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Autumn Address

Thatcherism — the next generation

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CENTRE FOR POLICY STUDIES



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The author

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This is an expanded version of the speech which Peter Lilley delivered to the CPS meeting at the Party Conference in Blackpool in October 1989.

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The future of Thatcherism

When Chou En Lai was asked what was the significance of the French Revolution he replied 'It is too early to say'. So it is certainly far too soon to determine the historic significance of the Thatcher revolution. But it is clear that if it does mark a sustained reversal of the trends which have dominated this century then the label 'revolutionary' will certainly be appropriate.

State power increased inexorably in the first three quarters of this century. A good measure of this is the proportion of the nation's income spent by government which rose from 14% in 1900 to 34% in 1950 and to 48.5% in 1975. The 1980s have seen the first sustained reversal of this trend this century (except for the two postwar demobilisations). This year the proportion of GDP taken by public spending is forecasted to be a little over 39% – the lowest level since the late 1960s. Yet many predict that this will prove to be no more than an historical hiccup. The long term trend towards State power will, they believe, soon reassert itself. I want to consider some of the arguments put forward by those less cautious than Chou En Lai, who are ready to declare that the Thatcher years are an historical aberration soon to be reversed.

Importance of ideas

Long term historical trends like the growth of State power often reflect not only economic and technical forces but the dominance of an idea. For much of this century one such idea which came to dominate public life was the simple, seductive notion that the most effective way to solve any economic or social problem was State action. That meant extending State spending, taxation, ownership, controls. The idea exerted such an extreme influence over the opinion-forming classes in this country that alternatives to State action were scarcely ever considered.

In tandem with this the criterion used to assess the desirability of any policy was whether it promoted social or economic equality. Only in the 1970s, as the problems of ever expanding State power and egalitarian policies accumulated, did more and more Conservatives set about questioning the prevailing intellectual wisdom which until then most had

unthinkingly accepted. The founding of the Centre for Policy Studies in 1974 was a turning point in the process of rethinking a distinctively Conservative approach.

The new analysis

Once the notion that State action is the most effective way of solving problems is challenged, four questions immediately pose themselves.

First, what is the distinctive characteristic of State action? The answer is simple: all such action, all government programmes, by their nature rely on coercion. State spending requires taxation. State control and regulation require laws. Both taxes and laws depend on sanctions to achieve compliance. It is above all because State action involves coercion over people's lives that Conservatives believe it should be the last resort, not the first.

The second question is whether the State is effective at achieving the ever wider objectives it has set itself? The answer from experience is manifestly *no*. And the reason why State action is often less effective than its advocates hope lies in the fact that it relies on coercion. Since the State can always resort to compulsion to raise finance it has less incentive to be efficient and since it can deprive individuals of alternatives it has less incentive to satisfy their desires. But where people are reluctant to do what the State requires, they find ways round it. There is a law of diminishing returns in government as elsewhere. The wider that governments have tried to extend their powers, the less effective they have become. One reason for limiting the role of the State is not to weaken it, but to make it more effective in the spheres where State action is essential.

That leads to the third question. When is government action appropriate? The fact that government involves coercion is distasteful, but has never misled Tories into pursuing fantasy dreams of anarcho-capitalism. There is an obvious need for the State to use its power to protect citizens from external aggression. Laws are necessary to uphold the sanctity of life and security of property. Taxes are necessary to finance services which only government can provide and transfers of income to those who cannot support themselves adequately.

The fourth and final question is – what is the alternative to State action? The answer is, wherever possible, to leave people free to pursue their own chosen ends, to co-operate and associate voluntarily and to exchange the goods and services they produce. In a free economy, people are rewarded for satisfying the needs of others; they respond better to incentives and disincentives than to controls and commands. But government must ensure that nothing (including its actions) unnecessarily blunts or distorts market incentives.

The notion that equality should be a main aim of policy also fell apart when properly challenged. 'Generous provision for the poor' has always been a Tory ideal since that splendid Tory Dr Johnson first enunciated it as a test of civilised society. But that does not require levelling down. Indeed the poor and least able may prosper most in a society where the able and industrious are free to win unequal rewards.

The economic consequences of this rethinking were clear enough. Government should withdraw from those areas where it was usurping customers' choices and firms' commercial judgements. That meant denationalising industry, reducing subsidies, removing controls and cutting tax rates. Instead, government had to concentrate on things which it alone could do – above all restoring a sound and honest currency and combating private monopolies and restrictive practices. Those ideas have been proved to work in practice. They have spread internationally. They are still in the ascendant. The old faith which underlay decades of growth in State power is shattered. That is why those who fondly hope that our recent success is a temporary aberration will be sorely disappointed.

