to policies such as legally enforced saving for a specific safety, to the detriment of current safety (Bourquin et al. 2020).

Transferring responsibility for safety out of the collective and to the individual, and therefore out of taxation, does not reduce the cost, the need, or the conflict between safety and opportunity. The inevitable outcome is to limit access to safety to those with sufficient market power to force their compensation up above the commercial value of their contribution. This effect, alongside the diminishment of collectively provided safety, explains why there is pervasive insecurity and inequality in the developed economies. It also explains the social impetus behind efforts to increase legally mandated minimum compensation, specifically to enable individuals to try to provide their own private safety.

Participation is stifled when this inherent contradiction is not openly addressed. The conflict between safety and opportunity becomes embedded as ‘the way it is’, rather than a problem to be solved. One side argues for compensation to include safety, and the other side argues for compensation to mirror opportunity. Both are oblivious to the contrarian consequences of their argument. To force the inclusion of safety in individual compensation falsely assumes that individuals can create their own safety. To insist on the restraint of compensation to commercial value ignores the fact that some roles do not generate sufficient commercial value to meet the contributor’s basic needs.

### **EXCESS SAVINGS**

For those who can save, replacing a collective commitment that extends indefinitely into the future requires the accumulation of assets with similar longevity. If you are trying to save for 20 years without an income, you have to accumulate 20 years worth of assets before you reach the beginning of that period. This requires the amount of savings accumulated across a society at any one time to be very much larger than would be the case if the same safety was provided from a collective commitment, which would not require the accumulation of any financial assets.

So the result of a policy to transfer safety to individuals is a dramatic increase in the volume of savings in the society. The quantity of savings that needs to be stored will tend to push up the value of assets, push down interest rates on debt, and increase demand for risky investments (Vlieghe 2021). Those effects are all apparent in material and financial assets today.

## **PUBLIC GUARANTEES**

Savings are often referred to, erroneously, as ‘investments’. But savings that are used to provide safety are not investments. The existence of risk would negate the reliability that is a fundamental quality of safety.

The desire for increased value, but without the risks that would justify higher returns, results in two problematic conditions: an implicit public guarantee against the risk of loss; and the accumulation of losses. Partly because there are so many savings chasing investments, and partly because of implicit guarantees against losses, the returns on risky investments fall. This leads to even riskier investments becoming part of people’s savings. This process continues until all savings include unrecognised losses. When an event happens that would threaten to force the recognition of losses, because the implications for the loss of safety are so politically significant, governments are forced to rescue the value of the assets. When those rescues use public resources to shore up the value of private assets, the losses are passed, unrecognised, from private liability to a social liability.

The crash of 1929 proved that shareholders can be wiped out in a moment of loss recognition. If the basic financial plumbing of a society is connected to that investment realm, the social consequences are enormous and the cost of restoration falls on the general public. To avoid having to ever allow speculation to spill over into the public realm again, the finance industry was split into two parts: basic banking, and financial investments. The post-1979 inversion of the social contract required that separation be reversed, to facilitate the proposal for individual safety provision. Once reunified, the basic banking and investment activities of finance predictably re-engaged the public liability for the failure of speculative financial activity. The majority of UK public debt added between 1980 and 2019 came after the Great Financial Crisis of 2008: £1.5 trillion in borrowing and interest between 2008 and 2016 (BoE 2021, A29) represented 78% of public debt in 2016.

Safety is not a transferable quality. The responsibility for safety rests permanently and unavoidably with the only entity capable of providing it: the society. No other entity or individual can replicate the qualities of a society, so it is inevitable that any attempts to transfer safety eventually fail, and the responsibility returns to society. The public guarantee exists, whether it is overtly and consciously acknowledged or not.

## **SAVINGS INDUSTRY**

The private financial corporations charged with managing this large accumulation of savings gain outsized influence over the decision-making in their countries. Initially through their pivotal role in enabling the attempted transfer of safety to individuals, and later through the sheer size of the assets that they manage. It is estimated that the finance industry is managing assets worth four times global GDP (Sharma 2021), up from equal to global GDP in 1980.

The inherently greater possibility of hedging risk by spreading holdings over an array of counteracting financial instruments gives advantage to size, which creates an interest in the encouragement of large scale, international financial organisations. This interest leads to the creation of systemically important organisations, implicitly vested with social responsibilities through their custodianship of large volumes of savings. They become ‘too big to fail’.

The legal arrangements of the host societies tend then towards the creation of arrangements designed to maintain the viability of those organisations, including explicit attempts to limit the risk of their failure and implicit guarantees against their failure (Gabor 2021). This results in the transfer of risk back to the public sphere, despite the original intention being to remove those liabilities from collective responsibility.

