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Thriving in a Globalised World – A Strategy for Britain

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Domestic Responses to Globalisation

Policy Paper 92

Contents

Responding to Globalisation

1.1 The Liberal Democrat response

Britain's Economic Future: Staying Competitive

2.1 Improving skills

2.2 Competitiveness and research, development and innovation

2.3 Stimulating regional and local regeneration

2.4 Financial services

2.5 Taxation

Migration

3.1 Immigration

3.2 Wages and employment

Globalisation and the Environment

4.1 Responding to the environmental challenge

4.2 Sustainable production, consumption and trade

Executive Summary

Globalisation has brought enormous benefits to the UK, but we also recognise its challenges: from an unbalanced economy over-reliant on particular industries, for example, or to regions suffering from foreign competition, or to communities facing a sudden influx of migrant labour.

Unless government develops effective solutions to these challenges, many people may come to see globalisation as a threat, rather than the opportunity that it should be – particularly in the midst of a major recession.

This policy paper therefore sets out the Liberal Democrat response to the impact of globalisation on the British economy and society. Our key proposals are:

- Working to make the UK economy competitive and well placed to respond to the challenges of globalisation, ensuring that the UK workforce is as skilled, innovative and adaptable as possible, and promoting greater diversification of the economy.
- Welcoming and managing immigration, and protecting the wages and employment conditions of migrant (and non-migrant) labour.
- Ensuring that moves towards environmental sustainability are not achieved simply by exporting polluting industries offshore.

Staying competitive

It is essential that the UK remains competitive in the global economy; government needs to recognise globalisation as both an opportunity and a responsibility. We would:

- Create a better skilled and more flexible workforce by:
- Fully funding the off-the-job training costs of apprentices.
- Developing a national application system for apprenticeships, similar to UCAS.

- Covering the full fee costs for first Level 3 qualifications (e.g. A-levels, advanced apprenticeships and NVQ Level 3) for those aged over 25.
- Abolishing tuition fees for all part-time and full-time Higher Education courses.
- Promote research, development and innovation (RDI) by:
- Working more closely with the private sector in prioritising and exploiting RDI.
- Creating a strategic research capacity fund for university RDI.
- Spread economic opportunities across the UK by:
- Devolving power to local authorities so that they can raise and spend taxes on local priorities.
- Encouraging local authorities to work with the Debt Management Office to issue bonds and raise money for local investments.
- Decentralising central government by moving departments out of London.
- Rebuild a competitive, well-regulated financial services sector which supports the wider economy by:
- Bringing about a restoration of a local banking infrastructure, with a clear separation between 'utility' style high street banking and higher-risk investment banking.
- Ensuring that hedge funds are run responsibly and if they cannot stick to the industry scheme of best-practice then to introduce statutory regulation.
- Exposing any potential high-risk activity by introducing a disclosure regime whereby all positions of economic interest would be disclosed to the market above a specific threshold.
- Refining the bank licensing system within the stricter prudential regulatory regime, strengthening conflict-of-interest rules, and bringing

the banking sector within the purview of competition law in a way similar to that of other sector-specific regulators in the UK.

- Respond to international competition over corporate tax rates by:
- Committing the business tax regime to consistency rather than constant changes.
- Identifying areas for greater international co-operation on tax policy, for example by treating accounting conventions consistently.

Migration

Migration has and will continue to have major benefits to the UK economy and society, but sudden influxes of migrant labour can put pressure on local resources and cause perceived threats to employment opportunities. We would ensure that migration benefits all geographical areas and sections of the community by:

- Introducing a regional points-based work permit system which awards more points to immigrants willing to move to areas where there is the will and the resources to welcome them, as well as awarding points for possessing skills which the UK economy as a whole needs.
- Launching an urgent review into how population is measured at the local level so that sudden changes in local population can be more swiftly reflected in the allocation of central resources to local authorities.
- Requiring government departments to collect data on the regional and sector-specific effects of migration on employment and wage levels.
- Strengthening employment law in relation to agency and temporary workers to ensure that the lowest-paid workers are protected.

Globalisation and the Environment

It is important to ensure that the economy does not reduce its environmental impact simply by displacing resource - and pollution - intensive activities

offshore. We would promote sustainable production, consumption and trade by:

- Analysing product supply chains in order to identify the opportunities for reducing resource use, and providing support for industry initiatives to reduce resource use and pollution.
- Replacing the concept of 'air miles' and 'food miles' with an agreed international labelling system which measures 'environmental impact' and covers key indicators such as energy efficiency and biodiversity.
- Introducing national carbon consumption targets and giving these the same level of prominence as carbon emissions targets.

Responding to Globalisation

1.0.1 This policy paper sets out the Liberal Democrat response to the impact of globalisation on the British economy and society. Globalisation has brought enormous benefits to the UK, but we also recognise its challenges: from an unbalanced economy over-reliant on particular industries, for example, or to regions suffering from foreign competition, or to communities facing a sudden influx of migrant labour.

1.0.2 Particularly in the midst of severe recession, British citizens may often feel themselves to be the victims of international forces which they seem unable to influence. This helps to turn public opinion against the whole basis of globalisation and open borders, and threatens a lurch towards protectionism.

1.0.3 Government therefore needs to demonstrate that it is not helpless in the face of globalisation; rather, it has a duty to ensure that the UK is well placed not only to take advantage of the benefits of globalisation but also to respond to its challenges. This paper sets out the Liberal Democrat response.