But now it is being said that the mood of the country has shifted away from radical conservatism. The winds have brought a sea-change. Where once we were told that we were wrong about the economy by 364 economists, we are now being told that we are wrong about everything, by almost as many commentators.

We are told by such critics that Thatcherism has nearly run its course; the battle to restore economic sense, competitiveness and incentives has been won; public spending must now be substantially increased, and the remaining nationalised

industries must stay in the public sector. So, the argument runs, our historic destiny of restoring the British economy has been fulfilled. We can fade away. Others will come forward to utilise that economic success in environmental, cultural, social and other spheres where Tories, or at least Thatcherites, supposedly have nothing to offer. Nothing could be further from the truth.

In the first place there is plenty more work on the purely economic agenda. But, more important, the Conservative message, whether in its traditional or its Thatcherite form, has never been purely or even primarily economic. It has been built on moral foundations to do with restoring political honesty, personal responsibility, national pride, reverence for our past, respect for the future and a belief in excellence and quality in all aspects of life.

The economic dimension had to predominate at first. But it is a mistake to suppose that modern Conservatism is no more than a programme of economic reform.

The economic agenda

Before considering broader policy issues, let us examine what remains on the economic agenda.

The privatisation programme still has a long way to go. After denationalising water, electricity, Girobank, Harland & Wolff and Shorts Brothers in this Parliament we will have privatised some 65% of the previously nationalised sector (as measured by its contribution to GNP). We have announced that coal will be privatised in the next Parliament, that privatisation is an option being considered for British Rail and that private capital will plan an important part in the road programme. That would still leave in the State sector the Post Office, London Regional Transport, the British Waterways Board and a number of other bodies. The presumption in every case must be that they should be restored to the private sector unless there are good reasons for retaining them in the public sector.

The progress in bringing inflation down must continue until the ultimate goal of price stability is attained. And we must look for ways of entrenching price stability more permanently.

So far we have reduced the share of GDP taken by public expenditure from a peak of over 48% to a little over 39% – the

lowest level since the 1960s. This has not so far been reflected in a corresponding reduction in the share of income taken by tax. This is because initially the priority had to be the elimination of public borrowing. As a result the share of national income absorbed by tax, though below its peak, is still slightly higher than in 1979. It has, of course, been possible to do a great deal: to abolish a number of taxes and to reduce the rates of others – particularly income tax. Nevertheless we cannot be complacent about progress on this front. We cannot describe as satisfactory a society in which the State takes nearly 40% of national income. That is why we are committed to reducing tax rates – and particularly the basic rate of income tax to 20% when it is prudent to do so. That means continuing to restrain public expenditure – at the very least to ensure that it does not outstrip economic growth.

The non-economic agenda

So there is plenty more to achieve on the purely economic agenda before we can complete the restoration of sound, competitive and prosperous economy. But man does not live by bread alone. And Conservatives have never contended that even earthly happiness depended solely on the size of the pay packet.

It is true that economic success is changing the political agenda. For a generation Britain's relative economic decline meant that economic policy dominated the political agenda almost to the exclusion of other topics. With the underlying strength of the economy transformed – and a growing recognition of that fact – other issues inevitably move to the centre of the stage: the environment, public services, social issues, our relations with Europe.

On each of these issues Tories have valuable things to say. What is essential is that we remember the lessons of our economic renaissance, and adapt them wherever appropriate to wider areas of human experience:

- free choice is usually superior to compulsion
- rewards and incentives are preferable to command and control
- responsible behaviour grows with the exercise of responsibility
- government is most effective when it confines itself to things which it alone can do.

Environment

The appearance of our countryside, villages and towns, the quality of the air we breathe, of the water we drink and of the sea we swim in, the preservation of plants and animals given to us by our Creator and of the buildings and monuments bequeathed by our ancestors – all profoundly influence the quality and sense of our lives.

Conservatives are best fitted to handle environmental problems. We are the party of conservation. We exist to preserve what is best in our heritage. It is a travesty to present this as a new found response to a fashionable concern. It was, after all, Conservative governments which brought in the Clean Air Act and the Green Belt. Moreover we are the party which understands how the market works. And market forces are essential in dealing with environmental problems in three ways.