These arrangements are attractive for external savings from other societies, which inherit the protections when placed into the custodianship of those organisations. This has two effects: it increases the systemic consequences of the organisations’ viability, and it broadens the risks to their viability to jurisdictions outside the host society. Effectively, global risks get incorporated into the domestic imperatives of international finance host societies, and vice versa.

## **DEBT DEMAND**

Another significant effect of massive savings is the solicitation of debt. Because debt is a legally protected financial instrument which can be enforced to guarantee its value, it is a much safer store of value than an investment. Therefore, the larger the quantity of savings, the cheaper debt becomes as savings compete for it, and the larger it grows. The increase in savings since the 1980s has been paralleled with an increase in corporate, private, and public debt. Among private individuals, this has meant an accumulation of consumer debt in the same population that has been unable to save (Mian 2020). In the private corporate sector, this has seen the inversion of balance sheets, including the routine use of debt to fund distributions to shareholders (Lazonick 2014). In public sectors, the cheapness of debt has merged with desire to fill safety gaps and protect the safety of savings, leading to large increases in public debts (IFF 2020). The primary consequence of these debts is that the future value of everything has been sequestered to provide rents for private savers in the wealthiest households, embedding the inequality of access to private safety for generations to come.

## **ASSET INFLATION**

The combination of savings volume, public guarantees, and monetary policies has inflated asset values. Rising asset values play an important role in justifying the gap in collective safety provision. Assets are theoretically a resource for safety, assuming their values are sustainable. Property has become many people’s private claim to safety (ONS 2019a).

But using assets to fill the safety gap creates two problems: it has negative effects on the security of the majority of people (Muellbauer 2018); and it depends on persistent asset values, unmoored from economic conditions. In the case of real property, market operation that would correct supply and demand has to be suppressed to prevent loss of the safety that property values now represent (Wolf 2021b).

The greater the dependency of individuals on asset values, the greater the constraint on political initiative to actions that preserve those values, further entrenching inequality by sacrificing the safety of the asset-less for the safety of the asset-rich. This is a politically unreliable straight-jacket, which makes the inflated values unsafe.

### **2.4.2 FINANCIAL INSTABILITY**

Through the process of risk sublimation that is an inevitable part of the transfer of safety from the collective to individuals, unrecognised losses become established in financial values. The perpetuation of the construct becomes dependent on the continuing non- recognition of those losses. Recognition would explicitly return the responsibility to the collective, and destroy the mirage of safety represented in the inflated, loss-free asset valuations. When events force recognition of losses, such as the GFC in 2008, the losses are transferred to public balance sheets, a practice that is only sustainable with lower and lower rates of interest. So low interest rates become the defence against the recognition of losses now embedded in public debts. And, unhelpfully, low interest rates boost asset values by reducing the time discount rate, further exaggerating their hypothetical ability to fill the safety gap.

This is a very unstable situation. Any event that would require interest rates to rise to protect the value of money, which is the essential lubricant of opportunity, would force the recognition of accumulated losses. In most of the developed world interest rates are now effectively 0%. Ditto growth, without which assets that underpin much of the world's financial system would collapse in value.

So, we simply await the arrival of circumstances that will require higher interest rates or limit growth. This reliance on maintaining a specific set of economic conditions to prevent large-scale destruction of financial values, which would destabilise the basis on which societies have proposed to establish social safety, is the textbook definition of instability. Unpredictable changes happen. The existential threat is not the destruction of financial values, it is the loss of social safety.

### **AN INEVITABLE STATE**

The attempt to make it possible for individuals to use assets as a replacement for collective safety requires such contortions of politics and economics that it is effectively self-defeating. The group is ultimately, unavoidably, and naturally, the source of safety. Attempts to transfer responsibility to individuals can only ever be incomplete, temporary, and superficial. During the attempt, the

normal flow of reciprocity is interrupted, and the mechanics of safety, opportunity, and participation corrupted to try to make the inversion work.

### **2.4.3 GROWTH**

In an attempt to keep taxes down, and yet sustain development, societies have promoted growth as the means of creating additional resources for safety. The key objective is to restrain taxation as a *share* of production. This leads to the proposal that, to increase the resources available for collective safety, it is necessary to increase production. The negative effect of tax on motivation is in the rate at which rewards are taxed. So, in this narrative, collective spending can only be increased, without raising tax rates, if the economy grows. This logic leads to the second primary thrust of post-1980s policy: growth. If safety spending was to be increased, then the way to achieve that was to increase production.

