The quest for change and renewal

How to fill the centre-right ideology gap

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SUMMARY

- There is much more to government than management. An ideological vision, largely accepted by the electorate, is imperative if public support is to be secured for major reforms.

- With a flat-lining economy, an unsustainable deficit and escalating debt, Britain stands in extreme need of the radical reforms that only a popular, inspirational administration can deliver.

- Far from winning the moral and intellectual high ground, the Coalition parties do not seem to be articulating an ideology at all. Nor do they give the appearance of competence.

- There is an urgent need to challenge Labour's synthetic ideology, and to articulate a philosophy which can win public support for a programme of reform.

- The centrepiece of the new ideology needs to be a mission to restore capitalism to first principles, and to undertake thoroughgoing reforms so that the system benefits everyone, and does not, as now, overly favour a privileged minority.

- Capitalism needs to be reformed in ways which will:
  - align rewards with success and not with failure;
  - strengthen the role of shareholders; and, above all,
  - provide a fairer deal for individuals, be they citizens, customers or employees.
- The new 'killer app' for the centre-right needs to be a determination to champion the individual over the collective and the corporate. This requires promoting freedom, and empowering the individual in relation both to the state and to corporate interests.
- Without such a programme, Britain will remain on course for economic and social decline.

1. INTRODUCTION

Government is not competence alone. To succeed, a Government must offer an agenda which combines effective policies with an ideology which secures public support by capturing the moral and intellectual high ground. The bigger the practical challenges, the greater is the need for an intellectual framework.

Just as the reforms of Clement Attlee's post-1945 Labour Government were founded on a case for welfare which secured public acceptance, so Margaret Thatcher changed Britain because her policies were rooted in a coherent ideology of free market economics which the electorate was prepared to support.

The Coalition has no such ideology. Even in the wildly improbable event that the administration were to overcome all of the immense practical challenges with which it is faced, that alone would not, of itself, change Britain for the better. It would be bad enough if the Government were simply failing to win the ideological argument. Worse still, it does not even seem to be *trying* to do so. Conservative and Liberal Democrat policies are being propounded in Labour language, and tested against Labour benchmarks.

At a time of national crisis, ideological clarity is not an optional extra. The Coalition inherited problems which go far beyond unaffordable public spending and a worse deficit than any other major developed economy. The fiscal recovery plan relies upon growth, but growth is proving elusive because the economy, long dependent upon private borrowing and public spending, is massively skewed against expansion, to the point where at least 70% of output comes from ex-growth industries (i.e. industry sectors which are in today's economic climate incapable of growth).

In the absence of fundamental changes (both practical and ideological), extrapolation from current conditions is disturbing:

- The economy will continue to founder.
- As a result, the deficit reduction plan will fail.
- Debt will continue to escalate, to the point where interest rates are imperilled.
- No material cuts in public spending will be accomplished.
- Populism will demand ever-greater tax impositions on 'the rich', to the point where incentive and enterprise are destroyed.
- Capital markets will question the wisdom of continuing to fund a lifestyle and a welfare state which are not being earned.

Drift is not a viable option. The challenges confronting Britain require robust policies grounded on a clearly articulated ideology. Such change can only be accomplished with public support, which in turn requires the seizure of the moral and intellectual high ground.

The priority therefore, needs to be the promotion of a philosophy which takes the public into partnership with government in the implementation of far-reaching reforms. Like the ideologies of Attlee and Thatcher, this new set of beliefs must be genuine and heartfelt. Synthetic ideologies, like that constructed by New Labour, eventually become dead ends.

The critical importance of ideology

To be successful, a government needs to deliver against two criteria, not one. The first of these criteria is the practical one, and an administration passes this test if, at the end of its term, the country is more prosperous, public services are of a higher quality, the budget is in better shape, debt is lower, and the defence of the nation is stronger, than when the government took office.

But the second criterion is ideological, and an administration only succeeds by this measure if it changes the tide of public thinking, and establishes a new moral and intellectual consensus.

Whilst the first criterion is largely a matter of competence, the second is intellectual, and can be defined as the establishment of a new national mind-set, or as the seizure of the commanding heights of public opinion. It is, in shorthand, 'the battle for hearts and minds', and 'the contest for the intellectual high ground'. The Governments of both Clement Atlee (1945-51) and Margaret Thatcher (1979-1990) are conspicuous examples of success on the intellectual test, in that they changed the tide of public thought. So, too, though in a very different way, did the Blair-Brown administration (1997-2010). Most other post-war governments, on the other hand, have *not* succeeded in winning the intellectual battle.