First, only a prosperous economy, which means a free enterprise economy, can generate sufficient resources to pay for environmental programmes. It is hugely expensive to remove sulphur from power station emissions, to reinstate gravel pits and open cast coal fields, to purify water etc.

Second, the market approach is to create incentives and disincentives which make it worthwhile for people to find non-polluting alternatives – or less costly ways to remove pollutants, to convert waste into usable products and to restore past environmental damage. Then polluters must pay for the damage they cause. The success of the tax benefit given to users of unleaded petrol, consumption of which has leapt more than twenty fold in a year, well illustrates how effective the price mechanism can be in defending the environment.

Third, the market can allocate scarce resources, for example road space, more efficiently and less unfairly than any bureaucratic system of rationing. It follows that the congesters must pay for the costs they impose on others. So we must continue, through fuel and vehicle excise duties, to ensure that all road users pay the full cost of maintaining and policing roads. But also, where appropriate, motorists should fund through tolls the cost of building new roads. And in cities road space is inherently limited and almost everywhere overburdened. We have recently announced proposals for charging for the delays

which some utilities and their contractors cause road users by digging up or blocking roads. Another way, which is worth examining, to use the price mechanism to bring home the cost of congestion is road pricing – charging road users for driving in towns.

Fourth, the role of protecting the environment must, where possible, be separated from that of ownership. There is a patent conflict of interest between the roles of regulator and owner. The only way to ensure single minded regulation is to ensure that regulation is the Government's sole function, leaving ownership to the private sector. Hence the establishment of the National Rivers Authority under the Water Act.

Disadvantage in a prosperous society

As the nation gets more prosperous it is natural to wish to ensure that the least well off share in the rising prosperity. This desire presents a challenge to Conservatism in the 1990s because of two mistaken, but widely held, beliefs.

The first is the belief that our economic reforms have themselves exacerbated the problems of the least well off. Because the rich have become richer, the poor, it is often assumed, must have become poorer.

The second even more prevalent belief is that the plight of the least well off can be improved only by increasing State spending – and/or foregoing some of the progress towards a competitive and dynamic economy.

But analysis of the causes of deprivation shows that not only are both these beliefs unfounded, but also that Conservative policies are best designed to ensure that the least well off do benefit from rising prosperity.

Unemployment has been the scourge of all Europe since the oil crises of the 1970s. It is an academic question now whether the huge rise in measured unemployment in Britain in the early 1980s could have been avoided, or whether it was the inevitable consequence of decades of relative decline which had led to rising *concealed* unemployment. I am convinced that the emergence of such concealed unemployment could not have been avoided although perhaps it might have been postponed. When a drug addict decides to escape from his addiction he suffers withdrawal pains. But the blame for that suffering lies

in the years of addiction, not in the decision to break the habit. Likewise the blame for the rise in unemployment in the early 1980s lay in the previous years of inflationary indulgence, refusal to change or stand up to trade union power – not in the decision to break that addiction and start the painful road back to economic health.

What cannot be disputed is that the economic reforms, which we have introduced, have proved that a free enterprise economy can generate jobs at an astonishing rate. Since 1983 the number of jobs has risen by some 2.75 million and the number of people in work has reached an all time record. No other country in the world has come anywhere near matching this performance and Britain's unemployment is now significantly below the European Community average.

The rate of job creation is likely to slow down in the short term as the economy responds to the tightening of monetary policy. But in the longer term there is scope to reduce unemployment further if we continue to improve the working of the economy. That means freeing the labour market, encouraging bargaining at plant and regional level rather than national pay deals, improving incentives and encouraging employers and employees to upgrade their skills.

It is surely far better to combat this source of deprivation by creating real jobs that give the unemployed their dignity rather than the defeatist reliance on higher benefits and soul-destroying make-work schemes.

Old age used to be the most prevalent cause of deprivation and dependence on benefit. It might have been expected that increasing longevity would have added to the problem. In fact, living standards of retired people have risen more than twice as fast as the national average over the most recent years for which figures are available (1979-86) and the proportion of the elderly amongst the least well off has been declining significantly. This is largely because an ever rising proportion of those retiring have made provision for their old age. During the 1980s their savings have earned interest substantially in excess of inflation; and pension funds and direct investments in the stock market have enjoyed rising dividends and share prices. In consequence the average pensioner household receives income from his own

private provisional SERPS which exceeds his basic state pension. Each cohort of new retirees is better off than its predecessors.

