

# Crossbow

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## IDEAS FOR A NEW CONSERVATIVE MANIFESTO

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# Writing an Alternative Manifesto



*Peter Lilley has been a member of the Bow Group since 1967. In 1973 as Chairman he published the "Alternative Manifesto" which became a document of protest against the direction of the then Heath Government and a touchstone text in the drafting of Margaret Thatcher's 1979 Conservative Manifesto*

We found ourselves, in the Bow Group, publishing the 1973 "Alternative Manifesto" to Conference largely out of frustration and desperation to the status quo.

There was a feeling that, under the Premiership of Ted Heath, the party had ceased to have any distinctive ideas. Heath argued that we must be purely pragmatic in our approach, in party and in government, without a coherent philosophy.

It therefore wasn't that we were losing the battle of ideas, we had simply left the field and the vacuum was swiftly filled by our opponents on the left.

The result of such concession of the ideological battlefield was that, in the early 1970's, when Wolf the then Secretary General of the Conservative Party came to speak to the Bow Group he told us that socialism was inevitable, our task was to manage its growth and our resultant national decline. It was the very defeatism which had come to be the mark of the British establishment, and that Thatcher later railed against upon coming to power.

The bubbling dissent among conservative thinkers at the time was therefore both symptom and cure of the failed doctrine ruling the Party. The likes of Keith Joseph were beginning to rise to prominence, and their work and our work in the Bow Group contributed to a change in direction.

At the time of my joining, the Bow Group had the reputation of being to the left of the Party. The media assumed that if one was an intellectual one was left wing. I did not want to turn my back on those further to the left in the group than myself, but I certainly wanted to open the group up to the right.

Our thinking was underwritten by the philosophies of Hayek, Friedman, Smith and Burke and the admiration and advocacy of the spontaneous order of the free market. Many of us had previously gathered as thinkers at Cambridge. That "Cambridge Mafia" came to be by coincidence, though some may have been drawn by the then influential conservative thinker and Cambridge Don Maurice Cowling. Cambridge people had a directness about them, if they felt something was wrong, they would say it was wrong. There was certainly something more acerbic in the Cambridge way of thought. Though Margaret was from Oxford herself she was a firebrand that did not fit into either camp. Her Government however, was more drawn from Cambridge than previous Oxford dominated cabinets and it certainly carried with it a spirit of both directness and rebelliousness against leftish dogma. It was a movement that was not going to take no for an answer, and ideas that a decade previously

were considered unthinkable became core to our vision for the future of conservatism and Britain. The effects were for all to see; revolutionary.

The Conservative Party and political landscape is very different now, there are certainly not the same issues of intellectual bankruptcy as when I came into politics. But, perhaps because of the Coalition, there is equally not the same direction and vision as when I came into Government.

Beyond the Coalition, within the Party itself, "the detoxification agenda" has been problematic. There probably has been too great an emphasis on electoral calculus and not enough on doing the right thing. The politics of the "Third Way" were more necessary for the left because Labour Party policies were unpopular, they have had to make concessions, but we have less need for it.

Conservative policies appeal to the general public but not the media classes. We made the mistake of appealing to the latter. Modernisation was important, it always is, but to adopt policies simply because they are deemed modern but not good is quite wrong. Conservative commitments to the "Green Agenda", Lords Reform and Gay Marriage present at best a confusion of conservative principles, and are certainly unnecessary distractions.

Machiavelli, who does not get a very good press in Conservative circle said that 'the only sure way for a party to regain its lost vigour is to return to the principles on which it was founded'. This has certainly proved a lesson for the Conservative Party during my time in Westminster. Right does, in the end, make might, and conservatives are better to stick to their principles and see it through than to concede ground before the results of our policies have become apparent. Thatcher's government delivered bitter, deeply unpopular medicine, but we can now reflect on the prescription being correct - and she never lost an election.

I look forward to a renewed debate in the Conservative Party as to what we want to achieve in the second half of our term in Government and where we want to go beyond that. The Bow Group must certainly be central to that debate and play a key role in bringing about new and necessary ideas to contribute to a new movement in conservatism as we once did.

**Peter Lilley – Patron of the Bow Group  
(Bow Group Chairman 1973-75)**

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# Chairman's Message



**Ben Harris-Quinney**  
Chairman  
The Bow Group

**I**t is rare that two consecutive Prime Ministers of two different parties should face serious questions and challenges over their leadership and direction, just two years into their tenure.

We set forth in this edition of Crossbow that the failings of our politics do not lay chiefly with our leaders, but in the failed doctrine that has underpinned British politics for more than a decade.

The populism of the third way took hold in the United Kingdom in the mid nineties, and it remains still at the centre of government and at the heart of our body politic. In our view, however, the constantly reducing cycle of time that politicians are able to use political triangulation, short-termism, spin and populism in the absence of ideas and vision is now coming to an end. It is equally our view that it is the primary charge of the Conservative movement in Britain to make that end, as it was the charge of the Labour movement to permeate its ill-fated beginnings.

In the pages that follow we aim to address some of the philosophies and policy ideas that may replace it and foster the conservative movement toward a new agenda.

Perhaps the greatest political reformer of the 20th century, Martin Luther King, argued in his 1968 speech in Washington that "Cowardice asks the questions - is it safe? Expediency asks the question - is it politic? Vanity asks the question - is it popular? But conscience asks the questions - is it right? There comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take because it is right."

The Conservative Party and wider conservative movement have always relied upon core principles of patriotism, tradition, family values, sanctity of property and freedom before the state.

Whether in or out of government conservatives could be sure that those principles would at least be retained and impressed within the Party and within the movement, that whatever our differences individually, we were bound by core beliefs. Not because we necessarily believed them to be popular, but because we believed them to be right.

As political thinkers, principles and ideas must be more important than psephology and polls, and if we do not believe that those principles and ideas will ultimately yield an ever stronger, wealthier and greater nation, we would not and cannot be conservatives.

We argue for renewed faith in those original core principles that drew us to conservatism. It is high time for the conservative movement to confound the bankrupt politics of the third way in returning to its base. We must do so with new ideas, but not in setting aside those old debates and principles and ideals long won, hard won, that have made our Party and nation what it is.

Though we face immense challenges we have the ability and opportunity to lead the nation with ideas that are truly better, but such is the importance of the maintenance and purity of the conservative doctrine in Britain and in the Conservative Party: IF we cannot find a way retain our principles and implement our ideals as a Party under the current government, then even opposition must be better than coalition.

**Ben Harris-Quinney**





# Editors' Letter



Luke Springthorpe



Richard Mabey

Part of the Bow Group's charm is that it has never been afraid to speak its mind. Yet, criticisms of Government policy are redundant in the absence of credible suggestions for reform.

The economy continues to falter, and the difficulties involved in delivering meaningful reform to pensions, welfare and healthcare, combined with the de-regulation of the economy, are exposing unnerving cracks within the Coalition. Whether you chalk it down to mid-term blues or an economy that may not recover by the next election, there can be no doubt that the trend in the polls does not make for pleasant viewing. While the latest Populus poll for The Times (CON 30% (-4), LAB 45% (+5), LIBDEM 10% (-2)) may well exaggerate the extent of the problem, it seems clear that the Conservative Party has retreated to its 1997-2005 electoral rut.

Labour is consolidating everything left of centre by gathering up Liberal Democrat voters en masse. The oft-mooted Conservative Party strategy in the run up to the 2010 General Election of converting Liberal Democrat voters to their left flank in an attempt to bring a large enough electoral base into play is now well and truly in tatters. And, at the same time, the Conservatives continue to haemorrhage votes on their right flank to UKIP.

The question presented to the Party is 'how can we regain our share of the vote before the 2015 election?'. However, the curious thing about electoral popularity is that rarely does a Party achieve popularity, in the long term at least, by trying

to be popular. We are seeing a generation of voters who are wise to u-turns, spin and insincere policy. Indeed, the electoral nausea that populism inflicted on the country from 1997 to 2010 has now evolved into a far more serious symptom: a loss of faith in politics.

The reason for such manifest anger is not difficult to understand. The era of spin was one where politics could afford to be glamorous. Economic growth appeared to be exponential, boom and bust was consigned to the annals of history, and people prospered. Governing had never been so straightforward. The era of austerity is one in which wages are contracting and people face an outlook which is increasingly uncertain. In short, they expect the Government to perform.

What kind of pension, if any, can I hope to get? How do I get by in the knowledge economy? How will Britain's schools help my children get on in an increasingly competitive world? Will I ever buy a home? These are the major questions facing ordinary people in Britain, and that's before we even consider the aches and pains being faced by businesses dealing with the double whammy of a heavy regulatory burden and a protracted slump in demand.

There is little point in pretending it is against a rosy backdrop that this edition of Crossbow is presented, despite its rather colourful front cover. However, this edition of Crossbow is not a forum merely for criticism, but an ideas book. While we do not seek to give a blow-by-blow account of electoral strategy for the next general election, it is

possible that the antidote to the Party's woes may very well lie in documents like this, which offer new ideas built from evidence-based research.

We are delighted that so many MPs, Ministers and Party figures - David Willetts, Bernard Jenkin, Priti Patel and many others - have decided to contribute to this edition. That they are doing so, is perhaps emblematic of the sheer will in the Party for change. On top of this, the edition boasts some significant contributors from outside the world of politics, who bring useful 'real world' experience in tackling the challenges of the day. As such, the contributors included here are not all card carrying Conservatives, but the common thread that ties them together is a desire to put forward meaningful policy proposals in order to address some of the major issues facing the country.

We hope you enjoy reading this edition as much as we have enjoyed working with our contributors on it. One thing the process has taught us is that there are great minds out there in which bold ideas are taking shape. The Party that captures and successfully sells these ideas may well write the next chapter of British politics.



# The Fourth Way - searching for a new political foundation



Ben Harris-Quinney



Richard Mabey

## The Lost Children of the Third Way

The causes of Tony Blair's popularity in the early years of the New Labour Government are a matter of some debate. The one thing political commentators agree on, however, is that in spite of his many faults he was very good at winning elections. When, on 3rd October 2005, David Cameron appointed himself the "heir to Blair", he probably had this fact at the forefront of his mind. Yet, having failed to win an outright majority at the 2010 General Election - even against a beleaguered Gordon Brown - and with Labour now leading in the polls by a margin of between 12 and 15 points, things do not seem to be working out as planned. So, what has changed?

Tony Blair's electoral magic was based on his ability to present an exciting vision to the electorate. Exciting as it was, unfortunately it was the wrong one.

Back in 2005, the Third Way remained at the heart of the conspiracy of the political classes. In electoral terms, as with post boom-and-bust economics, it really did seem to work: the ideas were exciting; the branding first rate: a flawless strategy to be repeated by every future Government, regardless of claimed political hue.

However, there had been an unsettling undercurrent to the project, which, some way into the Third Way's adolescence had begun to show its face. Democracy had become no longer a notion of suffrage, by which politicians were enfranchised to make decisions for the long-term; instead, it had become an excuse for aggregating polled opinion and cobbling together triangulated policy ideas that were popular in the short term but often

incoherent, unworkable and full of unintended long-term consequences.

The homogenous mass of a liberal political class in the West couldn't resist telling the demos whatever they wanted to hear: all are equal under the EU; multiculturalism works; large personal and national debt is a fact of life; everyone must go to university; wars and failed states only happen in distant lands; the boom and social welfare will last forever. A reactive Government of populism had become, in Westminster, the status quo.

When the cancer of the Third Way started to kill the very governments that once relied upon it, it would have been logical to assume a new wave of the principled politics of vision and clearly-defined ideas would have risen in its place. It has not.

Whereas Blair had the Third Way to underpin his vision, the Conservative Party must now break from Blair's way to find its own path. It will not win elections by carrying on the tired mantle of Blairite politics, nor will it win elections by going back to the dark days of 1997-2005. Instead, a new 'Fourth Way' is required: a coherent vision of a conservative future, which persuades the electorate, without compromise, that conservatism is the way forward.

This article and, indeed, this edition of Crossbow do not pretend to delineate entirely what the new way must be, rather they are an attempt to lay the first brush strokes to signal a call to arms; it will be for the Party to decide their own future. But if the Party wants change - and there is every indication that it does - it needs to find a path down which it can present conservative ideas in a way that captivates voters.

## Reforming Conservative politics

Both the economic and political landscapes of 1997 and 2012 are very different. Whereas Blair was blessed with the best set of economic statistics for a generation, Cameron has inherited the worst. A generation of voters have wised up to spin and unprincipled politics, and, the Government being a coalition, the danger for David Cameron of becoming a fire fighter and not a visionary is omnipresent.

That times are hard does not excuse lack of vision, however. Rather, as our great leaders of the past have proved, it requires it.

An attempt to find this vision was made in Cameron's early years. There were new logos, new spin doctors and a new friendly face to the Conservative Party. However, the much-feted 'detoxification' of the Conservative Party that happened prior to the election had mixed success. It was one of the most significant rebranding exercises in the Party's history and it was relatively well received, at first, with Cameron receiving a significant spike in the polls. Yet, the correct yardstick of success in political popularity is performance in elections. And for the Conservative Party, this is a much less impressive legacy. The 36.1 per cent of the vote that it polled in 2010 was not enough to win an outright majority and was, in fact, only 3.7 per cent higher than it had polled under Lord Howard in 2005.

At time of writing, it looks like the Government is going to effect an u-turn - by our count, its sixth of the Summer - on its pension reform plans. The Financial Times offered a telling analysis of cause, announcing that "David Cameron...[has] demanded

a rethink of flagship state pension reforms amid fears they could alienate the electorally crucial 'grey' vote". Against a backdrop of the toughest economic conditions for a generation, with an ageing population and with a pensions time bomb ticking, the Government has again decided to replace policy that is right with policy that is immediately popular.

By the end of Labour's thirteen years of Government, the legacy of the Third Way was the death of vision, long-term strategy and core ideologies. The future of Western government was set to be focus groups, constant polling and short-termist politics designed to follow the median range of public opinion. This is well known. But what the current Government has failed to realise is that voters have wised up to this style of politics. The crisis has squeezed out substantive concerns where under different economic circumstances they may have taken longer to permeate. Given that it was politicians that caused us a longer and deeper economic recession than any of the G20 countries, however, one of the most devastating legacy of New Labour is that voters have stopped trusting politicians to lead.

Unfortunately for Cameron, the Third Way is dead. So what is the way forward? The rebranding of the Conservative Party has helped to shake off our image as "the nasty party" to a degree, but it has also created an insecurity of beliefs. In the rebranding, it is fast becoming apparent that there was a misconception that a change to the Party's make-up and social structure should necessitate or equate to a movement in its policy away from conservative values. Equally, the movement to modernise the Party since 2005 has largely been built on the fundamental error of assuming conservative ideology or policies are the problem; they are and always have been the solution.

Let us not give credence to the misconception that Conservative ideas are boring. Conservative ideas are exciting. To cite some examples. The work done by Iain Duncan Smith and the Centre for Social Justice in promoting voluntary sector organisations has already brought a real-time return for social mobility without compromising on Conservative ideas. What Michael Gove is achieving in Education is truly radical: reforms bold enough

to set the spirit of competition alive among schools and genuinely drive the standard of education in the United Kingdom back up the international league tables.

In order to have the confidence to sell conservatism as Conservatism, a culture shift will be required in the way politics is done. This will depend on many things, but must be built on two key principles: conviction and engagement.

### Conviction

Any new movement must be based on a long-term vision, and in this sense there is no reason to depart from the underpinning tenets of conservatism. There are many who argue that conservatives have no underlying principles or touchstone from which to draw a constant vision, and yet the core principles of conservatism are as well-defined and well-accepted as those held by any political ideal, its philosophers and politicians as well defined and widely read as any. An adherence to traditional values, social mobility, prioritisation of families, freedom of the individual before the state and the sanctity of personal property have largely served as the basis of conservatism since its inception to the political landscape.

Most conservatives believe in these principles and moreover it is these principles that define them as conservatives. The problem, however, is not the ideas but the politicians we have to sell them.

For too long, our political leaders have been largely raised from the Westminster village alone, with little or no experience outside of politics. We need politicians with expertise, life experience and good judgement. From these fundamentals, conviction most flourishes. If the re-election of the Mayor of London shows one thing, it shows that voters have become wise to benign politicians who try to please at all costs, and favour, instead, those with 'real life' experience who are not too afraid to speak their minds. Indeed, it is a telling indictment on our politicians that, branded for his entire career as an eccentric, Boris Johnson is starting to look decidedly normal.

Both our Prime Minister and our Chancellor are, by their own admissions, both guilty of being politicians, born and bred. But they have simply played the party system. Yes, we need more people interested

in standing for Parliament, and we need more people of their ability, but we also need to reform the way the Party manages the process of creating leaders.

Efforts must be made by the Conservative Party to open application to the Commons to a greater variety of ages and experiences. Not by way of the top down approach and the "A-List", but by releasing controls over candidates from Central Office, and allowing local associations to choose their candidates by open primary elections. Party nominations should be delivered by local associations, not by CCHQ. It is likely that this will engage more people in the process of politics from selection to election, but also attract a wider variety of candidates who are put off by what they deem to be a Westminster bubble drawn from a narrow metropolitan elite.

The recent House of Lords reform proposals also provide an instructive example of the sorts of ways the Party could effect a culture shift in the people it chooses to lead. The Lords, for all its failings, remains a greater and more varied source of experience than the Commons. The diversity of talent it presents to the country is not entirely dissimilar to the US Presidential system, where the Executive is largely appointed and not elected. If bestowment of peerage could be deferred to an independent body as the Honours System is, the nation could expect the House of Lords to reform to offer a varied and relevant reflection of national achievement and expertise. This is something that should be celebrated, just as it is in the US, and we should have more senior ministers like Lord Jones and Lord Sassoon to bring 'real life' experience to our politics. Instead, the House of Lords reform proposals would lead to more politicians in Westminster, not less.

### Engagement

Much has been written about the loss of trust in politics. The expenses scandal was an outlet for an enormous amount of anger that had been brewing among the electorate. We share the frustration felt by citizens at the performance of politicians (not least for the reasons stated above). But quid pro quo. If the voter market is going to effect reforms, it must become more engaged in the political process.

With less than 40 per cent of eligible voters exercising their democratic



right at the ballot box, the majority of people in Britain are deliberately disenfranchised in the Government from the word 'go'. The election of 1997 served to show that large numbers of voters will engage if there is either an exciting Government to be had or if there is a Government to be removed. Now being a party of government, the Conservative Party needs to aim for the former.

The Bow Group's research into the experience of ethnic minority voters has demonstrated a high level of support and identification for Conservative Party policies, but an equal and opposite lack of support for the Conservative Party itself. Demographic projections indicate that within 25 years ethnic minorities will form between 20 and 30 per cent. of British society. The Conservative Party must therefore remain true to its policies and principles in engaging with ethnic minority voters, but must also reform culturally and socially to provide a more attractive podium for those policies.

There are plenty of quick fixes to be had. Increasingly an ever-greater number of British people are spending a larger proportion of their lives living and working abroad, and yet the ability for citizens to vote from overseas, and therefore the ability of the Conservative Party to court their vote, is not fit for purpose. One example of this is that Section 3 of the Representation of the People Act 2000 does not allow British Citizens

who have lived abroad for over 15 years to vote in UK elections. This is a symptom of a wider culture, which does not understand the interconnected, networked nature of the world, and would be a straightforward reform for the Government to make.

The transition to a nation that predominantly digests its politics and news online has been relatively well acknowledged by many politicians, but less well by the political system itself. More can be done by political leaders to engage themselves with an electorate with rapidly changing tastes for media, but perhaps more significantly leaders must effect systemic change to allow British democracy to operate effectively via online channels, if it is possible to conduct large scale financial transactions securely online then the ability to vote online should be a target for advanced democracies.

#### A Fourth Way

The mistake of the previous Conservative Government was not that it failed in its performance – indeed, it left to Tony Blair the greatest set of economic statistics ever inherited by an incoming British Government – it was that it failed to persuade the electorate of just how successful it had been and how exciting its ideas were: it did not sell its ideas well enough.

But the antidote was not the Third Way for the Labour Party and it is not the Third Way for the Conservative Party. Instead, the Conservatives

must embark on a new chapter in their history, which takes the best of the Third Way but strictly eliminates the culture of compromise and short termism: a Fourth Way. The dismal tide of Third Way triangulation, a virulent form of populism, has dug in its heels to our political system, and it has got to go.

Instead, the era of the Fourth Way must accept and draw a line under the failures of the last 15 years of British politics. If one could predict a Fourth Way that would win the next General Election and truly lead the nation forward, it would be about ideas and not about spin; it would put policy before politics; its politicians would not be drawn solely from the metropolitan elite but come from all walks of life; its voters would be engaged and willingly consider conservative principles, which would be presented coherently and with vision.

It may be in a coalition and it may be in economic crisis, but the current Government must have the security of belief that says that conservative policies are not only right but can win elections. It is not too late for the Conservative Party or its leadership. The Party must demarcate from the past, and in doing so delineate and take ownership of a new political mode of being: a Fourth Way. The time for ideas is now.

*Ben Harris-Quinney is the Chairman of the Bow Group and Richard Mabey is Research Secretary of the Bow Group*

## What should be the Conservative Party's positioning at the next General Election?



Andrew Lillico

British General Elections are not won based on policies or even values. Instead, for the two major parties the central task of political marketing is to establish a party's "positioning" – how it comes across to the public. As the governing party, already-enacted policies provide a concrete sense of delivery, of what it is like to live under that party's rule. And obviously opposition's critique government policies and propose alternatives as part of their legislative role.

But when policies are projected in political marketing (rather than legislative debate), future policy proposals for the governing party, and all policy proposals for the opposition, serve only to unpack and vivify the party's positioning. That is one reason an opposition party only needs around half a dozen key policies. Going into a General Election, the same is true of a governing party.

What I mean by a "positioning" is most easily illustrated by examples. Here are some from



the General Elections between 1997 and 2010:

#### 1997

Labour: "Thatcherism with a human face"

Conservatives: "When we lose, it will be nice to take a break from arguing with each other over Europe, so we can spend more time doing what we really enjoy - like taking bribes and cheating on our wives."

#### 2001

Labour: "The fruits of prudence for the reform of the public services"

Conservatives: "Run! Run! The Germans and gypsies are coming!"

#### 2005

Labour: "It's the economy, stupid (...but Don't Mention The War!)"

Conservatives: "Are you thinking what we're thinking? (Probably not, but we thought we'd ask, just in case...)"

#### 2010

Labour: "Where have you gone, Tony Blair (oh, oh)? A nation turns its lonely eyes to you (Ooo ooo ooo). What's that you say, Labour Backbencher? 'Grinning Tone has left and gone away', Hey hey hey, hey hey hey"

Conservatives: "We might not have done anything different at the time, but as it happens we didn't create this mess - and you know we'll have a good go at cleaning it up."

One of the handicaps the Conservatives faced in 2010 was that from 2006-2008 the leadership deliberately positioned itself as the true heirs to Blair. Late in office, Blair became more radical in his views on the reform of health and education, driven by the pragmatic realities of government. Labour had become complacent and thought they didn't need Blair any more, so there would be political space appealing as updated Blairites without his Iraq War baggage.

Of course, Cameron's 2006-8 team sought to be a Conservative version of Blair, not a Labour version. They would be pro-green, but would seek market solutions and seek to win public participation rather than force people with regulation. There would be Blairite-style academies, but they would be part of a movement of free schools. They would be pro gay rights, but introduce a tax allowance for married or civilly-partnered couples.

The Conservatives said they would match Labour spending on health and education (very Blairite), but would seek greater efficiencies elsewhere.

Beyond that, the political message was supposed to move away from the economy. An economic consensus had been reached. We would keep Blair's independent Bank of England with its inflation target. We would stay outside the euro. We would not seek radically to reverse Labour's spending rises, aiming merely to stabilise the rise in spending as a proportion of GDP by sharing the proceeds of growth instead of all growth going to fund more public spending.

Politics was to move away from economic issues to become socio-centric.

Given Blair's political dominance, such a change in positioning was entirely understandable (even if some of us always expressed some qualms about nuancing). By 2005, everyone agreed broadly that we needed to reposition to appeal to paternalist sentiments. The only debate was whether we did that along the lines of "free market mechanisms for paternalist ends" (the modern version of Disraeli's "Tory men and Whig measures") or by pitching ourselves as Paternalists. The Cameroons went for the latter.

Cameron's repositioning - sometimes called "detoxification" - was making some progress, at least in its own terms, up to 2008 (though whether it would have been able to challenge Labour at a 2009 General Election had the economy still been going well is of course debatable). But then from late 2007, with the failure of Northern Rock, it was totally overtaken by events. Conservatives had tried to kill economic debate, to claim consensus. When there was economic success, that seemed attractive. But with economic failure, that was much harder.

Some called for a total re-think on Conservative positioning. But it was always doubtful how feasible it could be for Cameron, having staked his territory out, could move far with any credibility. Could he really have suddenly ditched the green policies and the gay rights issues as good times priorities, and been thought to have any integrity? He did reposition a little - not enough, in my view, but he did try. Either way, in the end he failed to win in 2010.

Now for the next General Election the Labour Party's hoped-for positioning is fairly clear:

#### 2015

Labour: "It's certainly hurting, but it isn't working."

What will the Conservatives' be? I think it's clear that Osborne wants it to be... "We are Ulysses, lashed to the

mast. They are the sirens, who'll tempt you onto the rocks."

The "It could have been worse - e.g. if they had been in charge" pitch is classically Conservative, almost Baldwinian. But can we really deliver it, and is that all? Labour will try to paint us differently:

Conservatives-according-to-Labour: "The main problem with this country is that you lot don't know your place, or how lucky you are to have us, your betters, ruling over you."

That's always a danger with a Paternalist pitch - the public have got to want to be ruled by their betters. Contrary to Labour hopes, they usually do want that (they did in fact like Tony Blair for being posh and wearing large cuffs, and most successful Labour leaders have been very posh men). But they only want to be ruled by posh folk who are guided by a sense of service and noblesse oblige, rather than a sense of personal entitlement and arrogance.

Having got where we were by 2008, there was not that much repositioning the Party could really do. But by 2015 we shall have been in Coalition for five years. The issues will have moved on, radically - especially in respect of the economy and Europe. We have a chance to reposition, using the cover of Coalition to say that the Government is only an imperfect expression of our philosophy. Perhaps we don't really want to reposition - maybe the Baldwinian pitch will be enough. If we do want to reposition, we have a chance to do so but will need a game-changer.

Here's my suggestion: get in first in proposing a referendum on the EU, including an Out option. Then our pitch can be "this sucks. Let's try something completely different".

*Dr. Andrew Lilico is a Managing Principal at Europe Economics and a columnist for ConservativeHome.com*



# A Party that Could Stand Up



Jeremy Thomass

Like Christopher Tietjens in Ford Madox Ford's 'Parade's End', many Conservatives today find themselves living in an unfamiliar, if not also frequently unwelcome world. Much as Tietjens's belief in monogamy and chastity...and for not talking about it', fails to survive the stresses and strains of the Great War, so Conservative faith that everyone might acquire a stake in capitalism now appears as fragile as the system of deregulated Anglo-American finance capitalism which was expected to underpin it, but which has instead imploded, leaving a legacy of unsustainable debt.

How, with house ownership falling, and stock market stagnation since the beginning of the century, might Conservatives, long seen as the natural allies of a financial system now widely discredited in the public mind, best hope to achieve future political success, and how might the answer to the conundrum be found in our own long, tangled history?

Our present position might, as Franz Josef of Austria once remarked of his Empire, fairly be described as 'hopeless, but not serious'. Conservative support has, indeed, remained below the 40% level widely viewed as the minimum necessary for the Party to win an outright majority, for all but two of the last sixteen months between May 2011 and August 2012, but neither are such results unusual in times of deep recession such as Britain is now experiencing. Following the First World War, and towards the troubled end of another of those half-century-long cycles of economic growth and decline, best known as 'Kondratiev Long Waves', Conservative support remained below 40% at four of the five General Elections between 1919 and 1929. For all that, two of them ended in outright Conservative victories, in 1918 and 1922, and another with Conservatives as the largest single party, in 1929. Such an apparently unlikely outcome inevitably begs the question of how far outside factors contributed to it, how far the actions of Conservative Governments affected it and of what conclusions we may draw from that.

Our Conservative generation, like that of the 1920's and '30's, finds itself in office at a time when the profit potential of that series of economic innovations which acted as 'leading sectors' during the previous period of economic growth, had finally become exhausted. This has proved just as true today

with speculative finance and internet companies, as it did with the chemical and electrical industries and with those energy sources that were coming to compete seriously with steam, in pre-war times.

The immediate Conservative reaction in such a situation was, then as now, to cut government spending in order to reduce the deficit, to present the Prime Minister as a national, rather than simply a party leader, something to which Stanley Baldwin and David Cameron were both well suited, and to seek to improve educational and welfare services so far as limited resources allowed.

However necessary all this might have been, it was not sufficient. Continual pressure for tax cuts and import tariffs from backbenchers and other traditionalist elements in the Party, duly accommodated by that instinctive populist, Churchill, at the Treasury, ended by depriving the Government of the very funds with which it might have continued either to amalgamate industry into larger, more efficient units, or to improve educational standards, as Addison and Fisher had both begun to do during the earlier Liberal-Conservative Coalition between 1918 and 1922.

Without any real hope of economic recovery, however, the Baldwin Government went down to defeat in 1929, and only after Neville Chamberlain became Chancellor in the National Government of 1931, did reorganisation of the coal, steel and aviation industries seriously begin. For us today, too, it remains vital to restore economic growth through a strong revival in investment and exports, an industrial strategy to identify those sectors where Britain has the chance to become a global leader, and a National Investment Bank to help finance that.

No less important is the need to encourage stronger families and communities. Chamberlain's reforms of Pensions, of Unemployment Insurance and of the Poor Law, finally doing away with the Victorian Workhouse, represented an early attempt to achieve this, together with the transfer of many powers from Whitehall to reformed County Councils, so as to disperse government responsibilities more widely. The Schools Act of 1935, drawn up at his insistence, also planned to increase the school leaving age by 1939, but the outbreak of war prevented this. Just as important for us today is the need

both to improve school standards and also to strengthen local government by transferring powers over services provided to the community as a whole, such as community police and justice, public health and arts and heritage services, to accountable local authorities whose structure and leadership have been strengthened.

