

# compass

DIRECTION FOR THE  
DEMOCRATIC LEFT

## RISK

by David Lammy MP

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Think  
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Number 54

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“Labour’s establishment of the Welfare State was founded on one of our core beliefs: that some things can only be done by the state. Government can and must establish a framework - ‘the rules of the game’ - which allows individuals and communities to come together in society and in the marketplace. A world in which atomised individuals stand alone, buffeted by the winds of the global economy and exposed to the uncertainties of modern life, is no model for a good society.”



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## 1. Introduction

Last autumn, a series of events - from my local community to the global economy - came to dominate my political life. Although apparently disparate, these events were united by a common theme: risk.

In November 2008 the tragedy of Baby Peter - which happened in Tottenham, the constituency I represent - came to national prominence after two men were found guilty of the child's murder. In one of the most deprived parts of the country, horrific crimes were perpetrated against a vulnerable child. People I have worked alongside for years in Haringey - community leaders, children's professionals, local people - were thrust into the spotlight of a national media storm. The people of Tottenham asked: how could this happen, in our own community, in our own time? And across the nation, those terrible events made us all question the measures that exist to protect the most vulnerable children.

A month later, the High Court rejected a claim for damages against the owners of a beach in a picturesque seaside town in West Sussex. West Wittering beach has been a regular holiday destination for my wife since her childhood; now our two sons enjoy playing on its pebbles and paddling in its shallows. On a summer day in 2005, a group of teenagers used a metal beacon just off the beach as a diving platform. Despite the warnings of lifeguards the youths persisted and, late in the day as the tide went out, one of the group suffered severe injuries after back flipping into the shallow water paralysing him for life.

If successful, the subsequent claim for £13 million would have bankrupted the estate that owned of the beach, resulting in its closure. As the barrister representing the estate said during the case, "life is not without risk" but "when a youth of

sufficient age to appreciate risk of injury and danger chooses to do something foolish... he cannot seek to blame others."

Both the Baby Peter and West Wittering cases unfolded against the backdrop of a growing sense of foreboding about the global economy. Seismic events in the United States - the unravelling of subprime mortgages, the collapse of Lehman Brothers, the political controversy surrounding the subsequent banking bailout - overturned economic assumptions in the UK and across the globe.

Now we all feel the consequences of monumental risks taken by financial institutions. When events in Iceland jeopardise the savings of hundreds of thousands of people in Britain, globalisation feels like something beyond our control. And when the jobs of bank clerks, shop assistants, and car workers are endangered, it feels like we are paying the price for risks taken elsewhere.

The failure of financial institutions to manage risk - and the consequences that we are all now feeling - has fundamentally shifted the axis of politics. The nationalisation of Northern Rock. The recapitalisation of the high street banks with public money. The mortgage payment plan for homeowners out of work. All these are symptoms of a new politics which puts the state centre stage as the provider of stability and guarantor of last resort.



The public anger at the huge risks taken by financial institutions - and the failure to keep them in check - indicates that our priorities on risk are often misplaced. For too long, the political conversation about risk has failed to reflect the experiences and concerns of our personal lives. While the activities of financiers have been under-regulated, we have been over-regulating the social sphere. Too many public servants feel compelled to adhere

to an inflexible, rule-based approach which inhibits individual initiative and professional judgement. Legitimate concerns about child safety have been whipped up by a media culture obsessed with 'stranger danger': the resulting risk aversion threatens to impede the physical and emotional well-being of our children, and to damage the social bonds between adults and children.

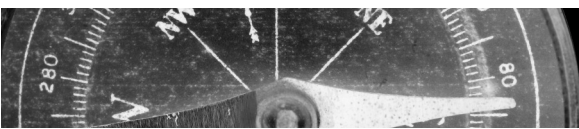
This matters because it goes deep to the heart of the kind of society we want. Trust is a crucial ingredient of a good society. But without a better understanding of risk we will diminish our common stock of trust, undermining our collective well-being further.

## 2. Pooling risk: Collectivism and the Welfare State

The British Left has a long tradition of ensuring that the unfortunate should not have to bear the consequences of misfortune alone. We recognise the need to manage risk. And as a nation, we have a deep philosophical commitment to ensuring that when things go wrong, the weakest should not shoulder the heaviest burden.