It is right that we should target help towards the older and least well off pensioners who retired before we came into office: many were unable to save for retirement and of those who did, many saw their savings wiped out by the inflation of the 1970s. The changes introduced this month will particularly help this group and all other disabled pensioners by an extra £200 million a year.

In future a rising proportion of people will be able to retire with dignity benefiting from our portable and personal pension schemes (which ensure that the more mobile are not cheated of their savings) – let alone capital accumulated in PEPS, BES schemes, employee share schemes and the like. Moreover, the economy will be able to generate the wealth to sustain a growing elderly population because more will have opted out of the pay-as-you-go SERPS scheme into private schemes. These generate the savings during people's working life which fund investments that will be producing resources to support them in their retirement.

More people will also be in a position to cope with longevity. Following the abolition of the earnings rule the more active will continue to work full or part time beyond the normal pension age. In their later years more and more people will be able to retain a degree of independence by moving to sheltered accommodation financed by selling their homes, often by inheriting homes from yet more elderly parents, or using other capital.

Most people want the dignity of self reliance for as long as possible. If we persist in the pension reforms, continue to encourage share and capital ownership, and win the battle against inflation we will enable the vast majority of retired people to enjoy that dignity in reasonable financial comfort.

The alternative, of trying to help people in retirement exclusively by means of State benefits, deprives individuals of true independence and genuine security. Because State benefits are not funded by savings invested over people's working lives, no additional resources will be built up to pay for extra benefits in retirement. The burden would therefore fall entirely on the

future working population, who might well be reluctant to honour promises made at their expense by a previous generation.

Disabled people who are unable to work may not benefit directly from participation in a more prosperous economy. It is right therefore that we should have devoted an increasing share of taxpayers' resources to the disabled. The major changes in social security since April 1988 simplified and improved, through disability premiums, the help available to poorer disabled people. And the number benefiting has increased substantially. Spending on the long-term sick and disabled has increased by 90% in real terms since 1979.

It is desirable too that we should harness to the specific needs of the disabled the very forces of competition and choice which have improved economic well-being in general. Hence the reforms initiated following the McColl report. These have brought competition into the previously cartelised business of making and fitting artificial limbs and supplying wheel-chairs. No group of people more deserves to have other people competing to satisfy their needs.

In short, poverty or relative deprivation has not been caused by our economic reforms. And two of the major causes of economic hardship will be progressively diminished in the 1990s if we continue to pursue our policies. Moreover, those who cannot directly participate in a prosperous economy are ultimately dependent upon it for a rising standard of material well-being. Nothing could be more detrimental to the least well off than a return to the policies of inflation, stagnation and economic decline.

Public sector services

'Thatcherism may be alright for boosting the output of sprockets and candyfloss', our critics grudgingly concede, 'but health and education are more important than consumer goods; they are about caring and quality, not turnover and profit; teachers, nurses and doctors are dedicated professionals not motivated primarily by money. So health and education cannot be left to market forces'.

But does it follow that 'market forces' have no part to play? Agreed, the phrase 'market forces' can sound cold and impersonal. In fact, it is just shorthand for the combined effect

of individual choices. Every reader of this paper – every individual in this country – is a market force.

It is true that the principles of choice, reward for quality and devolution of responsibilities have not been allowed to operate within the State health and education systems. And it is clear that they should be adapted to the special needs of the health and education systems. But it is not clear why these principles should be anathema.

Why should not patients, parents and pupils have a measure of choice between schools, hospitals and other medical services? Of course, they will usually wish to exercise that choice on the basis of expert advice – particularly from their GP when choosing a hospital, their consultant when considering alternative treatments, or their primary school teacher when choosing a secondary school. To suggest that health and education are too important for people to be allowed to exercise choice is a pretty patronising view.

Most people are no longer content – if they ever were – to be treated like children left with pocket money to spend on inessentials, while the big decisions are taken above their heads by the grown-ups, the bureaucrats. The demand for more choice and influence in such areas as health and education does not derive from an ideology; it reflects profound social and educational change. People are more and more accustomed to taking decisions over their own lives, at work and at home. And where choice is on the menu the appetite grows with eating.

Every government in the 1990s will have to respond to the demand for more choice within the services financed by the State. If there is to be more choice for patients and parents there must be some diversity within the NHS and education systems. To allow diversity to flourish there must be decentralisation of decision making and more autonomy for individual schools and hospitals. That is why we are giving each school control over its own budget, allowing schools to opt out of local authority control, and giving hospitals the chance to opt for self-government within the National Health Service.