Thus far at least, the current Coalition has made little progress on the ideological front. Even in the exceedingly unlikely event of the Coalition succeeding on every single practical issue of competence, the administration's period in office will not have been a success, and will not have had a lasting and beneficial effect on the United Kingdom, unless the ideological battle can be won as well.

Two immediate and imperative ideological challenges present themselves. The first is to reform capitalism so that it serves everyone, rather than – as increasingly has been the case in recent years – merely benefiting a privileged minority. The second is to re-take the intellectual high ground from the synthetic concept of morality so effectively peddled by New Labour.

These alone, though of huge importance, will not be enough in themselves. What is needed, too, is a revolutionary ideal capable of seizing the public imagination. One distinctive ideology which could enable the Conservatives (and the Liberal Democrats) to win this intellectual battle is *the promotion of individualism*, by which is meant the empowerment of the individual over the collective and the corporate. Though in keeping with the liberal traditions of both Coalition parties, an agenda which promotes the individual would be a radical break with the past.

The pragmatic and the ideological must work together. The structures created by Attlee would not have become so firmly established in the popular psyche had his Government not created public services at the same time as gaining assent for the basic concept of state-provided welfare. Thatcher's effective liberalisation of the economy and of labour markets would not have succeeded had she not, at the same time, gained public acceptance for a culture of enterprise.

Both of those Governments began in adversity. Attlee inherited a state indebted and an economy weakened by the titanic struggle to defeat Nazi Germany and Imperial Japan. Thatcher inherited a failing economy and a near-bankrupt exchequer. Both Governments succeeded despite – or perhaps even because of – the magnitude of the initial challenge.

In purely statistical terms, the Brown economic legacy is even more dire than that which confronted Attlee in 1945, or Thatcher in 1979. In addition, capitalism (as currently practised) is held in widespread public contempt, even if no viable alternative ideology is readily identifiable.

We must begin, then, by examining the true nature of the Coalition inheritance.

2. LIFE AFTER NEW LABOUR

The economic and fiscal inheritance of the Coalition is worse than that confronted by any incoming Government since 1945. The nearest comparison might be with the situation inherited by Margaret Thatcher in 1979.

Like Thatcher, the Coalition came into office at a time when the British economy, pummelled by crises, was flat-lining, the fiscal deficit was out of control, and the public debt was escalating rapidly. But the situation in 2010 was far worse than it had been in 1979. Whereas Thatcher inherited a deficit of 4.9% of GDP, the chasm in the public finances in 2009-10 was 11%, by far the worst in British post-war history. Reported national debt (on the Maastricht Treaty definition) at the end of the 2009-10 fiscal year was £1.0 trillion, or 71% of GDP, but this figure excluded potential financial intervention liabilities (£1.2 trillion), unfunded public sector pension commitments (£1.1 trillion) and obligations under private finance initiative (PFI) contracts. Household debt exceeded 150% of incomes, and a high proportion of Britain's 11 million mortgage payers were critically exposed to any rise in interest rates.

Economic and fiscal problems had been compounded by social and institutional issues. Unemployment was high and rising, putting greater pressure on the budget. British institutions were facing challenges unprecedented in modern times, with Parliament, the media and the police all involved in, or heading for, major crises of public confidence. The high command of the economy – principally, the banking system – was held in widespread contempt.

These problems have persisted. Additionally, the demand for a referendum on Scottish independence poses a threat of dissolution of the Union. Finally, the Labour legacy of warfare in Iraq and Afghanistan has left the British people even more uncertain about their country's place in the world.

Unlike Thatcher, who enjoyed a Conservative majority of 43 seats in 1979, the Government led by David Cameron is an uneasy coalition formed by parties which normally reside on the centre-right and the centre-left of British politics.

Though social, institutional and political challenges are manifold, the Coalition has been right to regard the economic and fiscal situation as the greatest problem needing to be tackled. Like the general public, policymakers and commentators seem to underestimate the true scale of the problems which confronted (and continue to confront) the Coalition.

In the decade before 2010, the British economy had become addicted to debt, and to annual real-terms increases in public spending. The deterioration in the economy after 2007 not only destroyed the two drivers upon which the economy had become dependent, but also negated most of the traditional monetary and fiscal policy tools which, hitherto, had been used to tackle economic downturns. Between 1999-2000 and 2009-10, public spending had increased by 53% *in real terms*, and had become completely unaffordable. In the last year of the Labour Government, public spending equated to 49% of GDP, yet there is abundant evidence that revenue levels in excess of 40% have *never* been sustainable at any point in British peacetime history. The fiscal pressures created by unsustainable spending levels were exacerbated by the inevitability of increasing debt interest costs, and by the decision to ring-fence certain expenditures, most notably in health.