1.1 The Liberal Democrat Response

1.1.1 The set of processes generally known as 'globalisation' has been one of the main characteristics of the global society and economy since 1945. International trade has expanded dramatically, as have international flows of finance and foreign direct investment. Cheap road and air travel and the removal of border restrictions have allowed people direct experience of a wider range of countries and cultures than was ever possible before. This has been supplemented by the development of information and communications technology which have enabled an even greater range of personal contacts and the exchange of ideas across borders.

1.1.2 Liberal Democrats, and our predecessor parties, have always welcomed the opportunities opened up by globalisation. Open borders, the free exchange of goods, services, ideas, and the movement of people across national boundaries help to generate economic prosperity, stimulate creativity and innovation, accelerate technological change (with positive impacts, for example, on the environment), enlarge personal freedom and build closer links between communities and nations, making conflict less likely. In every major debate over free trade over the last two centuries, Liberals have consistently supported the open, international option.

1.1.3 Britain itself is well placed to benefit from the processes of globalisation, and has indeed done so. Home to one of the world's major financial centres, speaking what has become the key international language of business, and with a history and culture of trade and commerce, the UK economy has depended on open borders and has benefited accordingly from international flows of goods, finance, investment and people.

1.1.4 Yet we recognise that globalisation also brings its downsides; it does not automatically benefit every individual and every community in the short-term, or even always the long-term. Regions over-reliant on industries subject to competition from newly industrialising countries may suffer serious unemployment and economic decline. Lower-skilled British workers may find themselves unable to compete with economic migrants possessing higher

skills or willing to work for lower wages. The environmental impacts of globalisation can be negative, with the expansion of international trade acting as a magnifier of unsustainable patterns of production and consumption.

1.1.5 More pervasively, British citizens may often feel themselves the victims of international forces which they – and often their elected representatives too – seem unable to influence. Employees of multinationals may find their employment and working conditions subject to decisions taken thousands of miles away. International institutions – the IMF, the WTO, and the EU – can seem remote and unresponsive to individuals' views while at the same time exercising enormous influence over their futures.

1.1.6 Successive Conservative and Labour governments must share some of the blame for the negative view of globalisation which is held by many. They have encouraged the development of an international commercial and financial system with decisive impacts on citizens' day-to-day lives, while at the same time failing to increase the effectiveness and democratic nature of the European and international institutions which could provide the necessary balance. Obsessed with deregulation, or at the very least, 'light touch' regulation, they have often seemed spineless in the face of multinational corporate power.

1.1.7 Small wonder, then, that many people have come to view globalisation as a threat rather than the opportunity it should be. Successive governments' failure to prepare for Britain's increasing exposure to international competition, to prepare its citizens for the challenges of a more open international economy and society, and to develop the international political institutions needed to regulate the international economy, pose a serious threat to the future of globalisation itself – particularly in the midst of a major recession that reinforces tendencies towards protectionism.

1.1.8 Liberal Democrats believe that the UK is not helpless in the face of globalisation. Government has both the responsibility and the power to act to regulate multinational companies (both UK-domiciled and overseas-based)

without discouraging inward investment. Government should support individuals and communities suffering as a result of exposure to international competition, ensure that the UK economy as a whole remains flexible and competitive, and work to prevent a reversal of international trade and co-operation.

1.1.9 This policy paper deals only with matters of domestic policy in response to globalisation – that is, issues arising from the real or perceived impact of globalisation on the UK economy and society. We do not, therefore, cover questions of international security and crime, aid and development, the role and structure of global institutions, or international trade, which are all dealt with in other Liberal Democrat policy papers.

1.1.10 Our key proposals are:

- Working to make the UK economy competitive and well placed to respond to the challenges of globalisation, by promoting continued development and innovation, generating new opportunities for employment and prosperity as older industries migrate to developing economies.
- Ensuring that the UK workforce is as skilled, innovative and adaptable as possible, that research and development is promoted, that entrepreneurship is supported and that corporate taxation is simplified, making it easier for businesses to plan for the medium to long-term.
- Ensuring greater diversification of the economy, rendering it less vulnerable to macroeconomic shocks, partly by decentralising political and economic power to the nations and regions of the UK.
- Ensuring that moves towards environmental sustainability are not achieved simply by exporting polluting industries offshore, and that imported goods as well as domestic production, become steadily less resource and pollution intensive.
- Welcoming immigration, managing it better through a regional points-based immigration system taking into account the needs of the

economy as well as whether particular regions need immigration, and providing better support to local authorities coping with large population movements.

- Protecting the wages and employment condition of migrant (and non-migrant) labour.

1.1.11 It is of course, essential to recognise that as in all areas of policy, UK responses to globalisation need to be made at different levels. Some issues clearly fall within the remit of the EU, and the UK needs to make sure it is fully and positively involved in decision-making. Many others are best made at a regional and local level; the Scottish Parliament, Welsh Assembly, GLA and reinvigorated local authorities all have as important a role to play as the UK parliament. The Liberal Democrat principle that decisions should be made as locally as practically possible is of the utmost importance if people are to feel that they can gain from globalisation, rather than being bypassed by it.

Britain's Economic Future: Staying Competitive

2.0.1 It is essential that the UK remains competitive in the global economy; government needs to recognise globalisation as both an opportunity and a responsibility. Economic globalisation has not occurred independently of states and they retain a key role in its development.