Even before the establishment of the Labour party, working men and women joined together to collectivise the burdens of everyday life, and to protect against the hazards that could strike at any moment. In the face of economic uncertainty and a distant and unsympathetic political class, they established trades unions, friendly societies and other grass roots institutions to provide mutual support. The growth of the Labour movement showed that by coming together working people were better protected and a political force to be reckoned with.

The nascent Labour party campaigned for state intervention to lift the burden of social and economic hardship, supporting the introduction of state pensions and sickness insurance by the Liberal governments of the early twentieth century.



The Depression of the 1930s caused misery for millions in Britain. It proved that the market could not be allowed to roam unfettered. The state had a moral duty to its citizens to provide support where unbridled capitalism had failed. And the solidarity forged by five years of common struggle and sacrifice during the Second World War created the conditions for Labour's landslide victory in 1945 and the establishment of the Welfare State.

The Attlee Government's measures collectivised the most pernicious and destructive risks faced by those in need - such as penury of old age, poverty during periods of unemployment, and sickness suffered by those without access to adequate medical care.

Through these radical steps, and their absorption into the fabric of society, Britain said 'never again' to the scourge of mass unemployment without state assistance, and to ill health without treatment free at the point of delivery. The post-war Conservative governments of Churchill, Eden, Macmillan, Douglas-Home and Heath broadly supported this framework.

As a consequence, the kinds of risks that the poor face in the US and other wealthy nations - such as no access to medical insurance - are unacceptable in the UK. Since then, workplace regulation has served to reduce the risk of injury or death faced in factories and offices by introducing common standards.

### 3. Managing risk: The role of the state and professional judgement

Labour's establishment of the Welfare State was founded on one of our core beliefs: that some things can only be done by the state. Government can and must establish a framework - 'the rules of the game' - which allows individuals and communities to come together in society and in the marketplace. A world in which atomised individuals stand alone, buffeted by the winds of the global economy and

exposed to the uncertainties of modern life, is no model for a good society.

We choose to pool risk for practical reasons, but also because of the moral responsibilities we have towards one another in times of unemployment or ill-health. This approach differentiates Left from Right - it lay behind the establishment of the Welfare State itself but is also evident in the response to the financial crisis. The real debate is not between Keynesians and monetarists - a question of economics, about how to restore the economy to health. The real difference is one of values: the Labour party's instinct is to protect those suffering the most from the immediate effects of economic crisis, providing help and a safety net by pooling risk. Boosting the spending power of those hurt by the downturn is more than a fiscal stimulus: it is an expression of solidarity and common humanity.

The great Attlee government and its successors institutionalised the state's role in pooling and managing risk. But the responsibilities of the state were always balanced against those of individuals, families and communities. And the framework set by officials in Whitehall left public servants on the frontline free to use their professional judgement.

In 1997, New Labour inherited a public sector run down by 18 years of Conservative misrule. As it took up the reins of power, New Labour faced monumental challenges: a damaged society; a dysfunctional education system; a crumbling NHS; widespread child poverty. Swept to power on a mandate to rejuvenate and reenergise public services, it set about rehabilitating the role of government after the Thatcher and Major years. Backed by a massive programme of reinvestment in public services, government provided the tools to build new hospitals, equip people with new skills, help people into new jobs and redistribute money to people who worked hard but earned too little.

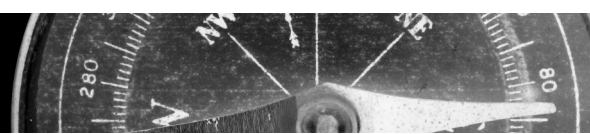
In the drive to restore public services, the Government relied on policy levers operated from Whitehall and targets set centrally. These helped to set minimum standards across the UK and reassure an expectant population that services were improving.

But in its mission to reform public services, New Labour didn't go far enough. Targets and statistical reporting reassured government ministers, but their effect wasn't necessarily the same on frontline public servants. Central targets too often skewed delivery at a local level. And nationwide policy too often left doctors, nurses and teachers feeling disempowered and disengaged.