No programme of domestic reform may long expect to endure, however, without the stability and security that only an effective foreign policy can ensure.

In a world where pressure on finite energy resources continues to increase, and where rising temperatures have begun to stimulate mass migration from arid, tropical countries, environmental security has become indispensable to our national security. While our past history may offer us little enough guidance in such novel circumstances as these, we would still do best to follow our inherited Conservative instinct, as the historic party of action in foreign affairs, that threats are always better met, rather than avoided.

Much as Chamberlain and Halifax built up the RAF's fighter squadrons and radar stations in time to save Britain from defeat in 1940, so today we need to introduce a new energy strategy to encourage low carbon living both at home and abroad, and to stimulate investment by turbine manufacturers and other companies, to build an offshore wind power grid in the North Sea to supply our future need for renewable energy. Furthermore, we should aim to strengthen our relationships with those developed countries, not least in Northern Europe, which are environmentally aware as well as industrially advanced, and which could provide us not only with an example to follow, but also with allies with whom we might achieve common aims in the wider world.

Our generation of Conservatives, like many who came before us, finds itself confronted with often daunting challenges. If we, like our predecessors, can stand up to these, and strive to overcome them, then we may yet hope to gain a better, brighter future for Britain, for ourselves, and for generations to come.

*Jeremy Thomass is a Trustee of the Bow Group*

# Building on the Olympics legacy



Paul Foster

**I**t has undoubtedly been an incredible summer of sport and a stunning celebration of London, its people and iconic venues. With the euphoria of the games now fading, inevitably the focus now turns to the promised legacies and, particularly, whether hosting these games result in more of the British public participating in sport. The history in this area doesn't read easily.

A study in Australia, which tracked sports participation before and after the 2000 Sydney Games analysed several years of Australia's national sports participation. It found that in 2001, seven Olympic sports had seen small increases in participation. Nine, however, had seen decline. Similar studies in Greece post Athens came to the same conclusions, with minimal if any increases in sports participation post-games.

Why will it be any different in the UK, particularly considering the current economical climate? One of the key challenges for Government to address is the structure of sport in the UK, as currently it is exceptionally complicated. The former Sport and Olympic minister Tessa Jowell once described it as a "nightmare" and in 2005 Lord Carter reported it as "unfathomably complex". This is a product of its natural evolution over centuries, where deeply ingrained tradition is hard to break through.

Every pound that falls out of the Treasury, earmarked for grassroots sport, passes through a number of organisations before benefiting the end user. If we take a typical example of a sports project, say one focused on increasing sports participation amongst visually impaired teenagers. Exchequer funding from Treasury goes to the Department for Culture Media and Sport who directly fund Sport England who then make a funding award to English Federation of Disability Sport (EFDS). EFDS have a funding agreement with British Blind Sport. BBS then award a grant to a community organisation to deliver the project to participants.

This whole process takes time as

## Funding is also often left sitting in the bank too long rather than getting to where it is needed

money is pushed from body to body via a mass of bureaucracy. Funding is also often left sitting in the bank too long rather than getting to where it is needed. In March 2010 Sport England announced £8 million was to be ring-fenced for disability sport, however awards for this funding will not be made until December 2012.

The Conservatives' pre-election policy document pledged to co-locate Sport England, UK Sport and the Youth Sports Trust, however each would retain their separate identities. Many leading figures in the sports industry have suggested this should go further and the three organisations become one. The main problem has always been how to combine a body that affects the whole of the UK with one that only covers England. Scotland, Wales and Northern Ireland have similar funding bodies to Sport England. Add to this, how does the Youth Sport Trust fit in? Another challenging issue here - although they do receive public funding, YST is a charity, hence would be much more difficult to merge it with the two NDPBs.

Below these three national organisations there is a plethora of strategic and regional bodies; English Institute of Sport, County Sports Partnerships, English Federation of Disability Sport (similar exist in Scotland, Northern Island and Wales), Women's Sport and Fitness Foundation, Sporting Equals, Central Council for Physical Recreation, Sports Coach UK and the list goes on. In the main these bodies don't do front line delivery but are strategic. There are simply too many, which results in a watered down offer for the end users as so much of the already limited

resources are spent on maintaining to many organisations.

UK Sport is well known for being ruthless in their funding of sports. Underperformance results in reduced funding and many sports have had their funding cut over the last few years having not met their performance indicators. National Governing bodies are now embracing this performance management approach. Sports that underperformed at London are drafting in experts to review what went wrong and where changes can be made. This approach could be adopted across the whole sports sector.

We always like to compare ourselves to Australia, where they have a much simpler structure. The Australian Sports Commission (ACS) is responsible for distributing funds and provides the strategic guidance for sport. ACS implements its policy through three divisions, the Australian Institute of Sport (elite sport), Community Sport and Sports Performance and Development.

A full independent review of the whole sports structure in the UK is drastically needed to enable a more efficient and effective sport sector in the UK. There are many organisations, local authorities and National Governing Bodies in the UK doing a fantastic job at delivering community sport; Street Games and YMCA to name but a few. The structure of sport needs to exist to support these organisations to deliver high-quality sport and physical activity opportunities.

Hopefully the new Secretary of State will not leave reform of UK sporting structure in the 'too hard to fix' box and we move from talking about the well overdue revamp, to seeing it happen.

*Paul Foster recently played a senior role in delivering the Olympic Park during the London 2012 Games. Prior to joining LOCOG he was a civil servant at the Department for Culture, Media and Sport*



# Supporting England FC



Ben Harris-Quinney

**K**enneth Clarke, a most longevous Bow Group (and Cabinet) alumni of past and present, can often be heard recounting a rose-tinted tale of when he was a young man; As his story goes, before his almost peerless contribution to the Bow Group and British politics, Clarke's greatest contribution to his nation was informing the Russian linesman presiding over the 1966 World Cup Final at Wembley, in Russian tongue, that Geoff Hurst's goal was over the line and should count as part of our infamous World Cup victory over West Germany.

It is among the finest fireside tales a consummate Englishman could have in his arsenal for any occasion, but regardless of his crucial watershed contribution, that Kenneth Clarke was a young man the last time England won anything in an international football tournament, underlines the urgency of a country and its past time to return to the fields of glory.

The Olympics demonstrated what British victory in sport can do for a nation at home and on the world stage, and though many caught up in the fervour of London 2012 may disagree, we are first and foremost a footballing nation, and a national victory on the football field would eclipse any number of medals on the track.

As with any great victory however, it can only come from a long and hard road of clever preparation on a truly national scale.

Our tactic until recently as a nation in seeking victory in the football has been to haphazardly draw in the world's most expensive managers with vast sums of money, give them a free reign to pick the best players we have to offer at the time, hope for the best, and then sack them when we fall somewhere around the first major hurdle.

This tactic has happily recently changed, quite dramatically, but to take England to victory we will need to go further still and employ some truly radical and groundbreaking long-term strategies.

This year sees the opening of the St George's Park in Burton, an FA training and recuperation facility, coming at the cost of some £30 million, designed to foster new English talent into the ranks of our national team, and act as the foundation for English football.

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The Olympics demonstrated what British victory in sport can do for a nation at home and on the world stage

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Its vision is rather shamelessly based on INF Clairefontaine, the centre credited with producing the World and European Cup winning French national teams of 1998 and 2000. Clairefontaine was certainly groundbreaking for a national football side, and the quality of its product is without dispute, but the model will struggle to work in England.

France relies on drawing many of its players from its African colonies, no French team, at least in the late eighties and nineties, could compete with the investment in scouting resources of the national side, and so Clairefontaine was able to act as the first port of call for young (potentially) French talents drawn from all over the world.

In the UK, or in the world now, with the thorough development of the international scouting reach of major football clubs, it is highly unlikely that any player of talent, even in their early teens, will be wandering lost across the colonial plains without a club, looking for a British national centre of excellence to begin their careers.

The best way to create a brilliant footballer and nurture their talent is for them to play regular football at the highest possible level. It is no coincidence that Spain has since eclipsed France in becoming one of the most successful national football sides of all time, and in a startlingly short period. Spanish success on the national football field runs exactly parallel with the resurgence of top Spanish teams and La Liga as the world's best and most competitive football environment.

Real Madrid, Barcelona, Valencia, Atletico Madrid and Sevilla have among the best youth talent centres ("Cantera") in the world, but certainly not significantly better than their English counterparts. Where they surpass English clubs is that their youth and reserve teams play in the main national leagues,





and those leagues are strong. For example the Real Madrid Castilla (B team) currently plays in Liga 2, our equivalent of the Coca Cola Championship. This means their youth and reserve players are experiencing highly competitive football week in, week out, combined with the world's best, coaches, physios and training facilities.

Having our best coaches and facilities available to young English footballers at the St George's Park is useless unless those players are easily combining the facility with regular competitive football as their Spanish counterparts. If players aren't doing that by their early teens, they are highly unlikely to be national stars of the future. In other words St George's Park needs to play football as well as teach it.

With the unfortunate rising incidence of bankruptcy in the English football league, which has been a spectre in the national game for a decade, there is no reason why the F.A don't invest some of the money set aside for St. Georges Park and other projects into buying

a league football side, and no reason why Parliament does not legislate or provide funds where necessary to support it. There was huge outcry and discord created when Wimbledon FC was sold to become the MK Dons, but what could soften the blow of losing your beloved team more effectively, than to know it was to go from being mere parochial pride to England FC. A team made up of solely English talent under the age of 25, funded and managed by the FA competing in the football league, its aim to contribute to our national game week in week out, but to truly change the scope of our international chances every two years.

Aside from the £30 million already spent on St George's Park and the some £25 million spent on foreign managers for the English side over the past decade, over £1 billion was spent on building the new Wembley Stadium, the home of English football. This is an incredibly high price tag for a football side that hasn't won anything for 50 years. For the same price we could have founded our own British Real Madrid and Barcelona.

As England FC would be likely to be highly nationally (and internationally) popular as a club side it is probable that any FA or government investment would be returned comfortably within twenty years. It's a policy that, if the government were able to take ownership, would potentially be a true gift to the nation, and as trite as it may be, if successful, one received with far greater gratitude than almost any other policy. With Ken Clarke currently sitting as Minister Without Portfolio, the advocacy of such a policy by the current government may mean the old pro has another World Cup victory in him yet.

*Ben Harris Quinney is the Chairman of the Bow Group*



# The great carbon April Fool: Why next year's new carbon tax threatens the recovery



Tony Lodge

**T**his summer's revelation that George Osborne wants fossil fuels like gas to remain a key and important supplier of Britain's electricity generation are right and credible, but the policy comes unstuck when one looks at how the Treasury is preparing to lump huge taxes on such fuels, making them, and the energy they produce, more and more expensive.

Last year the Chancellor called for a revival in UK manufacturing both to help rebalance the economy and help maintain and develop a new skills base. Addressing the Welsh Tory Conference, he asked, "wouldn't it be great if Britain made things again?" Whilst George Osborne made all the right noises on cutting red tape and resurrecting enterprise zones, more than a year on these words have not been matched with action to meet what manufacturers and energy intensive industry really need; help with reducing their upward spiralling energy costs.

Before anyone claims that such costs are dictated by global or international factors around which the UK has little influence, then they must understand that a series of unilateral policies have now secured Parliamentary approval which will directly and indirectly cause costs for manufacturers and heavy industry, such as steel, to soar.

This will cause jobs to be lost and industry will relocate overseas where costs are lower. Any resurgence in manufacturing risks being snuffed out before it has started as a result of policies being introduced by the Coalition.

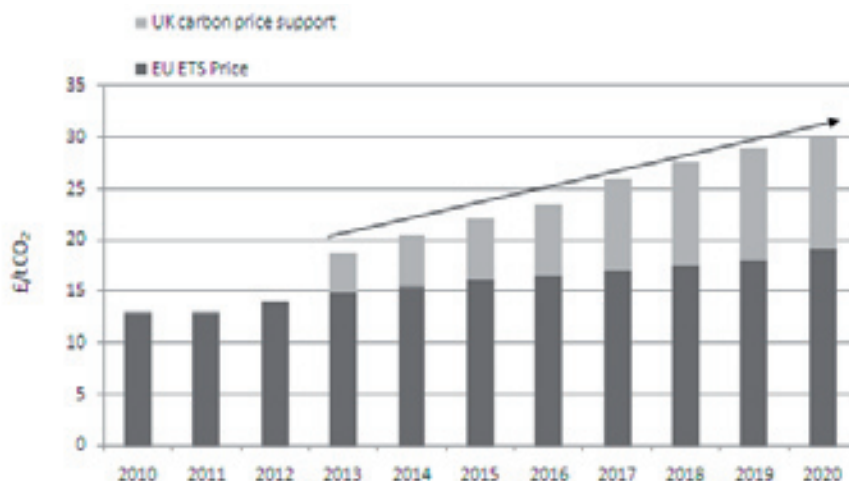
In August Vince Cable's Department for Business, Innovation and Skills released a detailed report which concluded that so-called green policies will make British industry uncompetitive as compared to our main competitors, as early as 2020. It concluded that UK steelmakers already pay more for energy than their international competitors and they can expect to pay over 280 per cent. more than their American and Russian competitors by 2020.

Cement, aluminium, fertiliser, industrial gas and steel producers will all face large costs as a result of new policies introduced by the Coalition, such as the carbon price floor. But will Vince Cable's new report change anything and force a pause with a view to helping important and presently viable industries?

Ironically it was Osborne, at last year's Tory Conference, who accused environmental regulations of, "piling costs on the energy bills of households and companies," and who argued that the Government should not adopt green targets that damage the business sector. To relieved Tory applause, he pledged, "We're not going to save the planet by putting our country out of business. So let's, at the very least, resolve that we're going to cut our carbon emissions no slower, but also no faster, than our fellow countries in Europe."

The Government proposes that from April 1st 2013 carbon emissions in the UK from electricity generators and energy intensive industry will be taxed at £16 (€20) per tonne of CO<sub>2</sub> emitted, rising to £30 per tonne in 2020 and £70 in 2030. Presently, UK generators and industry pay the same price as their EU competitors, around €7 a tonne inside the EU Emission Trading Scheme (EU ETS). In April the UK will effectively detach from the EU ETS and set a far higher minimum price for carbon at home.

**The carbon price floor will impose a UK trajectory (irrespective of the ETS/ EUA price) of £16t/CO<sub>2</sub> from April 2013 rising to £30t/CO<sub>2</sub> in 2020 and £70t/CO<sub>2</sub> in 2030**



An early casualty of rising energy costs, and an early warning against future UK carbon price rises was the closure of Rio Tinto's aluminium smelter at Lynemouth in March causing the loss of 515 jobs. The company said the smelter was no longer sustainable due to rising UK costs and new looming legislation like the carbon price floor. The company will now shift aluminium production and investment overseas where costs are lower.

By imposing new high unilateral taxes on fuels that are cheap and abundant, such as coal and gas, the Government cannot claim to have its hands tied by international factors. Ironically, a carbon price floor will do nothing to help deliver low carbon electricity. New nuclear plants will get a guaranteed price for their electricity through a contract for difference, anyway

Britain risks becoming a world leader in energy taxation coupled with high prices. Low cost, reliable and abundant energy is essential for the future competitiveness of British industry. It is incoherent to impose green taxes on manufacturers and then – as happened in the Budget – give money back in the form of subsidies in an attempt to alleviate their pain.

The Coalition wants to see a manufacturing-led economic recovery but this will only be forthcoming if energy prices are competitive by international standards. Unilateral energy taxes, delays to new cheap generating plant and a lack of generation diversity will only increase electricity costs and drive important industries overseas. This is known as carbon leakage. This relocation will not necessarily be to distant developing states, but instead to the Continent. On the island of Ireland this policy will result in Northern Ireland industry facing far higher energy costs than their neighbours in the Republic as the difference in carbon costs on different sides of the border will become significant as the Republic remains inside the EU ETS and its lower carbon price.

Australia's Labor Government has just introduced its own carbon price floor to much derision and scorn; particularly from industry and manufacturing. It now trails the Conservative opposition by nearly 20 per cent in polls. The Coalition should watch Australia closely.

The carbon price floor risks smothering Britain's economic recovery and lumping higher costs on British electricity generators and industry which will be passed on to consumers. The Government should think again before this policy becomes a toxic issue in the run up to the general election. Instead, policies to boost the value of a European wide carbon price should be supported so that UK industry remains on a level playing field with its neighbours.

*Tony Lodge is the Bow Group's Research Fellow for Energy and Transport. He is also a Research Fellow at the Centre for Policy Studies, where his latest pamphlet, 'The Atomic Clock – How the Coalition is gambling with Britain's energy policy' was published earlier this year*





# Environmental protection begins at home



Roger Scruton

The Labour Party is a party of causes, and during the years of New Labour the environment attracted the attention of the latest activist class.

When politics is defined by activists, however, it is in great danger of becoming one-sided, and also of making the problems conform to the solutions, rather than the other way round. This is what has happened with the environmental question, which has been simplified into the single issue of climate change, and provided with a single solution, which is clean energy. And - as is so often the case - the solution is made maximally visible, in the form of wind farms that mutilate the countryside, and solar panels plastered across the towns.

I am not a climate-change denier, nor do I doubt the need for clean energy. However, I am deeply opposed both to one-dimensional thinking and to purely symbolic solutions. To spend all our concern for the environment on the one issue of climate change is to ignore the many other matters about which we are far better placed to act - for instance, plastic pollution, species decline, the loss of habitat, urban sprawl and the decline of the local food economy.

Undeniably, however, there is something gratifying in campaigning for futile treaties on carbon emissions. You know in your heart that the treaties will come to nothing, since no country is prepared to meet the real cost of signing them. Hence you can enjoy the struggle and never be blamed for the failure. With problems closer to hand, however, failure has no excuse, since the solution is within our grasp. Take plastic pollution. Ordinary plastic can now be made oxo biodegradable at little extra cost - in other words, it can be made to disintegrate harmlessly when exposed for a given time to the air. Plastic packaging is stuck around our food largely because of pointless health and safety regulations that could be swept away tomorrow. A hundred initiatives are here available which would have a cumulative effect, leading quickly to clean parts of the

world that might serve as a model to the scoundrels and a motive to rectify the terms of international trade.

That is one example of a real solution to a real problem. On the whole, however, activists have preferred purely symbolic solutions, often adopted without concern for their side-effects, which are often far worse than the problems that they are designed to solve. The deep difference between conservatives and socialists lies here. Conservatives look for bottom-up solutions, devised, led and endorsed by local communities. Socialists look for top-down solutions, devised by activists and pressure groups, imposed by governments and led by bureaucrats accountable only to themselves.

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The negative effects of wind farms are not only aesthetic. Far more important is their effect on the motivation of people

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In no matter has this been more evident than in the movement to produce as much electricity as possible by wind farms. According to recent figures these have added £400 to the average family electricity bill on account of the cost of installing them, and are so erratic that their owners were paid £25 million pounds last year to stop them from producing electricity during high winds, when they overload the grid. Wind farms appeal to the activists for two reasons, one positive, the other negative. The positive reason is that they transform solar energy (which is the ultimate source of wind) into electricity, without emitting greenhouse gases - true up to a point, provided you disregard the immense carbon-footprint involved in producing and installing them, and turn a blind eye to the fact that they



can produce only a fraction of the energy needed and must always be backed up by another source.

The negative reason is that wind farms require a vast acreage if they are to produce a significant contribution to the grid, and so can be used to stunning effect both to irritate and to demoralize the 'nimbys'.

The negative effects of wind farms are not only aesthetic. Far more important is their effect on the motivation of people. Ask yourself how the British people have confronted environmental problems in the past, and what they have done to conserve their natural resources. They haven't managed perfectly, but they have done as well as any people with whom they might be compared.

The British people have done what they did to protect their environment out of the motive that I call oikophilia, the love of home. I have spelled out what this motive amounts to in *Green Philosophy*, and believe that love of beauty is a fundamental part of it. Much in our art, literature and music comes to rest in the experience of natural beauty.

A true conservative environmentalism, in my view, builds upon oikophilia, and attempts to recast environmental problems, one by one and as a whole, in a form that can be addressed by local communities, and solved as part of their love of home.

Windfarms have been imposed on us by lobbying from the environmental activists. Other blemishes are the result

of lobbying from big business and the advocates of 'economic growth'. Examples include the high-speed rail link and the current scheme for a new London airport. Of course the Thames airport will ease the flow of air traffic, for the time being at least. And no doubt it will make a contribution to 'economic growth'. But economies can grow in more than one way, as ours once did through the slave trade. This is not an issue to be decided by bureaucrats with calculators. It is an issue that concerns real people – those who live on the Thames Estuary and who have valued and conserved that piece of countryside as their home. They have a right to resist and we should support them, since all environmental benefits come about because real communities get together to protect what they love from those who don't give a damn since they live elsewhere. Environmental problems are created by absentees.

Small associations of citizens are a long way from the big environmental campaigns and the unaccountable NGOs like Greenpeace and Friends of the Earth. They don't make a noise, but they get on with the job.

Whatever is being done to protect our countryside from plastic pollution, our farmland from agribusiness, our towns from unsightly development, our rivers from pollution and our beauty-spots from motorways and high-speed rail is being done by these groups, and usually in opposition to government.

For we cannot rely on politics to protect us. Again and again, and

regardless of good intentions, governments fall into the hands of the wealthy lobbyists or bow to the EU, which means bowing to even wealthier lobbyists. Without the 'little platoons' of citizens the environment, it seems to me, is a lost cause.

All very well, you might say, but what are we to do about climate change? Either we can pretend to do something, like the Germans - covering the landscape with useless wind farms while plugging in to the French nuclear-powered grid in order to keep the home fires burning. Or we can do something real. That means looking for forms of clean energy that do not require back-up and which are cheap enough to be exportable around the world. The problem of clean energy is not yet a purely political problem; it is largely a scientific problem, which requires investment in research, rather than futile treaties committing governments to targets that they have no motive to reach.

Of course there are problems that we need governments to solve. But governments respond to pressure, and the pressure must come not from the lobbyists and activists, but from ordinary people who care.

*Roger Scruton is a prominent conservative author. His work includes "Green Philosophy" and "Arguments for Conservatism"*



# How not to scare the horses: Why the Government must hold firm on green energy



Robert Gross

The Coalition Agreement on energy policy set ambitious goals for transforming the way Britain generates electricity and uses energy. In part, this followed a continuing policy trend. When they were in Government, Labour set out a broadly similar strategy via the 'Low Carbon Transition Plan'. Policies to promote energy efficiency and renewable energy have been in place, steadily growing in ambition and scope, since the last Conservative government created the Non Fossil Fuel Obligation in 1994. Most recently, the Climate Change Act came into force with all party support in 2008.

Where the current government has been much bolder than its predecessor is in the explicit recognition that elements of the energy policy mix aren't working as well as they should. They have set about scrapping the Renewables Obligation, which has been a complex system of tradable permits to support renewable energy. This is to be replaced with a system that is (in theory) lower risk, simpler and more attractive to investors. The Government has also been more willing to acknowledge that it is likely to need to take a more directive role if the UK is to attract investment into lower carbon forms of energy like renewable energy, carbon capture projects and new nuclear power stations. The Government won't commission or pay for new power stations, but it does propose to take a more active role in deciding how many, and what type of, power station the country needs.

The reason for this is that Britain faces a unique set of challenges. First, we are faced with depleting domestic gas reserves. Consequently, Britain is becoming more reliant on gas and hence more exposed to global price movements. Gas prices have also stayed resolutely high, despite the recession. Gas price rises have caused bills to double since the mid-2000s and although gas prices could fall, as they have in the US, but this is by no means certain given the near insatiable demands of emerging economies. Gas experts do not expect shale gas to transform supplies in Europe in the way they have in America, at least not for many years. Because gas prices are likely to remain volatile it is prudent to promote a diversified mix of energy supplies. Second, we must close a significant number of our older coal and oil power stations because they are not compliant with European laws related to acid gases – the

precursor to acid rain. Fitting costly flue-gas scrubbing equipment to old power stations is not cost effective; their owners would often sooner build new gas stations instead. Third, many of our nuclear power stations are reaching the end of their lives. It looks likely that several will win a reprieve until the early 2020s. This buys time, but is only a temporary fix. Finally, the UK has signed up to EU targets on renewable power and needs to substantially decarbonise the power sector during the coming decades if it is to get anywhere near its climate change target.

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We are far from the only country with ambitions to transform our energy system, so we are competing for...investment

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With these challenges in mind, the desire to make the UK more attractive to international investors lies at the heart of the Electricity Market Reform package, currently a draft Bill. The volume of investment needed in the coming years means that international capital has to be attracted into UK energy. We are far from the only country with ambitions to transform our energy system, so we are competing for that investment. If the policy environment can be made simpler and less risky, this investment will become cheaper; the cost of capital will be lower and this will feed through into consumer bills. Investors need a market environment that is simple, transparent and with enough longevity to allow large investments to be financed efficiently. A wholesale market that is driven by the vagaries of the gas price is too risky a prospect for capital-intensive investments like nuclear or renewables, even with a carbon price. Long run fixed price contracts remove that risk, but keep total costs down too. At least that's the theory behind the Bill.

The Bill has more than its share of faults, as the Energy and Climate Change Select Committee (ECCC) noted in its scrutiny. A few examples stand out. Firstly, it will be essential to define



clearly who will be counterparty to the so-called 'Contracts for Difference' that will provide long-term contracts for low carbon power. The government first hinted that this would be a government entity but then came up with a complex 'multi-party' model that just about everybody found unworkable. Another problem is that independent developers might find it harder to enter the sector because the current plans may remove the incentive for large utilities to offer a power purchase contract to smaller players. Finally, although the Bill is not financed through public spending, many of its provisions are subject to Treasury spending rules. The industry worries that Treasury caps will undermine the investment security that the Bill is seeking to create.

Industry and investors care greatly about the detail in the Bill, but they care at least as much about the political issues that are not part of the Bill. The debate has shifted since the summer of 2011, when the government had just unveiled its White Paper and summer 2012, when the Bill was scrutinised by the ECCC. Both years I helped the ECCC with its analysis, and had the benefit of reading and listening to evidence from innumerable experts, industry spokespeople, NGOs and others. I also had graduate students researching industry views of the risks of investing in energy in Britain.

In 2011, industry was keen to stress that other risks mattered as much as policy ones. Notably, this included the technical and construction risks associated with offshore wind farms, carbon capture and new nuclear. In 2012, things have changed. Technical concerns are overlaid with rising concern about the political mood music. Force majeure of a political

nature deeply unsettles boardrooms and puts off smaller companies. The perception is that political commitment to low carbon investment is wavering. This undermines the whole market reform enterprise. Attempts to reduce risks (hence prices) will come to nothing if investors must price political risks into their projects – assuming they invest at all. We need international capital and commitment from a variety of project partners. We also need smaller UK based companies to move into the supply chain, for example in components for offshore wind farms.

In all cases, the appearance of a government that is divided and prone to backsliding discourages investment. The green sector is one of the few parts of the economy that is growing. The last thing a sector committing to multi-billion pound projects needs is the perception that political cohesion around the need for crucial new, low-carbon infrastructure is breaking down.

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# A Very Civil Compromise



**Ben Harris-Quinney**

Perhaps the greatest politician of our generation, Bill Clinton, began his Presidency with what many consider to be his most naive political mistake.

A new arrival on the most contested of hills, the Clintons swept into Washington as the great new reformers, the vanguard of the youthful 60s generation grown up, ready to instil their progressive vision into American politics and society.

Clinton made a campaign pledge to allow homosexuals to openly serve in the US Military, and when pressed on the issue following his election by an errant journalist, he stubbornly insisted that he and his administration would make the issue a policy priority in his first term.

The resulting fallout from a divided Congress, Senate and Military was profound, and Clinton was faced with a rebellion from all sides, in and out of politics, that threatened to completely overturn his attempt to maintain the crucial laser focus of government on economic recovery. Clinton had overestimated his charm and ability to unite and garner the support of nation, and underestimated the strength of feeling among a predominantly socially conservative country over issues relating to homosexuality and society.

Despite the political capitol he lost in the process, and the resulting hounding he faced from social conservatives for the rest of his career, Clinton managed to use his considerable political skill to find his way out of the mire, and present a solution that both the homosexual community and American conservatives could accept.

For many "Don't Ask Don't Tell" represented the worst of Clinton's

disingenuity, a populist politician trying to keep everyone happy while truly satisfying no one, and this assessment is perhaps accurate in pure policy terms. From the perspective of the Clinton administration in the middle of the "gays in the military crisis" however, that he was able to find his way to a compromise and return the support he needed on economic reform to bring focus back to the most pressing and important issues was remarkably fortunate.

For David Cameron, clearly there are parallels to learn from Clinton. In Parliamentary terms Cameron's problems are far less severe than those that were faced by Clinton in the US Capitol. Even if relations with the Liberal Democrats decline to a confidence and supply arrangement, Cameron has the votes to pass gay marriage with all major Party leaders, and the Mayor of London, being supportive. In real terms however, his position is far more critical. It has been a surprise to all parties in the debate, just how evocative the issue of gay marriage has become, it has been a greater motivator, or de-motivator, among conservatives than even the perennial issue of Europe. "Gays in the military" could have severely hampered Clinton's ability to govern in his first term and achieve what he wanted to do with the economy, but despite its acute severity, it was never going to threaten to unseat him from office in the immediate term, his party remained largely supportive.

The Democratic Party is not, however, predominantly made up of conservatives, if Cameron passes gay marriage he faces dissent from within his own party that he may not have the political capitol to survive, and survive or not, though they may forgive the party, the grassroots membership would never forgive him for gay marriage.

Far more severe, is that both the Catholic Church and the Church of England have made their strong protests against state legislation for gay marriage abundantly clear. For the Church, if they don't stand up on issues of this moral and religious significance, they realise that they may as well fade away from all relevance in society. The Church of England's pledge to succeed from the United Kingdom in the event of the passing of gay marriage into law should terrify any Prime

Minister, especially one of Conservative, Christian and Monarchist doctrine.

Such has been the strength of his pledge to pass gay marriage, Cameron is therefore caught between the prospect of another humiliating u-turn, or a vitriolic mutiny boiling up from within the grassroots of the Conservative Party and the succession of the Church of England from the British State, triggering perhaps the most significant constitutional crisis for a century.