2.0.2 Successive governments, both Conservative and Labour, have failed to create an economy well placed either to weather the storms of recession or to seize the opportunities of recovery. Heavily exposed to global markets, with a higher ratio of trade to GDP than any other G8 economy, the UK was always likely to suffer more deeply than most of its competitors from a global economic downturn – yet this impact was exacerbated by the economy's unbalanced nature and being heavily reliant on a financial services sector which was ineffectively regulated. According to the IMF's calculations, the UK

government's total exposure to the banking system stood at £904bn in July 2009. The IMF also predicts a 0.2% growth rate for next year, which is substantially lower than the 1.3% predicted in the chancellor's April 2009 budget.

2.0.3 The UK is also distinctive for the economic imbalance between its capital and other cities and regions. London's employees and institutions contribute almost 20 per cent of government revenue, on a workplace basis. Notwithstanding the partial renaissance of a number of regional centres (e.g. Cardiff, Liverpool, Manchester and Leeds), no other developed country has anything like the UK's level of difference in the value of production and trade (with its associated demographic impact) between the metropolis and the periphery. This exacerbates the challenge of getting a single set of national policies right and supports decentralisation of political power as a key policy proposal.

2.0.4 Liberal Democrats aim to ensure that the UK builds a balanced economy, better able to withstand and benefit from the challenges of globalisation. This does not imply a process of 'picking winners', which government is ill-placed to do. It does imply ensuring that the UK workforce is as skilled, innovative and adaptable as possible, that research and development is promoted, that entrepreneurship is supported and that economic, along with political power is decentralised. A strong financial services sector will have its part to play in future recovery, but it must be better regulated. The benefits of globalisation should be distributed in an equitable way and big businesses should be regulated so that they pay their fair share in tax and are not rewarded when they make mistakes.

2.0.5 This is our approach for the long-term, but we also understand that many people are losing their jobs now, and long-term planning needs to be supplemented by dealing with the short term. That is why creating new jobs is one of our top priorities. Liberal Democrat policies for a short-term economic stimulus centre on investment in green technologies and infrastructure,

helping to generate employment and prosperity while at the same time helping to meet the challenge of climate change. We would create jobs and create a different and better Britain by:

- Launching a ten-year programme to offer the opportunity for every home to be a warm home and ensuring all new homes are energy efficient.
- Starting a five-year programme to insulate every school and hospital.
- Investing in public transport, including purchasing new train carriages, electrifying main rail lines, opening old and new train lines and stations and investing in signal improvements and track-doubling.
- Launching the construction of tens of thousands of additional zero-carbon social homes.

2.0.6 In addition, many Liberal Democrat policies in other areas will have a positive impact on employment. These include investing in major infrastructure projects, such as a high-speed rail network; introducing universal childcare for children over the age of 18 months; reducing class sizes, which will mean employing more teachers; and employing more health visitors.

2.1 Improving skills

2.1.1 Globalisation has opened up national borders and engendered cross-border working patterns, international transfers of labour and greater competition in terms of skills and qualifications. Within the OECD, the UK ranks about average in terms of tertiary education and does similarly in a test of reading and maths skills. 'Average' educational and skills outcomes on an international comparison are unlikely to result in a world-leading ranking in terms of the competitiveness of the workforce.

2.1.2 Even before the current downturn, government forecasts predicted that demand for unskilled labour in the UK economy would decline from 3 million to 600,000 in the next decade. Moreover, low-paid, low-skilled work – even in the service sector – can create poverty traps, in which workers remain

indefinitely on low wages with no promotion prospects or opportunities to develop new skills.

2.1.3 The current economic crisis has brought these issues into sharper relief, with the UK facing higher levels of unemployment than it has had to cope with for more than a decade. Liberal Democrats recognise that Britain will not successfully recover from the recession without a solid commitment and viable plan for re-skilling and up-skilling its workforce. We aim to ensure that UK workers are able to compete well with individuals from other countries; it is simply unacceptable that, as at present, a third of adults do not have even a Level 2 qualification (equivalent to 5 A–C grade GCSEs).

2.1.4 If Britain is unable to compete in terms of wages with workers from the new EU accession states, it is essential that the UK's workforce should stand out in terms of skills, especially in high-tech industries (e.g. production of renewable-energy technologies). Liberal Democrats aim to invest in programmes to improve skills across the board and across all ages.

2.1.5 We would improve the educational attainment of children by:

- Providing up to twenty hours of free high-quality childcare per week, embedded with early years education for all children from 18 months to when they start school.
- Cutting the class sizes for 5–7 year-olds to private school levels.
- Introducing a pupil premium which would increase the funding for those from disadvantaged backgrounds to private school levels.

2.1.6 Liberal Democrats also intend to expand opportunities for Higher Education, Further Education and apprenticeships. We would enlarge opportunities for Higher Education (HE) and Further Education (FE) through:

- Creating a level playing field in which both free tuition and maintenance support is offered equitably to those studying part-time and full-time, in adult Further and Higher Education, and in universities, colleges and work-based settings.

- Developing a credit-based framework for learning across the FE and HE sectors, using a modular system with funding following the student.

2.1.7 We would improve opportunities for adult Further Education through:

- Covering the full fee costs for first Level 3 qualifications (e.g. A-levels, advanced apprenticeships and NVQ Level 3) for those aged over 25.
- Making maintenance grants available to adult first level 3 FE students at the same level and on the same means-tested basis as for full-time and part-time HE students.
- Enhancing the provision of adult community education and reversing cuts to funding of equivalent and lower qualifications.
- Redirecting resources from the employer-led 'Train to Gain' programme into adult education, adult FE, and adult apprenticeships.