We have revived public services, but we haven't yet done enough to restore the role of public servants. This has been exacerbated by a media all too willing to point the finger at public sector professionals. The fallout from the Baby Peter case has had a devastating impact on social services. More than 50 percent of local authorities report that it has become more difficult to recruit child social workers since the Baby Peter case came to public prominence, and over nine out of ten councils are having difficulties keeping frontline social workers.<sup>1</sup>

No good society can respond to such a tragedy without making a fundamental reassessment of its approach to child safety. The most vulnerable in our society need quality support, tailored help and robust intervention to protect children from harm.

That means promoting and supporting the best children's professionals - teachers, headteachers, nurses and youth workers - and moving swiftly and decisively when necessary. It also requires us to trust professionals. They must be empowered to use their professional judgement, and enabled to take decisions. As a party of government, we have too often seemed uncomfortable giving public service professionals the necessary power and



responsibility. That sits at odds with a commitment to public service reform in its truest sense.

This ambiguity reflects a wider contradiction. As a nation, we feel conflicted. We loathe 'health and safety culture'. But we don't want to tolerate risk. When things go wrong, the imperative to identify the culprits and apportion blame often precedes the need to uncover what went wrong and to put preventative measures in place.

This tension has helped to fuel the emergence of an entire industry dedicated to risk management – not to mention the army of lawyers who profit when risk taking goes wrong. Such a culture leads to ever more caution from those who are responsible for assessing risks. Those responsible become preoccupied with avoiding disaster; ruling out school trips as potential hazards rather than recognising the benefits of taking young people away from their immediate environment. The temptation is to seek to eliminate all risks and risky activity, but the notion that the chances of bad things happening can be quantified precisely and managed away is illusory.

The political need for an effective and honest approach to managing risk presents progressives with a challenge. There is no technocratic fix, no regulatory framework which can manage risk out of existence. But neither can we pretend that non-state actors - such as the market or charity - will effectively manage risk and apportion the consequences of failure fairly and proportionately.

This tension has led us to an awkward place. A culture of box-ticking has come to predominate in many elements of our lives. Yet at the same time, we are not protected from the some of the biggest risks we face.

#### 4. Regulating risk: Markets and the financial crisis

Perhaps more than any other area, our financial affairs show the global impact of

the billions of personal choices we make every day. In the UK, financial risk taking has become part of our daily lives over the past 30 years. During the 1980s, the money man became one of the symbols of the age, immortalised in celluloid by Gordon Gekko in the film 'Wall Street'. Gekko's mantra that 'greed is good' reflected the governing ideology of the day as Margaret Thatcher and Ronald Reagan deregulated markets and rolled back the frontiers of the state. Many British citizens became financial risk takers themselves, heeding the government's call to 'Tell Sid' and buying shares in British Gas and other privatised utilities.

In the 1990s, those who held deposits and borrowed money from the Halifax, Bradford & Bingley, Northern Rock and others enjoyed windfall payments or became shareholders as many of the existing building societies demutualised.

Today movements in global financial markets are embedded in our personal financial affairs through our savings, pensions and ISAs. But the negative consequences of that intertwining of the global and the personal are now being felt.

A distorted relationship between risk and reward in too many financial institutions has had damaging consequences for all of us. 'Heads I win, tails you lose' is a phrase that summed up the relationship between some bankers and their employers – and some banks and the society around them. A culture of huge bonuses attached to short-term speculation rather than long-term investment encouraged irresponsible risk taking with other people's money, to the point of greed. This cavalier approach to risk, with skewed incentives and self-centred values, is at odds with the kind of society that most people want to live in.

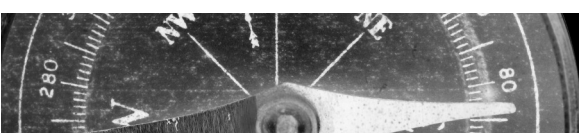
The severity of the financial crisis necessitated a co-ordinated international response from the world's policy makers and regulators. Its far-reaching consequences have led to a long-needed debate, not just about banking regulation, but about the need to create a sustainable global economy.