Under the Third Way, New Labour attempted to adopt free market economics to pay for an Attlee-style transformation in social provision. The claim, promoted through the "prawn cocktail offensive", that Labour would support deregulated finance, was a matter not just of image but of substance. Tony Blair and Gordon Brown were converts to the deregulatory process, at least where financial services were concerned, though their intention was to use the proceeds of deregulatory growth to fund collectivist objectives.

In his early days as Chancellor, Brown made two fundamental mistakes which, together, were to lead directly to the 2008 banking crisis. First, he instructed the newly-independent Bank of England to set monetary policy with reference to CPI (consumer price index) inflation. Second, his 'tripartite system' shared the regulatory powers of the Bank with the Treasury and with a new body, the Financial Services Authority (FSA).

The emphasis placed on purely retail inflation suggests that Brown was unaware of the concept of *asset price* inflation. The Bank's Monetary Policy Committee (MPC) was henceforth required to determine monetary policy on the basis of keeping

CPI at or around 2%. Effectively, this rendered the Bank powerless to choke off property price bubbles.

If the monetary framework greatly weakened oversight over asset prices, the stripping away of the Bank's primacy over banking regulation undermined the previous system, informal but highly effective for over three centuries, whereby the Bank had checked excessively risky lending.

Until 1997, mortgage lenders had tended to adhere to prudent lending practices, which included a maximum loan-to-income multiple of about three times, and a maximum loan-to-value (LTV) ratio of about 85%. It was said that a mere arching of "the governor's eyebrows" was sufficient to prevent lenders from stepping outside these safe parameters.

Once the previous regulatory safeguards had been stripped away, the scene was set for a massive escalation in property prices. Lenders, no longer constrained by the three times income rule rule, allowed loan-to-earnings multiples to soar to well above six times. Indeed, since lenders no longer required proof of earnings, the real income multiples on the notorious 'liar loans' were effectively unknowable. At the same time, LTV ratios rose to, and in extreme cases *beyond*, 100% of property values.

What was happening was that short-sighted banks were exploiting the availability of ultra-cheap, ultra-short-term wholesale market funding. By nature, banking involves borrowing short (for example, from depositors) and lending long (to home buyers, and to businesses engaged in long-term capital projects), and part of the art of banking is the arbitraging of this equation in ways which generate profits without creating excessive risk. Northern Rock – the first run on a British bank since the 1860s – was an extreme example of what can happen when regulators allow this arbitrage to get out of control.

The combination of regulatory negligence and the failure to factor asset prices into monetary policy triggered an inevitable property price bubble. Between 1997 and 2007, when average nominal earnings increased by 54%, average property prices rose by 180%. This drove the overall price-income ratio from a conservative 3.1 times to a lethally-overextended 5.7 times.

Figure 1: House prices and earnings

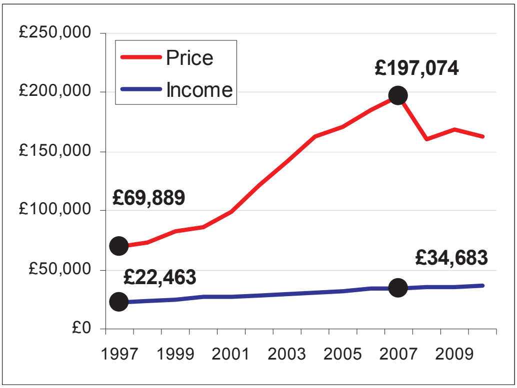
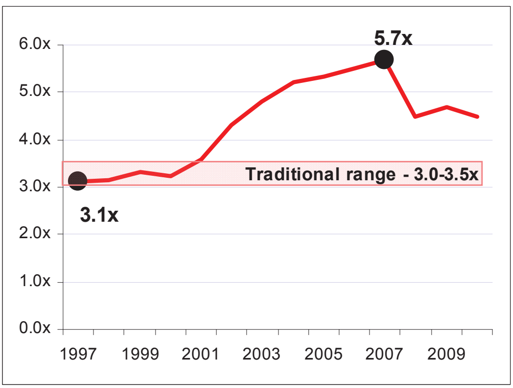