But choice in the public sector would be a sham if it meant merely allowing patients to lengthen the waiting list of the hospital of their choice, or adding to the number of disappointed

applicants for the oversubscribed school which they had selected.

Customer choice is effective in the ordinary market place because the customer pays: the suppliers are rewarded by every customer they attract, and receive the resources to enable them to satisfy more customers in future.

There is no question of the patient being expected to pay for hospital care or the parent for State schooling. But we can make the patients' and parents' choice effective by ensuring that the money follows their choice. That is the basic principle on which the success of our health and education reforms depends.

The most glaring failings of our NHS and education systems up to now arise from the fact that resources at present do not follow the patient or pupil. Resources are allocated by bureaucrats and politicians, as often as not on the basis of past history. The way in which the public sector distributes resources with blithe disregard for the choices of the user always reminds me of that famous airline poster for transatlantic flights: 'Breakfast in London, Lunch in New York', to which a graffiti artist added 'baggage in Bermuda'. The customers of the health and education systems may choose to go to certain hospitals or schools – but the resources they provide as taxpayers may be despatched elsewhere.

If a hospital is particularly effective at treating patients and attracting referrals it soon overspends its budget. It has to close wards, cut back on its activity, refuse referrals from other districts: in short, it is penalised for success.

What the proposal for budgets for GP practices means is that when a GP refers a patient to a particular hospital, that referral will be backed up with cash. Money previously allocated by district managers will henceforth be allocated by GPs on the basis of where their patients wish to be treated. And so the hospital which treats them will be rewarded for its work. Patients from other districts will be welcomed, not rejected. Extra patients will enable the hospital to expand its facilities, rather than force it to close wards. Likewise in the education system, a popular school will now be over-subscribed. It will not automatically receive the extra teachers or other staff needed. It will have larger than average classes. Its staff will have more homework to mark, and cramped working conditions. And, with the opposite case,

a school which fails to attract pupils will not automatically lose resources *pari passu*. Its classes will be smaller than average, staff will have less work and more space. In short, the old system of allocating resources between schools penalises success and rewards failure.

The system of *per capita* funding – increasing schools' budgets for every extra pupil they attract – will for the first time put power behind parental choice. Popular schools will be rewarded, not penalised. Less popular schools will be encouraged to emulate those which parents evidently prefer.

In short, we can and should introduce into tax financed public services elements of an internal market. This is already being done in health and education. And this will bring the benefits which choice, diversity and local responsibility have done in other spheres. The experience will enable us to introduce the principle into other areas of State provision.

Europe

Britain has been the most enthusiastic and consistent supporter of the creation of a Single European Market. It is the natural development of our domestic strategy of extending choice and competition. Indeed, the 1992 programme was largely the brainchild of the British Commissioner, Lord Cockfield. But it would be a mistake to suppose that all those who support the creation of a single market do so primarily because they share our belief in the benefits of economic freedom, competition and free trade. To many the attraction of the Single Market is simply that it is seen as part of the programme of building a European superstate. That programme involves systematically identifying each of the aspects of statehood and recreating them at a European Community level. Thus States have no internal frontiers. Therefore Europe shall have no internal frontiers.

By the same token many proponents of European federalism want to ensure that the European Community, like any state, maintains external barriers. Indeed, some would want to see the creation of a Fortress Europe shutting out competition from the rest of the world. Likewise, where we see the single market as primarily a process of deregulation and removal of unnecessary restrictions on trade, others see it as mainly a process of

harmonising and centralising regulation. Rather than creating a single area in which the forces of competition operate freely, some in the Community want to dismantle frontiers in order to replace *dirigiste* regimes in individual member states with one *dirigiste* superstate.

There is no doubt that the cause of European federalism has recently been given a fillip by the demise of socialism as an intellectually credible or electorally viable creed. It left a vacuum which has been filled on the continent by the doctrines of European federalism. The idea of creating a bigger and better state is naturally congenial to those whose intellectual roots are on the left. They tend to envisage a European State pursuing more interventionist, protectionist and illiberal policies than we could stomach. But federalism has also long had powerful support on the right, particularly in countries where the idea of the nation state was somewhat discredited by military defeat, and association with the ultra-nationalism (really racist imperialism) of Hitler and other dictators.

As a result the issue of federalism is now out in the open. British Conservatives have to decide whether we wish to join in creating a European superstate hoping, together with other right-of-centre parties, to ensure that it adopts liberal economic policies.