Anything faintly resembling Don't Ask Don't Tell would seem to be a gift for David Cameron at this point, only compromise can allow him move past the issue relatively unscathed.

Many have argued that gay marriage is an unnecessary policy in light of the 2004 Civil Partnership Act, but if equality is the aim Civil Partnership offers nothing other than further segregation. Civil Partnership is only open to same sex couples, other couples, if wishing to form a union before the state and community, have no other option but to marry. 2010 saw the first legal challenge to this ruling when a straight couple appealed for the right to unionise in civil partnership, it gave rise to the "Equal Love Campaign" led by Peter Tatchell to lobby for civil partnership to be extended to all. Marriage has always been a religious institution, whereas love and union of two people is of an entirely human foundation. Many atheists, and also those who wish to unionise in a purely platonic relationship, believe that they should have the same rights as same sex couples to join before the state alone, and enjoy the resultant legal and tax privileges without having to enter into the formal traditional institution of marriage.

Opening Civil Partnership to all citizens would present a clear choice between religious marriage and civil partnership with equal legal rights bestowed by the state for each union. It is a compromise that, in light of the alternative extended vitriolic social and political battle, would be unlikely to face significant opposition in or out of Parliament. It might also just be enough for David Cameron to get the chance of going down in history alongside Bill Clinton as his party's "comeback kid".

*Ben Harris-Quinney is Chairman of the Bow Group*



# Harnessing housing associations will make localism a success



Caroline Julian

Without intermediaries, localism will fail. Whilst many communities across the country are eager to receive assets, group-purchase and form a neighbourhood plan, some are not and will likely miss out. Some neighbourhoods and community groups are not yet geared up to play such an active role, whether due to lack of resources, capacity, or simply not having the right connections. But this doesn't mean that it is an opportunity missed. To the contrary, there is much untapped potential for local intermediaries to deliver the radical localism that the agenda clearly needs.

Among them are housing associations. With stock often geographically concentrated in certain neighbourhoods, and with the resources to fuel good business, housing associations are uniquely placed to play this role. They already contribute an annual investment of almost £746.5 million to community and neighbourhood activities, made up of almost £529.5 million of their own money and £217 million secured from other sources. They hold an established relationship not only with their tenants, but also the wider community, and are fully aware of other services and partners with whom

they might work. Housing associations are also embedded within communities and often maintain a level of trust and sustainability in economically challenging times. With the right partners, they are in a good position to act as guarantors, enablers, investors, capacity builders and facilitators.

It is imperative that government policy recognises this role. The drive for localism reflects an urgent need to open up the possibility of widespread ownership and deliver greater power to the community. The agenda ultimately holds huge potential to cultivate a society of active producers and entrepreneurs, rather than passive individual recipients of what the state and the market alone have to offer. But it is in danger of falling prey to a number of common pitfalls. First, localism can often remain at the level of consultation, failing to truly empower a more participative and asset-driven social economy.

A second challenge will be in circumventing the danger of exclusivism – local initiatives driven forward by serial activists and entrepreneurs, particular groups or minorities – without regard for residents who are less likely to engage. Successful localism should embrace and mediate diversity, whilst also communicating and working toward a local 'common good'.

Third, localism could paradoxically incur a form of quasi-centralisation – a local consolidation of power analogous to the mechanics of Whitehall. Initiatives to have come into effect following the Localism Act, such as community budgeting and the right to challenge will begin to defend against such concerns, but it is becoming increasingly evident, through the early stages of the pilots, that these initiatives demand even more by way of community anchors and intermediaries to achieve the greatest accountability. A great culture change is needed across many local authorities

and their connected services to enable the distribution of such power to the direct beneficiaries and their neighbourhoods, for communities in turn to proactively shape and deliver them from the bottom up.

Housing associations, with and among other partners and intermediaries, can defend against the perils of unsuccessful localism. Appealing and responding to the wider neighbourhood, rather than tenants alone, will be of vital importance for its long-term success. Housing associations can be great vehicles for community ambition by acting not necessarily as leaders, but as investors, enablers and capacity builders to achieve such goals.

Although housing associations have delivered neighbourhood services for many decades, new ambitious community-driven initiatives are beginning to emerge across the country. In response to a reorganisation of local government in 2009, Chester and District Housing Trust, now merged with Cosmopolitan Housing, have worked closely with Cheshire West and Chester Council in the development of a unique community-led partnership company, Avenue Services, in order to deliver to local needs. The pooling and reorganisation of their services and local assets, all based in Blacon, enabled the housing association to take a whole community approach to their activity, which became, as a result, far more concentrated and embedded into the social fabric of the locality.

Furthermore, the fruitful partnership with the local authority and residents has inspired plans for a multiple asset transfer in order to place the company and its services into the community's hands. Although a future ambition, the housing association and local authority are presently acting as key intermediaries and on behalf of the community, through the development of a successful business model,



ensuring that the asset is profitable. They are doing this through the engagement of nearby residents in order to establish strong relationships and encourage greater participation. Without such partners, processes of accountability cannot be transformed into real community ownership and empowerment.

## Housing associations, with and among other partners and intermediaries, can defend against the perils of an unsuccessful localism

Such ambition must be reflected effectively at the level of government policy, which means, first, that housing policy must move beyond a purely tenant-focussed and development-driven model. The Tenant Empowerment Programme, for instance, begins to stimulate and prompt a more participative social economy, but falls shy of engaging the wider community at a much deeper

level – a level where meaningful engagement and the possibility of ownership and power is open to some of our most deprived neighbourhoods.

It means, secondly, that the potential role of housing associations in localism must be made clear across a spectrum of policy agendas. The Avenue Services initiative and plans for the multiple asset transfer have faced a number of barriers, namely through various procurement procedures that have prevented an earlier and more successful engagement with the community. It is now a matter of oiling the wheels, both within and outside the traditional remit of housing policy.

For the sector itself, localism poses a great challenge. There is a growing recognition emerging from many housing associations that their drive to invest in local social outcomes must become central to their way of conducting business – offering far more than a roof over people's heads. We have this year seen the enactment of Chris White MP's Public Services (Social Value) Bill, which effectively calls all public bodies, including housing associations, to consider how the services they commission and procure might improve the economic,

social and environmental well-being of the area. Some housing associations have completely reorganised and rebranded themselves in recent years to reflect this role. Plus Dane Group, now branded as a 'Neighbourhood Investor', is a leading example of how social value can become the very fabric of its business, ensuring importantly that such concerns are not to be considered a tokenistic add-on to present practice.

As we approach the one-year anniversary of the Localism Act, the Government must assess the risks to an unsuccessful localism and review their strategic partners. For localism to truly deliver to our most deprived and disengaged communities, the agenda must crucially engage with such embedded institutions. And such institutions must also be up for the challenge.

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# An Immigration Policy



**Priti Patel MP**

Immigration has consistently proven to be one of the subjects of most interest and concern to the British public. Indeed, at the last General Election it was one of the most common issues I encountered on the doorsteps of Witham, as the public recognised the scale of the problems caused by Labour's 'open door' policy and the need to address these failings.

Research published by the Migration Observatory at the University of Oxford has shown that 75% of the population favour immigration being reduced by a little or a lot. This research also shows that 49% of foreign-born UK residents would prefer to see immigration numbers reduced too.

While the British public has been acutely aware of the problems that a subsequent increase in population can cause over the last decade, the political establishment, obsessed with political correctness, has turned a blind eye. This has resulted in the electorate losing confidence in politicians and this will not be restored until the public sees real progress in reducing the number of immigrants coming to settle in the

United Kingdom. With a substantial majority of people living in Britain supporting new restrictions on immigration and better methods of immigration control, there can be no excuses for inertia in this policy area.

Despite some welcome measures implemented by Ministers since 2010, the public will remain sceptical about the intention of politicians unless Conservatives demonstrate that they understand the extent to which immigration is unsettling the public and the future challenges it can pose. The evidence is there and we should be using it to support our policies.

Since the 1990s, half of the total increase in this country's population came as a result of net migration. With net migration causing an additional 2.4 million people to live in Britain, population projections are now being continually revised upwards. Over the next quarter of a century, two-thirds of all population growth will be attributable to net migration and the descendants of those immigrants. The current projection for UK population size in 2031 is 11 million higher

than the projection made in 1994, with most of this increase accounted for by the affects of immigration. Without any additional net migration, the UK population is likely to reach 65.7 million in the 2030s. Once net migration is included, the Office of National Statistics projects the UK population to reach between 71 and 75 million by 2035.

Britain is not equipped to deal with such levels of net migration and the last Government completely failed to give any consideration to the overall effects of such increases upon the country. As the economy struggles to grow, Britain will find it difficult to accommodate population increases from those already living in Britain. We have a serious housing shortage with close to 2 million households already on housing waiting lists, our roads are congested and such increases have serious implications for the demand for school places and health care provision.

**It is a damning indictment of the system left behind by Labour that most of the 11,000 foreign national offenders serving time in our prisons are unlikely to be deported**

As well as cutting net migration numbers, the other serious challenge Conservatives must meet is to reform the immigration system so that it effectively manages migration, protects our borders, prevents illegal immigrants from entering Britain and promptly removes those who have overstayed their welcome. In government, Conservatives have laid down a strong statement of intent to do this. The decision to revoke the highly trusted status for the London Metropolitan

University to sponsor foreign students, as they failed to maintain robust checks on students registered at that institution, was the right course of action. Conservatives are also tackling the disgraceful legacy at the UK Border Agency and the backlog of immigration cases left by Labour. However, where Conservatives must also make a real difference and boost public confidence is in the reform of removals policy. High profile cases where judges, human rights laws and EU rules are holding us back from repatriating immigrants who should not be in Britain cause public outrage. We are all astonished to see the likes of Abu Qatada remaining in Britain as Europe overrules the wishes of Ministers and our own domestic courts. Foreign criminals like Somali ,Abdisamad Sufi, who has a string of convictions for burglary, fraud, threats to kill and indecent exposure should not be released onto our streets to reoffend by European judges. They should instead be placed on the first plane out of Britain.

It is a damning indictment of the system left behind by Labour that most of the 11,000 foreign national offenders serving time in our prisons are unlikely to be deported. As around 4,000 foreign national prisoners are European EU rules make it almost impossible to deport them, while criminals from other countries will find any

excuse based on human rights considerations to remain in this country. So it is not surprising to see that the numbers being removed are falling. In 2011/12, 4,501 foreign national offenders were removed from the UK, as compared to 5,367 in 2010/11, while just 32 were repatriated during their prison sentence to serve the rest of their prison term in their own country.

It makes a complete mockery of our immigration laws that Ministers are constantly blocked from deporting these foreign national offenders, terrorists and other immigrants that should not be in Britain. This is why the Conservative Party must now show vigour and determination to reform these laws, remove the barriers to deporting illegal immigrants and scrap the Human Rights Act. If the Party can successfully follow this course of action and show the public that it has been bold and effective with its reforms to the immigration system, we can be confident at the next General Election that the public will trust us on immigration.

*Priti Patel is the Member of Parliament for Witham*





# Bringing swiftness and certainty to community supervision of drug-involved criminal offenders



Keith Humphreys

In a recent governmental white paper and accompanying Telegraph editorial, former Policing and Justice Minister, Nick Herbert, quite commendably pledged to enhance the swiftness and certainty of justice in the system he oversaw. Such a change would be a condign remedy for drug-fueled crime, most particularly when the drug in question is alcohol, and it will be interesting to see whether his successor, Damian Green, will take the same approach.

The role of drug consumption in criminal offending is hard to overstate. The British Crime Survey recorded one million assaults by alcohol-intoxicated assailants in England and Wales in the past year, and the majority of arrestees in the UK report having a drinking problem. The Home Office places the total cost of alcohol-related crime and social disorder at £8-13 million per annum, a mighty sum that nonetheless does not include the cost in freedom and life satisfaction to the many citizens who no longer feel safe visiting booze-sodden town centres on weekend evenings. Consumption of cocaine, heroin and the like have a smaller role in crime than does drinking. Nonetheless, about a fifth of arrestees use one or both of these drugs and heroin-addicted offenders account for at least a plurality of acquisitive property crime.

The two most-commonly proposed policy solutions for drug-fueled crime are alike only in being wrong. The hard-edged approach, whether borne of anger, fear or frustration, is to bang up as many intoxicated offenders as possible. Politicians who adopt this stance rarely suffer at the ballot box, but in policy terms they're on a hiding to nothing. The prison system is already financially costly and filled to capacity, and even were it expanded there is no evidence that the threat or even the actuality of a stint in prison causes many drug-involved offenders to change their behaviour.

The soft-hearted, equally misguided, policy alternative is to attack the problem by offering addiction treatment to all drug-using offenders. Addiction treatment is a critical part of the health care system and does indeed reduce criminal offences by those who seek it out. But few offenders present for treatment on a

voluntary basis, and when magistrates order them to it en masse (as have unsuccessful programmes in the UK and in California) most offenders either don't show up or nod gamely through a counselling session or two and then return to drug use.

In light of these limits on what the prison or health care system can achieve, policy nihilism about drug-fueled crime has become common. But here is where Herbert's call for swiftness and certainty could be transformative: A new generation of community supervision systems that conduct regular testing for substance use coupled with swift and certain sanctions substantially reduce substance use, crime and imprisonment.

To understand what these innovative programmes offer, it is necessary to have a sense of the state of community supervision practice in the criminal justice system. In typical offender supervision programmes, breathalysers and urinalysis tests are used infrequently and the response to evidence of substance use is unpredictable and delayed. Offenders learn quickly that being caught consuming drugs is unlikely and when it happens at most a verbal admonishment or the threat of a possible trial at some far off date is the modal consequence. They therefore continue using drugs and committing crimes until they do something sufficiently heinous that the justice system can't ignore it, at which point they are sent away to prison. The late, eminent criminologist James Q. Wilson parodied this sort of dysfunction by likening the criminal justice system to an ineffectual parent who tells a child "If you don't clean up your room tonight, there is a 40% chance that 12 months from now I will ground you for a decade!".

Emergent swift and certain community supervision programmes are a complete break from this sorry tradition. Such programmes have grown up in many parts of the U.S., with the most researched examples originating in Hawaii (HOPE Probation) and South Dakota (24/7 Sobriety). Programme staff test offenders for drug use regularly, as frequently as twice a day if alcohol is the drug of concern. Those offenders who miss a test or have a positive

drug test are tried in court the same day. The court hands down an immediate, modest sanction (typically a night or two in the local gaol) every single time.

Faced for the first time in their criminal career (and perhaps in some cases, in their life) with a transparent, predictable system of immediate consequences, most drug-using offenders dramatically change their behaviour. In a year-long randomized trial of HOPE probation versus typical community supervision, metamfetamine offenders randomly assigned to swift and certain probation had 72% fewer positive drug tests and a 53% lower risk of serving a term in prison ("prison" in this context meaning not the local gaol for low-level offenders but a high-security state facility in which murderers, rapists and other serious offenders serve multi-year terms). The latter datum underscores a lesson often lost on those who want an extremely forgiving criminal justice system: The consistent application of a modest sanction early on lessened rather than increased the likelihood of a much more punitive consequence down the road (i.e., a stiffish prison sentence).

Swift and certain supervision is also effective for offenders whose drug of choice is alcohol. The South Dakota "24/7 sobriety" programme has subjected repeat drink drivers collectively to over four million breathalyser tests, of which an astonishing 99.4% have been negative. Once among the leaders in alcohol-involved automotive fatalities, South Dakota now ranks somewhat better on road safety than the U.S. average.

Human beings, in general, and drug-involved criminals, in particular, have difficulty forgoing immediate rewards for larger benefits that are probabilistic and distant

Importantly, professional treatment and other resources (e.g., Alcoholics Anonymous) are offered to all participants in swift and certain supervision programmes. But most offenders who stop using drugs do so without availing themselves of such support. The wisest course for the criminal justice system is therefore not to order drug-using offenders into treatment and hope that they change, but to order offenders to change and offer treatment for those who need it to meet that mandate.

The remarkable effectiveness of swift and certain community supervision programmes is easily understood after a moment's reflection on human psychology. Human beings, in general, and drug-involved criminals, in particular, have difficulty forgoing immediate rewards for larger benefits that are probabilistic and distant. Hence, the office worker who is not saving enough for retirement will treat herself to an expensive coffee drink each morning and the hardened smoker will enjoy his next drag even

though he is raising his long-term risk of cancer. Parents, teachers and faith leaders are among the noble socializing forces, which preach the value of not allowing transitory pleasures to override long-term goals. But by the time an adult is under the supervision of the criminal justice system, it's a bit late for a sermon, and the short-term orientation of drug-using offenders must be taken as read. That's what swift and certain community supervision programmes recognise, which is why they yield such impressive gains in an area where so many other well-intended efforts fail miserably.

With the passage of the Legal Aid, Sentencing and Punishment of Offenders Act on May 1, the legal tools to implement swift and certain community supervision of drug-using offenders are now in the hands of British magistrates and police. If the criminal justice system implements these programmes with integrity, the country will reap handsome rewards in community safety, public cost reduction and rehabilitation of criminal offenders.

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# Reflections on Scottish Seperatism



Henry Hill

When it comes to safeguarding the continued existence of the United Kingdom, defeating the nationalists in 2014 is just the beginning. In and of itself, a victory for the Better Together campaign merely stalls the nationalists, and it will only translate into forward momentum for unionists if we seize the opportunity presented by victory.

In my view, our devolution policy should

have the following broad aims: safeguarding the union, stabilising the constitution and balancing Scotland's political situation so that electing Conservatives makes sense. All these blur into each other somewhat, but I'll try to address them in turn.

Our first aim must be to ensure that the legitimacy of Westminster politics north of the border is maintained. There is a continued

attempt by separatists to act as if the Scottish Parliament has a superior mandate to the British Parliament on reserved matters, which it does not. We must be willing to use the fact that constitutional matters are a reserved matter to buttress the Union.

In this, we have lessons to learn from the Canadian struggle against Quebecois 'sovereignism' in the Nineties. The 1995 independence referendum in Quebec, which the federalists won by the tiny margin of 0.58%, was based on a 42-word question that was a masterpiece of obscurantist vagueness. In order to prevent this happening again, the Liberal government passed the Clarity Act. This stipulates that:

- The Canadian House of Commons had the power to decide whether or not a proposed referendum question could be considered clear.
- That any referendum that did not solely ask about secession was automatically deemed unclear.
- That Parliament could decide post-referendum whether or not the result could be considered a clear endorsement of secession.
- That the Commons could override any referendum deemed to have contravened the prescriptions of the Clarity Act.

Naturally, circumstances in the UK are not identical to Canada and such a bill would need to be adapted to suit local circumstances. Yet given that the constitution is reserved to the Westminster Parliament, I can see no reason, in principle, why we should not bring forward legislation to ensure that any referendum that might break up our country is straightforward and decisive.

The legitimacy of Westminster is also vital to preserving the Union in fact, as well as in name. I can't help but feel that certain devo-max proposals amount to disguising the end of the Union. If there is no common political dialogue across the whole of the country, eventually the 'Union' withers into a skeletal constitutional superstructure balanced precariously upon four increasingly divergent constituent nations.

As our party has realised in regard to Northern Ireland, Scotland can only play a meaningful role in the UK if the UK plays a meaningful role in Scotland. Otherwise, we are left

with the stark iniquities of the West Lothian Question. Thus we must defend the role of reserved matters and Westminster legislation in Scottish politics, whilst trying to balance that with the presence of the Scottish Parliament.

This leads to my second point about stabilising the constitutional settlement. Whatever one's personal stance regarding the rightness of independence, devolution or integrationist unionism, it is hard to deny that the development of devolution has been a bit of a mess. Intended by a largely reluctant Labour party to be a one-time deal to lock the Conservatives in England and appease the various nationalist parties, the consequent parliaments and assemblies have acquired lives of their own. Unionism has yet to come up with a reasoned response to this development.

If the UK is to survive, the continual flow of powers away from Westminster has to stop at some point. It should not be the case that each devolved settlement survives until an SNP government comes to power in Holyrood and demands a new one. As unionists we need to sit down and work out where the 'end point' of devolution should be, and what is the best distribution of powers between national, devolved and local government.

Where that point lies is for the party to decide, but until we come to that conclusion we will never have the intellectual strength to combat the endless cry of 'more powers' without being cast as simply die-hard integrationist reactionaries. We should then seek to enact our 'end point' and gird it round with legislation, from both Edinburgh and London, to make future challenges to the constitution harder to mount.

Part of this balancing act has to involve some solution to the West Lothian Question, to which there are sadly no easy answers. An English Parliament makes sense on nationalist grounds, but delivers no meaningful devolution to most of England and poses a dire threat to the continued existence of the UK due to the risk of making Westminster permanently irrelevant.

Regional assemblies offer meaningful devolution to the regions, but risk either cutting less prosperous parts of the country off from funds generated in the South or allowing spendthrift politicians to simply



distribute money levied in taxes on other parts of the country, creating the sort disconnect between raising taxes and public spending that we have seen – for different reasons – in Scotland. Excluding non-English MPs from bills that only effect England – a sort of English Grand Committee – risks making those excluded MPs seem increasingly irrelevant, but might highlight the importance of maintaining significant areas of pan-UK politics.

Finally, within the context of a meaningful role for Westminster, we must try to ensure that the devolved powers of the Scottish Parliament are sufficiently broad for voting Conservative to make sense. Scottish elections are at present battles between two social democratic parties, with the SNP sucking up most of the anti-Labour, putatively centre-right vote.

In economics, as in all other areas, the task of the Conservative and Unionist Party must be to vest the Scottish Parliament with sufficient powers to make a party of fiscal responsibility attractive to the Scottish electorate without jeopardising the economic, political and social integrity of the United Kingdom. It isn't an easy task, but if it were we would have done it by now.

*Henry CH Hill is a top-ten Conservative blogger and editor of the non-party website, Open Unionism*





# Growth policies for the 'real' economy



Adam Marshall

All too often, political manifestos are a careful balance of partisan priorities and undeliverable promises. In recent years, parties across the spectrum have spectacularly failed to use these documents to set out a vision for what the Britain of the future could achieve – instead succumbing to the irresistible temptation of short-term electioneering.

Our political class often fails to recognise the fact that modern Britain is locked in a battle for growth, and we have serious competition. Those who believe that we have the luxury of time to debate growth policy solutions, whether on these pages or elsewhere, cannot have appreciated the hunger and ambition visible in emerging economies across the world. Exporters up and down the country return home struck by the co-ordinated growth drives they've seen overseas – and frustrated by the lack of concerted action here at home.

We have extraordinary potential as a global trading nation

We have extraordinary potential as a global trading nation, from primary production and manufacturing to knowledge-based services, the creative industries, and beyond. Chambers of Commerce sit at the front line of international trade, and assist many thousands of businesses who are exporting for the first time, growing into new markets, and delivering investment and jobs. Yet these companies cannot do it alone.

More needs to be done so that the economy as a whole can move from a vicious to a virtuous cycle. If we want UK businesses to achieve their full global potential, the UK government must play its part, both by ensuring a favourable business environment and by addressing some of the market failures that currently hold back business growth.

## A business environment we can be proud of

Our companies' success around the globe depends on a high-quality business environment here at home. Businesses that cannot get the premises they require to house their operations, hire new employees, or get their goods to market will not be globally competitive over the medium-to-long term. To that end, the British Chambers of Commerce makes the following recommendations:

**Incentivise business investment:** many exporting companies are still reeling from the drastic scaling-back of the Annual Investment Allowance, which allowed companies to write off £100,000 in plant and machinery against their tax bill. Given increased global uncertainty, there is a case not just to restore the old limits, but to go further – and create a 'when it's gone, it's gone' £1bn Special Capital Allowance Scheme through 2013/14 to incentivise investment, particularly by medium-sized companies. Each company could access an allowance of up to £1m. This will help to release

some of the £750bn currently held on business balance sheets, bring forward delayed investment projects, and create knock-on effects throughout business supply chains.

**Unblock private-sector investment in airport capacity:** BCC research shows that Britain's export potential depends on good global connections, both for business travellers and for air freight. For all the wrong reasons, Britain has spent decades dithering on airport capacity while other nations have taken action. We now need to urgently upgrade capacity in the South East of England, starting with Heathrow, so that our export champions can get the links they need into new and growing overseas markets. At the same time, we can and should support the aspirations of our larger regional airports to develop new routes across the Atlantic and to the Middle East and Asia. The best part of this is that the bill will be footed by the airport operators – if ministers were bold enough to remove the regulatory barriers standing in the way.

**Increase transport, energy and digital infrastructure investment:** like so many governments before it, the Coalition is trying to balance the books by slashing capital investment – while current expenditure continues to grow unchecked. This balance must be redressed. A bold government would make truly difficult decisions, reallocating resources from 'nice to have' but non-essential programmes toward investment in our roads, railways, energy grid, and business broadband services.

**Make planning truly business-friendly:** It is madness that a UK business with plans to export should be prevented from expanding its facilities, whether due to bureaucracy, cost, the threat of judicial review, or simply because it is located next to scrub land that is officially designated as green belt. It also beggars belief that office rents in our provincial

cities are often higher than those in midtown Manhattan. Ministers should encourage selective use of greenbelt land for business and housing growth; classify more business expansion projects as permitted development, thereby removing the need for planning permission; and follow through on their pledge to create a 'presumption in favour' of all reasonable developments.

**Offer Growth Vouchers, not business support:** According to Business Link, there are currently over 900 different business support schemes in the UK. Despite efforts by both Labour and Coalition governments at streamlining this, ministers still fall for the irresistible lure of introducing their own penny-packet grant schemes. Grant-based government schemes should be swept up into a single pot, with high-potential companies awarded 'growth vouchers' to procure advice and specialist support on exporting and growth from either the private or public sector. This way, the market will better deliver the sort of support businesses actually want, rather than give them what Whitehall has arbitrarily decided they need. The Treasury will howl about the supposed deadweight costs of such a scheme. I fail to see the argument – given that we have been carrying huge amounts of bureaucratic deadweight around with several decades' worth of business support schemes already.

**Implement a moratorium on new regulation:** Not a month goes by without a proposal for a new 'right to request', or for a new and eye-catching change to business regulation. For politicians and civil servants, such 'rights' make great, low-cost legislation – because they get electoral benefits without having to either see or experience the burdens that these proposals create. For exporting companies, the new burdens created by the Bribery Act, the UK interpretation of the Agency Workers' Directive, and many others weigh on their ability to do business overseas. And it's not just the compliance burden holding UK businesses back. It's also the constant change to the regulatory system. A bold manifesto would commit to a five-year moratorium on new domestic regulation, with exceptions only in the case of a serious and unpredictable change in business conditions. It would also commit to a true end to the UK's onerous practice of gold-plating EU legislation – a practice which

often makes the legislation far more burdensome than intended by Brussels.

**Make skills and 'people' policies more demand-led:** Too many businesses still tell Chambers of Commerce that they have a hard time finding the recruits they need. Many experienced businesspeople despair at the quality of school-leavers and even graduates, many of whom lack 'work readiness' skills. Our view is to empower the employer by challenging them to set the direction and budgets for training, rather than depend on what the system churns out. This approach should build on the innovative 'Employer Ownership' pilots being tested by the UK Commission for Employment and Skills, where businesses get the chance to design the future skills training they require.

### Supporting access to finance with a British Business Bank

If there's one thing that economists of both the Left and the Right agree on, it's that governments can and should intervene in cases of market failure. Here in Britain, there's one in particular holding back both potential exporters and fast-growth companies: access to finance.

So if our political class truly wants to be bold on growth, it should create a British Business Bank. Together with a major programme of infrastructure investment, a business bank would be the cornerstone of an economy that is more sustainable, more dynamic, and more competitive than the Britain of today.

The case for a business bank grows clearer with each passing day. Although many companies say their order books are full and that they need financing in order to fulfil customers' requests, the overall stock of lending to small- and medium-sized companies continues to shrink. Companies that are less than five years old, often at the point of a major growth spurt or a new export drive, are more likely to have loan applications declined. Independent inquiries show there is real 'discouraged demand' amongst businesses who are keen to expand, as well as a hunger for export financing and trade credit insurance that is not presently satisfied by the market. The bottom line of all this is that relationships and trust between lenders and businesses, damaged at the start of the financial crisis, will take years if not

decades to repair.

Many of the access-to-finance schemes catalysed by Government also have serious defects. They are piecemeal, poorly-implemented, and poorly-communicated. In part, this is due to the fact that they rely on the infrastructure of the existing high-street banks, rather than application and credit assessment facilities of their own.

When you look across the globe, you find many successful countries where a business bank and a strong commitment to free enterprise and capitalism go hand-in-hand. If a business bank is good enough for the USA, for South Korea, and for our oft-mentioned neighbours in Germany, why not here in the UK? One can only surmise that a lack of will, rather than a lack of capability, that is holding Britain back from creating a business bank of its own.

### Conclusions

Building a better Britain over the coming years will take more than the usual laundry list of promises wrapped up in a political party's colours. Instead, it requires an unwavering commitment to the creation of a business environment that's unparalleled elsewhere in the developed world. This goal requires tough decision-making, flinty resolve, and above all, a pragmatic approach.

The orthodoxies of supply-side and demand-side mean little to companies in the real economy – or indeed to the wider electorate. Voters and businesses will reward politicians who act in the long-term national interest, and who privilege pragmatic action over political dogma. The question is whether any in the political class are brave enough to take the big and difficult decisions required for sustainable, long-term growth.

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# Managing the recovery: the political economy of the 1930s as a guide to action



Chris Godden

Historical comparisons rarely provide a blueprint for immediate policy strategies. Instead, we should use such comparisons as an opportunity to explore a range of perspectives. Given current debates surround structural budget deficits and economic stagnation, what perspectives can be derived from the economic history of Britain in the 1930s?

We must begin by appreciating that Britain's gradual economic recovery during this decade was not brought about by an expansion of exports or the automatic reaction of the business cycle. It is true that the impact of the 1929/33 depression was less severe in Britain (in terms of economic output, social conditions, and political ramifications) than in either the United States or Germany. Yet to argue that Britain in the 1930s experienced export-led recovery, or benefited from the nature rhythm of capitalism, will not hold. Once we appreciate this point, we are automatically led to consider the domestic policy initiatives of the National Government.