2.1.8 We would strengthen adult apprenticeships through:

- Fully funding the off-the-job training costs of apprentices.
- Developing a national application system for apprenticeships, similar to UCAS.

2.1.9 We would also give people who have lost their jobs as a result of the recession the chance to retrain while they look for work, so that they improve their prospects and earning potential when they get back into work.

2.2 Competitiveness and Research, Development and Innovation

2.2.1 If the UK is to remain competitive it must ensure that it conducts world-class research and development. At the moment, Britain lags behind its international competitors in the proportion of government and private sector investment in R&D – or, to give it its more modern name, RDI (research, development and innovation). UK RDI intensity is lower than the OECD average (1.78 per cent against 2.26 per cent in 2006), and far below the 2.5% target the government wished to achieve by 2010 as part of the EU Lisbon Agenda.

2.2.2 Business RDI intensity in the UK has declined from around 1.5 per cent of GDP during the 1980s to 1.1 per cent in 2006, also below the OECD

average. This applies across the board, including in the development of green and high-tech technologies. A lower rate compared to the UK's competitors occurs for a range of reasons, including the lower ability of UK firms to market research outcomes and innovative technologies around the world. UK funding for universities and research centres is organised in a haphazard way, with a lack of clarity around the government's dual need for both centres of excellence and diversity across the UK tertiary education system. There is also a lack of focus, relative to the UK's competitors, in uncovering the priorities of industry, commerce and the scientific community generally.

2.2.3 Both the UK government and the UK private sector spend a high proportion of RDI resources on the development of military-related equipment. Whilst this can sometimes underpin civilian technology and competitiveness, military RDI outcomes may not always filter out into the economy more generally. In contrast, in the US, the government has been particularly adept at ensuring that the outcomes of spending on defence RDI are applied as far as possible to civilian applications.

2.2.4 The major weaknesses of RDI in the UK lie with the institutional framework for co-operation within the private sector and the way in which the UK government works with the private sector to help prioritise and exploit RDI. The Japanese government is particularly effective in this field; in general terms, the government provides 'conditional' joint support but private industry and scientific institutions together manage the programmes and intellectual property issues as they are more likely to have specialist knowledge in this area.

2.2.5 In the UK, systems for encouraging, recording, and disseminating intellectual property rights arising from RDI are heavily bureaucratized and businesses may not always be attuned to sourcing and incorporating suitable RDI outcomes. Many other countries, including in particular the US, China, Japan, and Germany, have national institutions which seek innovations from around the world for industry and science 'back home' to absorb. In some

countries these programmes are run by secondees from the science and business community, as they have a level of specialist expertise which most civil servants do not.

2.2.6 Many of these problems will benefit from the general Liberal Democrat approach to government and the civil service: more openness in government; repeal of draconian secrecy laws; more recruitment ‘traffic’ between government and the private sector, together with stronger conflict-of-interest rules for civil servants going into the private sector; the introduction of the UK’s first civil service law; and other reforms. In addition, we will:

- Move away from an excessive reliance on military exports and production for UK forces (many of which have a net negative impact on GDP due to the open and hidden subsidies to this sector); and take steps to deploy military innovations more quickly in the civilian sector.
- Implement key institutional reforms, sector by sector but within an overall institutional umbrella, to sharpen industry and science organisations and to improve the government’s role in joint working groups when prioritising, co-funding and managing RDI expenditure. These reforms would build on the work conducted by the Technology Strategy Board, set up in 2007 and sponsored by the Department for Innovation, Universities and Skills.
- Introduce institutional and legal changes to streamline the intellectual property system in the UK. This would cover the flow from services to business (innovators and users of innovation), and the ‘import’ of RDI from intellectual property centres in the EU and other parts of the world.

2.2.7 In terms of university RDI, we would:

- Create a Strategic Research Capacity Fund of up to £100 million, to be reallocated by HEFCE from current research funding, by a process of peer review in open competition for research proposals in areas judged – on the basis of international expert advice – by the government to be of strategic importance and not well-developed.

- Provide more support and tenure for post-doctoral researchers, in particular aimed at tackling the attrition that often occurs for women researchers.
- Resist moves to concentrate research in a handful of universities, and create mechanisms to ensure that strategically important new research areas are supported.

2.3 Stimulating Regional and Local Regeneration

2.3.1 Globalisation opens up industries to competition from overseas, and can have devastating effects on regions over-reliant on single sectors; the British experience in textiles, steel and coal, among other industries, shows what can happen. Yet the growth of processing and manufacturing industries in poorer countries is essential to their development and the overall health of the global economy, and is not something that should be resisted.

2.3.2 What the UK government needs to do is to ensure that the British workforce is as skilled and adaptable as possible, to make it easier for workers to move from job to job, and sector to sector, to encourage local entrepreneurship, and to ensure that no region is so dependent on any one industry that its decline causes the collapse of the entire local economy. This is particularly important in the UK, with its history of the centralisation of wealth and jobs in London; it is important that measures are taken to stimulate local regions across the country so that job creations (and losses) are more evenly dispersed.

2.3.3 The Liberal Democrat principle that decisions should be made as locally as practically possible is of the utmost importance if people are to feel that they can gain from globalisation, rather than being bypassed by it. It is essential to empower local authorities and communities to generate local networks and develop social capital. We would aid this process by:

- Devolving power to local authorities so that they can raise and spend taxes on local priorities.

