



Modern Conservatism

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CENTRE FOR POLICY STUDIES
57 Tufton Street London SW1P 3QL
2005

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This pamphlet contains the text of a speech delivered by David Davis on 4 July 2005 at the RAC Club in London.

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ISBN No. 1 905389 05 1

© Centre for Policy Studies, July 2005

Printed by 4 Print, 138 Molesey Avenue, Surrey

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THE CENTRE FOR POLICY STUDIES helped to lead a Conservative revival during the last decades of the twentieth century. It did so by helping to win the battle of ideas, ideas which underpinned our sense of direction and purpose.

I want to explain why ideas and purpose matter as much today as they did then. As we debate the future of the Conservative Party over the next few weeks and months, I will be setting out my views on a range of issues, including social policy and Britain's place in the world. Tonight, however, I want to argue that if we have the courage to embrace radical domestic reform we will lead a new Conservative revival for the twenty-first century. And I want to set out my belief that to improve people's lives and make Britain a better country we need to change politics.

An age of insecurity

People's lives have changed immeasurably since the CPS was first founded over 30 years ago. And the key to that change is the sheer pace of modern life, as new technologies make markets more competitive. Living standards and employment have risen, shops are smarter, consumer goods cheaper. Our cities and suburbs are increasingly diverse. Conservative ideas had more than a small hand in creating modern economic success. But although Britain is better in so many ways, our quality of life hasn't always kept up. For so many ordinary people, everyday life is still a struggle. They work long hours. They have less time than they would like for friends and family.

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They are worried about finding a decent childminder to look after their children and about how they will save for a pension; about whether the reported superbug at their local hospital is real or a false alarm; about whether their children will make it to the only good state school within miles – and what will happen to them if they don't; about the delays in driving to work; about the gangs of kids in hoods who spit in the street and are out late at night; about whether their own children will fall into the half-world of alcohol and drug abuse.

They worry about how to meet the mortgage payments and make ends meet. They worry about their job, and wonder if the company they work for will be the latest one to move production overseas to India, Eastern Europe or the Far East. The years of early adulthood last longer as people settle down later. Young and unprepared children are pitched earlier into a sexualised culture. Communities are less cohesive and families more fragile. W H Auden once wrote of “The Age of Anxiety”. We live today if not in an age of anxiety, then at least in an age of insecurity.

Ideals in politics

New Labour's response to this sense of insecurity is to run what it calls its “permanent campaign”. Ministers assert that they are winning the war on crime, or that the NHS is the envy of the world, or that standards in Britain's schools are rising across the board. Yet people's everyday experiences are quite different. And the more grandiose the claims, the less they are matched by reality, and the more voters switch off. This weekend, we learnt that even as Labour was claiming improvements in public services, Lord Birt – Tony Blair's adviser in Number 10 – admitted a reality of record crime, weak schools and declining pupil behaviour. If the Labour Party was only damaging itself through the way it conducts politics, the stakes for Britain would perhaps be less high. But the truth is that its brand of low politics is poisoning the entire political well. As anyone who was out on the doorsteps in April and May will know, a great gulf is opening up between politicians and the people.

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I do not believe that the Conservative Party can possibly bridge this gulf by attempting to spin in the same way; by promising what seems to be more of the same; by appearing to be all things to all men, or by conducting politics as usual. We need to offer something very different – real change, not just a change of management. The problems of 25 years ago were overweening union power, the failure of nationalised industries and punitive levels of taxation. Today's issues are different: the growth in government and with it the dependency culture; poor public services; the collapse of decency in society; the increasingly fierce challenge of global competition; people's growing sense of insecurity. Meeting these contemporary challenges doesn't mean abandoning timeless Conservative principles. It means applying them to today's problems. Politics must be about ideals as much as details. They are the foundations on which sound policies are built. If people are to trust our lead, they need to know that we have a compass.

I was struck this weekend by the idealism captured at Saturday's Live8 concerts around the world, the leadership shown by Bob Geldof and the public's response to it. The contrast with Westminster's politics is striking. I don't agree with every policy proposed by Make Poverty History, although I share its sentiment. But I do think that we need a new Tory idealism and an uplifting vision of a better Britain. We cannot credibly promise to change Britain just by being better ministers or managers than Labour. Timid politics, a few tweaks here and there to Labour's approach, will not address the cause and depth of Britain's problems. Neither will it persuade people that we have the ambition for our country to deserve office.