Figure 2: House prices and the price/earnings ratio



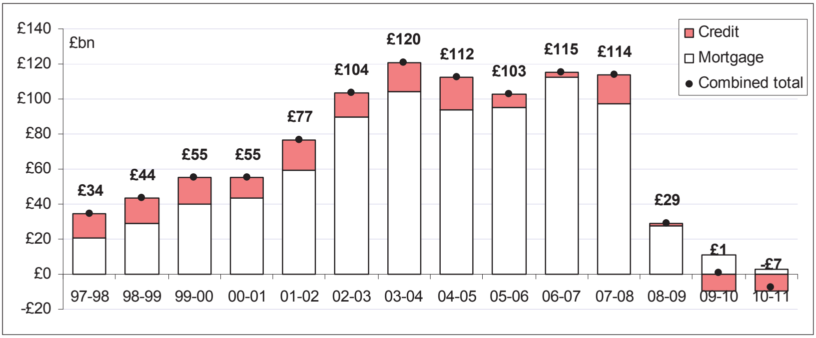
Since every bubble necessarily bursts, the financial crash of 2008 was hard-wired into the British financial system from the moment, in 1997, when Gordon Brown introduced his disastrous regulatory reforms. Brown's ludicrous claim that he had abolished "boom and bust" shows that the Chancellor was out of his depth. That he lectured other countries on the virtues of "light touch" regulation merely added colossal arrogance to his economic myopia.

The property bubble, bad enough in itself, was to mutate into two further, even more damaging outcomes. The first was that the economic effects of house price escalation created huge distortions in the structure of the British economy. The second was that Brown seems to have believed that the resulting economic 'boom' was something so sustainable that he could afford to spend up to, and beyond it.

The escalation in property prices fed straight into consumer spending in a way which amounted to the creation of income through a process of plundering the balance sheet. By 2007, barely 35% of new mortgage lending was actually going into the purchase of homes, with the balance accounted for by equity release (39%) and buy-to-let (BTL) investment (26%).

Emboldened by increases in the notional value of their properties, consumers felt relaxed about racking up ever greater quantities of the unsecured debt that was being pushed at them. Between March 1999 and March 2009, when mortgage amounts outstanding soared from £465 billion to £1,228 billion, unsecured consumer credit rose from £95 billion to £232 billion. Annual net borrowing by individuals escalated from £44 billion (or 4.9% of GDP) in 1998-99 to £120 billion (10.4%) in 2003-04. During the five fiscal years 2003-04 to 2007-08, annual net borrowing by individuals totalled £564 billion, and averaged 8.8% of GDP.

Figure 3: Net borrowing by individuals



Seemingly unaware of the illusory nature of the economic boom, Gordon Brown also unleashed massive real-terms increases in public expenditures.

During his first term, the Chancellor's hands were tied by an electoral commitment to adhere to the spending plans of the outgoing Conservative administration. From 2001, however, with this constraint no longer in place, Brown presided over a massive increase in state expenditure, which rose from £343 billion in 1999-2000 to £669 billion in 2009-10. At constant (2009-10) values, spending of £669 billion in 2009-10 was 53% higher than the £438 billion spent in 1999-2000.

The Coalition, then, inherited huge debts, one of the worst deficits in the developed world, and levels of public spending which exceeded any realistic estimate of sustainable revenue. But there were two even bigger problems facing the Coalition: the huge structural imbalance in the economy, and the blunting of traditional policy tools.

An economy incapable of growth

Between 2000 and 2009, the big drivers of the economy were private borrowing and public spending. Reflecting this, the CREF (construction, real estate and finance) sectors expanded rapidly on the back of private borrowing (figure 4) while big increases in real public spending drove up output from HEPA (health, education and public administration) (figure 5). As figure 6 illustrates, the rapid growth between 2000 and 2009 in both CREF (+42%) and HEPA (+28%) masked a languishing in the rest of the economy (–5%), with real output from manufacturing plunging by 26%.

Figure 4: Debt-fuelled growth

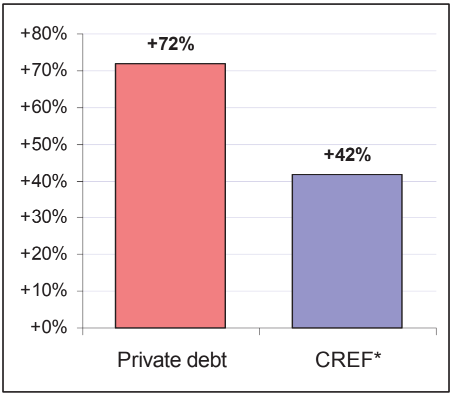
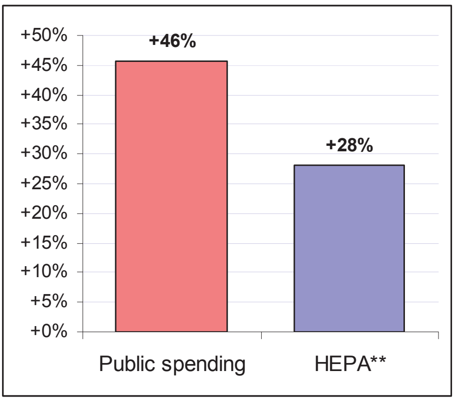