- Handing the powers exercised by regional development agencies to local authorities, making elected councils responsible for local economic development.
- Encouraging local government to work with the Debt Management Office to issue bonds and raise money for local investment.
- Decentralising central government by moving departments out of London. This would help to create jobs in local economies, as has been witnessed, for example, by the relocation of Department of Health offices from London to Leeds.
- Helping rural communities by cutting taxes for village shops and pubs to help them get through the recession and opening more post offices in small towns and villages.

2.3.4 Stimulating local entrepreneurship will help to encourage diversification in the UK economy as a whole, whether particular regions choose to develop 'clusters' of related industries or opt for local diversity.

2.3.5 Universities are ideally placed to bring together research and innovation with local enterprise and manufacture. The perceived geographical divide between the (declining) manufacturing economy of the North and the knowledge economy of South East England can be at least partially offset by university research, which is carried out to a high standard across the UK. Our proposals to support this research are set out in section 2.2.

2.3.6 The English regions, Wales, Scotland and Northern Ireland have also seen chronic underinvestment in transport infrastructure in recent years, which reinforces the economic concentration on London and South East England. To remedy this, Liberal Democrats would invest in an extensive high-speed rail network, upgrade existing lines, and make it possible for local authorities and community rail partnerships to draw down funds from the Future Transport Fund to re-open viable rail lines. We will also give local authorities the power to regulate and improve local bus services. These proposals are set out in detail in Policy Paper 85, Fast Track Britain (2008).

2.4 Financial Services

2.4.1 Over-reliance on a badly regulated financial services sector helped expose the UK to the current recession; but as the global economy recovers, the sector can help to play an important part in the recovery. The sector is still hugely important within the UK economy, contributing 8 per cent of GDP (nearer 15 per cent of private sector GDP). The UK already has a critical mass in financial services and possesses a dominant position as a service centre for commodity trading, derivatives trading, insurance and shipping.

2.4.2 The key is to ensure that better regulation allows the UK to benefit from financial services whilst protecting its citizens from irresponsible lending and risk-taking. The intrinsic strength of the City of London as one of the three major global financial centres, and the one with the greatest international reach, gives the UK government an opportunity to take the lead in improving and developing structures for globalised finance, ensuring that, as financial and banking business is rebuilt, it is done on a more stable, permanent basis. The current economic crisis has exposed the weaknesses in the national regulatory infrastructure for handling emergencies, and in particular the split between the Bank of England and the Financial Services Authority. Clearly there is a distinction between macroeconomic oversight of systemic risk and the day-to-day regulation of financial institutions. However, what seems to have happened in the wake of the 1997 split is that there was insufficient active co-ordination to address emerging problems like the bubble in the housing market, and the Bank lacked the regular contact with financial institutions which would have prepared it for the crisis which emerged.

2.4.3 To combat these problems and to make sure that people and business are protected in the future, Liberal Democrats would take the following action on a national level:

- Create a clearer line of responsibility in crisis situations. The Bank of England should have primary responsibility, ultimately accountable to Treasury ministers, and the FSA should be a strong free-standing

agency in charge of identifying prudential risk and business practice risk. The Bank of England would control capital adequacy in partnership with the FSA.

- Tackle problems caused by hedge funds, which are a potential source of instability; these funds need to demonstrate that they accept the responsibilities that go with their growing influence. Whilst there is an industry scheme of best-practice for hedge funds these have so far seen a limited take-up, and it may be that statutory regulation is needed.
- Introduce a disclosure regime whereby all positions of economic interest would be disclosed to the market above a specific threshold (as set out in Option 3 of the recent FSA consultation paper CP07/20).
- Rather than distinguishing between wholesale and retail products, a distinction should be made between high and low-risk products.
- Address the unwelcome increased concentration in banking and financial services resultant from recession-induced mergers, and begin the long process of improving real competition in the banking sector – by, for example, refining the bank licensing system within the stricter prudential regulatory regime, strengthening conflict-of-interest rules, and bringing the banking sector within the purview of competition law in a way similar to that of other sector-specific regulators in the UK.

2.4.4 A broader issue is financial education and advice. The better the understanding consumers have of finance, the better financial markets work. The Thoresen Report has set out a practical set of proposals for rolling out a network of centres to provide financial guidance. Liberal Democrats support this approach and believe priority should be given to its realisation. The initiative could be co-financed through government and the financial services industry (through the FSA levy).

2.5 Taxation

2.5.1 The process of globalisation has had a significant impact on the development of tax policy across the world's major economies. Capital has become more mobile, and this process has accelerated rapidly over the past 15 years. Exports have grown as a proportion of global GDP (from 20 per cent in 1995 to 26 per cent in 2005). At the same time, the ownership of Britain's largest companies has become much more international, with around 50 per cent of the UK stock market in foreign hands in 2007, compared to just over 15 per cent as recently as 1994.

2.5.2 This increase in capital mobility, an important part of globalisation, has increased competition between countries to be seen as an attractive location for business. Major economies have responded by reducing their corporate tax rates in order to remain competitive. In 1995, the average corporate tax rate for 92 countries surveyed by KPMG was 38 per cent; by 2008 this had fallen to 26 per cent.

2.5.3 One result of this fierce competition between states over corporate taxation has been that the UK has developed a record of frequent changes to corporate tax rules, bringing increased complexity and cost, and increased uncertainty for businesses trying to plan for the medium to long-term. The government has made these repeated changes despite the fact that the tax rate itself is not as important a factor in tax competitiveness as is long-term stability in tax policy and simplicity in the overall tax system, two issues that can be addressed without gambling with overall tax revenues.