A number of historical facts were bandied around the media in May 2010 – David Cameron was the youngest Prime Minister since Lord Liverpool in 1812, Britain had the first coalition government in over seventy years, and so on. It was also – although less widely – reported that if politicians and commentators wish to use the past to illuminate the course of on-going events, they should turn their attention to the formation and policies of the National Government of the 1930s. It was this 'government of co-operation', formed in the midst of political and financial crisis, that transformed the structure of British politics, demonstrated that the nation was determined in tackling her financial difficulties, and, perhaps more importantly, assisted her recovery from an economic slump.

In the brief outline that follows, I will focus on:

- the macroeconomic policies of the National Government
- the importance of large-scale industrial and social investment schemes
- the strength of public commitment to the policies of the National Government

The key macroeconomic policies of the National Government centred on (1) managed exchange rates, (2) protectionism, and (3) cheap interest rates. The speed with which points (1) and (2)

were introduced in late 1931/early 1932 (Britain, we should remember, abandoned the gold standard in September 1931) makes it difficult to establish their individual significance. One obvious line of argument suggests that the recovery of industrial output arose from the impact of a general tariff and the short-term effects of exchange depreciation. However, the case for both as the major engine of growth after 1932 remains unconvincing.

Examining point (3) leads us to recognise that the 1930s was the decade of 'cheap money'. Domestic monetary policy was released from the external constraints that had applied following the restoration of the gold standard in 1925, and the Bank Rate was reduced in 1932 to 2 per cent (a level at which it remained until the outbreak of war). The decade of 'cheap money' helped supported some recovery in Britain's industrial and commercial sectors, although the claim that private-sector industrial expansion – centred around the famous 'new industries' – explains the speed and extent of recovery in the 1930s is not supported by historical research. However, as a consequence of 'cheap money', expenditure on housing increased significantly between 1932 and 1934, and the housing boom was a noticeable feature of the British economy for the remainder of the decade. Turning to the present day, the role of the housing boom in the economic recovery of the 1930s clearly echoes on-going proposals aimed at boosting house building and removing unnecessary red tape across the planning system.

It is widely recognised that a large part of Britain's economic recovery in the late 1930s is attributable to the programme of rearmament after 1935. Defence expenditure was clearly a response to geopolitical factors rather than any conscious shift in economic policy. Nonetheless, recognition of the importance of this policy in supporting aggregate demand and assisting recovery offers insights into current policy. Put simply, the experiences of the 1930s make a strong case for recovery secured through large-scale changes in the pattern of industrial and social investment.

A central policy aim of the Coalition Government is deficit reduction over a specified period, with importance given to ensuring the credibility of this scheme in the financial markets. This argument suggests that the limits of budget orthodoxy must be retained in order to sustain market confidence. It is important to remember, however, that questions of market

The key macroeconomic policies of the National Government centred on (1) managed exchange rates, (2) protectionism, and (3) cheap interest rates.



credibility are gauged on two levels – the strength of the administration's commitment, and the strength of public commitment to such policy measures. Comparing the 1930s with the present day raises questions about this second point.

Any direct assault on wages has important economic and political consequences (we should not forget the events of 1926). Yet moves aimed at cutting public sector wages, included in the emergency budget of 1931, were not the cause of persistent public outcry. Indeed, the little known events of early January 1932 provide a wider perspective on these issues. The early weeks of 1932 saw an amazing spectacle, with thousands of tax-payers queuing in the streets to pay their income tax! These people were responding to government pleas that called upon the goodwill of the taxpayer to ensure prompt payment, and not to defer such payments until the final notice. The total receipts to the Exchequer during the first nine days of January 1932 increased by over 67 per cent compared with the same period for 1931. Although such prompt payments had little material

effect, it is impossible to ignore their dramatic psychological impact on both the national conscience and foreign investors' perceptions of Britain's financial policies. This was a case of public reaction supporting government measures rather than criticising them.

What impressions do we get from this brief outline of the economic history of the 1930s? Should we expect recovery today to be based around expanding private demand, increased exports, and the natural resilience of capitalism? Or tariffs and exchange depreciation? None of these appear to provide convincing expectations as the eventual engine of growth. Cheap money? This certainly contributed to the broad pattern of recovery in the 1930s, although its main impact was to be found in the construction sector rather than the expansion of the 'new industries'. However, an appreciation of several key events of this decade – including the public's commitment to government policies and increased defence expenditure – should lead policy makers to reflect on the political economy of current policy decisions. When it comes to managing the recovery, the experience of the 1930s

highlights three key issues:

- the scope for effective government measures in improving the performance of private enterprise
- the role of industrial and social investment in assisting economic recovery
- the importance of overt national unity in the face of economic uncertainty

The economic history of the 1930s does not provide an immediate policy prescription; yet it does provide insights into the political and economic context of policy decisions. The recovery plans of the Coalition Government are heavily predicated on the expansion of private demand. A similar hope lay at the heart of the policies of the National Government in the 1930s, yet this eventually gave ground to large-scale, policy induced measures.

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## Supporting self-build housing



**Ted Stevens**

**B**ritain desperately needs more homes – at least a million according to some commentators, if we are to avoid an entire generation of 30-somethings spending the rest of their lives living with their parents.

Britain also desperately needs jobs, and an economic stimulus to help get growth moving again. Most economic gurus accept that a major new housing programme would be the simplest

and most effective way of quickly delivering this.

Britain has an army of families who want to build their own homes. According to the Building Societies Association, 53 per cent of the population would like to build a home at some stage in their lives, and more than two million families would (ideally) like to do it during the next 12 months.

If we could match all this up in one clever solution, we could potentially solve the housing crisis, give people the homes they really want, create hundreds of thousands of jobs, and get UK plc on the road to recovery.

A huge self build programme would also mean we'd have more home owners (particularly among younger families on modest incomes), more low carbon homes (so fewer CO2 emissions), happier people (because they would be living in homes tailor made to their requirements), and we'd have encouraged greater innovation

and entrepreneurial skills from all those that took part.

The Coalition Government has already been supportive – with changes to encourage more self built homes included in the National Planning Policy Framework, and a £30m fund to help groups of self builders finance their projects. It has also identified some land for self builders. And the former Housing Minister, Grant Shapps, personally threw his weight behind promoting more self build.

For example, Shapps took a group of British property developers, local authorities and housing associations to Almere in The Netherlands to see how they do it there. He was amazed to find that building your own home is a totally commonplace way of getting a roof over your head in most other European countries. Indeed, about half of all homes in most other countries are built this way, whereas in the UK only around one in ten of all new homes are currently self built.

## While the measures taken to date are to be applauded they aren't significant enough to have a major impact on the UK's growth statistics

So how could we really accelerate the level of self building in the UK, without dipping further into the red?

**Build Now Pay Later.** There is already a scheme operating on this basis, but it's currently only aimed at the volume housebuilders. Under the present initiative big housebuilders can 'acquire' large tracts of land that the Government owns, and they only have to pay for the land once they have sold the homes they build on it.

So why couldn't a similar scheme be set up for individual self builders?

Any public agency that owns suitable land should be encouraged to dispose of it as individual building plots to self builders. The self builder could then construct their home, and, once its completed, they'd get a mortgage and pay back the cost of the land.

Imagine the impact this would have?

All over the UK would-be self builders would 'reserve' their sites and start to build their dream homes. And remember, although it's called 'self build' most of them don't build it themselves – they hire architects, contractors or an army of sub contractors to do the work for them – injecting tens of thousands of pounds into the local economy. They also spend about £50,000 per home on building materials - most of which will be bought from their local builders merchant.

A variation on this theme could be that some of the land might be 'rented' to self builders in the early years (to make the cost of the total home more affordable), and then the self builders could buy the plot later on.

Another thing to bear in mind is that an individual self builder will pay significantly more for a plot of land than a developer. One recent study suggested that a developer would pay, on average, about £50,000 per plot for a three bed home – where a self builder would pay nearer £80,000 for the same lump of land.

If all the 100,000 building plots that the Government has already identified to sell off were sold to self builders this could – in theory - generate an additional three billion pounds for the Treasury.

At present there are certain building works that qualify for planning permission – for example most domestic home extensions. If the Government really wants to reduce the red tape burden, this should be extended so that most one off homes automatically get planning permission (provided they comply with certain simple rules). Obviously you would still need to protect the Green Belt and other key parts of the landscape. But is there really a need to micro-manage every detail of every new home?

It takes months to get permission for a new house in the UK – and that all adds up to extra costs for the average self builder. In Almere they get permission to build in three and a half days. If they can do it there, why can't we do it here?

As an extension of this we should also be able to get automatic permission to convert redundant buildings to homes. Who wants to see a semi-derelict barn slowly crumble, or a run down office building stand empty for decades?

*Ted Stevens is the Chairman of the National Self Build Association (NaSBA), an organisation set up to represent the self-build industry to the Government*



# The global auction for high-skilled work: implications for economic policy



Phillip Brown



Hugh Lauder

As the recession has continued, so there has been a realisation that Britain cannot re-emerge as a land of prosperity without fundamental economic and social change. One expression of this realisation has been the recently published manifesto, Britannia Unchained, which calls for radical cultural change in the economic behaviour of workers. For reasons we shall give, we regard this as a simplistic response to a complex problem. Where

we are in agreement is in recognising that there is no return to 'business as usual' after the Great Recession. The Global Auction, which will threaten the higher tier of the middle class, cannot be addressed by cutting red tape and making it easier to hire and fire workers.

Our argument is based on extensive research investigating the global knowledge economy and in particular, whether Western policy assumptions about a world divided between Western 'head' and Eastern 'body' nations conformed to the worldviews of leading transnational companies and policy-makers in emerging economies such as China and India. Our conclusion is that we have entered a cut-price competition (reverse auction) for brainpower. At the same time that some occupational elites have been able to use their market power to hike-up their salaries, many others including many university graduates, confront a challenge to both their 'work' and 'market' situations.

### 1. The Globalisation of High Skills

By 2007, university enrolments around the world, had reached in excess of 140 million. This has led to a massive increase in the global supply of highly qualified workers, able to compete on price as well as knowledge. China now has many more students in higher education than the United States and is currently pursuing a 'talent strategy' with a target of increasing the numbers of graduates entering the labour market by an additional 10 million per annum between 2010-2020. Their graduates cost in wages up to a tenth of the price of graduates in the West.

### 2. The Quality–Cost Revolution

Companies have reported a rapid narrowing of the 'quality' gap between 'East and West', transforming the way they think about the global sourcing of high skilled work. The new competition is based on quality and cost. Although companies need a decent infrastructure (roads, communications), and supply of well educated and motivated workers, they are able to set up 'oasis operations' – high-tech factories, offices and research facilities – in low-spec locations.

In turn, this high skill, low cost model will squeeze the incomes of this and the next generation of graduates in countries like Britain. Added downward pressure comes from the ineluctable rise of computer routines that are increasingly being substituted for graduate workers.

### 3. The Rise of Digital Taylorism

The ability of companies to leverage new technologies to globally align and coordinate business activities has also brought to the fore a different agenda involving the standardization of functions and jobs within the service sector, including an increasing proportion of technical, managerial and professional roles.

Terms such as 'financial services factory' and 'industrialization' are being applied by leading consultancy companies to describe the transformation of the service sector. This suggests that if the twentieth century brought what can be described as mechanical Taylorism characterized by the Fordist production line, where the knowledge of craft workers was captured by management, codified and re-engineered in the shape of the moving assembly line, the twenty-first century is the age of digital Taylorism. This involves translating knowledge work into working knowledge through the extraction, codification and digitalization of knowledge into software prescripts that

can be transmitted and manipulated by others regardless of location.

This encourages the segmentation of 'knowledge' work so that 'permission to think' is granted to a small proportion of employees responsible for driving the business forward

### 4. The Global 'War for Talent'

In America and Britain the expansion of higher education has been associated with an increase in wage differentials. This is not only between university graduates and non-graduates but within the graduate workforce itself. Even within occupations requiring a college education, those at the top of the occupational pyramid receive a disproportionate share of rewards.

This argument is consistent with that of consultants from McKinsey's who popularized the idea of a 'war for talent'. Despite the dubious merits of this argument, virtually all those we spoke to in China, Korea, India and Singapore as well as the United States, Germany and Britain believed that they were in such a 'war', which was increasingly global. This war focussed on recruiting talent from a few elite universities in each country.

In our view there are two broad policy responses to the challenge posed by The Global Auction. The first is to embrace the race to the bottom by reducing the numbers of students attending university. The immediate problem with such an approach is that Britain does not have a high level of reasonably paid intermediate jobs, as in Germany, due to deindustrialisation. So those that may have gone to university would have to compete with the less skilled for low skilled jobs. This appears to be the implied policy direction of Britannia Unchained. The second policy response is to conclude that by itself the market cannot provide solutions to the lack of demand for graduate workers. The alternative, one embraced by most of the successful economies today, and particularly those in East Asia, is in the words of Robert Wade, to 'Govern the Market'. That is to develop industrial policies that will actively steer the British economy in such a way that it creates the demand for graduate level work.

If there is any doubt as to the necessity for such policies ask why British entrepreneurship has failed so dismally in the export market, when we consider that, until recently, UK exports of goods and services to the combined markets of China and India in 2009 totalled £12.3 billion, whereas exports to Ireland were almost double this total at £23.8 billion. If we compare the British performance

Until recently, UK exports of goods and services to the combined markets of China and India in 2009 totalled £12.3 billion, whereas exports to Ireland were almost double this total at £23.8 billion

with that of Germany then the nature of the problem becomes clear. A moment's reflection will tell us that this is not a problem about individuals and their incentives but institutional capacity building. When Siemens, Bosch or Daimler entered the Chinese market they did so with huge institutional resources. Britain does not have the capacity to mount such an export drive across a range of products. The focus of industrial policy, as it is in many countries, should be on nurturing the capacity to grow our own multinational companies.

We do not underestimate the challenge creating sound industrial policy poses. We have a civil service and a political class who have assumed that the market alone will solve our fundamental economic problems. In talking to policy makers in countries that do operate successful industrial policies it is clear that it takes considerable time and experience to engage successfully in such policy making.

For the Conservative party and indeed for the whole apparatus of the Westminster Government, this would involve a sea change in attitudes to the market. But industrial policy is not inherently anti-Conservative. Not long ago we were talking to a policy maker involved in Germany's most recent industrial policy initiative, the cluster competition. His opening sentence was, 'we do not trust the market, we pick winners'. This is a policy developed by Angela Merkel's Christian Democrats.

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# A Policy Vision for Regeneration



Rory Shand

**A**mong the most ambitious of UK policy goals in recent years has been that of regeneration. The scope and aims of regeneration initiatives, in areas such as the large-scale Thames Gateway and Salford Quays projects, and numerous other city-wide regeneration programmes, have emphasised aims in areas such as housing, transport, health, green communal space and employment. Through these aims, regeneration projects have been seen as a means of solving wicked issues, enabling network or partnership delivery, and building a legacy in cities. The scale of such ambitions has been somewhat problematic in terms of achieving these goals.

Too often in the UK, the partnership or network of actors involved in governance has been too large and therefore unwieldy, with communication a problem among several agencies. The axing and merging of several of these types of agencies in 2010 brings other questions around how regeneration can be funded and delivered. Though regeneration is often spoken of as achieving legacy, rapid changes by successive administrations (the New Deal for Communities in 1998 to the Localism agenda) present potential problems in delivering legacy.

This piece sets out two examples of policy design in regeneration: firstly, in the UK, and in Germany. These cases illustrate how projects can be delivered working with a range of actors across sectors and, in doing so, how they might attract greater levels of funding from a more diverse range of sources, such as private sector actors given austerity measures, but maintain an emphasis on social, environmental and economic outcomes such as housing.

The funding and delivery of regeneration projects, certainly in the UK, has been driven by national and local government, through governance mechanisms such as agencies, RDAs

and UDCs. The Localism agenda and the emphasis on austerity mean that, in common with other policy areas, regeneration projects will need to be more creative in seeking funding from a range of sources. One solution to this might simply be a larger role for business in governance of regeneration initiatives. The role for other actors, however, is also crucial in achieving successful outcomes from regeneration. As the outcomes of regeneration projects often relate or overlap with notions of sustainability, these projects necessarily emphasise social and environmental, as well as economic, outcomes. Therefore, there is a need to engage with a group of actors outside as well as inside the business community.

In the UK, there are several examples of businesses engaged in governance networks and partnerships or with community groups, though much of the delivery and funding has been conducted by government, agencies or by business. In the Thames Gateway, The Barking Riverside project included funding of some £3.5 billion which was invested by Bellway Homes together with the Homes and Communities Agency (HCA) in the form of a new limited company, Barking Riverside Ltd ([www.barkingriverside.co.uk](http://www.barkingriverside.co.uk) 2010). This example shows that governance and private sector interests can work together effectively in delivering and funding regeneration, in an area near to (but not, as some other Boroughs were, specifically tied to) the 2012 London Olympics.

Following the Comprehensive Spending Review introduced by the coalition in October 2010 and the resultant scrapping of and merging of QUANGOs, the private companies involved in the delivery of regeneration projects, certainly in England, have been given greater scope for delivery, notably following the scrapping of the RDAs.

The community is the driving force

in the governance of regenerating the Social City, a national level German programme for regeneration. As the community is the 'leader' of governance, its role is to work with each of the actors in the region involved in the scheme to co-ordinate the needs of the specific area, in this case Marzahn in Berlin, in the Social City. Community groups work with government and business, and manage their specific area, by selecting which company will deliver projects as part of the regeneration strategy. Community or municipal actors do take the lead in driving the identification and financing of the projects in the locality, such as housing renewal in the case of Marzahn. The task of community actors is also to produce a single conversation between the actors in deciding who will deliver for example new housing or transport links.

In the UK, the Devonport Community Regeneration Partnership (DCRP) which was a key actor in Plymouth's regeneration was an excellent example of how street level engagement can impose positive outcomes in both project delivery and the more complex machinations of governance. While the area lacked an Urban Development Corporation (UDC) or an Urban Regeneration Company (URC) unlike other areas of renewal such as the South East, the DCRP engaged with a range of partners such as businesses, housing firms, PCTs and the HCA as well as the local level in Plymouth in delivery of projects. Until its abolition in May 2011, moreover, the DCRP

had been engaged in several projects—many of which were completed—in the Devonport area in relation to community, health, education and employment. Examples of these projects include improvement of CCTV; more police on the streets in the area; an inclusion for youth projects; and a stop smoking service ([www.drcpartnership.co.uk/projects](http://www.drcpartnership.co.uk/projects), 2011). The area's regeneration was then taken forward by the Devonport Regeneration Company, in partnership with the local level and private sector housing firms. Housing in regenerating Plymouth is once more the central focus of the renewal of North Prospect, like Devonport, illustrates the transition to governance by local partnership with private sector actors. The new housing in North Prospect is to be delivered by Plymouth Community Homes, the local authority, Barratt Homes and North Prospect Partnerships at a cost of £80m. A delivery vehicle such as these Regeneration Companies, if

they engage with the community as did DCRP, can provide the sort of conduit between community and business in managing and delivering sustainable regeneration as evidenced in the Social City programme, and with a smaller role for government as was the case previously. The Localism agenda would additionally support the notion of community management of regeneration projects; however further lessons drawn from the German case study show that there was a steering role played by both regional and national tiers of governance in funding and delivery.

These examples show that while there is a major role for both business and government in achieving successes in regeneration, the role of communities is equally important. Successes in regeneration programmes both in the UK and in other countries, with tangible delivery of goals such as housing, communal green areas, transport infrastructure or job creation need to engage with communities as

well as business in order to plan and achieve lasting regeneration. True partnership working with a clearer role for communities, as the one we have seen in Germany's Social City programme, demonstrate that the business community can engage with community groups to deliver lasting solutions in regeneration, increasing the opportunity to draw together actors through partnerships in delivery. The austerity measures mean funding is at a premium from government; however, the successful involvement of community and business in regeneration may ultimately mean a more sustainable and profitable relationship, and the realisation of policy goals in regeneration.

*Dr. Rory Shand is a Lecturer in Public Policy and Management at Plymouth Business School, focusing on Public Management and Public Policy*



## The role of market-led regeneration



Heather Wheeler MP

We all know that our economy is under immense stress. Despite the current Government's success in cutting the deficit by 25% so far, it is still at record levels, following 13 years of high public spending. It is clear that we need a new approach for development and growth for local communities, moving away from the previous over-reliance on public funding.

For me, regeneration needs to be focused on localism; on putting local communities first and incentivising them to improve the quality of their community and drive future growth. This approach focuses on having a decentralized market-led decision-making process, combined with support from the Government on key investments and infrastructure projects. We should work to remove bureaucratic and regulatory barriers to local growth, and increase incentives for cooperation.

Regeneration, is an essential element to building and sustaining a balanced economy, and must be left to local residents, businesses, civil society organization, and local authorities, not to central government. Why? Because, they possess the best amount of information to resolve local issues and develop a proper

Under the Labour Government regeneration became overly reliant on large-scale direct public sector investments

strategy that will help their community close the development gap.

Under the Labour Government regeneration became overly reliant on large-scale direct public sector investments, which not only created a culture of dependency on the public sector, but also discouraged private investment. The complexity of the planning system and slow bureaucratic decision-making, quite frankly, sent a message to local investors that it was too complicated and restrictive to invest. Councils could be legally implicated and lacked the freedom to work with others in order to drive down costs. The Portas Review showed that, with the increased development

of out-of-town shopping centres and online retailing, between 2000 and 2009, the number of town stores fell by 15,000. This coupled with the impressive number of applications by local towns to take part in the Portas Pilot, a scheme designed to regenerate high streets, shows that people are calling out for regeneration.

Labour's regeneration strategy had several limitations. Even though it brought some positive changes the results were rather modest, particularly compared to favourable growth conditions at the time. The funds weren't tailored towards local circumstances and priorities, and the approach was too top-down and too reliant on central direction from Whitehall. The needs of local residents were more often than not overlooked.

This is what the current Government is changing, focusing on the one hand on market-oriented solutions and decentralization, and on the other hand on inclusion of all local participants in the decision-making process. It is the local residents, neighbourhoods, communities, and local authorities which will be given a chance to come up with their own solutions to their own specific issues.

This approach should result in higher economic growth and greater civic participation, both in terms of higher social capital, stronger cooperative incentives, and servicing the specific needs of local residents based on fulfilling their individual preferences. Allowing local organisations to work to get Britain back on its feet again.

One of the crucial steps, the Government has taken to deliver this approach is the introduction of the new National Planning Policy Framework (NPPF). In addition to significant simplification of the framework (50 pages down from 1,300), it focuses on three interdependent dimensions of sustainable development; an economic role, a social role, and an environmental role. The creation of new homes and jobs, and the protection of the natural and historical environment will be under complete discretion of the local communities. It is a perfect combination of a market-oriented regeneration approach, and it simultaneously allows for sustainable development while preserving and protecting our land for this and the future generations.

Coupled with the reforms to the planning system, the Government has established Local Enterprise Partnerships where local communities and businesses support each other to achieve growth. Local businesses can also tap into the Regional Growth Fund which is aimed at supporting projects with significant potential to create long-term private sector-led growth. Another noteworthy initiative is the Tax Increment Financing scheme, which allows local authorities to fund infrastructure projects by borrowing against future increases in business rates.

Mixed market led policies can work. Back in 1996-2001, when I was Councillor on Derbyshire District Council, I worked on the successful 'Swadlincote Woodlands' urban regeneration project. This saw Swadlincote - the biggest town in my Constituency of South Derbyshire - be regenerated, with a grant of £3.34 million over five years, but achieved a return of some £26 million in private investment. This development supported a range of activities including: the creation of a urban country park; a business support programme; a youth information shop; a family literacy programme; and managed workspace units, showing that well planned and clever investment can bring significant returns to a local community without a huge handout from central Government.

Another development (as shown in the before and after photos) using purely private investment is the 'Pipeworks' in Swadlincote, a new retail development built on a brownfield site of an old glaze pipeworks (they made the sewerage pipes for the House of Lords). With free car parking this retail site has been a £20million development pumping money, jobs and a new cinema, following a 32 year hiatus, into the local South Derbyshire economy. To repeat, not a single penny of public money went into the regeneration of this site.

The emphasis of this Government is to provide a mix of a market-led regeneration based on decentralization, accompanied by Government support from things like the Regional Growth Fund or Tax Increment Financing. The decisions on which projects are to be advanced are left to local residents, while the Government's only role is to support it financially when needed.

*Heather Wheeler is the Member of Parliament for South Derbyshire and has 19 years' experience in Urban Regeneration Projects*





# A new route for HS2



**Mark Bostock**

The Coalition's proposal for HS2 – a new point-to-point high speed railway between London, Birmingham and the north – has received a great deal of media coverage. Among the issues scrutinized are the significant environmental impacts, its questionable business case, the rationale for 18 trains per hour (in each direction) travelling at an unprecedented 400kph, and the scheme's failure to properly connect either with Heathrow airport or Europe via Britain's first high-speed railway, HS1. I had the enormous privilege of delivering HS1 as Project Leader for ARUP.

HS2 is the subject of a number of legal challenges and, most recently,

the assumptions underpinning the business case have been criticised by Parliament's influential Public Accounts Committee.

In Opposition the Conservatives were right on HS2. Their authoritative 2009 Rail Review stated: "Good connections to major airports could significantly enhance the benefits of high speed rail. A Conservative Government will support proposals for a new Heathrow rail hub. This would link Heathrow terminals directly into the main rail network and the lines to Reading, Oxford, Bristol, Plymouth, Cardiff, Swansea, Cheltenham and Southampton, greatly improving public transport links to the airport." The 2010 Conservative manifesto further pledged: "Our goal is to make Heathrow Airport better, not bigger. We will stop a third runway and instead link Heathrow directly to our high speed rail network."

## Getting it right – there is still time

The Government has simply got HS2 wrong. I am in a unique position to write this as one of the architects of Britain's first high speed railway, connecting London with the Channel Tunnel. Nicholas Faith, in his book "The Right Line: The Politics, The

Planning and the Against-the-odds Gamble behind Britain's First High-Speed Railway", graphically details the saga. He related how the opportunity was only fully grasped by a lucky combination of two far-sighted politicians, from different parties and at different times, and 'a group of imaginative engineers'.

He describes this improbable trio – two Deputy Prime Ministers, Michael Heseltine and John Prescott, and Arup – saying 'without the involvement of these three at crucial moments, a completed rail line, and in the best place, would never have emerged from the primeval swamp of official muddle and ideological posturing.'

The success of what is now HS1 results from our adoption of what became known as the 'Kent Principles', which guided, from the earliest stage, our decisions in specifying the design standards and route for the railway. For example, in seeking an appropriate balance between speed, cost and environmental impact, we twinned the new line with motorway corridors wherever possible, minimised crossings of Areas of Outstanding Natural Beauty and tunnelled – below existing transport corridors – through urban areas. We also connected the high speed



rail line with the classic rail network, to enable through running of regional services, and provided intermediate stations to maximise benefits to areas affected by the new line.

#### What went wrong?

The Government's preferred alignment for HS2 simply ignores these clear principles. Instead, it adopts the same discredited engineering-led solution that British Rail pursued in the 1980s. Flawed from the start, HS2 is born from the perceived need for a straight line from London to Birmingham designed for unprecedented speeds via a pre determined interchange at Old Oak Common in west London.

When we successfully challenged British Rail in the 1980s, we were fortunate to have powerful politicians who saw the clear benefits to UK plc of an integrated approach to transport, the economy and environment. Without their support, we would simply not have the regeneration around the new major transport hub at Stratford, and London would not have hosted the 2012 Olympic Games. If you get transport policy right, so much else can, and will, follow.

#### Marrying train and plane

When the Coalition Government arrived in 2012, its revised remit to

HS2 Ltd. rightly required HS2, to connect with HS1 and Heathrow, thus addressing two vital links inexplicably missing from the original proposal.

However, rather than conducting a full reassessment of the route, substandard retrofits were proposed: a single track connection between HS2 and HS1, shared with the already congested North London Line, and a branch line to Heathrow. While the former is proposed in phase 1 of HS2, the latter is left to Phase 2, perhaps by the 2030s (if a viable business case can be made).

Our European competitors gaze in astonishment as we condemn Heathrow, the world's busiest international airport, and undoubtedly the one most in need of an integrated transport strategy, to increasing isolation. By perpetuating a rail-centric silo approach, HS2 prevents high-speed rail from replacing short haul flights and releasing much needed capacity and resilience at Heathrow, as now demanded by the London Evening Standard. It therefore ignores not only the experience of HS1, but also the proven success of integrating aviation and rail strategy, as seen at Amsterdam Schiphol, Paris Charles de Gaulle and Frankfurt airports.

The flaws in the current silo approach to air and rail are clear. For example, if

Heathrow is to be ultimately replaced, it is unimaginable that a new airport to the east of London should rely on the proposed single-track rail HS2-HS1 link to connect with the UK's regions. Alternatively, if Heathrow is to remain as the UK's hub airport, where is the logic in HS2 bypassing the airport by less than 10 miles?

For the foreseeable future Heathrow, alongside the UK's time zone, legal system and English language, provides a critical national economic asset. HS2 is the largest public investment ever contemplated in a single project. These facts alone should give Government pause for thought. It is simply essential to the UK's economic prosperity that we urgently develop a sustainable integrated transport strategy, and abandon once and for all the disastrous silo planning which has condemned the UK to increasingly substandard infrastructure.

*Mark Bostock was Project Leader for the Channel Tunnel Rail Link; now High Speed 1 (HS1). Mark will be speaking at the Bow Group fringe meeting at the Conservative Party Conference on 'A better route for HS2' at 12.30pm on October 8th at the Crown Plaza Hotel, Birmingham.*



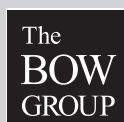
## Bow Group and London Chambers of Commerce & Industry

### *'Securing the best route for HS2'*

Monday, October 8th, 1pm, Room Vista 2, Crown Plaza Hotel, Holliday St, Birmingham (outside the security cordon)

**Rt Hon Cheryl Gillan MP** (MP for the Chilterns and former Chairman of the Bow Group), **Mark Bostock** (Project Leader for the High Speed 1 Alignment), **Geoffrey Clifton-Brown MP** (former Conservative Transport spokesman and Cotswolds MP); **David Hodges** (Transport Adviser to the London Chamber of Commerce and Industry) and **Stephanie Boston** ("Conserve the Chilterns and the Countryside" campaign).