The victims of State failure

Offering more government cannot be part of the solution when we know that endemic poor government performance is at the root of so many of today's problems. The rationale for the expanding State was to correct for market failure. But when

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patients queue for treatment in hospital, or children leave school unable to read or write, or motorists struggle to get to work on congested roads, it is government's failure, not the market's. And as government has grown so has the number of people it fails. It should certainly alarm us that many of these victims of State failure are among the most disadvantaged people in Britain today. Unemployed people are twice as likely to be victims of violent crime. The poorest in society are the most likely to be burgled. People living in a council estate are twice as likely to have a vehicle stolen. The worst education and health outcomes are in the poorest areas.

I was brought up on a council estate in South London. But I was lucky. I went to a good local school. I got into a good university. It led me to a good job. I had the opportunity to make something of myself. And if you have opportunity, you have a chance. Thousands of young people today are less fortunate. Trapped by State failure, they grow up without opportunity and with little expectation of improvement or hope. Under New Labour Britain is becoming less socially mobile as dependency is locked in. A third of households now rely on the State for more than half of their income. John Prescott has done his best to undermine our flagship policy to extend opportunity – council house sales. Gordon Brown's empire of tax credits are contenders as Labour's most damaging stealth tax, because they are a tax on aspiration. They embody a political approach which insists that people should know their place. Breaking through the glass ceilings that hold people back, extending opportunity and hope should be the most powerful ideal of modern Conservatism. And we should achieve this ideal through a new political settlement – one that gives people greater control over their lives and helps them to make the best of themselves.

The failure of centralism

Vaclav Havel, a self-described man of the Left, has talked eloquently about the failure of central planning:

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The essence of life is infinitely and mysteriously multiform, and therefore it cannot be contained or planned for, in its fullness and variability, by any central intelligence.

That is a profound observation of enormous relevance to understanding the failure of the post-1945 model of managing public services. “The essence of life” (as Havel put it) isn’t suspended when you cross the frontiers of the public sector. If we recognise that telecommunications or the distribution of gas are not natural monopolies, how can anyone at the beginning of the 21st century think central government has a monopoly of wisdom? Experience shows that just spending more money on unreformed public sector monopolies leads to more waste and bureaucracy. Tony Blair has tested to destruction the idea that spending without reform actually works. The independent King’s Fund has estimated that 73% of the extra NHS resources in 2004-05 were absorbed in higher costs.

We now have amongst the most expensive public services in the world but without the outcomes to match. There is no reason why the State should be a monopoly supplier of services such as healthcare and education. We can still hold to the ideal of universal services without requiring government to run them itself. In Germany, 50% of hospitals aren’t owned by the State. In the Netherlands, 70% of schools are independently run. But healthcare and education in these countries is of a far higher quality, and far more equitably provided, than in our own. Opening up government monopolies would allow the independent and voluntary sectors to offer services to the many, rather than the privileged few. Putting the State’s spending power in the hands of patients and parents would give them unprecedented control. The natural forces of competition would drive up standards. And we would bring to an end the perverse consequence of State monopoly which has been to benefit the better off and the strong at the expense of poorest and the weak.

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The idea that ministers and government bureaucrats should tell teachers how to teach, or instruct clinicians on how to provide healthcare, is part of an outdated post war consensus. With the exception of Kenneth Baker's grant-maintained schools, the history of the last 40 years of the education system is that of greater central control leading to ever greater disappointment. It began with the imposition of comprehensive schools and it is ending with the abolition of A levels, which is clearly in the sights of the centralisers. Only the other day, Baroness Warnock was apologising for being wrong on the decision to end separate education for children with special needs 30 years ago. Without central control, Baroness Warnock's views could not have been imposed on the schools system with generations of children suffering the consequences.