#### 5. Sharing risk: Social insecurity and the good society

The global recession, and its impact in the UK, has also led us to question the kind of society we want to live in. The hardship of recession is exposing some of the deep fault lines that exist in our society. Britain has become a much more prosperous country over the past thirty years. But that has come at a price, undermining many of the ways in which society shares risk. The consequence is that many of society's most vulnerable are even less well placed to manage and mitigate the daily risks they face.

The right to buy scheme is a case in point. It has benefited millions by giving council house tenants the opportunity to own their home for the first time. The sale of local authority housing at heavily discounted prices produced a capital windfall. But the policy individualised risk as well as capital. The depletion of social housing stock means that nearly 2 million households are on the waiting list for social housing. Millions more are now exposed to the uncertainty and insecurity of shorthold tenancy agreements.<sup>2</sup> The beneficiaries of the scheme have enjoyed increased security and capital accumulation. But too many of those in need of social housing today have neither the state support nor personal financial resources to fall back on. The end of the vast majority of final salary pension schemes in the private sector has had a similar effect. As company pension schemes have closed, risk has been outsourced from employers to individuals.

Margaret Thatcher didn't simply attempt to dismantle the arms of the state that provided support: she attacked collective institutions in the market and civil society. Successive pieces of employment legislation - coupled with political interference in industrial disputes - undermined the role of trade unions, weakening their ability to provide mutual support to members while simultaneously undermining their industrial clout. Similarly, the 1986 Building Society Act allowed societies to 'demutualise'. Exploited by



carpetbaggers and avaricious board directors, the Act led to widespread demutualisation. Mutual institutions owned by savers and borrowers, often with deep roots in their localities, were transformed into high street banks answerable to the City. None of the major demutualised building societies remains independent: they have gone into administration, been nationalised, or subsumed by larger banks.

Coupled with a rapidly changing and increasingly diverse society, these changes have been led to the decline of both formal and informal ways of sharing risk. Yet the great challenges of our age require us to take more responsibility, not less. We need effective mechanisms to help communities and civil society to mitigate and pool risk, which in turn enables individuals to manage risk and take responsibility for their choices.

Take child obesity. Almost a third of children are either overweight or obese; by 2050 this could rise to two-thirds. Obesity is linked to the increased risk of diabetes, cancer and heart and liver disease. It threatens to blight the lives of millions of our children, and to put a huge additional strain on the NHS.

We must take responsibility for our own lifestyle choices and for those of our children. But government has a role to play, raising awareness of the dangers of obesity and supporting those who want to live healthier and more active lifestyles. It must also protect children from being targeted by advertising which encourages unhealthy and excessive consumption of junk food.

And the wider community must also play its part in setting the boundaries in which choices involving risk are taken. Parents may fear the consequences of allowing their children to play outside. But this has to be balanced against the benefits of outdoor play - healthier children who are enriched by the interaction with others. That requires safe and child-friendly public space as well as parents willing to encourage their children to choose the playground over the Playstation.

## 6. Reassessing risk: A new approach

Safety cannot simply be delivered by government. A culture of risk management, blame and compensation will do little to reduce risk, while diminishing the vitality of our society and our own lives. Only through social action - putting power back into the hands of people and communities - can we manage risk in an honest, proportionate and accountable way.

The world is changing rapidly: globalisation is bypassing governments and nation states, exposing us to greater global risks over which we have less and less control. But the rise of the Internet and the increase in the flow of information across the world promises to empower citizens in a way that was unimaginable even 10 years ago. We are all individuals who must take responsibility for our own decisions. But we cannot deal with the consequences of those decisions without reference to society and those around us. So how do we achieve the right balance? We should look to the following five principles for managing risk.

**Firstly**, we need to make an honest assessment of the costs and benefits that a culture of risk management brings. We need to be clear on which risks we can remove, and which we want to accept as part of everyday life. Increased security at airports may inconvenience us, but we accept increased baggage checks because they reduce the chances of a terrorist plot succeeding.