So, GDP growth became the benchmark for both safety and opportunity, a single, handy metric that symbolised the path to greater prosperity for all. Later, as public debts rose, fiscal credibility became dependent on nominal GDP growth, cementing its critical importance in maintaining the construct.

### **EXPLOITATION DEPENDENCY**

Growth does not increase resources for safety needs in a technically developed society because safety needs rise with growth. To grow, a technically developed society has to become more specialised, not less. As we've established, broader specialisation drives up safety needs as a share of production.

For production growth to add extra resources that could be used for safety, costs would have to be externalised, or production enriched without increasing the specialisation of the domestic population. Sources of such enrichment include: production that relies on the output of an external population that does not receive the same level of safety that would be required for the domestic population; the extraction of natural resources; and the consumption of resources whose costs are externalised. This is not to imply that trade cannot be advantageous or that all resource extraction is bad, but rather to point to the exploitation potential in those activities. The opportunity for developed societies to bridge their safety gaps has incentivised exploitative versions of these activities. This is most clearly seen in environmental pollution.

The double benefit for the exploiting society is that it reduces the cost of living while enriching production. It restrains the cost of safety. Cheap products, manufactured in less safe conditions, using materials priced without their extraction or waste costs, reduce the cost of living. That makes private safety more accessible and reduces the cost of collective provision. It allows consuming societies to create safety with lower taxes. Exploitation has become so pivotal to maintaining the delicate balance between safety and opportunity that societies now depend on it.

That dependency has created a broad coalition in favour of continuance. For instance, it is neither in the interests of the poor nor the rich for an effective carbon tax to be applied. If one was, the safety of both the poor and the rich would be reduced. The cost of a basic livelihood would rise, making the most insecure even more insecure. And the profitability of the assets in which the rich have their savings would be reduced. If the cost of basic resources increased then, to prevent a rise of insecurity that could jeopardise social stability, it would be necessary to raise taxes to fund compensation. That would constrain opportunity. Without an alternative plan for how to deliver safety more efficiently, the cessation of exploitative practices presents an existential threat to developed societies. No wonder, then, that action on reducing climate destruction moves at a snail's pace.

Nominal economic growth plays a key role in the narrative we spin about how individuals can close the safety gap. Combine that with the need to justify public debt, and it becomes clear why it has been so difficult to promote alternative target measures in today's developed societies. If societies dropped their plans for growth, they would be unable to borrow and would have to raise taxes.

Never-ending growth on a finite planet has long been recognised as an oxymoron. The Limits for Growth report (Meadows et al. 1972) was recently reviewed using current data (Herrington 2020) and the path forward with the highest human welfare, a 'stabilised world', suggests that economic growth will have to stop in the next few decades to deliver that scenario. As drastic as that may sound, it is preferable to the decline projected in scenarios where we fail to adapt to the environment. But if growth, which has been slowing, eventually stops, the implications for financial values are dire. Especially vulnerable are public debts, which have been run up to levels that depend on future growth for their sustainability. The promise of everlasting growth is the dam against the return of responsibility for safety to the collective.

At this point, economic growth can neither resolve the original conflict between safety and opportunity, nor the subsequent problems created by the attempts to avoid resolution. Growth without reform will increase safety costs, require losses in financial contracts to remain unrecognised, and exploitations to continue. Economic growth with increased productivity is possible, but only after the efficiency of safety has been increased to the point where the cost of sufficient safety fits within an acceptable share of rewards.

## 2.5 LIABILITIES

As consequences of the attempts to avoid the safety gap, liabilities have built up that would need to be addressed to rebalance safety, opportunity, and participation.

### 2.5.1 SOCIAL

Most developed societies have deprivation that threatens social and political stability. Where safety or opportunity are inaccessible to enough people, social solidarity has weakened and participation become a conflict zone. The cost of upgrading the safety of those areas is the social liability that societies carry into the future. The size of the liability can be assessed by what it would take to make basic safety sufficient and accessible for shelter, sustenance, health and care, education, transport, digital access and legal services.

Different countries have successfully created social safety in different areas of need (Coote et al. 2019) but none has the comprehensive, universally accessible, basic services that would establish reliable safety. The societies that have stronger safety nets have tax rates in the 40s per cent GDP. But they are also highly financialised, highly indebted, and reliant on exploitations to keep costs down, just like societies with less established safety. A cursory analysis of the additional spending that would be required to elevate their collective safety ranges from 2% (Percy et al. 2017) to more than 5% of GDP (Coote, Percy, 2020). Eliminating exploitations would add to safety costs, public or private. It is, therefore, hard to imagine that reliable social safety, without increases in efficiency, would be possible without tax takes close to 50%. That is not a level in use in any large, developed society, and inconceivable in most. Clearly, much greater efficiency would be required.