Figure 5: Government-fuelled growth

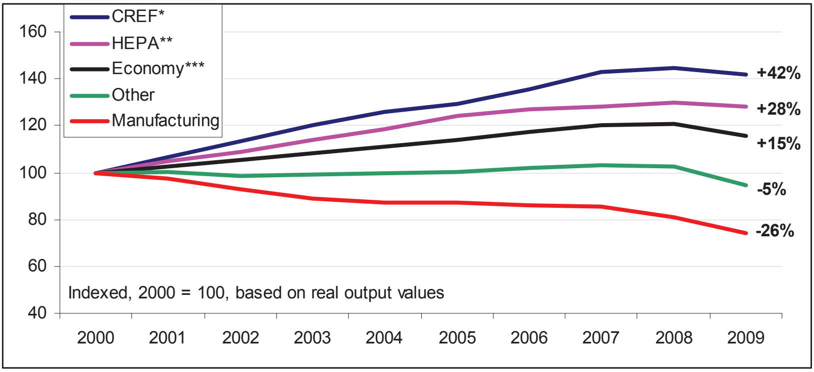


Note: both charts show % changes at constant values, 2009 vs 2000.

* CREF: construction, real estate and finance sectors, real output value.

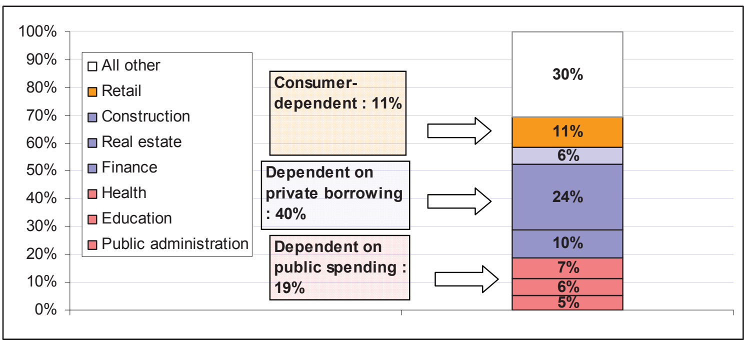
** HEPA: health, education & public admin. sectors, real output value

Figure 6: The distorted economy, #1: diverse trends, 2000-09



These differential rates of growth left a huge proportion of the economy incapable of growth. In 2009, the public spending-driven HEPA sector accounted for 19% of all economic output, whilst borrowing-dependent CREF activities represented a further 40%. Add in a retail sector beleaguered by the squeeze on real disposable incomes and almost 70% of the economy is incapable of growth.

Figure 7: The ex-growth lockdown



Thus seen, Britain's growth prospects are grim, because a huge proportion of the economy is skewed towards, and dependent upon, the dead-and-buried drivers of private borrowing and public spending. And growth is critical to the Coalition's fiscal plan, because that plan cannot work unless revenues increase in response to a brisk expansion in output.

According to the most recently updated version of the fiscal plan, the deficit is to be reduced from £156 billion, or 11.1% of GDP, in 2009-10, to a 2009-10 equivalent of £45 billion, or 2.8% of GDP, by 2015-16. Within the total real-terms deficit reduction of £111 billion planned by the Treasury, three-quarters, or £83 billion, is projected to come from revenue expansion, and just one quarter, or £28 billion, from real overall cuts in total government expenditures. Despite the planned sharp reduction in the deficit, public debt (on the Maastricht Treaty definition) is projected to increase in real-terms by £450 billion, or 45%. The ratio of Treaty debt to GDP is expected to rise from 71% in 2009-10 to a peak of 93% in 2014-15 before declining gradually in subsequent years.

This plan is hugely dependent on growth. Within the anticipated revenue increment of £83 billion, at least £55 billion needs to be delivered from an expansion in the tax base. A shortfall in growth would also push spending well above target because of automatic stabiliser costs, most obviously out-of-work benefits.