Governments, families and communities have a responsibility to protect children from harm, whether accidents, stranger danger or abuse in the home. But we also share a responsibility to ensure that our children grow up in a good society. Thorough and rigorous checks for those who work with children must be matched with a civic culture which encourages and celebrates those who wish to volunteer to enrich the lives of our young people. And if we want our children to enjoy active lifestyles that help to them to grow up happy and healthy, we might have to

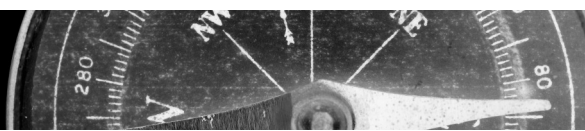
accept that certain risks such as the threat of minor injury come with that. School trips come with risks, but so does a culture in which children experience nothing beyond their immediate horizons. Children are capable of injuring themselves in playgrounds and parks, but the bleak alternative is a society where childhood obesity becomes the norm. None of us want to live in a society where children spend their formative years in front of a screen but with no knowledge of the joys of the world around them.

We also need to do more to empower professionals. A rigid culture of risk management will not eliminate risk. Indeed, it may even increase the chances of bad outcomes. So children's professionals must be willing and able to use their judgment to act swiftly and decisively when required. And they must also operate on the understanding that outcomes will always be more important than processes. We need improved accountability for professionals, not less discretion. Guidance can only offer the basic minimum, never eliminate risk or professional judgement.

**Secondly**, we need to ensure that the decision-making that surrounds risk is clear and transparent. The decisions taken by financial institutions have not been transparent. The risks they took were opaque. Those whose financial well-being they were gambling with - workers, savers, homeowners, taxpayers, consumers, pensioners - were too often unaware of the risks involved.

Professionals who once made judgements about our health, wealth and general well-being - from doctors and lawyers to teachers and social workers - no longer command our unquestioning loyalty. We expect these professionals to engage with the public, and to justify and explain their decisions to us.

The same must apply to bankers and other financial services professionals who make decisions every day which affect our financial health and our nation's economy.



Those who supply our gas and electricity, manage our savings and run our public transport infrastructure must accept that they have a responsibility to answer to the public as well as to their shareholders.

We should operate on the principle that, if risk-taking affects a wider group beyond the immediate decision-makers, we should all have a collective say as to how risk is managed. That requires more transparent and democratic forms of decision making about how we manage the consequences of those big risks that affect our society and its well-being.

Government cannot manage every risk on our behalf. But it can create the environment in which people have the tools and the information to make informed decisions for themselves. That means a more open approach on the part of professionals - from the side effects of a complex medical procedure or the future performance of a financial product. And it means trusting people to make the right decisions as responsible adults and parents when they have the necessary information and guidance.

**Thirdly**, we need a stronger sense of proportion in the way we approach risk. When we make it harder for our children to play outside, we need to ask what consequences this has for their health and development - and what this says about the kind of society we want to live in.

Certain risks need to be comprehensively managed. Some sectors of the economy - banking, transport infrastructure, utilities - are so important to our nation's success that an extensive network of state regulation is required to manage risk effectively in the public interest. Banks are not like any high street business: they are not green grocers. The health of our economy and of our personal finances depend on confidence in the banking system. The behaviour of banks cannot solely be in the interests of shareholders. The public have a direct stake in the stability of our banks. And that means that they must act in a responsible manner. Sound banking is not just in the interest of

shareholders but in the interests of our economy and our society. Smart regulation is therefore a public good, not a burden on society.

But in other areas, excessive risk aversion threatens to stifle innovation and depreciate our culture. In business, for example, the scope for small businesses to take risks should be far broader than that of the banks or utilities mentioned above: here the willingness to embrace risk is a necessary feature of entrepreneurship and not a hazard to the rest of the economy, as the fall of organisations like Lehman Brothers has been.

In wider society, the threat of litigation must not be allowed to deter volunteers or to close down community organisations which cannot afford costly court cases. The Compensation Act 2006 built on the work of Julian Brazier MP, the All Party Group on Adventure and Recreation in Society and the Campaign for Adventure, encouraging judges to take into account the social desirability of activities when considering litigation against their organisers. The Office of the Third Sector has taken some important steps to reduce the reporting requirements on smaller voluntary organisations. This is welcome. But we need to do more to protect community organisations from litigation and over burdensome regulation; failure to do so will allow a culture of compensation to triumph over a culture of volunteering. If we're serious about creating a good society, we should be removing the barriers faced by community organisations and do more to foster a spirit of volunteering.