### 2.5.2 FINANCIAL

Financial asset values are exaggerated to the extent that they include value derived from temporary factors, such as externalised costs and implicit guarantees. Those costs, by definition, can only be temporarily externalised and rely on political arrangements to prevent their recognition. As externalised costs express in social costs, the political arrangements that protect the asset values will be subject to change. For instance, as pollution affects people, the political pressure to incorporate pollution pricing will rise. Or as shelter becomes inaccessible, it creates political pressure to address the cost of housing, as recent moves in Berlin demonstrate (Solomon 2021).

Assessing the scale of the phantom value incorporated in today's asset prices is not possible because "there is no way to distinguish between real income and profits or bezzle-boosted income and profits" (Pettis 2021). It is definitely non-negligible, and likely to be systemically threatening to the stability of the financial system. The leverage ratios and interconnection of assets through international 'risk management' mean that contagion between asset classes is more likely than not. That creates

political pressure to avoid the recognition of all losses for fear of systemic risk to the financial system (Shvets 2020).

Public subsidies for polluting activities (Volz 2020), government and central bank support for debt, and continued build up of risk in safety savings, all contribute to the losses incorporated in asset values. One way to imagine the scale of the losses would be to consider what would happen if those supports were removed, if markets were truly free, operating without subsidies or guarantees.

### **2.5.3 ENVIRONMENTAL**

The task of keeping global temperature changes below levels that would threaten societies the world over is estimated to cost around 1% of GDP a year for the foreseeable future (IEA 2020; IEA 2021), assuming that all subsidies for polluting activities (Coady et al. 2019) are stopped and the funds redirected to mitigation and transformation.

### **2.5.4 THE AVAILABLE CHANGE**

The current predicament is that developed societies are in hiatus, managing a delicate and unstable balance between their safety and opportunity needs. Attempts to resolve that conflict, through the transfer of safety responsibilities to individuals and the pursuit of economic growth, have added to the difficulty of resolving the conflict by establishing low reciprocity and building up destabilising social, financial and environmental liabilities.

Maintaining tax takes at their current levels requires that the existing liabilities remain unrecognised or unaddressed. This is the status quo. Deep financialisation, combined with instability-inducing levels of insecurity, and planet-wrecking levels of exploitation are requirements for no change! Without reform that increases safety efficiency and reciprocity, there is no escape from that arrangement.

It is impossible to address the problems without very substantial increases in efficiency. Simply raising taxes cannot generate enough resources to create the necessary safety to liberate the productivity needed. The levels of taxation that would be required, without reform, would reduce productivity by lowering motivation, offsetting any attempt to liberate specialisation by increasing safety. Instead of thinking about increasing spending on safety, we need to think about increasing the reach and efficacy of collective safety without more spending.

Participation is connected to productivity. If the productivity of the insecure was not required, the social liabilities could be left unresolved. Future financial and environmental liabilities could be heaped on the same population. Some think that democracy is a luxury that might have to be sacrificed to get through the coming decades (Ash, Zimmermann 2020; For et al. 2020). But the natural process of development, as described in the first part of this paper, suggests that that is not a

way forward. A decline in participation and safety reduces productivity and precipitates a decline in economic conditions.

The problems of insecurity, finance, and exploitation are linked. Acting directly on finance or exploitation alone would push up costs and increase insecurity. The lever for action is insecurity. And that requires reforms that increase reciprocity and efficiency.

The liabilities will all resolve on their own. The choice is whether to act to prevent decline, or leave them to work out chaotically. As a species, we are built to solve difficult problems through the combined efforts of a group. Activating that advantage requires maintaining safety and opportunity during a transition that allows participation to negotiate the allocation of liabilities peacefully. That is the option that the next section of this paper addresses.

## PART 3

# RE-BALANCING

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Our goal is a prosperous and sustainable society, in which happy individuals live fulfilling and meaningful lives. But how do we achieve it? The purpose of Part 2 of this paper is to explain how we got to this place, so as to establish some clarity about where decisions were taken and assumptions made that led to the current predicament. If we retrace the steps that brought us to this point, we can identify past pitfalls and mark out future milestones on the road to prosperity.

Starting at the end.

We are destroying our environment to hold down the cost of living and exaggerate the value of financial assets.

We are doing those things to secure our safety.

To secure our safety without finance and environmental destruction, we would need to collectively create safety at a cost that is affordable. That means at a cost within the revenues willingly contributed, without reducing the incentives necessary to drive a modern economy.