2.5.4 This era of tax rate competition has had an impact on the UK. From a country seen as one of the most attractive for business and investment, Britain has slipped down the league table. 2008 saw the first instances of major companies moving operations away from Britain primarily for tax reasons.

2.5.5 Liberal Democrats would address the variability issue by developing a medium and long-term statement of business tax policy, covering a minimum two parliament timeframe. This statement would:

- Commit the business tax regime to consistency as far as tax reach is concerned. This consistency is a key element in increasing the perceived quality of the UK tax system for business.
- Identify any major areas for proposed reform, with a timetable for achieving it. The current review of foreign profits taxation, whilst welcome and necessary, has taken far too long. Liberal Democrat proposals on increasing the share of taxation to come from environmental taxes would be clearly laid out here.
- Identify areas for greater international co-operation on tax policy. A clear area for co-operation is in the movement towards a harmonised tax base in the EU, often referred to as a Common Consolidated Corporate Tax Base, or CCCTB. This is not a harmonisation of tax rates, but an agreement to treat accounting conventions in a similar way. This proposal is supported by business as it is likely to make tax compliance simpler and cheaper and would make long-term planning and forecasting easier.

2.5.6 We would also simplify the tax system by removing most corporation tax reliefs, except for specific categories relating to RDI spend, and making this revenue-neutral overall via a compensating cut in the corporation tax rate. We would complete the process of simplification via a general anti-avoidance rule, as adopted in countries such as Australia, accompanied by a comprehensive and speedy pre-clearance procedure.

2.5.7 Liberal Democrats remain fierce critics of tax avoidance and the tax havens (often linked to the UK as Crown Dependencies or Overseas Territories) that make such avoidance so much more achievable.

Commitments made at the G20 meeting in April 2009 to take action against jurisdictions not meeting international standards on tax transparency and information exchange are a good step forward. These commitments make it less likely that the tax policy of tax havens linked to the UK can be defended

by the old argument that, if their tax standards and practices are tightened, people will 'take their business elsewhere'.

2.5.8 In addition, we would take steps to clarify the constitutional relationship between the UK and its Overseas Territories, making sure that Britain is able to exercise the necessary oversight over their tax policies. For those territories deemed independent, we would take the necessary steps to agree appropriate international tax treaties with them.

2.5.9 As further support to our policy to limit avoidance, we would amend the tax rules for overseas citizens to ensure that after a specified qualifying period, overseas citizens deemed resident in the UK would be required to pay UK tax on all their global earnings.

Migration

3.0.1 One of the major characteristics of globalisation is migration, the movements of individuals and families, temporarily or permanently, across national boundaries. Migration has been an important factor in the development and prosperity of this country throughout its history and many of us would not be here if it were not for migration in the past. Migration is also a key factor in ensuring that the UK remains competitive within the European and world markets, attracting sources of labour needed for economic development. In 2007, net immigration to the UK was 237,000, up from 44,000 in 1996; these migrants were mostly from the new EU accession states.

3.0.2 Immigration is vital to the UK's economy and public services, and immigrants make an outstanding contribution to national life. In a globalised world, skills and ingenuity are to be welcomed. In London, for example, 23 per cent of doctors and 47 per cent of nurses were born overseas and some 11,000 overseas teachers work in the UK. The heart surgeon Sir Magdi Yacoub, the England cricket star Kevin Pietersen, and the playwright Sir Tom

Stoppard were all immigrants. Liberal Democrats believe that the economic benefits and diversity resulting from migration have made Britain a better country.

3.0.3 Furthermore, many British citizens have taken advantage of the growing opportunities to migrate and have decided to live and work in other countries; nearly one in ten British nationals live part or all of the year abroad. This includes about 1 million pensioners, a number which is projected to grow to 3.3 million by 2050.

3.0.4 However, we recognise that challenges also come with the opportunities that migration brings. These include:

- Managing the effect of migration on local resources.
- Dealing with the real or perceived threats to the employment opportunities of UK citizens.
- Preventing immigration crime and people trafficking.
- Enforcing border controls.

3.0.5 The first two are covered in this section; the third and fourth are dealt with in policy paper 86, Security and Liberty in a Globalised World (2008). Liberal Democrat policies related to asylum, which is often – incorrectly – conflated with immigration, are set out in conference motion ‘Asylum and Immigration’ (2004).

3.1 Immigration

3.1.1 Liberal Democrats recognise that the benefits of immigration can only be reaped in full if migrants are moving to areas where there are jobs, together with resources and proper facilities to help new arrivals and long-term residents communicate with and understand one another. The economic benefits of migration need to be assessed alongside social outcomes and an assessment of resource availability.

3.1.2 In order to properly respond to the changes in resource availability which population movements can bring, Liberal Democrats would build on the current points-based system which awards points to economic migrants from

Non-EU countries on the basis of the skills they possess. We would improve this system by allowing migrants from Non-EU countries to be awarded points on the basis of where they choose to work; more points would be awarded for working in areas of the country where resources are plentiful and population growth is needed.

3.1.3 The chief failing of the current system is that it does not take into account the different needs for immigration of different parts of the country. Scotland, for example, has more than a third of the UK's land area but less than ten per cent of the population, and a desire to stem the process of depopulation; all the mainstream political parties in Scotland are agreed on the need for population growth. This situation is in marked contrast to that of the South-East of England, for example, where the density of the population now substantially exceeds that of the most densely populated country in Europe, the Netherlands, and resources such as water are becoming scarce – the South East has less water per head of population than Sudan.