To most British Conservatives – and indeed most British people of any persuasion – the idea of subsuming Britain in a European state is profoundly repugnant. We doubt the viability of artificially constructed states. We cherish our national identity. And we know that our identity is not just a question of customs and culture, but is indissociable from the exercise of self-government through a sovereign parliament.

But it is not enough for Tories to reject federalism and stand on the sidelines. We must put forward a positive vision of Europe which is both more attractive and more realistic.

The alternative to transferring power to a centralised European superstate is not just leaving power with the national governments. It is to transfer more power from national governments to the people.

Power springs from choice. The more opportunity citizens of Europe have to choose the jurisdiction under which they

work, study, live, invest, save, set up business, trade – the less power governments have over them and the more people can ensure that governments do what their citizens want. But such a choice is possible only so long as there remain sovereign governments pursuing distinctive policies to choose between. A single European government pursuing one set of policies via one set of institutions would necessarily narrow the freedom of choice of European citizens.

Of course most people will not wish to leave home and move to another country, even if they found that country's policies and institutions more attractive than their own. So at first sight this vision of choice between governments might appear to benefit very few. That is mistaken for three reasons.

First, the whole case for freedom of choice in any sphere rests on the fact that it requires only a few actually to exercise choice for all to benefit. Changes at the margin are crucial. It requires very few customers to switch from one supplier to another to force the loser to improve its product. Likewise, it required only 12,000 East Germans out of 17 million to leave, in order to convulse a regime which had with impunity ignored the wishes of its citizens, so long as they had no chance to leave.

Second, if people are free to save, invest, trade, set up businesses, publish and broadcast across boundaries, they do not have to move home in order to be able to have some choice between different governments' regimes.

Third, the great discovery of the single market programme is that the principle of mutual recognition can enable different national systems of regulation to compete alongside throughout the Community.

Let me explain this revolutionary notion. Essentially if a business or process has been authorised and is supervised in one country it shall be allowed to operate in every other member state. Already this principle has been incorporated in the 2nd Banking Directive. A bank authorised in one member state will be able to operate throughout the European Community without further authorisation, and under the supervision of its home country's banking authority. So branches of banks supervised by the Bank of England will be able to operate in France in competition with banks supervised from Germany. This not only

makes life simpler for the banks, it gives an additional dimension of choice to banking customers. Customers will be able to choose not only between different banks but, in effect, between different banking supervisory regimes.

Customer choice will depend partly on whether a bank operates under a regulatory regime which is costly and inflexible, but also on whether the regulator is known to insist on high standards of integrity and prudence. Each country will have an incentive to get the balance right.

There must be many other areas of activity where the principle of mutual recognition of other members' supervisory regimes can be applied, subject only to setting the minimum number of minimum standards.

The British Government has already proposed bringing individual choice to bear on the policies of governments in the important area of indirect taxation. The Commission's proposals on VAT and excise duties would have required member states to bring tax rates into line in order that border tax controls could be lifted without leading to trade distortions. Britain has said that there is no need for centrally determined approximation of tax rates. (And in any case it could take forever to agree on what they should be.) So let us proceed straightaway with removing fiscal controls at the frontiers.

If any state thereafter retains VAT rates so out of line with its neighbours that its citizens choose to shop over the border, the high tax country would have either to forego the tax revenue and trade or reduce its taxes. Market forces – or just call them citizens' choices – would bring about whatever degree of tax approximation is necessary to prevent an unacceptable level of trade distortion.

In currencies, too, the right of citizens to choose which currency they use (particularly as a medium of savings) will exercise a powerful discipline over governments. A government which pursued inflationary policies would find its people would switch to another currency. So the losing government would be forced to tighten up its anti-inflationary policy. Competing currencies would force national monetary policies to converge on the best anti-inflationary performance around. How much better than plans to force people to use a single, jointly managed

currency which would involve convergence on the average – not the best – inflationary policy!

In short, our principles of choice and diversity lead to a vision of Europe in which governments give their citizens rights to choose between competing jurisdictions; as a result, citizens will have far greater power over governments. And governments will be compelled to pursue policies attractive to their citizens and competitive in the wider world.

Conclusion

The principles which have underlain our approach since 1979, far from being exhausted, remain as applicable as ever – not just in the sphere of economic policy, but in the realms of health, education, environmental, social and European policies.

The key is to avoid adopting by default the conventional wisdom still being purveyed by the established interest groups in each of these areas. Instead we must have the self confidence to develop distinctively Conservative policies.

If we do so, we will set the agenda for the rest of this century and beyond.