A contest over austerity and spending cuts has dominated the outgoing British parliament. It looks likely to continue deep into the next one. It threatens to divert the Labour Party from the development of a progressive alternative for the country.

Labour will never change Britain as a party that merely twists the money taps when it comes to power. Across the North-Atlantic world, centre-left parties clinging to this approach have failed: their voters have lost faith in the ability of a redistributive government to make their lives larger and richer.

A better use of their energies suggests itself: to change the focus of the national debate. Three large and connected projects could give the centre-left in Britain, and its counterparts in much of Europe and the world, new life.

The first such project is reshaping the market: developing economic arrangements that give more people a better chance to share in the work of innovation, as well as giving the country a better chance to develop new comparative advantages in the world economy. To this end, a larger number of small and medium-sized firms need to gain access to the most advanced production practices and technologies. Welfare provisions must be detached from particular jobs and made compatible with ceaseless innovation. Social democrats should stop taking refuge in vulgar Keynesianism as the sole answer to globalisation and the rise of economic insecurity. They should develop an inclusive and transformative approach to the supply side: one focused on empowerment and opportunity for the relatively unequipped majority.

A second agenda is reforming the education and to make capabilities rather than information the concern of the schools and to ensure that every subject is approached dialectically, from contrasting points of view, the better to create a nation of innovators and experimentalists.

A third task is reshaping the state, our chief theme here. The inherited view of the state is a legacy of the social-democratic settlement established after the Second World War. In this view, the state is a cadre of politicians and bureaucrats who regulate the market from a distance; attenuate, through progressive taxation and social spending, the inequalities that it generates;
and use fiscal and monetary economy to manage the economy counter-cyclically.

The greatest accomplishment of the Beveridgean state was a high level of investment in people, of which the National Health Service represents the most successful expression. The most salient and increasingly significant failure of this state has been the inability of its heavy hand to shuffle the cards: to enlarge the space for experimental diversity in social and economic life.

The better way for progressives to think about the state now is to view it not as a thing but as a space in which society can loosen the stranglehold of its inherited arrangements and assumptions. If conservatism is a doctrine moving somewhere between faith in established arrangements and scepticism about alternatives, social democracy can only survive as the combination of stepwise institutional reconstruction with the goal of giving ordinary people the means to live a bigger life. Here are some practical examples of what such an approach might imply for reshaping the state in Britain today.

Public finance. The government can raise funds without discouraging saving and investment. The most suitable target of progressive taxation is the hierarchy of standards of living: the difference between the aggregate income of each taxpayer and what he saves and invests. That difference should be taxed on a steeply progressive scale. An individualised consumption tax can at first complement, and then begin at least partly to replace, the regressive and indirect taxation of consumption through the VAT. Its natural counterpart is a selective wealth tax, beginning with land ownership - a haven for unproductive capital - and gifts and estates, destroyers of equal opportunity.

Sovereign wealth fund and property-owning democracy. The nation should begin to place some of its assets - such as those generated by North Sea oil - in a sovereign wealth fund, and use that capital for investment in the future rather than for current consumption. Every British subject should have a stake in the fund. One of its immediate uses can be to serve as an expanded venture capitalist, financing young Britons to undertake a broad range of entrepreneurial and philanthropic activities at home and around the world. They will then be better informed and inspired to shake up the country.

Provision of public services. Why choose between the provision of mediocre, one-size-fits-all public services by a bureaucracy and the transfer of public services to the highest private-sector bidder? The state should assure a universal floor of minimal public services as well as operating at the
ceiling of the most complex and expensive innovation. However, in the broad middle zone between the floor and the ceiling, it should engage independent civil society - for example, cooperatives of service providers - in the competitive and experimental not-for-profit provision of such services. The best way to enhance their quality is to experiment with ways of providing them.

*Power at the centre and radical devolution.* Strategic co-ordination by the centre of government need not contradict radical devolution. There can be more of both. Local authorities, and even whole networks of social innovators, should be allowed to diverge from the dominant solutions and to create, in small scale, counter-models of the national future. It is the only reliable way to discover what works best.

*Recombining structure and function.* Why not let universities take over, experimentally, pieces of public services and spin out new companies or run cities? Or let city halls tap into government research funding, float on the stock market, and borrow against future revenues? Or encourage venture capitalists to work together with local and national public authorities to develop, on the basis of mixed ownership, radical innovations in technology, production, and education?

*Engaging people in democratic politics.* Britons have the means to raise the temperature of their democratic politics. A massive devolution of power to local authorities, freeing under-performing cities from London's yoke, should be accompanied by the use of contemporary technology to intensify public debate, open up political parties and give every part of the nation a voice in policy-making. Politics should cease to be a monopoly of Westminster-based professional politicians, required only to submit to the occasional scrutiny of exasperated voters.

From this struggle to remake old Leviathan a more legitimate and effective British state can emerge. One that redistributes power where it once sought only to redistribute money. One that amasses and harnesses capital to make labour more productive. One that elevates restless experimentalism above stagnation disguised as stability, and above a lack of imagination mistaken for common sense.

*Jeremy Cliffe writes for The Economist. Roberto Mangabeira Unger is the Minister of Strategic Affairs in the government of Brazil and Professor of Law, Harvard University. The views expressed are their own.*