*Refreshments will be provided*



# Gearing-up for growth: how reforming roads policy can aid economic recovery



Richard Wellings

The efficiency of the transport sector has a significant impact on the wider economy. Only housing takes a larger share of household spending, while transport is also a major business cost. Accordingly, transport improvements have the potential to bring significant productivity gains. Faster and cheaper journeys enable greater economies of scale, more trade and increased labour mobility. Efficiency gains in transport are clearly a major driver of economic growth.

In this context, it is difficult to overestimate the economic damage done by the last Government. Its approach ignored the fact that around 85 per cent of passenger travel within the UK is by private car, compared with 8 per cent by rail. Roads also carry 65 per cent of freight traffic, while rail only accounts for 9 per cent.

The economic importance of roads is therefore an order of magnitude greater than other modes. And despite the wishes of environmentalists, this is unlikely to change. Serving low-density suburbs and rural areas with frequent train services would be

prohibitively expensive. Moreover, many journeys simply take too long on public transport, particularly if they involve multiple destinations. Immense time savings are achieved by the door-to-door convenience of cars, vans and lorries.

New Labour denied the economic logic behind the dominance of road transport. It focused investment on the loss-making rail network and launched a 'war on the motorist' designed to push people out of their cars.

Across the UK, road improvements were cancelled, capacity removed, bus and cycling lanes introduced, parking restricted, pavements widened and speed limits reduced. The number of traffic controls exploded.

Councils received central government grants to deter private motoring and incentivise more people to use other modes. Scant regard was given to the economic impact.

As a result Britain's 35 million drivers faced longer journey times; firms suffered higher transport costs; productivity decreased. Taxpayers also faced growing bills for





uneconomic tram lines and often poorly used bus and train services. For several years, rail subsidies exceeded fare revenues.

## Such anti-business transport policies were ill-conceived in the boom times, but in the context of prolonged recession their continuation is scandalous

Such anti-business transport policies were ill-conceived in the boom times, but in the context of prolonged recession their continuation is scandalous. Unfortunately the coalition has so far adopted a similar approach.

New Labour's transport bureaucracies, such as Transport for London, have remained intact, and little effort has been made to address their ideological hostility to private transport. They continue to deploy harmful measures that place questionable social and environmental objectives above the urgent need for increased economic efficiency.

At the same time, the Government is squandering billions on uneconomic rail projects such as Crossrail and High Speed 2, the former costing £16 billion and the latter at least £33 billion. To put this into perspective, the total expenditure on just these two schemes could build approximately 1,500 miles of six-lane motorway, which would realistically carry more than twice the passenger and freight traffic using the entire rail network.

Indeed, the Government's own figures show that road improvements produce far higher economic returns than public transport projects. This is the case despite severe distortions to the transport market caused by discriminatory taxation. While most rail passengers are subsidised by taxpayers and pay no VAT, motorists and hauliers are burdened with the fuel duty supertax, road tax and VAT.

It is difficult to justify such differential treatment. Egalitarian arguments might apply to buses but certainly not to trains. Rail users are on average much

wealthier than the general population. A high proportion of passengers are well-paid middle-class commuters from the home counties.

The environmental arguments don't stack up either. By incentivising passengers to live further and further from their place of work, public transport subsidies encourage lifestyles that are likely to be more carbon-intensive overall. And some forms of public transport are actually less green than motoring. High speed trains use approximately twice as much energy per passenger mile as modern, fuel-efficient cars. Then, of course, there are all the underused bus and train services that use large vehicles to carry just a handful of passengers. The average bus service carries just 9 people.

It is indefensible, from both an economic and environmental perspective, that taxpayers are forced to subsidise bus and train services that provide such minuscule benefits. At the same time, there is no good rationale for continuing to spend taxpayers' money on measures that deliberately lower the efficiency of the road network, needlessly heaping additional costs on motorists and businesses.

A shift in this approach could rapidly deliver major economic gains. The Government should adopt a win-win policy that lowers the tax burden by cutting subsidies to uneconomic public transport services while at the same time freeing road users from unnecessary burdens.

A good start would be cutting off the flow of money to anti-car measures, encouraging local authorities to rip out most of their traffic controls (which create congestion while doing nothing to improve safety). Underused bus and cycle lanes – that waste vast amounts of valuable road space – should also be removed, together with bus and cycle priority measures that cause delays. Parking restrictions should be limited to the few areas where there is a genuine shortage of space.

The Government should push through increases in speed limits as a matter of urgency. This would quickly translate into significant time savings, bringing a much needed productivity boost to the economy, while making little difference to overall road safety.

But the policy needs to go much further than raising the limit to 80mph on small sections of the motorway

network. Safe dual carriageways should be included, while some single carriageway locations may also be suitable for 70mph running. In addition, coach and bus limits should be increased to the same speed as cars.

There is a particularly strong economic case for raising limits for goods vehicles – a measure likely to improve safety by preventing the bunching of traffic and reducing overtaking. Perhaps heavier lorries could be permitted, including the multi-trailer road-trains commonplace in Canada and Australia.

Significant economic benefits would also come from a more rational approach to transport investment. Currently public transport projects with low returns are given priority over road schemes with high returns. This is a very poor use of scarce resources if growth is the key priority. A rational transport strategy would prioritise investments with the highest returns, without modal bias.

Looking further ahead, the ownership and management of transport infrastructure should gradually be moved from government to the private sector. Private investors have much stronger incentives to allocate their funds wisely and to provide services that respond to the needs of consumers. They cannot force taxpayers to cover their costs and guarantee the financial risks. While politicians and senior officials are swayed by special interest lobbying, the private sector focuses on commercial viability.

The mismanagement of Britain's transport infrastructure is therefore a symptom of its politicisation. While policymakers can deliver substantial efficiency gains by applying economic logic to their decisions, the best long-term solution is to transfer control to the private sector.

*Dr Richard Wellings is Head of Transport at the Institute of Economic Affairs. He is the co-author (with Oliver Knipping) of 'Which Road Ahead: Government or Market'*



# Delivering affordable housing



Christine Whitehead

If they are to have 'a decent home at a price they can afford' – the goal of all political parties since the Second World War – at some point, many individuals will need some help with their housing. The reasons why this figure is so high are threefold: (i) the distribution of income is very uneven so poorer households find it hard to compete. Moreover, there are big intergenerational issues with older households consuming housing in such a way that younger households find it difficult to find affordable housing; (ii) our social security system is ungenerous by international standards. Housing specific assistance to deal with the very different costs across the country is as integral to ensuring adequate basic incomes as it is to ensuring adequate housing; and (iii) housing in the UK is simply very expensive.

But it is important to recognise that this 30% plus is not a static group. Some people will need continued help throughout their lives, but many, hopefully most, lower income households will be able to pay for their own housing at least for a large part of their housing careers as long as appropriate policies and financial instruments are in place. Social housing makes most sense for those who need long term assistance and probably other types of assistance. There needs to be ways of providing shallower and shorter term subsidies to those who can reasonably be prepared to pay more but who cannot afford market housing throughout their lives.

The objective of affordable housing policies must be to provide a range of options to households with different patterns of need and expenditure – often simply by reorganising payments over people's lives so that they can match expenditure and income more effectively; maybe by providing short term help until the household can afford to pay market prices; maybe by supporting older households as incomes decline; maybe by putting in place forms of insurance to help households adjust to changing circumstances. All of this needs to be done without building in incentives to households to make risky and unaffordable housing decisions. The main requirements for a well operating and affordable housing sector are flexibility in response to changing household circumstances, ensuring adequate standards and reducing risk.

The vast majority of households still want to be owner-occupiers at some time in their

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There needs to be ways of providing shallower and shorter term subsidies to those who can reasonably be prepared to pay more but who cannot afford market housing throughout their lives

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lives. But, especially since the financial crisis the proportion of mortgagors has been falling sharply and perhaps 1.5 million households who would have bought under pre-crisis conditions. This means that large numbers of people are in the private rented sector (or with parents or friends) who could afford owner-occupation over the longer term. The core benefits of security into old age and control over one's own home are being lost. The big constraints are the much higher deposits required and the uncertainties in both the labour and housing markets.

This is not to say that owner-occupation is the ideal for all – but equally private renting does not provide either security of tenure or a means of ensuring adequate standards of management and maintenance. Yet, owner-occupation is a risky investment where prices and interest rates can go down as well as up and people's incomes can change through no fault of their own. If government is to support affordable housing for all at as low a cost as possible to the state, these issues have to be addressed.

Most importantly, the home people buy is normally the largest financial decision in their lives so if it goes wrong their life style is put in jeopardy – often with resultant higher costs to government as well.

The Government's First Buy and New Buy initiatives go some way to address these issues for a small number of first time buyers. Under First Buy there is an equity stake of 20% so government and the developer share some of the risks of house price falls with the purchaser at the same time as reducing the deposit they have to put down. As long as prices stabilise or rise slowly in money terms this is a good

financial deal for all – and if they fall a bit there is a cost to both the household and the Government but the household is well housed and at much less risk than with a traditional 95% mortgage. New Buy works differently by guaranteeing (in a fairly complex fashion) the top slice of the mortgage so that lenders are in a much safer position to lend to households with good credit ratings but limited deposits – but it leaves all the downside risks with the purchaser so it is not as desirable an instrument for most purchasers as First Buy – but it isn't restricted to first time buyers. The big concern is that these products – which are very cheap for government – are restricted to new build housing, as a means of helping developers. This is a big restriction especially given the narrow range of homes and locations that are available. There is a very strong case for versions of these products to be much more generally available so that the overall market becomes less risky.

The other big initiatives are about new ways of financing new investment in social housing in the form of Social Housing REITS (Real Estate Investment Trusts) and a long stop funding guarantee. There are other initiatives could help housing Associations in particular to play a much larger role in the market or near-market rental sectors, increasing the provision of well managed and more secure rented housing mainly for working households. In particular, bringing expertise across from independent

social providers into the marketplace could both help to break down the barriers to introducing institutional finance and improve the offer in the private rented sector raising standards across the board.

Thus there are ways of ensuring a wider range of affordable housing without large scale additional funds from government. What is necessary however is not just a large number of different initiatives (although these can act as demonstration projects) but a more broadly based initiative to both reducing risk and volatility and ensuring value for money to the public purse.

*Professor Christine Whitehead is Professor of Housing Economics at the London School of Economics and Political Science and Director of Housing and Planning Research Centre, University of Cambridge*





# How we should be supporting ‘manu-services’



Andrew Sissons

In the post-Lehman Brothers world, manufacturing has become a popular cause among politicians. The notion that we should get back to “making things” provides a stark contrast to the alchemy of financial services, and it has a certain moral character that fits nicely with a national push to pay down debt and roll up sleeves. More importantly, manufacturing is also critical to the performance of our economy; it is the main source of British exports, and a big contributor to innovation and productivity growth.

But today’s manufacturing industry bears little resemblance to the smokestacks and production lines of popular perception. It has changed beyond all recognition, becoming a modern, technologically sophisticated and highly automated industry. Just 42% of UK manufacturing jobs – roughly 1.2 million – are in production; the remainder is a mix of professional, technical and service-based jobs. In 1978, Britain had 6.8 million manufacturing jobs, most of them directly involved in making things. They have been steadily whittled away by smarter machines, leaner processes and overseas competition.

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Today’s manufacturing industry bears little resemblance to the smokestacks and production lines of popular perception

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But the changes in the manufacturing industry go further than the decline of manual production; many manufacturing companies are now selling services instead of products. For companies like IBM, Rolls Royce and BAE Systems, manufacturing is not so much about making things as it is about making things work. These companies, and many others like them, sell bespoke solutions, consultancy, or aftersales care more than they sell products. Research by Prof. Andy Neely suggests that almost 60% of US manufacturers have adopted this “manu-services” model, compared with about 40% in the UK. In an economy that is increasingly dominated by services, the manufacturing sector is evolving to this new business model at some speed.

This shift of emphasis from production to service-based manufacturing is a big opportunity for Britain, because it plays to our economic strengths. The UK is pretty good at services – our business services sector is the most competitive in the world, while design, online retail and finance are all British strongpoints – and linking these to our manufacturing base should pay dividends. For British manufacturers that are struggling to compete on labour costs or technologies, manu-services offers a new way to compete globally.

Unfortunately, though, the business of integrating services into manufacturing is far from straightforward. Neely’s research shows that companies adopting this manu-services model perform worse, on average, than those which remain “pure” manufacturers. Manu-service firms are less profitable and more likely to go bust, even though their revenues tend to be higher.

Why should this be so? It appears that the challenge of combining many different processes and services – design, production, after-sales care and so on – into a seamless package is expensive and hard to coordinate. It requires people with different skills and backgrounds – designers, engineers, sales people – to work together and communicate effectively, and managers who can oversee all of those different processes. And there is far more scope for these complex systems to go wrong, creating new risks and costs for manufacturers.

Given the opportunities and challenges presented by the shift to manu-services, what can policy makers do to help? First, there is scope to help manufacturers make the transition to a service-based business model, by providing the right type of advice and guidance. There is a huge amount of expertise on these challenges in the UK’s universities and business schools, and making this more accessible to manufacturers would greatly benefit them. There are a few existing partnerships between businesses and universities – such as the Cambridge Service Alliance – but such initiatives are few and far between. Building programmes which connect business school academics to manufacturers could have a significant – and relatively cheap – impact.

There are other channels through which this advice could be provided. The Manufacturing Advisory Service (MAS), saved from the axe by the Coalition, provides valuable advice

to many manufacturers, but it could offer more on making the transition to manu-services. The Government's new Catapult Centres, which foster public-private research partnerships, could focus more on innovation in services and business models, rather than on technology alone. These measures are about a shift of emphasis, a recognition of the importance of manu-services, rather than about injecting vast sums of public money.

Second, manu-services add a new challenge to the Government's skills agenda. Government is acutely aware of the need for more STEM (Science, Technology, Engineering, Maths) graduates to work in manufacturing, but STEM on its own may not be enough. Manu-service companies need people who understand different disciplines, who can help coordinate various different types of activity. There may well be a case for promoting joint honours courses – such as Engineering and Management – or promoting sandwich courses that give engineering students the chance to learn new skills.

Third and finally, the government needs to look at manu-services with an eye on the future. There are some

huge technological developments – particularly 3D printing – which could transform the manufacturing industry and make manu-services far more important. If 3D printing takes off, it will allow goods to be produced individually and locally, rather than in vast factories, and will allow product designs to be transmitted around the world. Among other things, that would turn almost all manufacturers into manu-service companies, offering bespoke design services and delivery. The government should be looking at what it can do to give the UK a headstart in adopting 3D printing.

A less dramatic but more immediate technological change has been the growing use of data by companies. Data underpins manu-services in many ways – monitoring jet engines in-flight requires masses of live mechanical data, while designing a service becomes easier when you can analyse key details about your customers tastes. Government has been quick to seize on the use of “open data”, but most manufacturers are more concerned about their own data than accessing government data. There is a lot of uncertainty about laws and regulation on data, and that creates huge uncertainties for companies –

they are far less likely to invest if they aren't sure what they can and cannot do with their data. Government should be treating issues like this as priorities.

None of these policy steps are particularly dramatic or eye-catching, nor would they be costly for Government to implement. They would, however, make a big difference to the growth of UK manufacturing, and help support a modern industry that has changed beyond all recognition.

*Andrew Sissonss leads research on markets, place and networks at the Work Foundation's Big Innovation Centre*



# The continued use of Quantitative Easing



Tim Congdon

Who invented 'quantitative easing'? In asking the question, I am interested in both the concept and the phrase, and – as we shall see – the person who launched the concept may not be the same as the person who coined the phrase. As far as the concept is concerned, one reasonable answer is easy to find in a recognized classic of economic theory.

In the late 1920s Keynes worked hard on his *Treatise on Money*, intending it to be a definitive account of monetary institutions and theory. When it was published in 1930, concern about an emerging global economic downturn prompted him to advocate what he called 'monetary policy à outrance' ('À outrance' is translated 'to the uttermost'). To quote (from p. 332 of the second volume), 'My remedy in the event of the obstinate persistence of a slump would consist in the purchase of securities by the central bank until the long-term market rate of interest has been brought down to the limiting point.'

On the previous page Keynes had observed that past official reluctance to engage in such operations may have arisen from fears 'the volume of bank money' would 'depart from its normal' level. By 'bank money' Keynes meant 'bank deposits'. We can deduce that by 'monetary policy à outrance' Keynes understood 'the purchase of long-term securities by the central bank from non-banks to increase the quantity of money and hence to lower the long-term bond yield'.

Mervyn King, the governor of the Bank of England, gave a BBC interview in March 2009 on the QE operation then being initiated. He made clear that it was intended directly to increase the quantity of money, by which he meant a broadly-defined measure including all bank deposits. One result, according to many observers, would be a fall in long-term bond yield. To say that King quoted Keynes exactly would be to exaggerate. All the same, the operations widely labelled 'quantitative easing' since 2009 are virtually identical to what Keynes called 'monetary policy à outrance'.

On this basis, I suggest that Keynes invented QE. The *Treatise on Money* set out in 1930 a good description of what the Bank of England did in 2009. The Federal Reserve's first exercise in QE in late 2008 was somewhat different, in that the assets bought by the Fed were mostly commercial paper. The emphasis was more on boosting the price of commercial paper and narrowing so-called 'credit spreads' than on driving down long-term yields. But the Fed's second exercise (QEII) in this direction, the \$600 billion of central bank purchases of government





securities from November 2010, came much closer to matching the Keynes' formula.

Debates about terminology are not generally productive. However, economics is far from being a science, and many of its contemporary votaries have a tribal loyalty to any nostrum labelled 'Keynesian' and an atavistic aversion to any idea that smacks of 'monetarism'. This tribalism has damaging consequences, because the more extreme and emotive Keynesians cannot tolerate analyses or prescriptions which pivot on changes in the quantity of money. Alarmingly, they cannot tolerate such analyses and prescriptions even if they generate the correct answers to economic problems.

I have argued that Keynes invented QE, but the awkward truth is that the variable being eased in 'quantitative easing' is the quantity of money. So it should be no surprise that in his latest book *End This Depression Now!* Professor Paul Krugman of Princeton University, the 2008 Nobel economics laureate and the world's most articulate champion of Keynesianism, prefers the neutral phrase 'asset purchases' to the more ideologically charged 'quantitative easing'. At any rate, Krugman does accept that central bank asset purchases stimulate economic activity. For the future of American public policy, this concession may prove to be a vital development. In a recent interview he recommended that the Fed buy \$2,000 billion of assets. That would add over 10 per cent to the quantity of money and hence be the mother of all quantitative easings, with dramatic implications for the American and world economies.

In the early stages of the Great Recession the Keynesians called the key tunes in the macroeconomic policy debate, particularly in the English-speaking countries. In late 2008 and early 2009 both the American and British governments responded to the plunge in demand and output by increasing public expenditure. In the USA newly-elected President Obama listened to the arguments for a 'fiscal boost' made by his leading Keynesian advisers, notably Krugman, Joseph Stiglitz and Larry Summers. These advisers dismissed monetary policy activism, believing that the USA was in an alleged 'liquidity trap' and that attempts to boost the quantity of money were pointless.

The experience of the last three years has shown that the Keynesian trio were right about policy activism focussed on 'the monetary base'

The experience of the last three years has shown that the Keynesian trio were right about policy activism focussed on 'the monetary base', which consists of notes and coin held by the general public and banks' cash reserves. Although the Federal Reserve has ballooned its balance sheet and the monetary base has trebled, the recovery has been feeble and half-hearted. But the Keynesians are wrong if they are talking about 'the quantity of money' in the sense understood by Keynes in 1930 or King in 2009. The combined balance sheet of the American banking system – and hence of the bank deposits which constitute the quantity of money – has stopped growing, largely because of the regulatory pressure on banks to deleverage and recapitalize their businesses. The stagnation of the quantity of money since early 2009 is an obvious and plausible explanation for the fragility of the recovery.

If the Fed buys assets from non-banks, the result is a direct and immediate increase in the quantity of money. Fed purchases from non-banks are therefore a far more aggressive form of monetary stimulation than the standard pussyfooting operations of a central bank, in which it transacts in short-dated paper only with banks. It is because the purchase of long-dated government bonds from non-banks is so aggressive that Keynes characterised such action as being 'to the uttermost'. It is because the American recovery has been so disappointing that a large-scale QEIII plan, targeted on the quantity of money and not merely on the monetary base, must now be considered.

The larger point here is that the Keynesians were mistaken in their advice at the start of the Obama presidency. They thought that only fiscal measures, with a consequent widening of the budget deficit and despite all the long-run harm that meant for the USA's public finances, could halt the downturn. They had not read their Keynes properly. QE is in fact a highly Keynesian prescription, in that it is loyal to what Keynes actually said. If applied on a sufficiently large scale in the second half of 2012, a QE programme could lead to faster monetary growth and a robust American upturn in 2013.

*Professor Tim Congdon is the UK's leading monetarist economist and was a key advisor to the 1979 – 97 Conservative government. His latest book, *Money in a Free Society*, was published by Encounter Books last November.*



# Unlocking the Hidden Value of Intangibles



Kenan Patrick Jarboe

Allen Howell is CEO of Corporate Flight Management, an aircraft service and charter company based in Tennessee. Last year at a conference hosted by Athena Alliance, OECD and others on economic growth, he told his story about the problems he faces getting financing to expand his business. Throughout the down economy, Howell has worked to upgrade the company, building better relations with his customers and creating an online booking platform. But, banks don't see that as a positive step. "We invested a lot of money in developing our processes to improve our business," he explains. "All of that was written off. None of it shows on the balance sheet. And the banker looks at you and says you're not making money, what's wrong with your business?"

Howell and millions of businessmen and women like him worldwide are faced with the same problem. They are investing in intangible assets and intellectual capital but confront a funding barrier because the financial system does not understand or know how to value intangible assets.

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**Scientific and creative property are valuable assets that include product development activities beyond patents**

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Intellectual capital and intangible assets are much more than formal intellectual property. Scientific and creative property are valuable assets that include product development activities beyond patents, new architectural and engineering designs, and social and organizational science research. Computerized information, including customized software and databases, is another important company asset. Specific business models, organizational structures, and organizational capabilities are key elements of any company's ultimate success. Worker skills and tacit knowledge—both general and firm-specific—are assets that managers describe as leaving the company

every evening and returning every morning. Brand, reputation, and relationships with customers and suppliers are all important.

The UK economy is already heavily reliant on intangible assets. According to Jonathan Haskel of the Imperial College Business School, investments in intangibles contributed almost as much to the growth of output per hour during 1995-2007 as did investments in tangibles (plant and equipment). During that same time period, business investment in intangible assets grew steadily and had exceeded investment in tangibles assets by 2005.

The ratio of intangibles-to-tangible investment varies by industry, as reported by the UK Innovation Index 2012 from the National Endowment for Science, Technology and the Arts (NESTA). The ratio for financial services is 3:0; business services is around 2:0. What might surprise some is that manufacturing and construction also invest more in intangibles than tangible assets, at a ratio of close to 2:5. Lagging well behind are personal services, utilities, trade-hotels-transport and agriculture & mining.

Governments need to be proactive in helping companies develop and utilise their key assets to compete in this new knowledge and intangible based economy. This is well understood in the UK. For example, the UK Design Council works with private companies and government agencies to promote design. Other programs such as R&D support, differential taxation of patents ("patent box"), and worker training are all useful. But these efforts are not enough. Unlocking the hidden value of intangibles that companies already have is critical.

Going back to Allen Howell's story, the current financial markets are a roadblock when it comes to obtaining funding. Many companies, especially high-technology and service sector companies, are rich in intangible assets but poor when it comes to traditional assets such as plant and equipment. The banking system knows how to utilise tangible assets but it generally ignores intangibles. New initiatives are needed to bring the financial system into the era of knowledge-based and intangible assets.

One starting point could be a pilot program to utilize intangible assets as debt collateral. Many bank loans already put liens on companies' intangibles as part of the loan process. But intangibles are sweep up in an "all asset lien." This intangibles are not specifically counted as collateral and banks rarely even know what is included. Thus, companies do not receive the full funding level for which they could otherwise qualify.

Recently, the Bank of England and HM Treasury launched a new Funding for Lending Scheme (FLS). Under this program, the Bank of England and participating banks will undertake what is called a collateral swap. Banks trade their loan portfolios, including business loans, for additional capital from the Bank of England. The collateral of banks' loan portfolios becomes the collateral of the Bank of England.

Some of the collateral in those loan portfolios will be hidden intangible assets. As it reviews the adequacy of the collateral, the Bank of England is in a perfect position to identify the intangible assets that are part of that collateral. The Bank need not do a complete review of the collateral offered by the banks. A small pilot program could be established to sample the collateral and specifically identify the intangible assets.

Based on that review, standards for what is acceptable loan collateral could be developed to explicitly count those now hidden assets. Once those standards for intangibles are in place, the Bank could then incorporate them into their process for determining the value of banks' loan portfolios and therefore how much additional capital the banks would be offered. The standards would then filter down to the banks' lending practices, thereby opening up an additional amount of debt financing for intangible-rich but physical-asset poor companies.

Tied to the creation of new standards is the process of raising awareness of intangible assets in both the business and financial communities. Earlier this year, an independent industry taskforce chaired by Tim Breedon looked at alternative debt markets. Unfortunately, the taskforce only looked at the accounts receivable part of asset-backed lending while giving only the briefest of references to intellectual property. However, their report, *Boosting Finance Options for Business*, called for the creation of a Business Finance Advice scheme to enlist the accountancy industry in providing advice on alternative lending programs. This new program could also be a source of information about any new intangible-backed lending standards and about advice on monetizing intangible assets in general.

Like businesses in many countries, UK companies continue to struggle with credit tightening resulting from the recent financial crisis. But, as the old saying goes, this crisis is also an opportunity. The UK is increasingly an intangible-based economy. These intangible assets are not yet fully incorporated into the financial system. The current hunt for new ideas to confront the credit problem is an opportunity to think more broadly in reevaluating how the debt markets work. Part of the reevaluation should be focused on bringing intangible assets into financing—bringing financing into the 21st Century.

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# Restoring Pensions



Con Keating

The idea that occupational defined benefit pensions (DB) are unaffordable has gained currency in the past decade, but it is a misconception to believe this. Unfortunately, based on this belief, employees are now offered poor simulacra, which are grossly inadequate, unsustainable and simply not fit for purpose. Inchoate concepts such as “Defined Ambition” and defined contribution savings arrangements, including the much promoted National Employment Savings Trust (NEST), are symptoms, not resolutions of the problem. We risk creating a substantial and influential new voting class of grey discontents, and with that, irresistible pressures on public finances.

We are enjoying longer, healthier retirement, but these increases in lifespan, and the related pension cost, have been far lower than increases in our productive output in all but the most recent years. The longevity cost increase is simply far too small to explain the explosion of costs faced by employers.

Over the past twenty years, the real cost of DB pension provision has risen approximately 75%, while employer real contribution costs have risen by more than 300%. The explanation for this lies in the unique convergence of accounting, regulation, and financial management for pension schemes and their associated pension cost.

With the near-total meltdown of popular trust and confidence in financial institutions, it is hardly surprising that the fund management industry has recently come under widespread and vociferous criticism over its costs and their transparency. This appears to have acquired some political currency. There is, however, a much more fundamental problem.

This is not the criticism that the behaviour of financial intermediaries,

insiders, has been rent-seeking at the expense of the savers and users of capital, though there is ample evidence of that reprehensible behaviour. It is the criticism that they are managing for the short-term. The Kay review is required reading in this context.

There is a longstanding conundrum in empirical economics. Portfolio performance is dominated by asset allocation, to which more than 80% of returns and their volatility may be attributed. This is the short-term view; it is transactional rather than relational in nature. In this framework, portfolio investment returns are empirically unrelated to economic performance. Price action is all-important and the asset management game reduces to the beauty parade of Keynes, in which managers are trying to outguess each others’ actions rather than looking to any economic or financial fundamentals. Risk in this world is principally endogenous, a game against others; it is risk of our own creation.

In this short-term view the “hedging” of price risks is a key management action, though often requires perverse behaviour such as the purchase of assets as their price rises. To reduce this to its pathological extreme, we need only to note that the only perfect hedge of a financial asset is its sale, which of course, converts the asset held to cash. This prompts the question: how is that compatible with investment in any sense?

In the long-term, investment performance is dominated by income and its growth, and price is almost entirely incidental, accounting for less than 5% of the total returns achieved. The absolute insignificance of the price element merits emphasis; over the past hundred or more years it is a return of just 0.1% p.a. Yet this is where fund management attention is overwhelmingly focused. In the long-term, risks are predominantly



exogenous; the problem is a game against nature, not others.

This distinction between the long and the short-term might not matter if the sequence of optimal short-term results yielded the optimal long-term, but it doesn't. The aspect of particular concern is that under a short-term approach, many viable and productive long-term projects will not get financed. Perversely, pursuit of the short-term optimal will lead to lower total investment, less specialisation in production, fewer gains from trade and lower output; the total returns from a short-term market will be lower than from the long-term. Those pursuing passive indexation, in avoidance of the imposts of financial intermediaries, are nonetheless accepting an abject second best.

Regrettably, it is unlikely, for a number of reasons, that fund managers will adjust their business model for pension funds in the near future. Setting aside their short-term interests, the accounting and regulation for pensions are both firmly rooted in this short-term, speculative worldview. They are all conditioned by the 'freshwater' economics of efficient financial markets. Perhaps the only positive of the recent crisis is that this theory is now totally discredited. Pension accounting and regulation inappropriately impose and emphasise the very same short-term, but it is unlikely that the standards-setters, supervisors and regulators will rapidly, or graciously, recognise and correct their mistakes – in large part because they were its architects. There may though be hope: The Netherlands, Finland, Denmark, Sweden and the United States have all abandoned 'freshwater' fundamentalism in recent times.

Pensions are incomes in retirement, cash-flows over time. The savings to finance them are accumulated over time. They should be managed as such; they should certainly not be managed through the distorting lens of point-in-time, imprecise, estimated present values and current market prices.

