**With a little bit of fairness, state and capitalism can live together**

Will Hutton in The Observer, Sunday 12 June 2011

**The two need to learn to trust each other. But there are obstacles to overcome, not least coalition misjudgments**

It could be the farmer in East Anglia concerned that there are too few reservoirs to guarantee a secure water supply, despite ever more frequent droughts. Or the families of elderly relatives in a Southern Cross care home worried that they will be forced to move as the company drowns in debts incurred by its former private equity owners to make them fabulous fortunes. Savers and insurers are no less worried about the creditworthiness of their bank or insurance company. Where do – or where should – any of them look for security and protection?

The answer is unambiguous. They look to the much maligned state. For most of my working life, the state has been the subject of consistent and ever more vitriolic attacks from the political right; every reader of this column knows by heart the litany of its alleged faults. The state is by definition inefficient, bureaucratic and monopolistic. It taxes, legislates and regulates, thus getting in the way of enterprise and self-reliance. For conservative extremists, it infantilises everyone and creates dependencies – whether of welfare recipients or companies queuing up for subsidies and grants. We must roll back the state. Unrestrained capitalism will deliver the good society and the good life.

This was always over-the-top hooey, exaggerating the state's failings to the point of caricature, ignoring why it exists at all, and inflating the capacity of capitalism to provide all the answers. But increasingly the hooey is being exposed. We are living through a watershed as the state's crucial and indispensable uses become obvious to all.

First and foremost, it has just saved us from financial collapse. But that is where its usefulness only begins. There is no other means to fight the growing influence of organised crime, to ensure that the lives of an ageing population end in dignity or that the economy has the resilience to survive shortages of food, energy and raw materials in a world of growing and unforeseen scarcities.

Evidence for this being a watershed is plentiful; almost all the coalition's U-turns and policy misjudgments are because it has misunderstood what we now know does and does not work. The privatisation of forests would not promote their efficient custodianship; it would deny people access to public spaces. Fragmenting the NHS, so that any willing provider can tender for and deliver healthcare for the right price, will expose British health provision to the same structure that has emerged in social care – debt-backed vehicles for private equity to make fortunes with no long-term commitment to health provision. Small wonder a rapid retreat is being orchestrated.

The list goes on. Universities deliver the public currency of the 21st-century knowledge economy – research and degrees. They are not privatisable luxuries for the very rich but necessary public building blocks of our civilisation. In the media, it is not a public broadcaster that distorts news, preys on citizens and deals in private information about us without our knowing; it is private media groups that have deployed widespread phone hacking and paid for information they know to have been gained illicitly. If George Orwell were alive, the Big Brother in his sights would be Rupert Murdoch, not the BBC.

These anti-state attitudes have been inflamed through the baleful rise of US conservatism and the import of its ideas into Britain. However, there are the first signs that not all American conservatives are comfortable with the position they now occupy. It is not just that finding a credible Republican presidential candidate who can use this anti-state rhetoric to beat Obama is impossible – it is because the US itself is beginning to suffer the depredations of a hollowed-out state.

Corporations run rings around US tax authorities: wrongdoing in the financial markets is less contested than ever before; it takes ever longer to get regulatory approval for key drugs; cyber crime grows explosively with no constraint. The US has long believed that it should pay top public officials indifferently. Now it is reaping the whirlwind; second-rate people on third-rate pay run fourth-rate, underfunded public institutions – and everybody hurts.

This is the model the coalition government unthinkingly lionises. For example, last week, home secretary Theresa May proposed merging four well-functioning policing and security agencies into one underfunded National Crime Agency that allegedly is to spearhead the fight against ballooning organised crime. She proposed, to appease the anti-state crusaders, to try to pay its chief executive less than the prime minister's £142,500 so that every candidate would have had to take a swingeing pay cut – while average FTSE100 CEO pay climbs through £3.5m.

Reality, it seems, has intruded and she is now readier to pay above that arbitrary benchmark. But how much as a society do we value an aggressive, well-led stance against the growth of organised and cyber crime? We can expect some people to be compensated by the knowledge they are doing public good, but the price gets ever higher as a decent house within reasonable commuting distance of work becomes out of reach even for those at the top. Expect the coalition government to keep it that way.

Britain's challenges require a wholly different mindset. The country has to rebuild itself economically and socially. It has to develop a good, long-termist capitalism with innovation, investment and engaging the people at its heart. But that in turn requires preconditions. The value system that underpins good capitalism is fairness – proportional reward for proportional contribution. Fairness does not happen spontaneously; it needs a web of supporting institutions, regulations and processes, ranging from effective competition policy to access to university that is based on merit rather than family wealth; from taxing inherited and undeserved fortunes to massive investment in social mobility.

All this, in turn, needs the state to build institutions, invest and trigger change, but it needs to be a state in which citizens trust each other and the state, in which respect for the efficient use of taxpayers' money is hard-wired and where the alpha and omega is accountability. As part of this new deal, every top public official should be prepared to put some of his or her pay at risk to be earned back through meeting citizens' expectations; a commitment to performance for which the quid pro quo should be decent pay for a deserved contribution. We should seek fairness from top to bottom, with the intimate relationship between an effective, fair state and a good, fair capitalism acknowledged and implemented. We deserve no less.