3.1.4 Our proposals would allow the UK's immigration system to attract migrants to the areas where they are most needed. They would be more beneficial to the UK economy than an overall cap on immigration, as proposed by the Conservatives, which would be disastrous for the UK economy. If the cap was reached, the Tories would block Japanese sushi chefs or American aviation engineers from creating jobs for British citizens. Market economies are flexible and their needs vary in unplanned ways. A centrally-set quota cannot be sensitive to the needs either of particular companies suffering from skills shortages or of regions and localities possessing the resources and desire to absorb migrants. A regional points-based system would address both these issues. It would better address the needs of the UK population and would help ensure that migrants move to areas where there are sufficient resources to help them settle in.

3.1.5 Under such a regional points-based system, migrants would be issued work visas (as they are in the current system) but they would be tied to a

particular country or area of the UK. As they would be coming in under Tiers 2 or 3 of the current system, they would still require a sponsor of employment. The means of enforcement would be the same as the current means of enforcing any work visa for migrants – by undertaking checks on employers. The restrictions under this new system would be on where a person could work and would not restrict internal movement. Employers would be in breach of the law if they employed someone only entitled to work in another area or country of the UK, exactly as they are currently in breach of the law if they hire someone without permission to work here.

3.1.6 The decision to award additional points would be made by the devolved Parliament, Assembly or regional body, in consultation with the Migration Advisory Council, which currently decides the points value of skills. The Home Secretary could reject the proposals but would have to give a reasoned opinion. The system would initially be introduced on a pilot basis for Scotland. After seeing the results in practice, consideration would be given to how the system could be developed to create even more specific visas for local, rather than regional, areas.

3.1.7 The lesson from Australia, on which this system is based, is that migrants who move to areas that want population growth frequently put down roots in those communities. Even when allowed to apply for permanent residence after three years of living in a particular region, few migrants want to up sticks and move to more densely populated areas. A survey of ‘skilled independent regional’ visa holders (equivalent to our suggestion) showed that 89 per cent did not want to move from the region in which they had moved to work.

3.1.8 This system would also help to address the challenges which large unanticipated in-flows of migrants can cause for local authorities. Such movements can sometimes stretch the resources of a local authority as they try to deal with supporting families, providing language assistance and ensuring the health and well-being of the new members of the community.

This can lead to a fear of losing out on social housing to a migrant family, the unjustified belief that migrants simply sap resources from public services such as health, and general hostility towards globalisation.

3.1.9 At present, the funding mechanisms designed to deal with this are slow and outdated. For example, in the London Borough of Hillingdon, there were at one stage 14,000 migrant children in care, with funding for support only given to the local authority retrospectively by central government. The changes to the points-based immigration system we propose, would help to deal with this issue by encouraging the movement of Non-EU migrants to areas of the country with the resources and the will to receive them.

3.1.10 In addition, we would commission an urgent review into how population is measured so that a more responsive and up to date indicator for population change (such as GP registrations) can be used. We would also review equalisation funding mechanisms to ensure that extra funding is provided rapidly to areas with greater population growth. In the longer-term, our commitment to build more social housing and invest in education would also help to deal with large population movements.

3.2 Wages and Employment

3.2.1 Over recent years the increasing mobility of labour has been connected to a fear of migrants amongst some sectors of the population, which has been added to by irresponsible remarks by the government and sections of the media. Liberal Democrats oppose xenophobia of any kind, but recognise the need to address how this climate connects with the fears some people have of losing out in job competition to workers from other countries.

3.2.2 A review of the best available evidence by IPPR shows that migration does not negatively affect either employment or wages on a national level. In fact, studies show that migration has boosted the economic performance of the UK overall. Nevertheless, some types of workers, particularly the lower-skilled, and some communities, may buck the overall positive trend, and we are committed to helping those who may currently lose out.

3.2.3 The data government produces does not allow an in-depth analysis of the effects of migration on local areas. In order to ensure that support can be targeted towards the most deprived areas and people, we would require government departments to collect data on the regional and sector-specific effects of migration on employment and wage levels.

3.2.4 We would introduce the following specific measures, to help protect those on modest incomes:

- Ensuring that both migrant and non-migrant workers are protected from exploitation by agency or other temporary employers through strengthening employment law in relation to agency and temporary workers.
- Ensuring that all employees are paid a fair wage by better enforcing minimum wage legislation to ensure that employees are paid the full amount, without any deductions for expenses and without taking into account any tips they have received.

Globalisation and the Environment

4.0.1 All of the UK's responses to the challenges of globalisation must be conditioned by their environmental impact. Economic recovery from recession can be hastened by investing in green technologies and infrastructure (see section 4.2), but at the same time it is important to ensure that the British economy does not reduce its environmental impact simply by displacing resource- and pollution-intensive activities offshore. Government needs to create the policy framework, using tax and regulatory measures, to ensure that the UK's production and consumption become environmentally sustainable.

4.1 Responding to the environmental challenge

4.1.1 Humans are living beyond the ability of the planet to support life. In 2003, the first report of the UN's Millennium Ecosystem Assessment showed

that 60 per cent of the basic ecosystems that support life on Earth are being degraded or used unsustainably. The resources and absorptive capacity of about one and a third planets are now needed for sustainability; if everyone in the world lived like people do in the UK, three planets would be needed.

4.1.2 In some ways, globalisation has made these problems worse. The expansion of international trade has magnified unsustainable patterns of production and consumption, with accompanying increases in pollution and resource use. The problem cannot be tackled, however, by simply reducing international trade – such a step, even if it were possible, would tend to reduce the efficiency of resource use and inhibit the spread of environmentally friendly technology (two of the environmentally positive impacts of globalisation) while also denying market access to the products of poorer countries.