Fourthly, we need a better framework of accountability. Risk and reward need to be properly balanced. Those who take entrepreneurial risks benefit when they turn a profit. But we cannot expect society to nationalise those risks without question or consequence when things go wrong.

Having the regulatory checks and balances in place is not enough. Risk cannot be managed away by experts operating under detailed regulatory frameworks.

Pensioners living in fuel poverty. Children living in fear of abuse. The issues thrown up by risk and risk management are deeply political. Just as families and communities have a vital role to play in managing these risks, so we need to acknowledge that we need to have a voice in deciding how these risks are managed.

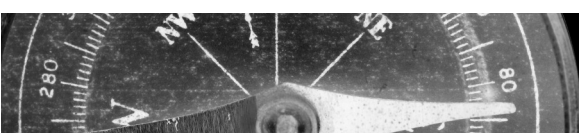
That means that we can no longer pretend that responsibility for regulation can be outsourced from the political system. Regulators act in the public's interest. They must therefore be accountable to their representatives. In the US, senior regulators must be vetted and approved by the Senate before they take up their appointments, and report regularly to Congress. British voters deserve the same kind of oversight.

When we identify serious failure in the public sector, those responsible must be accountable. The same principle has to apply when risks taken in the private sector do serious damage to us all.

Fifthly, we need to foster practices and institutions that help us to share risks. Globalisation increases not just opportunities for travel, trade, jobs and investment - it also increases the risks individuals face. Some people argue that globalisation makes nation states less important - in fact the reverse is true.

Over the past 12 years, Labour has taken significant steps to protect the most vulnerable by giving them the tools and resources to help themselves, their families and their communities to manage and mitigate the consequences of risk. The Minimum Wage has protected those who lack power in the labour market by supporting the lowest earners. Child Trust Funds have given tangible assets for the first time to many of the poorest children, at the same time boosting financial literacy. The promise to inculcate a culture of saving, as will the Saving Gateway.

At the same time, institutions such as Sure Start boost the resilience of entire communities by creating a local network



of support and advice. The same is true of developments outside government. Netmums is a fantastic resource for parents, enabling them to share concerns, provide mutual support and offer advice with the 250,000 people who log on every day. It provides a mechanism of support based on the civic rather than the governmental model. The state cannot create similar support networks from thin air. But it can shape the environment in which such networks can thrive.

Similarly, the state cannot protect jobs but it must protect people. We need a welfare state that is generous but demanding. The Danish system of 'flexicurity', balancing rights and obligations, offers a possible approach. Flexibility in the labour market it coupled with security through the provision of generous welfare schemes and a series of active labour market policies. Employers benefit from flexible labour market policies. Unemployed people are required to continue to seek employment or further education in order to continue to receive full benefits.

Finally, we need ownership over the collective risks posed to our society and our economy. We shouldn't appoint collective 'risk managers' - whether social workers or financial regulators - simply to remove ourselves from taking responsibility. The state should be the guardian of vulnerable children. But families and communities must also take responsibility for creating an environment in which children are nurtured and properly cared for.

The jury system gives citizens real ownership over manage risk and apportioning culpability: the social and moral force of 12 ordinary men and women decide, on the basis of the facts, decide who was responsible. This centuries-old system points the way to an effective, democratic and modern approach to dealing with risk in an age of uncertainty and risk aversion. The state sets the framework in which risks are assessed and judged. Individuals are empowered to decide what is right and

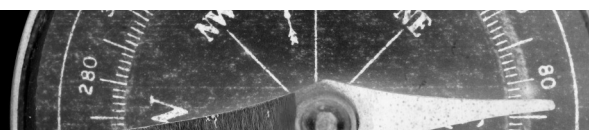
what is wrong. And the community takes ultimate responsibility.

by David Lammy MP

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<sup>1</sup> LGA survey, May 2009 - [http://www.politics.co.uk/news/children-and-family/baby-p-continues-to-damage-social-workers-\\$1292323.htm](http://www.politics.co.uk/news/children-and-family/baby-p-continues-to-damage-social-workers-$1292323.htm)

<sup>2</sup> <http://www.lga.gov.uk/lga/core/page.do?pageld=1518784>



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and develop the ideas for a more equal  
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