We would also need to increase access to safety, for those excluded today and those who would lose the safety they'd previously stored in financial assets.

That requires a dramatic increase in the accessibility and efficiency of safety provision.

To provide universal access at costs that are close to today's safety budgets, we would have to focus on the basics and leverage every opportunity to drive down costs.

Both economies of scale and efficiencies of scale would be needed. Economies of scale are readily available, but to gain efficiencies of scale, at a local level, we would need to reform our democratic structures to enable hyper-local service design and delivery.

To enable responsive, responsible democracy, we would first have to restore the broadest possible reciprocity.

Restoring reciprocity would require a strong link between safety and opportunity for every individual. To play that forwards: reciprocity, local democracy, universal access to basic services, definancialisation, sustainability. This section investigates some opportunities to follow that path to universal basic prosperity.

## 3.1 RESTORING RECIPROCITY

### 3.1.1 ESCAPING THE DEBATE LANES

Breaking from the norms of current debate, this paper starts by rearranging the context, before moving on to debate spending. The relatively static portion of production that has been allocated to collective use in developed societies over the last 40 years (Figure 3) is more a reflection of weak reciprocity than an outcome of political intention.

Until a stronger connection is made between the benefits and responsibilities of social membership, a conversation about how much of production to allocate to collective safety will remain blocked. Citizens and politicians are coalesced around the current, delicate balance; and all the compromises that entails. The differences between UK political parties' tax proposals have remained relatively minor, with changes typically directed at minority sources of revenues, avoiding the big taxes that raise most of the revenues. The 2019 Labour Party manifesto promised not to raise income taxes for anyone earning up to three times the median (Labour 2019). In the US, the Biden administration has promised not to increase income tax for anyone earning up to five times the median (Psaki, Deese 2021). Avoiding seeking contributions from the great bulk of the population speaks to the established lack of reciprocity. At present, there is no political justification to raise ordinary people's taxes.

### 3.1.2 SHIFTING THE CONTEXT

Reciprocity could be substantially restored without any change in budgets or overall taxation if a commitment to collective safety were declared, and given substance by four actions:

1. Broad assignment of personal taxes to public services;
2. Renaming of taxes to 'contributions';
3. Flattening of income categories;
4. The orientation of progressive rates around the national median income.

Those actions change the background, without requiring immediate changes in spending. They create a new context in which citizens, empowered by the promise of social safety, are motivated to act holistically. The primary purpose would be to establish solidarity and common interest in resolving the challenges facing the society. While there will be some winners and losers from any arrangement, the changes could be designed to be broadly popular.

It would take considerable political nerve to make these changes. But in practical terms, they are quite simple.

### **3.1.3 COMMITTED CONTRIBUTIONS**

The linkage of taxes to safety in a broad hypothecation would require no immediate changes to taxes or spending in the UK. Eighty percent of taxes are already raised from individuals, and an equal percentage spent on public services and social protection.

The substantial effect of dedicating individual tax revenues to public safety spending would be to restore participation. It would re-engage every citizen in relation to each other, rather than to the state. Each individual's taxes would be clearly a contribution to common safety — including their own. By spending individual contributions solely on mutual aid, the value of social membership is explicitly linked to contributions made through taxes. The integrity of citizenship is established. It follows that every contributor engages in the debate about the degree and form of social safety as an equal, from behind the “veil of ignorance” as Rawls would say (Rawls 1971 p118).

Participation, liberated from narrow, technocratic management of an externalised conflict, can engage with the balance between rights and responsibilities internalised in each citizen. Safety is not up for debate, it is assured. The conversation moves on to rewards, reciprocity, and contribution.

### **3.1.4 NATIONAL CONTRIBUTIONS**

A powerful complement to broad assignment would be to rename taxes as ‘contributions’. The word “tax” has inherited the historical baggage of a levy raised unwillingly, from a population that might not even benefit from the outcomes. ‘National Contributions’ could replace both Income Tax and National Insurance Contributions in the UK. Paying your ‘National Contribution’ conveys solidarity and dignity to the payment, referring explicitly to its reciprocal nature. Conversely, not paying your ‘National Contribution’ could not be advertised as acceptable.

Simplicity is also important. Public misunderstandings about National Insurance Contributions perpetuate ideas of personal contributions for personal benefits. The practical distinctions between revenues from income taxes and social insurance contributions have long since evaporated in the UK. Their separation is political. It leans on public confusion to allow political claims about “taxes” that are linguistically correct, but actually deceptive. A single tax would be easier to understand and better support reciprocity.