Parents take a very intelligent interest in their children's development. You can either harness that interest by giving parents even greater control, creating competition and driving up standards. Or you can try to stifle it by imposing policies from the centre in pursuit of egalitarianism or administrative efficiency or public sector penny-pinching. But don't imagine that by doing that you eliminate parent power entirely, you merely distort it into other channels – ones which are less conducive to the common good.

Look, for example, at the lengths to which parents will go to find a way through the admissions rules so as to get their child to a good school. Last year, around one in ten secondary school admissions were challenged by parents and heard by admission appeal panels – in some inner cities the figure was as high as one in four – and that number excludes people who lodged appeals but didn't pursue them. It takes a great deal of commitment to take on the school's bureaucracy, so the idea that parents are not interested in exerting control over their children's education is manifestly wrong. Every parent knows a good school from a bad one. But well-connected parents, able to work the system, or if necessary move house altogether, come out on top.

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We have to give everyone the opportunity to come out on top – not just the fortunate few. We have to make the case for change by demonstrating to parents that the way to raise standards is by giving them control. When they are in control parents won't have to go to appeals panels. Instead, schools will be writing to them, inviting them to visit, and promoting the benefits of sending their child to that school.

It is sometimes said that we shouldn't be obsessed with structures in education. In a sense, that is right. Good schools can exist despite a poor system, because more than anything else what makes a good school is good teachers. For many good teachers, teaching is a vocation, and they will pursue it whatever the difficulties, sometimes with heroic dedication. But, in another sense, structures are extremely important. Poor schools persist under the current arrangement of education. Creating the right framework, in which it will be easier for teachers to teach well, and for pupils to learn more, is the proper task of government. Our aim must be to change centrally-run structures that are not working to ones that put people in control. A system driven by parental control will be more innovative and responsive to each child's needs and potential. It will encourage new schools to start and successful ones to expand. This is the way at, at last, to make the failing inner city comprehensive a relic of the past.

The same principles should apply to healthcare. Even more than education, healthcare is by its very nature intensely personal. It is intimate and specific to the individual. Choice and diversity in healthcare were long ago sacrificed to central planning and control. It was done not just in the name of progress but of equality. Yet despite its egalitarian purpose, the NHS is not equitable. It was none other than Alan Milburn who said: "in 50 years health inequalities have widened not narrowed."

What an admission! Why is this? The explanation can be found in the very nature of the NHS mission statement. Its stated purpose is to maximise the health gain for the nation as a whole, not to provide healthcare to each individual solely on the basis of

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their need. This inevitably means a centralised bureaucracy which gets people to form a line so it can decide who can benefit most from treatment, and therefore who is given priority. It is the embodiment of Gordon Brown's 'know-your-place' culture. Moreover, as with education, in such a bureaucratic system as the NHS, the affluent middle classes tend to be better advocates of their cases than the disadvantaged. For example, they find out whom to ask to get treated more quickly. That is why Margaret Dixon's shoulder operation was cancelled so many times. Somebody in the NHS bureaucracy decided to push an elderly lady to the back of queue. The fundamental change needed to bring the NHS into the 21st century is to turn it into a provider of personal healthcare, not national healthcare. That must mean that each and every patient is treated on the basis of their absolute need, and no longer ranked alongside other patients, with a bureaucrat deciding who should wait and who should get treatment.

Healthcare systems in other countries which follow this model of personalised – rather than privatised – yet universal healthcare deliver better outcomes and are more equitable. Professor Daniel Candinas, a consultant at the University Hospital of Bern says that in his hospital, the President of Switzerland and a pauper can be next door, each with their own room, receiving the same quality of care. It is difficult to conceive of that in Britain.

In education, our ambition should be to see no child left behind in a system that fails them – whatever their ability, wherever they live, whoever their parents are.

So too, in transforming the NHS, our ambition should be to see no patient left behind in a system that sends them to the back of queue. Giving parents and patients control isn't an alternative to raising standards. It is the only reliable means of doing so at all.

Some public services, such as policing, are true public goods which the State has the clear responsibility to supply. Plainly we cannot give individuals control of the police. But we can ensure that local people have as much control as possible. Local priorities, not

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national targets, must prevail. I welcome the case for localism made by a group of our new MPs and candidates. They argue that the levers of centralised State control are part of the problem, not the solution. I agree. It is why I believe we should make local police accountable to local people by having directly elected police commissioners. Local accountability is the answer to centrally imposed policing plans that are turning the police from being a crime fighting force into desk-bound box-tickers.