Economically, a pension is a claim on future production. It is appropriate and efficient that employers, as producers, should compensate their employees, in part, with pensions based upon their service. However, when we introduce regulations and funding requirements, which raise the cost of provision well beyond the benefits to employees,

## Employers, as producers, should compensate their employees, in part, with pensions based upon their service

it is rational for companies to cease provision. There are now many disincentives to employer provision of occupational pensions, and absolutely no incentives.

While the problems of legacy funded occupational schemes appear intractable in the absence of change, there is a simple solution for the future. This is the book-reserve occupational DB scheme. In common usage, it is unfunded. It avoids entirely the costs of financial intermediation. It avoids all dependence upon financial markets. It offers incentives to the corporate sponsor for provision, since it lowers working capital requirements. It may become a material and highly predictable source of capital for companies, reducing their dependence upon banking relations. It provides the employee with both the comfort and reality of a pension. It introduces a degree of mutuality to the workplace relationship, with employees, management and shareholders having an interest in the long-term health and success of the firm. Such book reserve schemes are well-known elsewhere in Europe. In Germany, many attribute the growth of the *Mittelstand* and the post-war '*Wirtschaftswunder*' to this source of capital funding.

The regulation, which has smothered funded defined-benefit schemes, was prompted by the problem of sponsor insolvency. This can be resolved by pension indemnity assurance. This is simply insurance of the pension scheme against the consequence of sponsor insolvency, payment of the pensions when due after the event of sponsor insolvency. This is not another government-sponsored mutual compensation scheme with many sunk costs and extremely marginal benefits, which mindlessly apes the risk management practices of the investment banking community. It is commercial private sector insurance, which prices and provides for the long-term risks it faces. It may even be

described as 'corporate life assurance'. The costs of such insurance are far less than the costs of fund management, as has been proved the case in Sweden.

There is no requirement for tax incentives. Book-reserve pensions are taxable when paid to the individual and deductible as expenses to the employer company at that time. In fact, all that this form of pension requires of government is inaction.

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# Moral hazard and bank regulation



Guy Fraser-Sampson

It was over two hundred years ago that Adam Smith pointed out what he saw as the main weakness of the capitalist system, namely that when the ownership of capital became divorced from its management, then what has subsequently become known as moral hazard must occur. Where businessmen are risking not their own capital but other people's, "it cannot well be expected that they should watch over it with the same anxious vigilance" as if it were their own.

Given the way in which the modern banking system evolved in the decade or so prior to 2007, the scope of moral hazard became greatly magnified in two important respects. First, given a transaction-based culture with fees which rewarded the issuing of financial instruments, rather than their safe repayment, executive remuneration packages became a massive one-way bet. Second, with banks in certain countries becoming "too large to fail", not just shareholders' money (which is after all risk capital), but also the public finances were being placed in hazard, although this was not of course recognised at the time.

Sweden, the UK, Switzerland and the Netherlands were all particularly at risk, but the US much less so. As the Vickers Commission noted, at the time of its bail-out the balance sheet of RBS alone represented 99% of UK GDP, while that of Citibank represented just 16% of US GDP. Pre-crisis, what were then the big five banks in the UK together totalled over three times GDP, while the comparable figure for the US was just one times GDP.

All of which meant that as the banking crisis gathered pace during 2008 it seemed to become inevitable that the Government would use public money

to bail out the banks, the so-called "financial intervention", the cost of which now appears in the small print of the Treasury's quarterly statements. While it is difficult to criticise decisions which were taken at the time under conditions of great pressure and urgency, it seems clear that any repeat performance would push the UK irrevocably into obvious insolvency, and that Government policy should therefore be directed expressly at avoiding this eventuality.

In fact, though, despite having had nearly five years to deal with this problem Government policy actually makes it more, rather than less likely that a further bail-out will be required, notwithstanding that this may well prove impossible in practical terms. In part this is because of a number of fundamentally flawed assumptions which perhaps the Vickers Commission were instructed to adopt.

Such policy assumes that financial crises are accidents that can be prevented from happening, whereas there is much academic research to the effect that they are naturally occurring events which cannot be prevented. It assumes that because financial crises affect banks then these crises must somehow arise within the banks in the first place, in other words confusing cause and effect. It assumes that more regulation must necessarily be better than less regulation. Most damaging of all, it assumes that the object of the exercise is to make it more difficult for banks to fail, rather than easier.

It is not possible fully to discuss these points in an article of this length. Let us however develop the last one, for it is the most important and bears directly on the question of moral hazard.

The reference to making it easier for banks to fail of course means to make it easier for them to fail safely. Surely the optimum solution would be for banks to be treated just like any other business, able to pass into (and perhaps subsequently out of) insolvency regimes, and with their creditors, bondholders and shareholders being treated exactly as if the company in question were an oil company or a supermarket chain. The main argument which was made against

letting this happen in 2008 was that if the banks went then the payments system went with them. The spectre of businesses being unable to make or receive payments, and retail customers unable to pay for their groceries or get cash out of the ATM network understandably weighed heavily on Government decision making.

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It would seem strange indeed if a failing electricity company should be able to hold the country to ransom just because it happened also to own the national grid

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Strange, then, that the obvious solution of removing the payment system from the banks has not been discussed. It would seem strange indeed if a failing electricity company should be able to hold the country to ransom just because it happened also to own the national grid, yet nobody seems to find it curious that the banks should enjoy exactly this advantage.

Incidentally, lest this seem a revolutionary proposal, it can be revealed that both BACS and CHAPS already operate as non-profit subsidiaries of the Bank of England. There seems no reason why the remaining payment systems should not join them. The transfer would represent a complex IT project, but surely no more so than placing a remotely controlled vehicle on the surface of Mars.

A further non-profit subsidiary could operate as a shadow bank, with every bank required to back up a copy of their customer accounts there every night. In the event of a bank failure this shadow bank could operate in the same sort of way as a mirror website for a few days while the BoE, by executive power if necessary, transferred each customer to a new bank. Naturally, there would be a cost to all this, but also a huge saving: no need for bank regulation at all.

*Guy Fraser-Sampson is a Senior Fellow at Cass Business School. He is the author of several books, most recently "The Mess We're In: Why Politicians can't Fix Financial Crises."*



# Driving the localism agenda forward



Mark Pawsey MP

**L**ike it or not, every Government leaves behind a legacy from their time in office. The Brown Government had the credit crisis; the Blair Government, Iraq; the Major Government, National Lottery sports funding; the Thatcher Government, reinvigorating the UK's economy, overseeing inward investment, taming the trade unions and the Falklands. So, what of the Cameron Government? Early indications point towards reforms in welfare and the NHS and making Britain open for business.

There is, however, one policy- perhaps less obvious- conceived in the offices of Eric Pickles during the years of opposition, which has the potential to be the defining legacy of this Government: Localism. In all its shapes and guises, this revolutionary, radical shift of power from central government into the hands of local people has the potential to define the relationship between Whitehall and local government for generations to come.

As a member of the Communities and Local Government Select Committee, I have seen and heard first-hand what can be achieved through this shifting of power. Like many MPs, I served as a local councillor before entering Parliament and I have seen the benefits that this will bring to local communities.

Localism's central premise is that local people know their area best. This is a simple assumption. Yet, for too long an overly bureaucratic Whitehall has dictated directives and policies to local government with local government seen merely as the delivery arm of central government policies. There is also huge regional variation. What is right for areas in the South East may not be right for areas in the North West; what works in the South West may not work in the Midlands. Yet Whitehall-driven policies have not allowed for this, with many policies highlighting the dominance of, and bias towards, London as the home of central government.

The flagship policy of the localism agenda is the widely debated National Planning Policy Framework. The NPPF took up a lot of time on the Committee corridor last year and I was glad to see that the Government adopted 30 out of the 35 recommendations we made in our report. The final framework was published in March of this year and received warm-praise not just from supporters but also those who had previously opposed the draft proposals. A section of the NPPF has the potential to abolish the local democratic-deficit outlined earlier through the

creation of 'Neighbourhood Plans'. The NPPF defines this as such: "neighbourhood planning gives communities direct power to develop a shared vision for their neighbourhood and deliver the sustainable development they need... Neighbourhood planning provides a powerful set of tools for local people to ensure that they get the right types of development for their community."

In essence, included in the new supremacy of a Council's "local plan" is an ability for a group of local people to formulate their own plan for their local area. This is then enshrined in the "Local Plan" that determines development for that area. For the first time, groups of residents will be able to influence development in their area. They can now have a real, palpable, hands-on approach to saying yes to the development they would like to see. With the NPPF, and most notably the Neighbourhood Plans included in the NPPF, power is not only in the hands of local councillors, but it is also in the hands of local people.

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All in all, these figures show the Government is putting its money where its mouth is. It is demonstrating its commitment to Localism

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My constituents in Rugby will undoubtedly benefit from this change. Indeed, a group of residents are already doing just that. Coton Park Residents Association are one of a number of groups across the country described as 'Neighbourhood Frontrunners'. These are groups who are trialling the idea of Neighbourhood Plans and they are the first neighbourhood teams to enjoy the new powers available to them to shape development in their area. I have been fortunate enough to work closely with the community involved, seeing the successful dialogue the local council and the association are having in this but also seeing some of the challenges the local community faces. I am very privileged to have a progressive and dynamic Council in my constituency and know the planning department at Rugby Borough Council has been a source of immeasurable



help to Coton Park. Local Authorities assisting and collaborating with local neighbourhoods in formulating development plans for their areas is exactly what was in mind when murmurings of the Localism agenda began to surface a few years ago. It is good to see this coming to fruition now.

It is not just the Council who are assisting local communities. A recent ResPublica report on Neighbourhood Planning highlighted the fact that the Government-funded pilot scheme is awarding grants of up to £20,000 for 200 front runners of neighbourhood planning - much of which has been earmarked quite rightly for advice on legal and planning issues. On top of this, they say, £50m has been given to local councils to support them in their new role assisting neighbourhoods in creating their own plans. The funding does not stop there. The 'Supporting Communities and Neighbourhoods in Planning' programme is projected to release approximately £3m each year for four years to four community support organisations who support communities in planning for their neighbourhood. One highly deserved recipient of this funding is the Royal Town Planning Institutes' 'Planning Aid' body, with whom I have had discussions, is benefitting from £1 million worth of this funding as they continue to do an excellent job in assisting local people with what can sometimes be an arduous task. All in all, these figures show the Government is putting its money where its mouth is. It is demonstrating its commitment to Localism.

I finish with a word of caution. In my dealings with the Coton Park Residents Association and our local council, an issue has arisen that if

not dealt with quickly could discourage more communities to come forward to develop their own neighbourhood plans. It is in essence a case of theory vs. practice. Guidance from DCLG on Neighbourhood Plans has the potential to have a damaging effect on allowing Neighbourhoods and Councils to get on with developing these Neighbourhood Plans. It is almost as though Sir Humphrey has been able to get too big a hold on the Localism agenda because this extended guidance is hindering neighbourhoods. It is perhaps inevitable that there is some bureaucracy, but the difference between avoidable and unavoidable administrative red tape does need to be looked at. This guidance should be reined in to allow localism to flourish.

In the bigger picture, localism and the empowering of local authorities and local communities to shape their area's development is a process that will be widely embraced. It has the ability to change forever the relationship between central and local government - a move that I welcome wholeheartedly.

*Mark Pawsey is the Member of Parliament for Rugby and a member of the Communities and Local Government Select Committee*



# The possibilities of data linkage and sharing strategies in the public sector



**Ged Mirfin**

**A**lmost two decades ago Professor Richard Rose, in his eponymous book, talked about the problem of Big Government - the increasing inability of politicians to pull the levers of power to turn the drive-shaft of change. There has been a subdivision and increased specialization of agencies responsible for the delivery of policy. This has resulted in inter-agency conflict & boundary disputes reducing the effectiveness of policy delivery. Government has increasingly resorted to changing the structure of organizations (setting up another QUANGO) to deliver policy rather than understanding the reasons for policy failure. The result has been an exponential increase in the number of policy programmes and an increase in the overlap and contradiction between

The lack of availability of up-to-date management information is why we continue to see a creep in government spending

them. This has led to internal conflict within Government about economic development priorities and goals. The end result has been political inertia and, at worst, stalemate.

Political inertia has been compounded by failures in intelligence systems. On a monthly basis we are subjected to the ritualized farce of the production of statistical data on GDP by ONS which is not only at least 6 weeks old but is subject to such wide-ranging revision, both upward and downward, that both its veracity and accuracy is being called into question. You certainly would not try and run a manufacturing business on the basis of such unreliable data - the business would go bust.

The lack of availability of up-to-date management information is why we continue to see a creep in government spending despite a commitment to reducing spending. Measuring changes in the funding demands of policy programmes is easier than justifying or understanding the need for scaling

back, cutting or measuring the impact of existing programmes. There is insufficient knowledge of the impact of existing business support programmes. Policy evaluation is retrospective. Information is backward facing with too much information being provided too late identifying failings that cannot be undone. The result is decision-making that is after the fact with problems often being discovered by well-meaning and committed committees of investigation many years after they occurred.

Consequently, Decision-makers have been forced trust to their own intuition. There has been a tendency to rely on the infallibility of their own "judgemental opinion" because it is simple and convenient. This has resulted in a "traditionally it has always been done that way" mentality. No one is able to prove conclusively otherwise or show policymakers they are wrong. The result has been badly formulated and more poorly





applied policy. This works fine in a benign economic environment. In a harsher climate when assumptions are being fundamentally challenged it is much more difficult to defend the indefensible and to find a solution when you are sometimes forced to justify not only your very existence but the funding rationale. There is thus a need for hard evidence: high-quality validated quantitative data. This ensures a move from opinion-based decision-making, where choices are made despite significant unknowns and knowledge gaps, to true evidence-based decision-making.

The irony is that we have more data available in more issue-areas than at any point in history. Data is now far easier & cheaper to gather, store, analyze and disseminate than ever before. The problem is that data in the public sector is too inaccessible. Not only is critical business economy data not collected together in one place but it is not linked with sources which will enrich decision makers understanding of key policy agendas. This was particularly evident during the Dip 1 recession under the previous Labour Government, particularly so in the North West of England. The quantity and quality of up-to-date accurate business data was insufficient to offer a detailed and granular overview of the North West Regional Economy. Business Link North West (BLNW) focussed on the lack of real data in the region building a business intelligence system that delivered detailed business diagnostics and risk assessment tools to assess the performance of businesses, especially in the SME community, during Dip 1.

The business performance index (BPI) as it became known was an evidence-based decision support tool, providing the ability to drill down into key data segments and identify and locate businesses exhibiting specific characteristics. The BPI was the first (B2B) business profiling system in the public sector.

BPI was used to analyse key segments using a wide array of data attributes or characteristics (circa 250). This offered the opportunity to conduct, thematic analytics for policy formulation, decision-making, implementation and measurement including geographical analysis highlighting key economic drivers and constraints within sub regions and sectors.

It was soon discovered that Labour's

super regionalism and ultimately the failure of Tony Blair's vision of sub-national "big ticket" regionalism was due to the one-size-fits-all prescriptive approach pursued by the Regional Development Agencies which ignored not just subtle but the major fundamental differences that existed in the economic performance of individual sub-regions across the UK. In the North West the problem was exacerbated by the structure of economies of place at a sub-regional level and the historic identities that are coterminous with this.

Robust data and analysis allows for more effective policy-making. Data is critical to the delivery of evidence-based policy formulation. With BPI the NWDA was able to track the performance of companies over time and highlighted areas of improvement or decline. This capability provided both the context and the measurement capability required to test business support interventions over time. Data available on such a scale by the BPI enabled a process of quantitative analysis to help predict the impact of policy options to stakeholders in a 'winners and losers' format. Robust data analysis illuminated problems by revealing severity, geographic concentration, trends and causation.

Part of the explanation behind the failure of a number of LEPs in the North West and the UK to make more effective progress is the lack of access to the kind of in-depth business economy data that BPI would have been able to provide.

You will notice that throughout this Paper I have been speaking about the BPI in the past tense. That is because the NWDA took the decision to decommission this incredibly valuable and analytically powerful strategic data asset. Retaining such data assets that existed within the RDAs and business links would have been extremely beneficial for LEPs, especially when it comes to the bidding process and green-book predictive analytics which underpins Regional Growth Fund bids. Sadly key decision-makers, several of whom now sit on LEP boards chose not to make the retention of strategic assets a priority and make such assets available to LEPs across the UK.

In situations like this, a more strategic approach to planning the transfer of data assets and data bases to the LEPs to aid them in their very difficult task

of addressing the one size does not fit all failure of the RDAs, would have been invaluable. The scorched earth appearance of the decommissioning of strategic data assets does not reveal public sector agencies in their best operational light. Perhaps, however, a more measured assessment of a government in a hurry to dismantle what it saw as examples of systematic failure rather than a consideration of retaining the operationally more efficient bits at a sub-regional county level would have helped.

*Ged Mirfin is a Conservative Councillor: Ribble Valley Borough Council and the Former Chief Data Officer of Business Link North West, a wholly-owned subsidiary of the North West Development Agency*



# Growth and locally-facing public sector pay



Ed Holmes

**G**eorge Osborne's efforts to make pay in the public sector more locally-facing are in difficulties. From Conservative MPs fearing their constituencies would lose out in terms of public spending to trade unions vigorously contesting any reform effecting national pay bargaining, it might seem easier to abandon the whole project.

However, this would be a wasted opportunity. Pay in the public sector is a major issue for the labour market, the economy and public services. When we talk about the state of our local school or hospital, or high unemployment, rarely is it mentioned that most of the budget of that school or hospital will be spent on employing staff, or that in some areas more than 40 percent of the workforce is in the public sector. When we think about getting Britain's public finances back on track, or generating economic growth, the £180 billion a year spent on the public sector paybill (around an eighth of our GDP) and the fifth of the workforce it employs, should be at the front of our minds. This makes the rather prosaic-sounding issue of how pay is set in the public sector of vital importance.

The problem is that the current system is entirely unfit for the modern age. Pay for most public sector staff is determined by centrally determined national pay scales, with annual progression based on time served rather than the local labour market, the employee's performance or the cost of living. This causes several problems, foremost one of fairness. It leads to some staff being paid more than their

## Failure to reflect the cost of living leads to unfairness between public workers

counterparts in the private sector, some less. Failure to reflect the cost of living leads to unfairness between public workers (for example, a typical family's cost of living is 12.6% higher in the South West than the North East, or 13.5% higher than in Wales). Perhaps most importantly, it has a damaging effect on public services where pay is set too low. This leads to higher vacancy rates and turnover associated with higher fatality rates in hospitals and lower academic outcomes for students in deprived neighbourhoods. Conversely, where the national pay rate is set too high, private sector employment may be 'crowded out' by bidding up the cost of wages and making it difficult to recruit key staff.

Failure to reward good performance is also linked to lower productivity and morale than the private sector (reflected in things like sickness absence). To take the example of teachers, the proportion moving up the main payscale each year is nearly 100 percent, despite the theoretical condition of satisfactory performance. There is also the issue of the cost. If we were able to reform public sector pay so that workers were paid that of their equivalents in the private sector, we would make a huge saving: some £6.3 billion a year.

Reform must be done carefully, however. If these savings returned to the Treasury, it would likely 'suck' public spending out of deprived regions: an economically (as well as politically) damaging outcome. National pay structures play a big role in redistributing money from rich to poor regions and very few would oppose this. The problem is that pay is a very inefficient way to make these transfers – largely funding additional consumption rather than investment.

Policy Exchange's recent report,

Local Pay, Local Growth, sets out a strategy to rectify this. In order to ensure poor areas do not lose out, we propose reinvesting any savings back into those communities through more effective methods of job creation, such as infrastructure or regional growth funds. This would generate multipliers of growth in other sectors and create jobs in some of our most deprived communities. At a minimum (taking a very high cost of £33,000 per job created as a benchmark) we could create 288,000 additional jobs: up to half the people claiming unemployment benefits in some areas. To ensure cost control, we examine the Swedish paysetting model, which transitioned over several years to a system which is much more responsive at a local (and even individual) level. To ensure staff are fairly paid for their contribution, we propose replacing automatic pay scale progression with performance-related pay frameworks used in the private sector.

None of these reforms can be achieved overnight. Previous attempts, such as Gordon Brown's in 2003, largely ran into the quicksand due to concerted trade union opposition. But given its huge potential, both to improve our public services in a time of tight budgets and to create jobs which the UK sorely needs, grasping the nettle of public sector pay reform is an opportunity too good to miss.

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# Why Tax Cuts are Needed to Generate Growth



Rory Meakin

Deficit reduction, the Big Society, NHS reform and free schools; none of these big agendas compare to the importance of the economy because failure on growth is the one thing voters won't tolerate, irrespective of other achievements. But growth is the elixir that's eluding the Government's clasp, despite the ready availability of evidence on what would secure it. Plenty of well-intentioned but job-destroying obstacles block the road to growth, from employment regulation to planning restrictions but one rock stands out as the most obvious candidate for rolling off the road to prosperity: tax.

A still-massive deficit and climbing levels of debt leaves little room for unfunded tax cuts. We need to take a fresh look at spending. Bluntly, the economy needs tax cuts more than things like increasing foreign aid and EU contributions; trade union activists and gold-plated public sector pensions; and expensive

high speed rail projects and unnecessary quangos. But some tax cuts probably won't lose the Treasury money because they are already at or beyond the top of Art Laffer's famous curve.

Even when cut to 45p in the pound, evidence suggests that the top rate of income tax still loses potential revenue. Indeed, the Centre for Economic and Business Research has estimated the tax-maximising rate of Income Tax at just 36 per cent. In other words, that's the rate that is so damaging to the economy that raising it any further will destroy so much economic activity that tax revenues will fall. A growth-maximising rate of tax will be much, much lower.

The other "free" rate cut is on Capital Gains Tax. Rates of 18 and 28 per cent sound low. But two factors explain why they're probably still too high. First, capital is very mobile and consequently very sensitive to tax. It flees high





tax rates fast and that translates to a lower revenue-maximising tax rate.

Second, Capital Gains Tax represents double taxation. People buy assets because they produce income. People will pay more for an asset if it produces a bigger income. Tax on income means the income will be smaller and therefore the asset value will be smaller. So income tax reduces capital gains meaning sellers already pay tax even before Capital Gains Tax is levied, despite not writing the cheque themselves.

## The overwhelming conclusion of the economic literature is that the optimal rate of CGT is zero

Tax on capital gains is already high even without a specific Capital Gains Tax. The Centre for Policy Studies concluded in *The Case Against CGT* that “the overwhelming conclusion of the economic literature is that the optimal rate of CGT is zero”. The 2020 Tax Commission came to the same conclusion recently in its comprehensive tax review, *The Single Income Tax*. Unfortunately, there’s a reason these economic easy pickings are unplucked. Alone, they won’t be popular. But their economic effects will be, especially if combined with tax cuts lower down the income scale.

The history of successful tax reform is also the history of broad-based tax cuts. As the Government recently discovered with pasties, caravans and grannies, simplification can be highly unpopular unless it’s a competently communicated part of a tax cutting agenda. Lord Lawson’s budgets in particular and other reforms around the world have been wildly popular when the majority benefit, even if others benefit more. ComRes found that net support for abolishing the 50p rate jumped from -34 per cent to +4 per cent if the personal allowance would also increase by £500. So what should the Government do to win broad popular support and restore economic growth?

Three watchwords should guide Mr Osborne when cutting taxes: spread, supply-side and simplification. Tax

cuts must be spread widely to ensure broad support and aimed at the supply side of the economy to ensure maximum economic advantage. Finally, the package must simplify tax because complexity itself discourages growth, kills jobs and undermines public confidence in the entire system, leading people to suspect others aren’t paying their fair share.

The 2010 Tax Commission proposed a single Income Tax at a proportionate rate of 30 per cent, replacing the needlessly complicated existing tax code. That is what the Government should be moving towards over the next eight years. Sadly, National Insurance, Corporation Tax, Capital Gains Tax, Stamp Duty and Inheritance Tax can’t all be abolished overnight. But the time is now for big, bold steps to jolt the economy back into life and show that Britain really is back in business.

Three substantial tax reforms would meet that challenge.

Corporation Tax should be halved to 12 per cent over two years, the lowest in the OECD. Mr Osborne was right to cut this tax and should be commended for the sharper than expected 2p reduction in the last budget. But it wasn’t enough. He should announce two 6p cuts in the next budget, to 18 per cent immediately and again to 12 per cent in 2014. HMRC estimates that a 1p change would reduce revenue by £730 million so a 6p cut should cost around £4 billion in the first year.

That radical move would put Britain at the top of the shortlist when corporations consider relocating. It would transform profit and loss spreadsheets and cause planned business closures to be cancelled. The lights would go green on many ideas that would otherwise be consigned to never-never land.

National Insurance – little more than a second set of Income Taxes – should be rapidly aligned into Income Tax in advance of a full merger. Separate rules on things such as how it’s assessed and what counts as ‘earnings’ should be merged into a single set. Both employers and employee’s National Insurance should be stated on pay slips for maximum tax transparency. Workers deserve the whole truth about how much tax they’re paying, including jobs taxes like employer’s National Insurance contributions. To boost employment and get people

off benefits and back into work, rates should be cut. Both should be cut to 11 per cent each in the next budget (costing around £11 billion) and again to 10 per cent in 2014.

Personal Allowance increases would transform incentives to make work pay for those on low incomes or trapped on benefits. The Chancellor deserves credit for lifting millions on very low incomes out of tax but he ought to do more. £10,000 was a reasonable figure back in 2010 but three years later inflation has eroded the value of that amount. Instead of raising it to £9,205 this April, he should raise it to £11,000 and announce further rises of £500 in future years. This would have a £10 billion first year impact on revenues but it would reward working people with £615 per year each, sending a powerful message of determination to make sure people who work are better off than those who don’t.

These three reforms would transform our economic prospects, restore growth to the economy and improve the lives of millions of ordinary taxpayers struggling to make ends meet. At a modest cost of around 4 per cent of spending, they’re perfectly affordable for a Government ready to look again at spending. Indeed, if the Government wants economic growth and re-election in 2015, they can’t really afford not to.

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# All Change or No Change?

## What the US Election means for the Special Relationship



James D. Boys

This Prime Minister is clearly committed to the continued relationship and has remodelled the UK national security architecture along American lines

This November the most expensive election ever held will be conducted in the United States. Perhaps 55% of eligible voters will be tempted to exercise their democratic right to decide who it is that will lead the United States for the next four years. With the hundreds of millions of dollars that have been raised and spent (particularly on TV advertising) there can be few Americans who are not aware that the choice is between a second term for Barack Obama or a new Republican Administration led by Mitt Romney.

Much debate has ensued as to what the options mean domestically, but what are the implications for the United States' dealings with what President Obama recently referred to as their "closest ally", the United Kingdom?

In recent years there appears to have been a fluctuating degree of interest in the transatlantic relationship at the highest levels of government. Leaders on both sides of the Atlantic appeared to make short measure of their counterpart between Tony Blair's departure and David Cameron's arrival in Downing Street. During Cameron's time in office the relationship has evolved, being referred to as 'special', 'unique' and 'essential'. This Prime Minister is clearly committed to the continued relationship and has remodelled the UK national security architecture along American lines.

From the vantage point of Washington, it is easy to highlight the changes in emphasis that have accompanied this administration as Obama has more than hinted at a pivot to the Pacific. His roots in Hawaii and Kenya suggest a non-European emphasis that may be over-emphasised, but which appears to coincide with historical trends away from a focus on Europe. However, we have been here before. In the early 1990s Bill Clinton made a similar entreaty to Asia, a move compounded by a perceived slighting received at Oxford

University that caused some to suggest an end to the Special Relationship and a shift from an Atlantic to a Pacific focus for US foreign policy in the last decade of the 20th century.

What Clinton discovered was that the region was not as welcoming to America overtures as he would have wished and all too soon his administration was forced to revert to first principles and embrace a Europe-first mentality. Some twenty years later, Obama's Pacific pivot appears all the more challenging to European sensibilities due to the president's personal narrative and appears to be reinforced by his actions and statements: witness his visit to Australia, his reinforcement of bases in the Pacific and recognition of the potential threat from China.

It is possible to read too much, however, into personal actions. Far too much was made of President Obama's decision to return bronze bust of Winston Churchill that George W. Bush kept in the Oval Office. This was portrayed as a harbinger of a negative shift in transatlantic relations. Yet the bust had only been loaned to President Bush due to his known admiration for Churchill and should really have been returned by the outgoing Bush team at the end of their term, not left for the new Obama team to deal with.

President Obama has treated David Cameron to flights on Air Force One and Marine One and the two men appear to get along well. Additionally, Michelle Obama and Samantha Cameron are said to enjoy a "very, very warm". Ultimately, however, the transatlantic relationship is not dependent on personal friendship between the two national leaders; rapport is important but not essential. The intangibles are based on shared dealings at a military, intelligence and diplomatic level. None of these will be fundamentally altered whoever wins the forthcoming election.

The recent visit to London by Republican Party

candidate Mitt Romney did little to endear him to the nation, due to his ill-advised remarks ahead of his arrival. Yet there is no reason to believe that a Romney Administration would be anything other than positive in its relations with the UK. With his background in international business, Mitt Romney will be inclined to maintain the closest possible links with America's closest ally, a link reinforced by Ann Romney's family heritage in Wales. Not for the first time the Special Relationship may well benefit from intimate family ties that have so often connected the two nations.

A Romney Administration would appear to present the likelihood of a more traditional approach to international relations, a reversion to what Romney himself termed 'an Anglo-Saxon' approach to foreign policy and a more Atlantic approach to the world. His foreign policy advisers, as one would expect, are drawn mainly from the ranks of former Republican administrations and as such include those who have been referred to as being 'neo-conservative.'

It would be easy to suggest, therefore, that this would indicate a more muscular approach to foreign policy under a potential Romney Administration. To do so, however, would be to ignore the record of the Obama Administration

and its continuation of many Bush-era policies and its expansion of the drone programme. Indeed, the use of un-manned aerial vehicles appears set to be a key area of development irrespective of the outcome in November.

With neither candidate suggesting otherwise, and with both Obama and Romney eager to curry favour in Downing Street at a time of international unease, it would appear that regardless of the election result this November, the transatlantic relationship will remain strong and vital to both nations, as well as to their national leaders.

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# The Continuing Need for Intelligence Design



Liam Fox MP

The 2012 Olympic and Paralympic Games have proven to be a great national success. The events drew the nation together in admiration for our athletes' sporting prowess and all involved should be rightly rewarded for delivering a truly memorable occasion that demonstrated the very best that Britain has to offer.