The most alarming feature of the plan is that it is a hostage to growth. The projections supplied to the Treasury by the Office for Budget Responsibility (OBR) have, thus far, proved wildly over-optimistic. In its June 2010 report, the OBR expected the British economy to grow by 2.4% in 2011-12 and 2.9% in 2012-13. The reality was that growth was 0.5% in 2011-12, while the expectation for 2012-13 has been cut to 1.0%. The OBR still expects brisk growth thereafter – hitting 2.3% in 2013-14, 2.8% in 2014-15, and 3.1% in 2015-16. But, based on past form, few will be inclined to put overmuch faith in these forecasts.

The impotency of traditional economic tools

Another problem confronted both by the Coalition and its predecessor is that the monetary and fiscal tools traditionally used to correct economic downturns have ceased to function. This is because the current slump is a *deleveraging* event, and is, therefore, quite different from the *destocking* recessions which have been experienced since 1945. The value of sterling has been reduced by a quarter, interest rates have been pegged at close to zero for three years, governments have pumped in over £500 billion of deficit spending, and a further £325 billion has been injected through "quantitative easing" (the current euphemism for the printing of money). Despite all of this, the economy continues to flat-line.

The successive downwards revisions to growth targets, the consequent slippage in the deficit reduction timetable and the projected continued escalation in debt over the forecast period have led some observers to the conclusion that the budget consolidation plan is little more than a public relations exercise, virtually devoid of substance.

Such critics point to the huge net outflow of funds in February 2012 which, at almost £13 billion, was the biggest February outflow on record. Sceptics argue that the supposedly "savage" reductions in public spending are far too modest, that nominal spending in 2015-16 (£744 billion) will still be a great deal higher than in 2009-10 (£669 billion), and that the planned real-terms reduction in spending over that period is just 4.2%, or £28 billion at 2009-10 values.

What is clear is that the official plans go nowhere near far enough, and that the adverse outlook for growth makes fulfilment of the deficit-reduction project look implausible. The planned shift of resources to the private sector is much too small to redress the huge structural imbalances in the economy.

Between 2000 and 2010, while the real-terms contribution of private consumption to the economy increased by 15%, and gross fixed capital formation actually *declined*, government consumption soared by 42%. The Coalition plans do little or nothing to reverse this imbalance.

What is needed is a much more far-reaching plan which includes:

- greater reductions in government consumption expenditure;
- an unleashing of private sector investment;
- a real improvement in productivity in both the private and the public sectors;
- a major rebalancing of the economy; and,
- the unleashing of private sector growth.

The conundrum for the Coalition is that the fiscal plan cannot work without growth, and growth cannot be delivered without public backing for a programme of major restructuring. This brings us back to the ideological question of 'hearts and minds', to capture the moral and intellectual high ground of public opinion.

3. THE BIG BATTALIONS

At the end of the First World War, the great fear of the British governing élite was the spread of communism. The success of the 1917 Russian revolution was seen by the establishment throughout Europe (and in America as well) as a possible curtain-raiser for communist revolutions across the western world. Defeated Germany may have been the most obvious candidate for a communist take-over, but no country could believe itself immune from the threat of revolution.

So determined were the British authorities to resist the spread of communism that armed support continued to be given to the anti-Bolshevik resistance in Russia until 1920. In the years immediately preceding the First World War, class tensions in Britain had been intense, and there was no reason to suppose that these tensions would remain in abeyance once hostilities had ended. In 1918, huge numbers of servicemen were demobilised, most of whom were trained in the use of weapons, and many of these might have gone home with firearms concealed in their kit-bags. The threat of revolution seemed all too real.

The watchwords of the British political establishment in 1918, therefore, were 'business as usual'. British society, it was determined, would return to the *status quo* of 1914. Large numbers of women, who had worked on the farms and in the munitions factories of Britain during the war, were packed off back to their homes and expected to accept a return to submissiveness. Demobilised soldiers and sailors were expected to go back to their pre-war employment.

The experience of the inter-war period comprehensively discredited the doctrine of 'business as usual'. After a brief post-war boom, Europe, including Britain, was plunged into a recession compounded by the ravages of disease. The brief madness of the 'Roaring Twenties' was followed by the Wall Street Crash, and by the poverty of the Great Depression. While the British economy did recover through the 1930s – thanks both to government policy and rearmament – areas of deep poverty remained. Symbols of very real hardship (such as the 1936 Jarrow March) entered the national psyche.