Dispersing power, placing control in the hands of the people, would be a massive change in the way we conduct politics in this country, but a massive change for the better and one that would improve the everyday lives of ordinary people.

Low taxes

A plan to change public services radically without a plan to change the way we run our economy is only half a plan. We have to get the economics right. In any case, the blunt truth is that right of centre parties cannot win elections without being credible on economics. Of course, no politician can know just what state the economy will be in at the time of the next election. But that's not a reason for failing to get to grips with the arguments early on. Even when the economy is strong, it is necessary to explain what policies made it so; how higher taxes will damage it; and why Labour's failure to get value for money for its massive increases in public spending is storing up problems for the future. We have to talk as though we are serious, ready and able to take charge of the fourth largest economy in the world. After all, a successful economy is what every voter wants, never mind his or her particular or special interest. And here are three assertions which are fundamental to our case:

First, the economy is as strong as it is because market economics have been pursued for over 30 years, not because of government spending and intervention.

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Second, today's prosperity is at risk from a rising tax and regulatory burden and from Labour's failure to reform the public sector, which is damaging national productivity.

Action to tackle all of these is vital.

Third, tomorrow's living standards and tomorrow's pensions are threatened by competition from low tax economies in Eastern Europe and the Far East.

The wave of competition from India and China that has already confronted our manufacturing sector is beginning to affect high value added service sectors, too. Accepting high taxes and growing regulation just isn't an option if we want to avoid lower standards of living. That is why we have always been suspicious about getting locked into a heavily centralised, bureaucratic, State-controlled model of Europe.

Political times, too, are a-changing. The British people have had over a decade of tax rises. It is one of the reasons why no political party is trusted on tax. Soon the tax burden will be at its highest level for 25 years. People have had enough. They are looking for something different – someone offering change. The modern Conservative Party must fulfil that role. To make the case for lower taxes, we have to show what happens to countries with high taxes.

Take Sweden, a model for many on the Left, with the highest taxes in Europe and quite possibly in the world. Sweden thinks of itself as a prosperous country; and after the Second World War, it had one of the highest average incomes in the world. So you can imagine the shock a little while back, when Swedes woke up to learn that if Sweden joined the United States, it would be the fifth poorest state in the Union – just behind Alabama, and that's before factoring the higher taxes Swedes pay.

On the low tax side, we can point to Ireland to show the benefits of low taxes, and how cutting tax has helped Ireland overtake Britain in terms of GDP per head. And we can point also to our own record. This shows that cutting marginal tax rates need not leave the government short of money or swell the deficit.

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Through the 1980s, Geoffrey Howe and Nigel Lawson cut income tax and corporation tax rates. The result? Combined income tax and corporation tax revenues as a proportion of GDP were higher at the end of the 1980s than at the beginning. At the time, one of the most controversial tax cuts was sharply reducing the top rate of income tax. What was its effect? The share of income tax revenues paid by the top 10% of taxpayers didn't fall. In fact, it rose by a fifth. It's an important reminder that when we talk about cutting tax, what we really mean is cutting tax rates. Because the effect of cutting tax rates is to stimulate growth, it increases the tax base as well. So a low tax economy can actually increase public spending faster than a high tax economy, by keeping those tax rates low.

To see modern conservatism in action, go to Australia. John Howard was elected the year before Tony Blair. Since 1996, the Australian economy has expanded by one third, compared to one quarter in Britain. The difference is an 8% growth gap between Tony Blair's Britain and John Howard's Australia. At current rates of growth, it will take Britain four more years to catch up with where Australia is today.

By which time they will be five years ahead. Australia has well-funded, high quality public services, because spending has grown in line with a faster growing economy. Instead of Gordon Brown's stealth taxes, Australia has been cutting tax, reducing the basic rate of income tax to 15%, and more than doubling the threshold for top rate tax – all achieved whilst running sizeable budget surpluses, in contrast to Gordon Brown's deficits. Indeed, Australia's national debt now is so small that in one year, John Howard's government could pay it off completely. As we see in Australia, modern conservatism works when someone is brave enough to put it into action – and it wins elections.