One area that received relatively little attention during the Games, thankfully, was security. Issues relating to staffing notwithstanding, the nightmare scenario of a terrorist attack on the Olympics did not materialise and we are able, in Britain, to reflect upon a summer of wonderful sporting achievement, rather than one of violence and conflict.

The heroes of the Games extend far beyond the household names of Jessica Ennis, Mo Farah and David Weir. They include the thousands of people who worked behind the scenes in the months and years that led up to the Games to ensure that the event went off without incident.

The civilian, military and political efforts made to ensure that we had the most successful Olympic Games in history was aided, in part, by changes introduced by the Government shortly after coming to office in 2010. Changes to the UK national security architecture, including the configuration of a National Security Council, and the establishment of a Joint Strategy Board to formalise the longstanding security and intelligence links between the United Kingdom and the United States, went a long way to ensure joined-up thinking at the highest levels of government. Vitally, these changes sought to end an era of ad hoc decision-making that had too long endured in Whitehall.

As Defence Secretary I was a regular attendee at the NSC and witnessed the potential that exists for this new architecture to be a success. I also witnessed its failings. Security and Intelligence have, alas, often been casualties of budgetary cuts and short-term political manipulation. Emotions and structures (such as COBR-A) have too often been manipulated to exploit fears and present a proactive image to voters.

The role of U.K. intelligence has a direct bearing on every man, woman and child. For, as the successful implementation of the Olympics reminds us, it is the unseen first line of defence and offence, in a continuing struggle with those forces who would inflict harm on our people, our nation and its institutions. The decisions that are made in this sphere go to the very core of a government's responsibility to protect the nation and its citizens. Instead

of ad hoc thinking, matters of such national importance require long-term, cross-party collaboration to ensure that national security is not compromised as a result of party political machinations.

Fifty years ago, President John F. Kennedy observed, "Domestic policy can only defeat us, foreign policy can kill us." The Government has recognised the need to update our national security architecture. Through a Cold War and a War on Terror the decision-making process in Downing Street was far too lax and gave rise to justifiable criticism relating to issues of accountability and transparency. With the implications for potential miscalculation already high enough in this area, it should be logical that any steps that can be taken to aid policymakers would be welcomed.

This summer I wrote the Foreword to the Bow Group report, *Intelligence Design: UK National Security in a Changing World*, which was an extremely important contribution to this debate. The paper detailed reforms to the country's intelligence system that are needed to ensure that the nation remains secure.

The United Kingdom requires a foreign policy and an intelligent approach to intelligence, which is in line with British principles and traditions. The Government has done a great deal to implement change in a system that is notoriously change averse. The changes introduced by the Coalition Government are a welcome step in the right direction, but further measures are required to ensure that our intelligence community remains fit for purpose in the 21st century.

We must not allow recent successes to lull us into a false sense of security. As Margaret Thatcher reminded us, the terrorist only needs to be lucky once. We must ensure that the reforms to the UK intelligence architecture that have been initiated continue to evolve to take into account the demands placed upon it in a constantly changing and challenging geopolitical environment.

*Rt. Hon. Dr. Liam Fox is the Member of Parliament for North Somerset and a Former Secretary of State for Defence. In July 2012, he wrote the foreword to the Bow Group Paper, 'Intelligence Design: UK National Security in a Changing World'*



# Why we need a powerful Royal Navy: The World Beyond SDSR2015



Harry Bennett

The problem with knotty issues such as a third runway at Heathrow, high speed rail links and duty on fuel is that they dominate the political agenda overshadowing other, bigger, and in many cases more important issues. And yet it is in exactly those quiet realms which might be found ways to address the critical issues on the national agenda, or the unexpected banana skin that puts the skids under an administration.

Accidents of geography and history determine who we are as a nation. We are a crowded island in an age of globalisation. With two-thirds of the world's surface covered by water, global means maritime. In recent years around 90% of world trade by volume (around 70% by value) has been across the oceans. Britain relies on the world's maritime logistical networks to put food on the shelves, keep petrol at the pumps and the lights burning in our homes. The same maritime logistical networks carry the exports of the industries on which our national recovery depends. The networks are the arteries which carry the lifeblood of UK plc. The just-in-time demands of modern business mean that even minor disruptions along the network of shipping lanes, ports and pipelines could have profound impacts on UK business, economy and society. These networks extend around the globe running through zones of political instability, state rivalry and religious fundamentalism. The importance of those networks means that British interests are truly global.

Those networks continue to grow as the BRIC countries expand their share of world trade offering opportunities for British entrepreneurship through ship management, ship ownership, insurance and sale of expertise. A recent report for The Centre for Economics and Business Research suggests growth in the value of UK seaborne imports of 287% in the next two decades with the value of our maritime exports rising by 119% (both figures adjusted for inflation).

Likewise the economic potential of the ocean rises with the dawn of new technologies, and increasing population pressure on the land forces us to look to the ocean for power supplies, food, raw materials and the most carbon efficient means of bulk transport around the globe. The oceans are the wealth creation zones of tomorrow.

Other nations recognise the potential, and the potential dangers of the maritime world of the 21st Century. China and India are

## The oceans are the wealth creation zones of tomorrow

building substantial navies and the United States has shifted its emphasis from the North Atlantic and Europe to Asia and the Pacific. In an increasingly resource hungry world no power can afford to neglect the security of the maritime logistical networks or to fail to advance its claim to a share of the future prosperity which will come from the oceans. Without a serious navy no power will be taken seriously even by old friends such as the USA.

An uncertain world demands preparedness and a flexible, proportionate response, and the world of 2025 threatens to be so very uncertain. The logical response is a strong Royal Navy able to protect and project vital national interests, respond to international disasters and emergencies, partner with long-term allies, and able to unobtrusively ensure British influence in remote corners of the globe without the complications of over-flight or basing rights.

What does a strong Royal Navy mean? It means a balanced fleet of frigates, destroyers, mine countermeasure vessels, auxiliaries and submarines together with carrier and amphibious capability. Ships are like instruments with each type of vessel representing a different section of the orchestra. They come together to form a whole and without each component the orchestra does not fully function, or function at all. At the moment we lack critical capabilities to deploy a balanced fleet to reach potential flashpoints spread around the globe. Those potential flashpoints are far removed from the protective air cover which could be provided from European or other friendly air bases. The Pandora tomorrows lie far from home waters and home airspace in the Persian Gulf, Formosa Strait, South Atlantic and the Spratly Islands.

Worse still, the current shortage of ships compromises our ability to respond quickly and effectively to more modest potential emergencies and problems, whether it is political developments in the Mediterranean, pirates off the African shore or trapped tourists as a result of Icelandic ash clouds. The lack of capability leaves us vulnerable to events.

A strong Royal Navy, and the pursuit of

policies designed to exploit the potential of the maritime sphere, are investments in our future and a necessary insurance in the world of tomorrow. The Royal Navy does not exist as an expensive end in itself but as a means to national security and prosperity. The Royal Navy has not always been good at articulating that mission at the national level but it has always been true to it. The mission statement of the Royal Navy was defined in the Articles of War over 200 years ago, and it is inscribed on the walls of Britannia Naval College for the guidance of every officer trained to maintain it: 'It is on the Navy, under the good Providence of God, that our Wealth, Prosperity, and Peace depend'.

The business of the Royal Navy is the business of Britain. The Royal Navy is a wholly owned and vital subsidiary of UK plc and it remains a respected global brand underpinning the reach, influence and prosperity of the parent company. We neglect that brand at our peril – we need to invest in it and the maritime sphere more generally. In the world of tomorrow we need a strong Royal Navy and a balanced fleet.

Specifically, the Government should look to:

1. Prioritise the Royal Navy, especially the carrier programme, within the existing

envelope of MOD spending as part of the conscious pursuit of a maritime strategy for national defence.

2. Shift resourcing from soft power programmes to increase core MOD funding to bring into it programmes associated with such things as carrier-based airborne early warning, the development of RN helicopter capability, and future sensor and weapons programmes for the RN and Royal Marines.

3. Increase tax breaks for investments in the Maritime Future to ensure that we have a share of the wealth to come from the oceans.

*Dr. H. Bennett has taught at the University of Plymouth since 1992. His research has focussed on the intersection between Foreign Policy and Defence, together with aspects of the Land, Sea and Air campaigns in the Second World War*





# A future for international aid



Robert Manning

Speaking in 1975, Milton Friedman stated that “one of the great mistakes is to judge policies and programs by their intentions rather than their results.” This famous quote is particularly pertinent in the matter of international development. For decades governments have provided the international community with aid in the form of direct monetary assistance. The 2010/11 Department for International Development (DFID) budget provided direct financial aid to 36 countries out of a total of 78 constituting the recipients of UK aid. Notwithstanding western governments’ long-term commitment to aid provisions, economic development has continued to be an allusive goal for many parts of the developing world. A new approach is clearly needed.

The new Secretary of State for International Development, Justine Greening, has already said that she believes that more can be achieved with less with the aid budget. Her attitude is both refreshing and forward-thinking. The argument here is not a matter of opposition to international aid. On the contrary, it is a matter of ensuring that money spent on international aid is invested prudently. The Government’s domestic economic policy is currently tendered towards encouraging the growth of SMEs; encouraging innovation and job creation. These very values that make up the core of our own economic strategy should be remembered when we consider our approach to foreign aid and the way by which these values can be utilised is through the simple notion of private property.

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Enterprise is dependent on the enforcement of private ownership in order to flourish, otherwise trade and growth constitute nothing more than distant dreams

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Enterprise is dependent on the enforcement of private ownership in order to flourish, otherwise trade and growth constitute nothing more than distant dreams. The fact that Western governments have spent billions on international aid over recent decades with little success in bringing about development means a major rethink is needed with regards to the way

in which we go about trying to make a success of international development. It is an aspiration to economic advantage that drives individuals to succeed and generate results, and aspiration must be encouraged if development is to come about. The methods by which such aspiration can be encouraged are simple enough in their description if not in their application. Thinkers have long argued that development is dependent on the existence of legally enforced private property rights. Writing in 2000, Hernando de Soto opined in his key work, *The Mystery of Capital* that it is the lack of clear, enforceable property rights that causes the failure of the release of capital from land and other assets in developing countries. The fact that property is often inadequately titled or poorly protected prevents owners from effectively utilising said property efficiently. As such the value of sound utilisation (its capital) cannot be released and credit markets are unable to develop owing to a lack of security of assets. A perfect demonstration of the point can be found in the example of the Zambian copper mining network which was privatised during the 90’s and has recently witnessed record international investment. The IMF has noted the privatisation programme as a key factor in this turnaround owing to the ability to attract foreign investors.

As conservatives, we believe in the value of doing things from the bottom up, and encouraging aspiration by providing the framework by which aspiration may be allowed to thrive and prosper in the form of achievement. Programs delivering medicine and food to local populations within developing countries are extremely valuable undertakings; let us be clear on that, but such programs fail to address the underlying issues. We are all familiar with the phrase “give a man a fish, and you’ll feed him for a day. Teach a man to fish, and you’ve fed him for a lifetime.” Decades of international development policy which has largely been influenced by such sentiment has clearly failed to bring about the economic growth necessary in order to provide sustainable use of resources in many parts of the third world. Let us not make the error of assuming that developing states are resource poor because this is simply not the case, they simply lack the means by which their resources may be used to their maximum advantage, i.e. to release capital.

Critics would be right at this stage to point out that the solution to the barriers to development described here are matters of internal economic policy; not the concern of foreign governments.

It is not the submission here that at any level should we attempt to meddle in the domestic policy of a sovereign state, but within these considerations there exists strong policy implications for the ways in which we engage the aid budget. DFID currently provides aid in a number of different ways including direct financial aid, humanitarian aid, healthcare provision, and projects such as those across sub-Saharan Africa which focus on assisting with ventures such as the development of farmland. As noble and notable as these efforts are they are not solving the long-term problem.

The solution is to direct a significant portion of the aid budget towards funding micro-financed programs aimed at assisting ordinary people on the ground to utilise their resources in the development of micro-enterprise. Difficulties associated with property rights systems make access to credit virtually impossible for many in the developing world. Developing nations often maintain confusing and complex systems of registration, and legislation often clashes with long held cultural practices which create an uncertain environment, unsuitable for the development of credit markets. The fallout of the Nigerian Land Use Act (1978) which revolutionised land entitlement and allocation against a backdrop of well-established cultural practices, and the resulting violence generated by ownership disputes are demonstrative of this point. Micro-finance projects therefore are a method by which the DFID can channel aid towards small scale loans and grants on consumer friendly terms through which the

underused resources of developing countries can be put to use. Such a system must also be coupled with stringent selection criteria and results based assessment in order to ensure that such aid is used as intended.

Additionally the benefits of such enterprises to the UK as well as to the developing world are astoundingly noteworthy. Aid allows us to foster relationships abroad and protect our trade interests. DFID funded micro-finance projects can not only maintain these benefits but also allow for micro-credit repayments to be reinvested into the aid budget. The provision of micro-loans therefore not only has the ability to establish effective SMEs in developing nations but also regenerates the aid originally invested. Such a system of aid provision is therefore friendly to all parties involved, from the recipient state to the UK taxpayer.

In short, give a man a fish, and you'll feed him for a day. Teach a man to fish, and you've fed him for a lifetime. Help a man to trade his fish, and you've fed his community indefinitely. If the Secretary of State is looking to achieve more for less with the aid budget, this is one way in which to do it.

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# The diminishing importance of Europe to the UK



Daniel Hannan

There is usually a time lag in politics. Pundits carry on citing obsolete statistics for years. Even when they catch up with the facts, they are slow to adjust their worldview to them.

How often, for example, do you hear politicians and journalists claiming that 'half our exports' – or even 'the majority of our exports' – go to the EU?

I'm not sure this statistic was ever properly true. The data were distorted in two ways. First, there is what economists call the 'Rotterdam effect': many British exports destined for non-EU markets are routed through Antwerp and Rotterdam, thus showing up in the raw numbers as exports to the EU. Second, 'UK exports to the Republic of Ireland' in reality include many goods from overseas that have been shipped through Belfast.

Be that as it may, the EU now accounts, on any measure, for a minority of our trade. The Treasury Pink Book, the OECD, the European Commission: all now put the figure at below 50 per cent. The latest official figures as I write, published by the Office of National Statistics on 11 September, show that the EU now accounts for 43.6 per cent of our exports, the lowest share since the current measure was introduced in 1988.

Never mind a percentage point here or there, though. The trend is unarguable. Every continent in the world is growing except Europe. Our exports to the EU fell by 7.3 per cent in the last three months for which we have data, while our exports to the rest of the world rose by 12.8 per cent.

Where are these facts reflected in official thinking? For most of the establishment, our membership of the EU is a datum, a fact around which other policies must be fitted. The main parties, together with the TUC, the CBI and the BBC, are so used to citing the economic indispensability of EU membership that they no longer pause to question their assumption.

Like most legacy policies, EU membership once had a rationale. In the early 1970s, when we launched our third application – the one that would eventually succeed – the EEC did indeed seem an attractive prospect. Between 1945 and 1974, Western Europe had outperformed, not just Britain and her Commonwealth, but also the United States.

In retrospect, we can see why this was. The Second World War had destroyed Europe's

infrastructure, but left in place an industrious and educated workforce, restless to begin the task of reconstruction. There was, for the first time, mass immigration – within countries, as people moved from the country to the towns, from the Mediterranean littoral to the coalfields and steelworks of the north, and from former colonies beyond Europe. Europe also benefited from \$12 billion in Marshall Aid, which came on top of the \$13 billion disbursed between 1948 and 1952, and from the US military guarantee, which freed up defence budgets for civil use.

In the event, Britain's timing could hardly have been worse. We joined the EEC in 1973, at the very end of Europe's Wirtschaftswunder. The growth spurt came to a halt in 1974 with the oil shock, and never properly got going again. In 1973, the year we joined, Western Europe (defined for these purposes as the 15 member states of the EU prior to the 2004 enlargement round) accounted for 38 per cent of world DGP. Now that figure is 24 per cent, and in 2020 it will be 15 per cent.

It's not just that developing countries grow faster than industrialised ones. The EU has also been comprehensively outperformed by the United States and by what we used to call the Old Dominions.

In June 2012, the Commonwealth's economy overtook the eurozone's. According to the IMF, the countries within the single currency will grow at an average of 2.7 per cent over the next five years – which strikes me as optimistic – while the Commonwealth surges ahead at 7.3 per cent.

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These figures destroy the premise on which we joined. Our trade has been redirected, by government intervention, away from the markets to which we are connected by language and law, habit and sentiment; markets which,



unlike those in the EU, are growing.

It never made much sense to join a customs union with similar industrialised economies at the expense of the raw producers of the Commonwealth: the whole point of a market, after all, is to swap on the back of differences. But the latest figures are spelling out quite how wrongheaded our choice was.

I'm not denying that Europe matters: for all that it is shrinking, 43.6 per cent is an extremely hefty share. But the EU is becoming simply one among many of our markets, alongside NAFTA, Mercosur and so on. Yet no one argues that we need to merge our political institutions with theirs so as to be able to sell to them.

Consider Switzerland. The Swiss declined to join the EU, instead

negotiating a series of sectoral trade accords covering everything from fish farming to the permitted size of lorries. As a result, they are fully-covered by the four freedoms of the single market – free movement, that is, of goods, services, people and capital – but are outside the CAP and CFP, free to determine their own human rights issues, and spared the budget contributions which EU members are required to make to Brussels.

Has their trade to the EU suffered in consequence? Hardly. In 2011, their exports to the EU were, in per capita terms, 450 per cent of Britain's.

The Common External Tariff, which the UK must apply to its trade with non-EU states, now averages between five and nine per cent – a higher barrier than we had the 1920s. We have, in

other words, bought trade with a dwindling European market at the expense of trade with a growing global market.

People sometimes ask me what kind of renegotiation I'd be happy with. If I had to identify a single test, it would be this. Would the United Kingdom be able independently to sign a trade deal with, say, Australia? Grant that, and much follows. Deny it, and we condemn ourselves to decline.

*Daniel Hannan is a Conservative MEP for South East England and blogs at [www.hannan.co.uk](http://www.hannan.co.uk)*



# Renegotiating our relationship with Europe



Syed Kamall

The European project is undermining the economic orthodoxy of free markets and proportionate regulation

**I**n Europe, not run by Europe" was a refrain made popular by our current Foreign Secretary William Hague when he led the Conservative Party. Over a decade later, Britain has become increasingly run by Europe, while if opinion polls are to be believed, an increasing number of British people do not seem to want to be in the EU at all. The fact is that in many areas of legislation you cannot be in today's EU without being run by it.

For most British people, the benefits of EU membership derive from our membership of the single European market. Unfortunately, many of my European colleagues see a single market and harmonisation as synonymous rather than allowing for competition or mutual recognition. This explains the push for harmonisation in taxation, motorbike licensing, passports and even modifications that can be made to classic cars!

Every week in Brussels, I find myself arguing against new encroachments on free enterprise. In financial services alone, we have seen the

introduction of new directives and regulations which have a disproportionate impact on British financial services firms. We also see the European Commission calling for a "common rule book" which allows French and German interests to set the rules for the City of London but which also prevents the British Government from imposing tougher rules on British banks.

We always imagined the single market was a great liberalising project. Yet now the European project is undermining the economic orthodoxy of free markets and proportionate regulation. The Napoleonic legal code fits uncomfortably with our common law tradition which relies more heavily on precedence and reason to preserve individual liberties. The culture of other EU countries tolerates the state playing a larger role in the lives of their citizens.

While we in Britain still believe that we signed up simply to a European single market or customs union (not a political union), we are almost alone in seeing the EU in this way. Many of my MEP colleagues from other

European countries see membership of the Euro and the single market as the same project and as economic building blocks to a political union. MEPs from Eurozone countries criticise Britain for “excluding ourselves from the single market” by not joining the euro. For them, the euro is the natural consequence of single market membership, where eventually there would be no room for competing currencies or competing tax regimes.

In August, Angela Merkel called for a convention for a new European treaty. While we continue to have the freedom not to sign up to any new Treaties, there remains the issue that the existing Lisbon Treaty (to which we are signed up and which the Conservatives opposed) already gives the EU many of the powers it needs to govern the UK.

There is no formal mechanism to request a renegotiation of our terms of EU membership. We are therefore left with three alternatives: stay in and accept the consequences of the Lisbon Treaty, use the opportunity of a new treaty to re-negotiate our relationship, or leave the Union. The Coalition government has judged that Britain’s interests lie in remaining in the EU, albeit on Lisbon terms. But as more and more regulations are overlaid by the EU onto the British statute book, we are reaching a point where the balance of British interests might tip towards leaving. So the message to Brussels has to be: if you want us to stay in the EU, then stop imposing unnecessary new regulations on the UK. We do not want to get caught up, for example, in the new banking and fiscal measures that accompany the attempt to preserve the Euro intact.

There are signs that our message is getting through to some of our partners. Shortly after he was elected, French President Francois Hollande came to London and said, “We can see Europe as having different speeds, with each taking what it wants from the union.”

We have different goals so we must create structures that accommodate those differences. We want to run our own financial services regulations, our own fisheries policy, and our own agricultural policy. Many free traders would also like to see Britain able to sign its own trade agreements with third countries. We also want to share best practice in regulation with the EU. There is a precedent. Not all EU countries are members of the Eurozone or of the Schengen agreement.

Some say that when the Eurozone is being engulfed by economic and political turmoil, it would be an odd time to ask for special treatment. But it is precisely because we are not part of the Eurozone turmoil that we need to be excluded from the EU’s fiscal machinations. The turmoil could last for years, and we need to be free to grow our economy on our own terms.

David Cameron will have the difficult task of

reaching an agreement with unsympathetic EU leaders on Britain’s new relationship with them. The other Member States want to proceed headlong towards political union regardless, and they will continue to use the Lisbon Treaty to drag us with them. If they are unwilling to consider a separate deal for the UK, Mr Cameron may have to signal our intention to leave the current Lisbon arrangements come what may. Of course, this carries considerable risks and he would have to be prepared to play “hardball” until our EU partners agree to his demands. If our EU partners fail to budge in negotiations, then an In/Out referendum at that stage could force them to recognise that we require different terms of European market access. We cannot depend on the so-called veto to get our way.

Growing our economy will involve increasing trade with countries outside the EU. There are thousands of businesses in hundreds more countries in addition to the 26 EU Member States that businesses in the UK should be doing more trade with. In the twenty-first century, with the potential in emerging and re-emerging markets we should be making many as friends in as many places.

As the European Union leaders make plans for further political integration, our relationship with the EU will change. Standing still is not an option. If the UK is to remain in Europe, we will have to negotiate a new relationship. At times, this may mean playing hardball with our EU partners. It will be a bumpy negotiation and there will be standoffs, but if we can remain a member of the EU and make it more flexible, this would be in Britain’s interests and will bring benefits to Europe as a whole.

*Dr. Syed Kamall is a Member of the European Parliament for London*



# The EU nightmare returns: Or could this be the Conservatives' best chance for victory?



**Bernard Jenkin MP**

**T**wenty years ago this year, the Conference was reeling from the shock of ejection from the Exchange Rate Mechanism, and teetering on the abyss of the splits over the ratification of the Maastricht Treaty. Are we about to find out that the Conservatives are in a similar place today? If so, can we shake off the EU trauma of 20 years ago? Can we turn this to the advantage of the UK and to our own political advantage, or will the paralysis of coalition mean the UK also remains paralysed at this extraordinary moment of decision for the whole of Europe? For the EU is once again approaching a decisive moment.

The UK's economic recovery has been retarded by the progressive failure of the Euro and the ongoing Eurozone debt crisis. Just as in the case of the crisis with the Exchange Rate Mechanism (where Germany would not alter its interest rate policy to accommodate her ERM partners), so the recent judgment delivered by the German supreme court showed that Germany will pursue her own economic national interest, rather than compromise for the sake of the Eurozone as a whole. The Court accepted that Germany could agree the European Stability Mechanism and the EU Fiscal Compact, but imposed strict limits on any future German contributions to bailouts.

At the same time, Chancellor Merkel is clear. The solution to the crisis is "more Europe, not less Europe". Germany is determined the Euro will survive, not least because of the huge advantage it gives to German exporters, who are able to enjoy a Euro exchange rate 30-40 per cent below where the Deutschmark would be, even though the vast trade imbalances in the Eurozone make the Euro's survival less and less likely in the long term. Mrs Merkel believes not only that the centre requires more power to grip the financial crisis, but because of the crisis of legitimacy in the EU. Centralised power without democratic accountability also drives political union.

So Jose Manuel Barroso's 'State of the Union' speech on 12th September called for "deep and genuine economic and monetary union, a political union, with a coherent foreign and defence policy... a federation of nation states." He continued; "Creating this federation of nation states will ultimately require a new Treaty," and promised that "the outline for the shape of the future European Union" will be presented before the next European elections in 2014.

What we opponents of Maastricht predicted has come to pass: a disastrous monetary union and the imposition of a federal EU on the peoples of Europe which they do not want (and on which they are unlikely to be consulted). The EU summit in December, one year on from David Cameron's veto last year, is likely to be where all the member states including the UK will be asked to set up a new Intergovernmental Conference to draft the new Treaty. By hugging the Conservatives close, and by submitting to their embrace, a Conservative Prime Minister could unwittingly deliver the federal EU which the LibDem elite (not their voters) have always wanted.

This time, our EU partners will be better prepared to avoid being surprised by the UK. Firstly, the EU member states will not propose any treaty amendments that would explicitly transfer new powers from the UK to the EU, to avoid triggering a referendum in the UK. Second, if we threaten to call a referendum anyway, or attempt to veto the new treaty, the Commission and our EU partners will use last year's veto as a useful precedent. Last year, 25 of the other member states set out to bypass the UK (27 minus the UK and the Czech Republic) and signed their own Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (Fiscal Compact). This was plainly illegal. A non-EU treaty cannot give the EU institutions – such as the Commission and the Court of Justice – new powers and functions. That would require the consent of all 27 member states. However, the UK failed to challenge the new treaty in the Courts and the Coalition merely "reserved its position". Third, if this Parliament does run until 2015 with no change in government policy, the new treaty will be done and dusted by the time we are unveiling our 2015 manifesto. That will be too late. The very idea that any Prime Minister could waive through the most fundamental change in very nature of the EU – the political equivalent of economic and monetary union – and then, long after the UK's consent, tacit or otherwise, has been taken for granted, that he could reverse his policy and demand renegotiation is not credible.

The EU, as a federation of states (the term "nation states" in this context is deceitful), would leave the UK in an even more invidious position than now. Without a renegotiation of the present terms of our EU membership, the UK would be attached to the federal EU, but with less and less control over our own laws,





as the federal core drives the EU's policies and legal integration. EU regulation, which already wrecks business competitiveness, would continue to increase. By then, the City of London, which represents over 4 per cent of our GDP and generates 11 per cent of tax revenues in the UK, would be subject to the 50 or so new directives and regulations, which the Prime Minister sought to block by threatening his veto last year.

We cannot protect our marine environment against the damage done by the Common Fisheries Policy. We have no control over immigration to the UK through the EU. We have no veto over an inflation-protected EU budget. Tony Blair's surrender of Mrs Thatcher's rebate is raising our net contribution from £3-4 billion per year during the last decade to over £9 billion per year by 2014 (nearly as much as we spend on overseas aid, and six times more than the average annual cost of maintaining the Trident nuclear deterrent with four new submarines until 2050). All matters which are currently decided by qualified majority voting (QMV) would remain subject to QMV. The European Court of Justice would continue to push the envelope of EU powers and to widen the scope of matters subject to QMV. As well as the proposed EU Financial Transactions Tax, there are still those in the EU who want to push forward tax harmonisation. The federal core of the EU would always command the necessary votes to outvote the UK periphery.

We Conservatives have long promised ourselves that the final leap towards federal union will be our last best chance to extricate the UK from a relationship with our EU partners that has transferred far more power

## A majority of voters want either simply trade and cooperation in the EU or out altogether

to the EU than the British people were either led to expect, or wanted. A majority of voters want either simply trade and cooperation in the EU, or out altogether. By 2015 there is every prospect that we would face a new status quo: in Europe and run by Europe. Our election manifesto would effectively have to say, "Yes, we promised a referendum in 2010 and then blocked it, but trust us!

Give us another chance!" The electoral prospects would not be enticing. How will we fight the EU elections in 2014 from this position of paralysis? Or the local elections next year? I very much hope that David Cameron will promote a vigorous and urgent discussion about how we should head off this impending disaster for our country and for our party, at the EU summit in three months' time. Every crisis is an opportunity. We must be bold for our country and our party, and there will be no prizes for timidity.

*Bernard Jenkin is the Member of Parliament for Harwich and North Essex and the Chairman of the Public Administration Select Committee*



# Back to the future: revisiting radical Conservative NHS reform proposals



Ben Balliger

In 2012 the NHS still faces challenges in the quality and quantity of the services it delivers, but it also faces a future of greater uncertainty as the UK faces economic decline with an increasing and ageing population.

The NHS does not belong to Labour or unions, it belongs to us all. The NHS is a great institution, made up of many dedicated individuals, that both I and all my family have made use of since its inception in 1948. But how do we ensure future generations will enjoy the NHS created by our forbears? Furthermore how do we ensure the NHS experience meets the needs of all users, especially the elderly, in 2012 and beyond?

The UK Government is faced with the daunting challenges of managing 353 hospitals (each an enigma within themselves), 1.4 million people and providing an unending range of health services to an increasing population with unceasing patient demand. However, simply managing buildings, people and statistics does not in themselves deliver a NHS.

From time to time we need to remind ourselves and governments what the NHS is for: to provide all of us with the best possible healthcare at our time of need, when we are most vulnerable. Compare this to the NHS constitution. Three core principles: 1. That it meet the needs of everyone, 2. That it be free at the point of delivery and 3. That it be based on clinical need, not ability to pay. Secondary principles make reference to the focus "on patient experience" and "where appropriate, (the patient) will be involved in and consulted on all decisions about their care and treatment".

This raises the questions of the NHS' purpose and priorities. Why is the "patient's experience" and the patient's consultation on their treatment decisions not part of the core principles? Surely these need to be at the heart of the NHS.