4.1.3 Globalisation also makes it easier for richer countries to ignore the environmental impacts of their own economic behaviour. Relying increasingly on high-tech manufacturing and services, they often see their own per-capita environmental impacts fall simply by transferring the impacts overseas. Imports to the UK from China, for example, where the environmental impacts are often much worse than here, are rising massively: a quarter of China's greenhouse gas emissions are accounted for by the production of exports to the West.

4.1.4 The following actions need to be taken to address these issues:

- Co-ordinated international action to improve the protection of the global environment, particularly over mitigating and adapting to climate change.
- A substantial increase in the efficiency with which the UK economy uses resources and generates pollution, decoupling economic activity from environmental degradation.
- The introduction of measures to ensure that international trade supports rather than undermines efforts to achieve environmental sustainability,

and that rich countries do not simply displace environmentally polluting production offshore.

4.1.5 The first two sets of activities are discussed in detail in policy paper 82, Zero Carbon Britain (2007), and Policy Paper 93, Our Natural Heritage (2009). The third set is covered below.

4.2 Sustainable Production, Consumption and Trade

4.2.1 Models of sustainable production, consumption and trade need to be developed as a matter of urgency, with the aim of reducing the intensity of resource use and pollution generation in the products consumed by UK citizens, whether imported or produced domestically. This covers a very wide range of issues, including energy use and climate change, but also the use of non-renewable resources such as metals, minerals, chemicals or plastics; the use of renewable resources such as water, timber, food and textile crops; and product design to encourage recycling, reclamation and reuse. In the long run, this will mean far-reaching behavioural change, so it is essential that government, business and individual consumers operate within a fair and equitable framework of incentives to move towards sustainability.

4.2.2 Government needs to conduct in-depth analyses of specific product supply chains, with the aim of identifying the opportunities for reducing resource use and increasing the opportunities for consumers to make enquiries about the sourcing of the products and services they use. In the few cases where this has been done, the results have often not conformed to expectations; for example, in an analysis of supply chains for milk in the UK, the main environmental impacts derived from agricultural inputs and packaging rather than from transport. Once the analyses are carried out, government should bring the relevant stakeholders together to commit to reducing environmental impacts, supported by appropriate incentives, such as the use of public procurement policy to source sustainable products.

4.2.3 Government should also provide support for industry initiatives to reduce resource use and pollution – for example, the sustainable construction strategy being developed by the Construction Products Association, which aims for 25 per cent of products (by value) used in the construction industry to be responsibly sourced by 2012. Government can encourage relevant industry groups to develop similar codes and strategies where they do not yet exist.

4.2.4 International trade also needs to promote environmentally sustainable development; industry's efforts to develop and market sustainable products must not be undercut by competition from more environmentally damaging alternatives. Our aim is to ensure that the environmental impact of imports is no worse than that of domestic production, and that both improve over time. At the same time we do not wish to close off market access for the products of poor countries where these are themselves less environmentally damaging.

4.2.5 The analyses of supply chains referred to in 4.2.2 can help to pinpoint where developing country products can have lower environmental impact than domestic alternatives – for example, although much attention is focused on the 'air miles' accounted for by some developing country exports, the reality is that their production often involves far lower resource inputs (including agricultural chemicals, and the energy used in their manufacture and transport) than similar products produced intensively in richer countries and trucked to their destinations.

4.2.6 The concept of 'air miles', or 'food miles', should be replaced by an agreed international label, or series of labels, for identifying 'environmental impact', covering key indicators such as embedded carbon, energy efficiency, impact on water resources, impact on biodiversity and recyclability. There are already a number of sustainability schemes operating with some success in certain sectors, this is the case for example, with timber and fish products, but

in most product sectors there are a plethora of often confusing alternative labelling systems, including eco-labels, fair trade labels and others.

4.2.7 There is always a limit to what can be expected of labelling schemes – the number of consumers who have the awareness, knowledge and time to search out the most environmentally sustainable alternatives is usually too small to have a major impact. Nevertheless, the schemes can help to pave the way to more significant measures, such as the use of government procurement policy, and sectoral industry initiatives to improve the sustainability of their supply chains, using labels and certificates as product identifiers.

4.2.8 The UK should also start to report national carbon consumption – the amount of carbon emitted by all the goods and services consumed in the UK – and give this figure the same level of prominence as is currently given to carbon emissions (national carbon production). This will illustrate more effectively the country's national impact on global emissions, without the distortion caused by the off-shoring of carbon-intensive activities. As a further step, Liberal Democrats will introduce national carbon consumption targets.

4.2.9 In the short-run, it is possible that these initiatives may have cost implications (though cost increases attributed to environmental regulation or voluntary initiatives are generally swamped by other factors such as exchange rate variations). However, studies do not suggest that this need harm competitiveness in the long, or even the short-run; to the contrary, it can help to open up new export markets for green technologies – as is the case for Germany and Denmark, for example, with their strong performance in renewable energy technologies.

Thriving in a Globalised World

Policy Paper 92

This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. The Party in England has chosen to pass up policy-making to the Federal level. If approved by Conference, this paper will therefore form the policy of the Federal Party on federal issues and the Party in England on English issues. In appropriate policy areas, Scottish, Welsh and Northern Ireland party policy would take precedence.

Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.

Working Group on Domestic Responses to Globalisation

Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.

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