Some argue that low taxes aren't a silver bullet for the Conservative Party. And of course there is no single remedy to the position we are in. But accepting the high tax, high spend terms of the debate set by Gordon Brown is certainly a bullet to the heart of

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electoral success. Achieving a low tax economy is not about slashing state spending. It is about a very simple discipline, of the kind that every household knows, to ensure that the growth in spending does not exceed the growth of the economy. So, just as there are three messages on the economy, there are also three messages on tax that we need to hear from Conservatives in the years ahead.

First, it is the poor, not the rich, who end up paying taxes. Taxes are passed on through the economy in the form of higher costs. Whatever the structure of taxes, the burden eventually falls on those with the weakest bargaining position in society.

Second, low taxes are good for growth.

Third, low taxes help support stronger families and create a stronger society.

I welcome Damian Green and David Cameron's suggestion that we should consider how to use the tax system to strengthen families. Low taxes are more effective than benefits because they provide better incentives. Families are rewarded for saving and working. And the low-paid keep more of what they earn. Moreover, they gain something even more vital, a sense of achievement and a feeling of self-respect. You cannot put a price on those. Low taxes are essential for us to achieve our driving ideal of opportunity for all.

A stronger society

Our economic policy must not appear as if it exists for its own sake – a proper subject for Budget day and the *Financial Times*. It must appear as what it is – the engine for a better life for all. The fact is that only a low-tax, light-regulation economy can provide the resources for good healthcare and education, roads and police. But more than that, a growing economy is the only way to provide wider opportunity for all. It is the only way to provide pensions which keep or increase their value. It is the only way to allow people to save, and so to acquire property, without falling deeper into debt. It is the only sustainable way of creating jobs, and so lifting people out of poverty.

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In the same fashion, we Tories have to make the case that reforming the welfare system isn't principally a question of cash resources, but of human resources – of building character and motivation, so everyone who is able to participate constructively and gainfully in society can do so. That's why I believe that David Willetts was absolutely right to argue that a new Conservatism should aim to make the economy stronger and society better. We have to show that we are more than desiccated economists. We are people who insist on encouraging enterprise, providing incentives and promoting competition precisely because these are the way to build a stronger society. Giving people the freedom to determine their own future isn't a sign that we care more for individuals than we do for the wider community. We know, by both instinct and experience, that when you help people to become independent, standards in the wider community rise, to the benefit of all.

Change politics

The vision I have set out tonight is one of a modern Conservative Party confident in itself and clear about its purpose. A party that rejects the 'more of the same' approach of managerialism and embraces radical change as the only way to fulfil our vision of a Britain of hope and opportunity for all. I hope it is impossible to label these ideas as left or right wing within the Conservative Party. It was Harold Macmillan who spoke of “ ... a Party at the roots of whose philosophy lies the conviction that we are all in the same boat, with common problems to solve and a common destiny before us.”

We need to dissolve the old divisions which have held us back. We can do that if we recognise that there is a new Conservative idealism which draws on elements from a number of our traditions and which aims to build a strong society on the basis of reformed public services and a State whose reach is strongly constrained. At a time when politics has never been held in lower public esteem, it is time to ask ourselves why we're in it. We should not be in politics to defend privilege. At its greatest the

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Conservative Party has spoken for one nation, for the many not the few. I want us to be the champion for the victims of State failure, those without hope and opportunity under the current system.

We should not be in politics to accept the status quo.

Since Disraeli the Conservative Party has been at its most formidable when we have been bravest in advancing reform and we have been at our weakest when we seemed not to know what to do.

And we shouldn't be in politics for ourselves. We want to win the next general election because we have a purpose, not because we want government at any price. That purpose is straightforward. It is to make life better for ordinary people. We will achieve it by straight talk about what needs to be done. We will achieve it by holding to our principles and applying them to today's problems. We will achieve it through bold reform to put power and control in the hands of people and communities. We will achieve it by changing politics to change people's lives.