Past experience has shown that a politicised NHS, too focused on meeting Government targets and generating meaningless statistics,

loses patient focus in pursuit of make increasingly limited finances stretch to meet the needs of an increasing and unceasing demand of patients. Whilst it may be born out of the best of intentions, a Benthamite approach to patient care can lead to unethical and poor treatment of patients especially, of the most vulnerable users, the elderly.

Some well-reported issues having a negative impact on the patient experience include: decisions not to provide certain drugs or treatments, shortages of new and essential medical technology, the quality of care you receive being determined largely by where you live and the waiting list game.

Enhancing patient experience and ensuring the long-term continuation of the NHS are both sides of the same coin, but how can we achieve these objectives? Clearly radical reform is required both in the financing of the NHS and in the way the NHS engages with the patient.

To enhance the patient experience, money has to move with the patient both incentivising the healthcare provider and giving the patient some control and therefore some choice. Your hospital experience and your rights to treatment have more meaning if you represent a potential loss or gain of funds rather than simply as a drain on limited financial resources.

For the NHS to continue to serve future generations and improve, assuming continued national financial decline, we must simply either reduce the cost of the NHS or reduce our use of the NHS. The only other alternative would mean simply accepting the status quo and managing decline with deteriorating service delivery and medical technology as our hospitals continue to struggle with increased demand and fewer resources.

We can reduce the operating costs of the NHS to a limited extent and technology may in time help achieve better results, but even with lean hospitals we still face the problem of an increasing and ageing population.

In any case, even if money was not such a limiting factor, Tony Blair has demonstrated, as have previous Labour administrations, that simply throwing money at the challenges of upgrading and maintaining the NHS has limited or no effect.

Successful radical reform of the NHS needs to be far reaching, diverse and creative. The Conservative party has long understood these financial realities and the need for the patient to be at the heart of NHS service delivery. Whilst the Coalition has attempted to address the management challenges of the NHS with its own reforms, it has not addressed the need for more patient focus in an increasingly embattled NHS.

The sort of reform that will enhance patient experience and at the same time ease the financial burden is best illustrated by the Conservative Party's "Patients' Passport": An "all in one" piece of reform, where the patient gains choice, the NHS saves money and simultaneously reduces the demand of users.

The "Patients' Passport" offers the patient 50-60% of the cost of their NHS set tariff operation costs towards the cost of taking their operation privately. Whilst this gave extra options to a larger number of patients who were prepared to pay something towards their operation sooner, poorer patients gain from being in a shorter waiting list and the NHS saves 40-50% of the operation costs and frees up operation capacity.

Critics claimed this favoured the wealthy, this took money out of the NHS, private hospitals would rip off the NHS and the NHS would find it difficult to manage patient demand. Clearly these criticisms were misplaced: the wealthy will always have immediate access to treatment, whether at home or abroad. Indeed this reform benefits the poor by reducing waiting lists: the NHS saves money by not having to do the operation so this reform gives a net financial benefit. As the Government sets the tariff according to NHS

costs, the NHS dictates the "Patients' Passport" cost and any distortion of patient demand will be limited by the relatively small operations capacity in the UK private sector.

Since Dr Liam Fox, as Shadow Secretary of State for Health, first launched the Patient's Passport policy idea, the EU has created its own "Patients' Passport" scheme. The E112 scheme and the ECJ ruling in the Yvonne Watts' case now mean British patients are entitled to have the NHS pay for their full treatment, in another EU country hospital, if their treatment

in the UK is subject to delay. This EU scheme is limited to those patients who are able to travel and able to stay in Europe for what could be a number of weeks or months, leaving those patients unable to travel with no other options.

Surely now the "Patient's passport" is the only fair way to give all patients a choice, limit what NHS money is spent on private operations to a percentage of an NHS tariff, whilst ensuring that subsidy money is spent on the infrastructure of UK private hospitals not European ones.

Only with reforms like the "Patients' Passport" can the NHS be reformed in an intelligent way (combining money saving with patient experience enhancement) allowing the NHS to meet the needs of all its patients, especially the elderly and ensure that it is still going strong in its centenary year, 2048.

Can we afford to ignore such NHS reforms for much longer?

*Ben Balliger is the Bow Group's Membership Secretary*

# The future of the Post-1992 Universities

The current economic climate has thrown up a number of challenges, which Britain's university sector must meet head on. Beyond the provision of excellent research, teaching and delivery of a first-class student experience the higher education system must continue to develop its role in driving growth and helping to shape local communities.

Shaped as they are by available resources, recent history and student profile I would suggest that it is time to both celebrate and take stock of the way in which Post-1992 institutions are attempting to meet this challenge. In a far reaching and socially beneficial intervention, The Further and Higher Education Act of 1992 introduced by John Major's government elevated 35 former polytechnics and technology colleges to full university status. This fresh impetus and a shifting viewpoint of what constituted a university lead to the creation of another 6 new institutions by 1997, and a further 21 by 2002 resulting in 63 of the 115 British universities having been created since 1992.

The demographic of the student population of modern universities reflects a picture of inclusivity and the promotion of learning to sections of society which had previously limited access to tertiary education. Nationally, in 2009-10 more than a third of students at Post-1992 institutions (37%)

came from the lower national statistic socio-economic classifications 4 to 7 compared to 22% at the 1994 Group and 20% at Russell Group universities. Modern universities also teach a higher proportion of students from low participation neighbourhoods (13%), state schools (96%) and minority ethnic backgrounds, with 21% of degrees awarded to black and minority ethnic students.

Post-1992 universities have gone onto serve their local communities well by contributing much to the development of training professional staff in public sector areas such as education and the NHS. Here in the North West the 8 new universities Edge Hill, Liverpool Hope, Liverpool John Moores, Manchester Metropolitan, Bolton, Central Lancashire, Chester and Cumbria are all key stakeholders in the interests of their local towns and cities. The remainder of this article discusses three areas with relevant examples of how focussed university engagement with its community should be recognised and encouraged.

Firstly, modern universities must be celebrated as diverse skills and knowledge creators, who act as catalysts for the appropriation of knowledge and employment skills for sectors of society who traditionally did not have access to such educational opportunity. Manchester Metropolitan University (MMU) is a national leader in having a higher than average



Gareth Crabtree

## Modern universities must be celebrated as diverse skills and knowledge creators

number of students from low-income households. As the report *Degrees of value: How universities benefit society*, by Universities UK details MMU's performance in regards to social mobility is extremely impressive with 38.7 per cent of its undergraduates coming from households earning less than £20,000 a year compared to the estimated sector average of only 7.5 per cent. Universities UK have concluded that through this extra provision of education MMU contributes the equivalent value of £147 million a year through greater fairness, meritocracy, social inclusion and social mobility. Equally importantly, The University of Cumbria is gaining recognition by being at the forefront of innovative ways of delivering learning to previously under resourced communities via learning centres and online resources, providing easy access for local people to increase their skills.

Secondly, modern universities are at the forefront and must remain so in terms of acting as both a community



builder and shaping the urban geography of their surrounding areas. The University of Salford has been a key driver in leading the development of the Media City complex facility situated in Salford Quays. In 2007, Salford University recognised the immense potential of Media City and leased 100,000 square feet of space over four floors providing space from 2011 for 1500 students across 39 programmes at undergraduate and postgraduate to be educated on the site. Media City has greatly changed the wider Salford area, particularly Ordsall with a surge in property development and investment in local services. MMU's Birley Fields complex, has the potential to have an even greater impact and will host its Faculties of Education and Health, Psychology and Social Care from September 2014. Birley Fields will have a hugely beneficial impact

on the Manchester wards of Hulme and Moss Side providing a space for 6000 students to study in a highly green modern campus will drive regeneration of the local area creating new opportunities for businesses, young people and neighbourhood communities.

Thirdly, modern universities have fully accepted they have responsibility to foster student entrepreneurial engagement with the local community. All 8 new North West universities have vibrant and proactive careers services which are helping to find their graduates employment. Individual schemes such as that Liverpool John Moores' Enterprise Fellowship programme provide business support for graduate start-ups throughout Merseyside. In association with the university, Liverpool City Council has launched a sponsorship programme which seeks to create additional

businesses in the city, especially in the digital and knowledge-based industries.

This short article has argued that there needs to be a strong recognition of the economic and social contribution of modern universities. Of course though there is still much more that could be achieved. Through a sharing of best practice, with a constant eye towards the specificity of what makes their region unique, modern universities can further their roles in providing a skilled workforce, facilitating an innovation eco system and being at the heart of civic leadership.

*Dr. Gareth Crabtree is a recent PhD history graduate from the University of Manchester. He is currently engaged in a report for the Peel Policy Forum entitled, 'Building the North West Economy: Modern Universities as Drivers of Social Cohesion, Regeneration and Wealth'*

## Beyond free schools



Gabriel Sahlgren

The Government's 2010 Academies Act went farther than any previous Government in promoting the role of the private sector in primary and secondary education. By allowing independent providers to set up and run 'free schools' funded by the state, the goal was twofold: (1) to sever the link between family income and the ability to choose schools, which would (2) instil competition in the system to drive up standards in neighbouring schools. These are goals worth pursuing. But the current policy is insufficient to make a significant difference – a more comprehensive reform plan to revamp the overall incentive structure in education is clearly necessary.

First, so far, only 79 free schools have started, a rather sober number and far

So far, only 79 free schools have started, a rather sober number and far from the schools revolution envisaged.

from the schools revolution envisaged. Yet, this slow development is not surprising. For example, a myriad of requirements regarding building types in which a school can open ensures a cumbersome process, while local authorities can simply block attempts to start free schools through planning restrictions. Access to free schools clearly depends on whether or not local politicians favour them, which ensures that many parents will remain without choice. That has to change.

Another problem is that only non-profit schools are allowed to operate. While non-profit schools are perfectly good alternatives to state schools, there is a limit to what they can achieve. They have few incentives to scale up and capitalise on scale economies, and it is difficult for them to obtain capital to overcome barriers to growth – making them insufficient for creating a strong supply-side dynamic in the schools sector.

The above flaws indicate that the term

'free school' is somewhat misleading. In Sweden, from which the policy is borrowed, original friskolor start in former offices if they so wish, without cumbersome planning restrictions – and with little possibility of interference from local politicians. Furthermore, a majority of free schools are for-profit companies. It was only when such companies began entering the market that Sweden saw a significant increase in free school enrolment shares – which, in turn, extended opportunities for choice. Furthermore, research shows that there are no differences between for-profit and non-profit schools in terms of their system-level impact on achievement. There is no reason, therefore, why we should prefer non-profit schools to profit-making ones.

It is clear, however, that we must do more to promote a strong supply-side dynamic in the schools sector, which is necessary for choice to function properly. At a minimum, therefore, for-profit schools should be

permitted while redundant building requirements for schools should be abolished. To free up supply significantly, however, it would also be highly desirable to exempt schools from planning restrictions. The main problem with the current policy is simply that it has not increased choice more than marginally, and decisive action is necessary to change this.

While choice is important, the competition to which it gives rise could be a more significant mechanism on the road towards higher achievement. Indeed, the most methodologically sound research from Sweden displays both short-term and long-term positive system-level effects on achievement from free schools at the compulsory level. Almost all of this impact, however, stems from the competition effect on municipal schools – free schools are in fact not much better than state-run schools.

The last point is especially damaging to the UK Government's current policy. It is important to note that the essence of the Swedish system is in fact not free schools, but vouchers. Without a different funding mechanism that applies equally to all English schools, it is highly unlikely that competitive incentives will emerge in state schools as predicted. The best way to ensure that there are financial repercussions of failure, and rewards for success, would be to replicate the Swedish system more thoroughly. This would entail a voucher system in combination with an abolition of minimum income guarantees.

But this would also be insufficient. Without stronger autonomy among schools, they cannot react to competitive incentives even if these do emerge. Indeed, research suggests that the only British schools reacting positively to competition within the current system are those with relatively strong autonomy. A key issue is firing and hiring rights. Teachers are very important for pupil progress – and if there is no mechanism to keep the best and fire the rest, it is difficult for schools to improve pupil achievement. Indeed, research shows that centralised collective bargaining among teachers has been negative for pupil achievement in general. National pay scales and centralised terms of employment for teachers must therefore be dismantled.

Similarly, forcing all pupils to take the same qualifications ensure that there

is little competition about what, how and in what pace pupils learn. While the development of new qualifications should certainly be encouraged and, if appropriate, authorised by the government, we can start by allowing any school to offer already-approved EU qualifications. If British schools want to offer a Finnish education, why should they be prohibited from doing so?

While competition may be beneficial, there are also a number of concerns that need to be addressed. First, schools must be incentivised to raise quality rather than to cream skim. This has implications for selection practices and top-up fees since both methods may enable schools to compete by selecting better and richer pupils. A key difference between Chile and Sweden is that the former allows top-up fees and schools to select their pupils, while the latter prohibits both. It is therefore conspicuous that the research from Chile is very mixed while the Swedish evidence is consistently positive. We should therefore carefully conduct field experiments regarding these features rather than adopting them wholesale.

In general, we must compensate schools for taking, and incentivise them to take, on poorer and less able pupils. This means that the voucher should be differentiated based on pupil background and ability. The pupil premium was a step in the right direction, but it is not enough. A systematic differentiation of funding is clearly necessary.

Another problem is a lack of information. For example, pupil quality is frequently conflated with school quality. High average test scores and pass rates are mostly due to children being smart rather than that the schools they attend are good. Information asymmetries can create situations in which parents are ignorant about school quality – which would not bode well for the goal of enhancing achievement.

That is why current league tables, which focus strongly on average pass marks, must go. While the now abolished Contextual Value Added was poorly constructed, the goal to measure actual pupil progress should not be abandoned. In general, a plethora of information – including value added, parental satisfaction scores, and Ofsted inspection scores – is important to make sure that schools

compete by raising quality along a variety of measures rather than test scores only. It is not necessary to force schools into a single framework to hold them accountable. It is, however, essential that parents and pupils have access to well-developed information.

The key problem in education today is that there are extremely few incentives to improve pupils' achievement.

While the 2010 Academies Act was a positive move forward, it is clearly insufficient as a framework to change the overall incentive structure more than marginally. The road towards a well-functioning education market is likely to be long and bumpy, and there are other issues that have to be addressed. But the steps outlined here would at least get us going in the right direction.

*Gabriel H. Sahlgren is a Research Fellow at the Institute of Economic Affairs*



# A market for higher education



David Willetts MP

The data collected by the OECD from countries all over the world show a pretty consistent upward trend in demand for higher education – in mature economies and developing countries. The benefits are clear: higher education is good for individuals, good for the economy and good for society.

That helps answer the question of how to pay for it. It has to be a mixed model. Our student finance reforms rebalance the system so that there will be a greater contribution from the main beneficiaries – graduates – but only where they can afford it and via a more progressive loan system. Around one-third of the money loaned to first-time undergraduates will never be repaid because of the protections that are built in for low earners, while the maximum non-payable maintenance grants paid to students from lower-income households are increasing. The monthly repayments will be lower for all and around 30 per cent of graduates will pay back less in total than under the previous system. Taxpayers still cover 40 per cent of the cost and, according to the Institute for Fiscal Studies, the repayment system is 'substantially more progressive' than the previous system. Our model is now gaining interest in other places that are also grappling with the question of how to balance the interests of students and graduates, universities and taxpayers.

Our student finance reforms are not just, or even primarily, about saving money. More public support is delivered via the student rather than via a funding agency. This allows us to liberate universities from the hidden regulation that comes with the power of the purse and instead have more limited but explicit regulations, and to make student choice more meaningful.

Next year, universities will be able to recruit as many students as they wish with ABB or better in their A-Levels – that means one-third of university places will be freed of centralised number controls. From this autumn, people filling in their UCAS forms will have much better information about what each course in the country is offering. Such initiatives will enable the best possible match between students and institutions.

The overarching objective of all the changes is to deliver a better experience for students. That's also why we are so serious about

supply-side reform, which can help drive improvements throughout the sector. Our universities nearly all started as alternative providers offering something different from existing provision, and many of our newer institutions are spectacularly successful. The Times Higher league table of the world's best 100 universities that are under 50 years old includes three UK institutions in the top 10 and twenty overall. That is more than any other country.

Education is already one of our great export industries: last year, over 425,000 overseas students came to the UK to study but even more – over 500,000 people – benefitted from British higher education whilst living abroad. We have some excellent universities. We have a regulatory system which gives confidence in our academic standards. And of course there is the advantage of teaching in English.

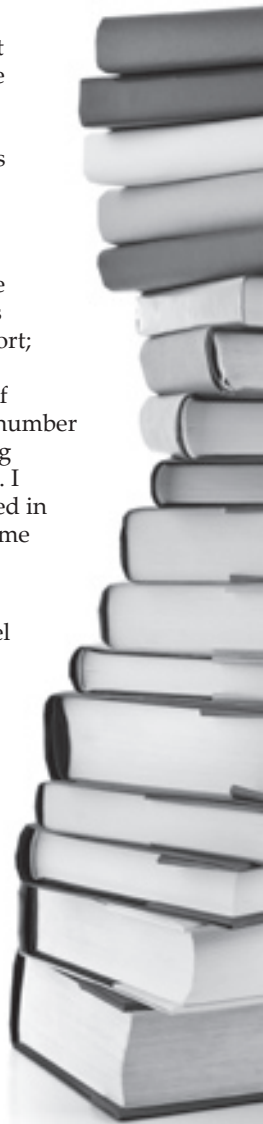
So it must make sense to ensure the system is open to new providers, while ensuring the right safeguards are in place. There are many ways an alternative provider can enter our system. We welcome new institutions, and international universities with a track record abroad. Existing universities can establish commercial subsidiaries aimed at the overseas market or at more flexible provision. I envisage a wider range of providers with a particular focus on teaching, or on the efficient delivery of licences to practise or on online distance learning.

We are already: improving the designation process for alternative providers that want their students to be able to access students support; gradually levelling the regulatory playing-field between providers of different types; and reducing the number of students necessary for achieving university title from 4,000 to 1,000. I urge education providers interested in innovation to contact us if they come across other unexpected obstacles that unnecessarily stifle activity.

Educating citizens to a higher level is the crucial challenge for all nations wishing to modernise. We cannot afford to be left behind.

*Rt. Hon. David Willetts MP  
is the Member of Parliament  
for Havant and the UK  
Government's Minister for  
Universities and Science*

The overarching objective of all the changes is to deliver a better experience for students





# Teaching: Inspiring a generation

Having shamelessly stolen the 2012 Olympic slogan, I should perhaps explain my reasoning. Whilst it is the job of teachers to inspire pupils, that cannot occur until the teachers themselves are inspired: firstly by the concept of teaching itself, and secondly by teaching a challenging curriculum which they can tailor to the needs and strengths of their pupils. Many teachers are already inspired by their profession, and desire a more flexible curriculum to fully utilise the opportunities that teaching could provide to both themselves and their pupils. It cannot be denied however that a significant proportion of teachers' union members continually attempt to frustrate this.

Former High Master Martin Stephen argues that teaching unions are "turning their noble profession into a lowly trade" by opposing innovations such as Academies and Free Schools which genuinely motivated teachers and parents have embraced as a way of improving the quality of education.

The fact that 102 Free Schools have been approved for next year shows an increasing understanding that the first duty of education is teaching excellence, however strong opposition displayed by union members proves that too many teachers still primarily see teaching as a job with annual salary increases rather than a respected service-providing profession.

The DfE is already taking steps to increase the standard of teaching via training and inspection. The overhaul discussed in 2011-12 set out "rigorous standards teachers should meet in order to provide excellent teaching, improve pupils' skills in the basics of English and Maths and provide better support to those

pupils falling behind," the overall aim being to put much greater emphasis on teaching skills and knowledge of subject matter rather than on issues such as 'health and well-being.'

But will this effectively combat the self-serving attitude among so many teaching union members? We need a radical institutional reform. Let us consider another successful profession. Doctors: they rarely go on strike. They also have their own respected institutions: the Royal Colleges. Qualifying for post-nominal initials such as MRCS or FRCS has reinforced the status of medical professionals.

So why not have a Royal College of Education (RCE)? The Education Select Committee (1st May 2012) and the lesser-known College of Teachers have already briefly flirted with the idea. The College attempts to perform this function already, but without the success and prestige of the medical colleges. The apparatus therefore exists in both the College and the current teacher training programmes. Current establishments could provide RCE approved qualifications which would make the newly qualified teacher a Graduate Member of the Royal College of Education, with Member and Fellow as options for further advancement.

The need for prestigious qualifications is partially vindicated by the Sutton Trust report, which recommends their combination with pay incentives and the option for high performing trainees to follow a "fast-track entry route." Teachers could opt into a more radical promotion and salary system "which rewards high performers with extra pay and opportunities for faster career progression, but penalises under-performance." Qualifications and appraisals could be grounded upon practical classroom performance. The Teaching Agency would direct such initiatives, with the Royal College significantly encouraging the schemes and establishing the required standards. The Royal College of General Practitioners has 'membership by assessed performance', and an annual appraisal system designed to "continuously improve the quality of [GPs'] practice and to assist in the early identification of doctors in difficulty, so that they can be offered appropriate support." This could eradicate current fears that every teacher appraisal is a make-or-break test, and encourage them to see appraisals as positive early problem resolution before the threat of disciplinary action arises.



Christopher Williams

A Royal College has to be independent whilst ensuring that it is not entirely disconnected from the unions. Supporters of sensible reform in the unions need to be recruited to the Royal College governing body. Future generations of trainee teachers would enter into a competitive and inspiring environment, supported by union colleagues taking a balanced view on professional development and employment conditions.

It could be a catalyst for debating improvements to the curriculum and styles of teaching, capturing expertise from more independent schools, especially in the use of sets to improve pupil performance in each subject. The College of Teachers' journals could be revived for this.

Reinforcing this, the number of state schools using the more challenging IGCSE has increased from 250 in 2010 to 1,170 this year. This required the enthusiastic support of professional teachers (particularly headteachers) to drive up achievement levels. When combined with schools filled with skilled and enthusiastic teachers, this system could allow pupils to excel in the subjects for which they clearly have good potential, whilst being encouraged and helped in the subjects they find challenging - in particular encouraging IT skills in those who show real potential for the subject (a global competitive need).

Poor teaching fails the children receiving it. Good teaching challenges pupils in their strengths and addresses their weaknesses, enabling each child to reach his or her true potential. We can all remember the teachers who really inspired us - we need many more of them.

*Christopher Williams is an intern at the Bow Group*

# University Admissions and the Big Society:



**Ben Balliger**



**Ben Harris-Quinney**

The perennial problem of the big society is incentive. The 2012 Olympics proved that huge numbers of volunteers can be inspired and mobilised to take part in helping their community and nation.

We can all be proud of these volunteers for their unpaid contribution to their nation's history, but with the attention of the world and the glamour of the greatest international sporting event having left our shores, how many of these volunteers will carry on contributing to their community in the unglamorous unsung day to day quarry that is the lot of the local community volunteer?

Not everyone is cut out to be or prepared to be a volunteer, but those that do, quite rightly, discover a sense of self fulfilment and pride in themselves and their communities. How then do we convince most people to discover volunteering as something they enjoy, find personally and socially rewarding and continue to volunteer for the rest of their lives?

The real mark of success for the Big Society will be in creating a generation that wants to take part in the community and fabric of their nation without payment, whether the stage is international or provincial and whether the personal rewards are immediate or intangible. London 2012 attempted to "inspire a generation", we now need to find, an all encompassing, annual mechanism that can incentivise our young people to volunteer in 2012 and beyond in the absence of great national spectacles.

In the United States a college application is considered to be incomplete without significant reference to extracurricular activities and evidence of service to the community or a volunteer cause. Whilst the university application process in the United Kingdom is increasingly competitive, and universities are ever keener to look for evidence of competency beyond examination grades, a standardised system for assessing student's non-academic records remains absent.

Currently only schemes like the Duke of Edinburgh Awards offer any kind reward for young people to demonstrate their commitment to their nation by volunteering. Though nationwide, such schemes reach a limited number of schools and young people.

If volunteerism is to become an integral part of the life of a British citizen, then it must include as many young people, as early in that life

as possible. Whilst many young prospective university students are involved in community volunteering, it has at best an intangible impact on their ability to succeed in the university application process and the pursuit of their chosen careers.

A system whereby UCAS points are awarded for community service would help student and university alike, by providing the student with a huge range of extra opportunities to enhance their university applications whilst at the same time giving the universities a fuller picture of applicants life experience to better enable them to discriminate between increasing numbers of high achieving A-level students.

For those young people who choose not to go to university, UCAS recognised engagement in community service can equally only enhance their early CVs.

Local amenities and institutions such as schools, churches, hospitals, elderly care homes and local councils would be relatively easy to assess as centres able to take volunteer students to assist in their day to day running and in return provide an assessment of their performance to count as UCAS points alongside A-level grades.

Many of these people, who aspire to go to university or pursue a competitive career path and therefore volunteer while they are young, will discover the benefits and a lifelong passion in helping others in their community and a stronger bond of connection with their community and country. In turn this will incrementally increase the number of older

people who volunteer in their community in the future.

UCAS point incentives will have the potential to enshrine the big society project as part of the national fabric, and create future generations of not only volunteers, but citizens who truly understand the importance of a healthy community and society in their own lives and in the life of a nation.

*Ben Balliger is the Membership Secretary of the Bow Group and Ben Harris-Quinney is the Chairman of the Bow Group*





# CONFERENCE 2012

## Programme of Events

8TH OCTOBER 2012

### SECURING THE BEST ROUTE FOR HS2

**TIME:** 1.00pm

**VENUE:** Room Vista 2,  
Crown Plaza Hotel, Holliday St,  
Birmingham  
(outside the security cordon)

#### SPEAKERS:

**Rt Hon Cheryl Gillan MP** (MP for the Chilterns and former Chairman of the Bow Group)

**Mark Bostock** (Project Leader for the High Speed 1 Alignment),

**Geoffrey Clifton-Brown MP** (former Conservative Transport spokesman and Cotswolds MP)

**David Hodges** (Transport Adviser to the London Chamber of Commerce and Industry)

**Stephanie Boston** ("Conserve the Chilterns and the Countryside" campaign).

Refreshments will be provided.

Kindly supported by

**LONDON CHAMBER**  
COMMERCE AND INDUSTRY

### WINNING THE RACE : HOW CAN THE CONSERVATIVE PARTY BETTER ENGAGE WITH NON-TRADITIONAL AND MINORITY VOTERS?

**TIME:** 3.00-5.00pm

**VENUE:** Function Room, Crowne  
Plaza Hotel, Birmingham Central

#### SPEAKERS:

**Nirj Deva MEP** (MEP for South East England)

**Eric Ollerenshaw MP** (MP for Lancaster and Fleetwood and previous Mayor of Hackney),

**Shaun Bailey** (Special adviser to the Government on youth and crime)

**Sam Kasumu** (Director of Elevation Networks).

In partnership with



### A CONSERVATIVE LORDS REFORM

**TIME:** 7.45pm

**VENUE:** Media Suite, ICC  
(inside the Secure Zone)

#### SPEAKERS:

**Rt Hon Cheryl Gillan MP**

**Andrew Lilico** (columnist for ConservativeHome.com)

**Joshua Rozenberg** (lawyer, Times columnist and expert in constitutional affairs).

Further speakers to be confirmed.

Kindly supported by



THE UNIBIN GROUP

9TH OCTOBER 2012

### THE BOW GROUP MIDNIGHT RECEPTION

**TIME:** 11.30pm

**VENUE:** Sonata Room, Hyatt Hotel  
(inside the secure zone)

#### SPEAKERS:

**The Rt Hon Peter Lilley MP** (Patron of the Bow Group)

**Tim Montgomerie** (Editor of ConservativeHome.com).

and special guests to be confirmed

# Summer Highlights

## July 2012



### The Bow Group 60th Anniversary Terrace Reception

The Bow Group celebrated 60 years in British political life on the Terrace of the House of Commons, in the presence of Patrons, alumni and members, with an address from Bow Group, Senior Patron, Lord Howard, and a keynote speech from Bow Group President, Sir John Major. Support for the event was kindly provided by Photo-Me International.

### Target Paper - Intelligence Design: UK National Security in a Changing World



This Target Paper, written by Bow Group Transatlantic Affairs Research Fellow, Dr. James D. Boys, with a foreword by Rt. Hon. Dr. Liam Fox MP, argued that the Government's progress on reform to the UK's national security architecture has stalled. Steps taken by the Government to reform COBR, the National Security Council and the Joint Intelligence Board are welcome, but much more is needed to bring them in line with world-class intelligence management processes. The paper was covered by ConservativeHome.com and hand delivered by the Prime Minister by Dr. Fox.

## August 2012

### Bow Group Lecture and Private Tour of the Cabinet War Rooms with the Canadian Olympic Team

Bow Group members had a lecture delivered by Churchill historian, Phil Reed, and a behind-the-scenes tour at the Cabinet War rooms with Canadian Olympic gold medal winner, Ashleigh McIvor, Canadian MP, Eve Adams, and former Communications Director



to the Prime Minister of Canada, Dimitri Soudas.

## September 2012

### Conservative Welfare Reform Debate with the Hon. Representative Kevin Andrews

The Bow Group had a roundtable policy seminar discussion on welfare reform with a Senior Member of the Australian House of Representatives, the Hon. Kevin Andrews (Shadow Minister for Families and Housing).



### Bow Briefing - Black Swans and Business: A Commercial Approach to Managing Civil and National Security Risk

This Bow Briefing, written by Bow Group Council Member and experienced Risk Practitioner, Atula Abeysekera, addressed the question of how the Government should predict

and manage Black Swan events and their fall-out. It brought to bare the lessons of business in qualitative and quantitative risk management and made policy proposals based on the experience of Business in managing risk. The paper was well received and covered by a wide range of media outlets.



### Book Launch - Winning the Race

The Bow Group in partnership with youth charity, Elevation Networks, held an event at the Local Government Information Unit, to launch the book, Winning the Race. The speakers were Ben Harris-Quinney (Chairman of the Bow Group), Richard Fuller MP, Richard Taylor OBE (Founder of the Damiola Taylor Trust), Shaun Bailey (Special Adviser to the Government



on youth and crime), Nirj Deva MEP (MEP for South East England) and Sam Kasumu (co-author of "Winning the Race" and Director of Elevation Networks).



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