### **3.1.5 IN IT TOGETHER**

Reforming taxation so that it uses a progressive rate structure that revolves around average earnings would connect everyone to the progress of society as a whole. Reinforcing mutual interest in the broad advancement of specialist development. This would be a mechanical linkage across the society, embedding mutual interest and reciprocity.

The revenue target, which would be the amount of desired spending on universal public safety, would feed directly into individual contribution rates. Creating a direct relation between safety and opportunity in every individual. With today's technology, it would be easy for rates to vary between percentiles of the income distribution, eliminating incentive distortions.

The political task would be to set a basic rate and a maximum rate that would generate the desired revenues. The basic rate would apply at the median income and grade down to zero on the lowest income, and up to a maximum rate on the highest incomes. Keeping contributions from those with very low rates as voluntary would simulate the current personal allowance for those on the lowest incomes.

**The 'National Contributions' report**, adjunct to this paper, examines the design options and distributional impacts of these tax proposals for the UK in more detail.

### **3.1.6 PARTICIPATION RESTORED**

Establishing reciprocity opens the way to the vigorous participation that is needed to resolve the problems of insecurity, instability, and exploitation. Choices between lifestyles cannot be avoided. Prioritising needs and accepting the consequences; balancing social purpose and individual circumstances — the difficult decisions that were obscured by consumption and debt will need to be made. "High-energy democracy" (Unger 2009, p156) will be needed, both to resolve the liabilities that have been built up, and to access the required efficiencies.

To take advantage of both the society-wide economies of scale and the efficiencies available at a hyper-local level, a democratic structure that allows decision-making to travel up and down that ladder fluidly and responsively is needed. A fully fledged deployment of such reforms is likely to be a multi-decade project. But enabling greater local accountability is the key reform needed to clear the rest of the pathway to prosperity. Starting with reform of local democracy, and then filling in the regional components of a devolved and federated democratic structure, is likely the most practical approach to these reforms in any case.

The key objective is to enable localities to design and deliver the components of safety that they can deliver most efficiently and effectively. That will require mechanisms that allow localities to claim responsibility for the components of public safety they wish to control, and to be allocated the budgets accordingly. Those claims and responsibilities will need local democratic oversight. Existing democratic boundaries, institutions, and laws can be adapted to enable such reforms without revolutionary upheaval, and the additional costs would be small (Percy et al. 2017).

### **3.1.7 CLOSING THE SAFETY GAP**

Establishing reciprocity prepares the ground to close the safety gap. Doing that efficiently requires a focus on universal services. Universal access is vital to reciprocal collective safety as the agreed trade for contribution. Conditionality weakens reciprocity and limits the social benefit of liberated specialisation.

Safety is basic need satisfaction (Gough 2020). The completion of every individual's capacities and capabilities, so that they can specialise, means meeting needs that they cannot. In a modern, developed society those needs require collective infrastructure. Health, care, education, transport, legal services, and information technologies are all vital to enable individuals to specialise.

The efficiency of services stems from their ability to provide immediate satisfaction of needs, as and when they arise. Most people don't need most services, most of the time. But any person could need any of the services, at any time. Allocating resources to publicly accessible services, based on the likelihood that certain needs will arise at a certain frequency across a population, is how we already provide public services. That ability, to target resources to the marginal manifestation of needs, makes services uniquely efficient.

Generic services targeting basic needs also create flexible resilience, limit negative information asymmetries, support each other's efficacy and efficiency, maximise capital efficiency, and reduce waste. Universally accessible, basic services are the only way to both expand access to safety and keep costs down.

The 'iron triangle' of welfare reform (Blundell, 2001), where three, often conflicting, goals vied for dominance, is transformed. Instead of secure livelihoods in opposition to low costs and work incentives, universal services unite them in a foundation for a prosperous society. Work incentives are not affected by the availability of basic services because they convey no reward. Respecting each other enough to ensure access to basic services does not satisfy the need to contribute, to be recognised, or convey any private luxuries. It is self-interested decency. It is a push on the wheel of reciprocity that creates the responsibility to contribute.

## **3.2 UNIVERSAL BASIC SERVICES**

The model of Universal Basic Services (UBS) (Percy et al. 2017) proposes unconditional access to the conditions of safety, opportunity, and participation. UBS identifies seven categories of need that must be sufficiently satisfied to liberate the potential of citizens: shelter, sustenance, health & care, education, transport, information and legal services.

### **PURPOSE : COLLECTIVE LIBERATION**

The model of development proposed in this paper establishes that the primary purpose of social support is to liberate specialisation in individual members, by assuring them of access to a quality: safety. At its essence, safety is a reliable assurance that no one loses access to the basic necessities of life, whatever their circumstances. So, then safety must be universally and unconditionally accessible.