Consequently, as the Second World War neared its end, there was no public desire for a return to 'business as usual'. Rather, reasoned Attlee's Labour Party, the aim should be to learn and profit from the lessons of the war. The British people, who had combined to defeat Hitler, could now be mobilised to defeat "Want, Disease, Ignorance, Squalor and Idleness". In the general election of May 1945, Labour won 49.7% of the popular vote and 393 seats in the House of Commons, giving the Attlee administration an overall majority of 146

The political philosophy of the 1945-51 Labour Government rested on the three planks of welfare, nationalisation and Keynesian economics. Nationalisation, based upon a long-standing Labour commitment to the state ownership of industry, was reinforced by the parlous state of industries such as railways and mining. The case for welfare had been made by William Beveridge (ironically, a Liberal politician), with his famous *Social Insurance and Allied Services* report of 1942, and by the Education Act of 1944. Keynes, now at the peak of his international reputation, seemed to supply an intellectual rationalisation of boom-bust and, moreover, to have crafted a solution to it. In Clement Attlee himself – a public school-educated lawyer and wartime Army officer – Labour was led by a quintessentially establishment figure, even if Ernest Bevin, Herbert Morrison and Aneurin Bevan were closer to the traditional mould of the labour movement.

Of the three Labour policy strands, nationalisation was to prove a short-lived enthusiasm with a big price-tag. Keynesian economics had a longer life-span, remaining the governing orthodoxy until the 1970s. But the enduring legacy of the Attlee administration was welfare, a commitment to which, albeit in much-mutated form, remains a bedrock component of the British public mind to this day.

Though Labour left office in 1951, all parties were now signed up to the welfare state and to Keynesian economic management, though even Labour quickly lost its enthusiasm for further nationalisation. The 1950s and 1960s were something of a vacuum where ideology was concerned, with both Conservative and Labour administrations accepting the post-war settlement and presiding over a gradual decline in Britain's relative economic and global standing. Spurred on by the Suez fiasco of 1956, the dismantling of Empire was completed by the early 1960s. The cross-party ideological consensus of the 1950s – epitomised in the phrase "Butskellism" – seems to have been a blend of complacency (people had "never had it so good") and resignation (about Britain's declining influence over world affairs). The 1960s Labour governments of Harold Wilson made oratorical commitments to modernity (the "white heat of technology") but delivered few major structural changes.

After a lengthy period of abeyance, ideological differences returned in the economic cauldron of the 1970s. The first oil crisis (which began in 1973) combined with the 'Barber boom' to stoke up hyper-inflation (which peaked at 25%), and the Labour Governments of Wilson and Jim Callaghan grappled, unsuccessfully, with inflation, economic stagnation and deteriorating industrial relations. By 1976, the country was close enough to bankruptcy to require a bail-out from the International Monetary Fund (IMF). After Callaghan lost his nerve over calling an autumn election, the 1978-79 "winter of discontent" set the scene for the second great post-war ideological Government.

On being elected Conservative Party leader in 1975, Margaret Thatcher proclaimed: "I am not a consensus politician. I am a conviction politician". The 1979 Conservative Party manifesto was clear about the need for a new direction: in the Foreword, Mrs Thatcher wrote of "how the balance of our society has been increasingly tilted in favour of the state at the expense of individual freedom". The manifesto pledged to fight inflation, reverse Labour's "politics of envy" and curb the powers of the over-mighty union barons. Inflation would be combated by better control of the money supply, and by reducing the role of the state to leave individuals with more of their money in their own hands. Income taxes would be cut, home ownership would be encouraged through the sale of council houses, and price controls would be relaxed in an effort to stimulate investment through a resurgence in corporate profitability. The new

Government would privatise the National Freight Corporation, and deregulate the bus industry. The Conservatives avoided "lavish promises", stating that "too much has gone wrong in Britain for us to hope to put it all right in a year or so".

The crucial significance of Mrs Thatcher's Governments was that, at a time of national economic and social disintegration, the Government decided to tackle Britain's problems on the basis of a new philosophy, one which was informed by monetarist economics and an emphasis on enterprise. The flagship policies undertaken by Mrs Thatcher – privatisation, deregulation, council house sales, low taxes – were all based on the coherent ideology crafted by Sir Keith Joseph and articulated in think tanks such as the Centre for Policy Studies and the Institute of Economic Affairs. This was a high point of conviction politics – and of national resurgence.

4. THE TRIUMPH OF SYNTHETIC IDEOLOGY

After a period of drift under John Major, Labour regained power in a landslide electoral victory in 1997. Under Tony Blair and Gordon Brown, Labour promised a new, visionary approach to politics and government. Sometimes called “the Third Way”, the essence of the New Labour philosophy was a combination of free enterprise economics and greater “investment” in society, the latter involving an expanded role for the state. Labour’s symbolic Clause 4 commitment to nationalisation was abandoned, and the party promised no return to “tax and spend”. Top rates of tax would not be increased, and Labour would, in its first term, adhere to the spending plans of the outgoing (Conservative) administration.