### **PRACTICE : HYPER-LOCALISM**

While the categories of need can be defined in the proposal for UBS, the manner of their satisfaction is not. The needs, circumstances and available resources will vary enormously from one community to the next. That means that practices to effectively create safety must be defined at the same level at which those circumstances change, which is often at a hyper-local, community level (Moore et al. 2020). This requires “high- energy democracy” (Unger 2009, p156) to match the advanced development of the society.

The pathway to establishing reliable and efficient safety combines a national commitment to collective provision, secure funding, established rights (Coote, Percy 2020), and hyper-local design. The purpose is social, so the services are enabled and enshrined at a societal level, but the practice is personal, so the services must be designed and delivered locally.

### **THE ROLE OF CASH REDISTRIBUTIONS**

There is a strong case for emphasising universal services over cash redistributions: to achieve broad access to safety, retain work incentives, and militate against conditionality.

Cash redistributions can provide agency for recipients, but only in the presence of a comprehensive infrastructure of basic services. Without those services, cash will always be insufficient and unreliable, and will fail to create the quality of safety, generally or for the recipients. Even advocates for unconditional cash redistributions recognise the critical importance of a pre-existing infrastructure of universal services is necessary for cash redistributions to provide meaningful agency (Haagh, 2019). So, universal access to basic services must be the first priority for closing the safety gap.

### **GUARANTEED WORK**

Universal safety is a job guarantee. Everyone can work without the coercion, labour market distortions, and top-down organisation that a guaranteed job would have to entail. There is no need to guarantee

employment with UBS because every person is free to work, doing what they want, for the rates they want, and for whom they want. There is an enormous amount of work needed to transition to a sustainable footing, regenerate the fabric of communities, and provide basic services — all of which generate employment opportunities that have purpose and longevity. Starting with what needs to be done, and ensuring that people can work, creates more sustainable activity than trying to find things for people to do, which would not otherwise have been willingly done.

### 3.3 DEFINANCIALISATION

Finance is useful. Financialisation, on the other hand, describes a situation in which ordinarily non-financial activity is seconded into service for finance. When finance escapes its marketplace, it is because it has been allowed, or even solicited, to do so. (Part 2 of this paper has detailed the reasons for, and effects of, financialisation.)

Definancialisation, then, refers to the process of restoring ordinary non-financial activity so that it can operate normally, and removing dysfunctional social dependencies on finance.

There are two changes needed. The first involves liberating the normal mechanisms of finance from the shackles of social responsibility. The second seeks to resolve liabilities accumulated in existing financial assets.

#### **NORMALISING FINANCE**

Restoring the normal role of finance involves breaking the co-dependency with social needs. Finance should operate freely within a rules-based marketplace. Two sets of rules apply, one *in* the market and the other *to* the market. Participants in the market need to be able to trust each other, and the first set of rules can largely be defined by them. The market should serve the society that hosts it. At a minimum, it must not harm the society. So rules apply to the market to maximise benefit and minimise harm. Those rules are defined socially.

Restoring reciprocity and social responsibility for general welfare creates the necessary preconditions for definancialisation. The first step is to remove the public guarantee for financial asset values. Following, and learning from, the last century, ordinary and investment banking should be fully and completely separated, limiting the public backstop to its interest in the stability of ordinary banking. Once the moral hazard has been removed, much of the remainder of definancialisation will follow its natural course. To paraphrase Will Emerson (Paul Bettany's character) in the film *Margin Call*: “stop tilting the board, and the whole world gets really fair, really fast”.

The second step is to assert full-cost pricing. Legislation and regulation is already set in this direction, but implementation is hindered by the social consequences. A commitment to UBS incorporates and internalises the social consequences of full-cost pricing. Those costs become a social responsibility, along with the prerogative to mitigate those costs in the provision of the services. Application of carbon taxes and the internalisation of other known costs is enabled by the commitment to, and scaling up, of social safety provision.

### **ORDERLY RESOLUTION**

Resolving accumulated liabilities will require public support. It's unfortunate and particularly unfair on the millions who were unable to partake in the last 40 years of financialisation. Resolving the losses in financial values will have to strike a careful balance between the losers and those who never won.

Sanctuary funds could play a useful role. Rather like 'bad banks', they would offer a protected repository for financial assets, allowing orderly resolution over time. A 'right to sell' homes into public ownership could avoid mass disruption in the property market. National Savings bonds could play a pivotal role as an alternative for savings during the de-escalation. Having attracted much of the top talent for decades, one can have reasonable confidence that the finance industry will be able to come up with some creative solutions of their own. Orderly resolution of the liabilities will be painful and require careful management, but perfectly possible. Assured safety and vibrant participation make the chances of success much higher.

## **3.4 SUSTAINABILITY**

There are three aspects to transitioning to an ecologically sustainable footing: reducing destruction, building resilience, and optimising operation.

### **REDUCING DESTRUCTION**

In the short term, reducing and eliminating destructive practices is the first task. That will require societies to incorporate full-costs into their marketplaces. Inefficient marketplaces are contributing to the destruction of the environment because known costs are excluded to fill the safety gap, creating a tacit advocacy coalition for continuing destruction. Those costs could be included tomorrow, if they did not threaten the safety of the populations of societies that have the power to assert them. That can only happen after safety here and now is assured, which is why societies will need to implement universal access to basic services before they can tackle environmental sustainability.

Allowing the costs of unsustainable activities to be properly reflected in market prices will drive changes in behaviour more effectively and efficiently than regulation alone. That means that the cost

of living unsustainably will increase, primarily through energy and food costs. The people who will be hardest hit by these changes are already living insecure lives.

A commitment to universal safety makes those costs a universal interest. The collective funding of UBS creates an advocacy coalition for transitioning rapidly to alternative sources of energy, greater efficiency, and sustainable food production — all of which are readily available.

### **BUILDING RESILIENCE**

A collective and reciprocal commitment to universal safety creates the foundation for resilience. An infrastructure of services, that ensure access to safety for all, allows the separation of social stability from financial stability. Social responsibility for safety replaces the role of exploitation in bridging the safety gap.

A key role of UBS is to reduce the cost of basic living, thereby increasing access to safety at the same time as increasing the sustainability of resource use. By reducing costs in areas that are not directly impacted by internalising full-costs, UBS can help offset increases in the areas where costs do rise.

### **OPTIMISING OPERATION**

Safety, opportunity, and participation will all have to be operating at their maximum to transition to sustainability.

The scale and the scope of the challenges that we face in the coming decades will require societies to operate at their optimum, to adapt and innovate (Bell et al. 2021; Wolf 2021a). That means closing the safety gap using only sustainable resources. That is the central challenge, in a nutshell. Societies will need every otherwise “lost Einstein and Marie Curie” (Van Reenen 2021) to rise up and make their contribution — a third of the increased productivity in the US in the 60 years up to 2010 came from better use of the population’s talent (Hsieh et al. 2019).

Reciprocal interest, established through linking universal safety with universal contributions, creates the impetus for optimising the sustainability of the foundational economy (FEC 2018). It sets sustainability standards for the core infrastructures that satisfy basic needs, and creates a base from which commerce can innovate.

Participation is central. Societies will have to address the increasing dissatisfaction with, and polarisation of, democracy (Foa et al. 2020). Behaviour change is a social phenomenon. We are relative creatures and constantly assessing our behaviour against the standards set around us by others. The behaviour change needed to address climate issues will happen collectively, or not at all. The restoration of collective responsibility and reinvigoration of participation are the platform on which collective behaviour change can stand.

As proposed in Part 1 of this paper, safety creates dynamic opportunity and enables responsible participation. All three conditions are equally important, but the place to start is safety.

The threat of climate instability is the existential threat of our times, and only by addressing the problem of social insecurity first can we make the changes necessary to be sustainable.

# CONCLUSION

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Identifying the reasons why developed countries stopped allocating a greater share of production to collectively provided safety towards the end of the 20th century sheds light on the causes of the social insecurity, financial instability, and environmental destruction that are features of those societies today. That analysis also points to ways it would be possible to unlock us from political paralysis and develop effective solutions to those problems.

Restoring reciprocity by rearranging the fiscal structure to directly link public contributions to public goods, while simplifying and broadening the tax system, is a necessary first step before developed societies will be able to close the gap in their safety provision. Reciprocity will enable the responsible participation that is vital to balancing safety with opportunity, without exploitation. The transition of basic safety responsibility from individuals to the collective would absolve the financial system of social responsibilities that are distorting its operation, and would free the commercial sector to deliver the productivity enhancements needed to address the challenge of sustainability.

Until societies take responsibility for their own safety, they will underperform while remaining dependent on increasingly unstable financial systems and on exploiting global commons. The complexity of unwinding the liabilities established to now will be a formidable challenge, but waiting longer only increases liabilities and makes resolution more difficult.

A state of universal basic prosperity, in which safety, opportunity, and participation are cherished equally, is achievable with relatively minor adjustments, especially when compared to awaiting the breakdown of the financial system or the environment. In such a state, citizens would experience a much deeper freedom and societies much greater productivity than is possible in the current state.

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