But if John F. Kennedy had been “the best president money could buy”, Blair became the best prime minister a PR team could manufacture. For the most striking feature of the New Labour ideology was that it was synthetic. Whereas both Attlee’s commitment to welfare and Thatcher’s support for free enterprise had been borne of long and deeply-held conviction, the Blairite “third way” was an artificial construct. The electorate might have become disaffected with the Major Government, Labour realised, but there was no appetite for a return to anything resembling 1970s economics or industrial relations. If a commitment to liberal economics was one clear dimension of public opinion, a long-standing reverence for the welfare state was the other. The "third way" was a synthesis designed to pull these two strands together.

Tony Blair came across as a conviction politician, but was at heart a pragmatist. He had assembled a first-class public relations team, and became suitably emotional where necessary ("the people's princess" being an early example). But the fundamental logic was pragmatic. Robin Cook's ethical foreign policy broke down as soon as the first adventurist challenges (Afghanistan and Iraq) appeared; Blair's commitment to putting Britain "at the heart of Europe" went the same way when Jacques Chirac and Gerhard Schroder pointed out the follies of pursuing regime change in Baghdad; and the minister tasked with "thinking the unthinkable" over pensions hit a brick wall when the "unthinkable" turned out to be electorally unpalatable as well.

Blair concentrated primarily on the overseas agenda, while domestic affairs became the preserve of Gordon Brown. A man of considerable abilities, his flaws included self-righteousness and an intellectual arrogance that prevented him from listening to contradictory or even cautionary opinions. Like Alan Greenspan at the Federal Reserve, Gordon Brown failed to realise that the Anglo-Saxon world's economic "great moderation" was, in reality, the closing phase in a ruinous credit super-cycle that began as far back as the early 1980s. Both Greenspan and Brown placed unlimited faith in the self-correcting, self-regulating capabilities of markets, and in the ability of self-interest to prevent financial excess. Both America's

Fed Chairman and Britain's Chancellor were in denial over the property bubble, turning blind eyes both to informed warnings and to unmistakable data on both sides of the Atlantic. Both professed themselves genuinely shocked when their respective bubbles burst.

Where Brown differed from policymakers in the US was in his belief in the benevolence of the state. The state, Brown believed, could not only make people prosperous and secure, but it could actually make them good. Morality, Brown believed, could be imposed.

In addition to an economic and fiscal catastrophe, the legacy of the Brown era included a selective moral doctrine of 'fairness', and an unrelenting onslaught on individual liberties. The rights of the individual were trampled whenever they were in the way of the will of the state.

Octogenarian Labour activist Walter Wolfgang was arrested *under terrorism legislation* for heckling Jack Straw at the 2005 party conference. A campaigner was arrested under the Organised Crime and Police Act for carrying a placard which quoted Orwell's *1984*. The same legislation was used to prosecute a peace campaigner who stood at the Cenotaph and read out the names of British soldiers killed in Iraq. A young woman wearing a t-shirt reading "Bollocks to Blair" was arrested when she refused to remove it. *Habeas Corpus* was all but abolished by Labour, as were the right to silence and protection from double jeopardy. Spot fines proliferated, essentially taking punishment out of the hands of the courts and handing it to officials. Surveillance powers given to local authorities were used for purposes such as monitoring parents' domiciles and checking up on the use of dustbins.

The Labour Government signed up to one-sided extradition arrangements with the US, and to a system of European arrest warrants which can enable British citizens to be extradited even for acts which are not illegal under British law. By 2007, more than 1,000 powers allowed state officials to search private dwellings for purposes as arcane as inspecting pot plants and measuring hedges. By the end of Labour's term, Britain had the world's greatest density of CCTV surveillance cameras, x-ray CCTV was being developed, and the police had assembled a huge DNA database holding information not just on convicted criminals but on innocent people as well. Perhaps most notoriously, Conservative MP Damian Green was arrested simply for receiving information which, whilst embarrassing to ministers, was of no national security relevance whatsoever. Sometimes – as with the police pursuit of television puppet Basil Brush – the iron fist of compliance strayed into the surreal.

With the Identity Cards Act of 2006, Labour proposed a system which, at enormous cost, would enable the state to create an unprecedentedly intrusive apparatus of universal surveillance. Critics who pointed out that state bodies have an appalling track-record for losing sensitive information were ignored. The Government apparently tried to prevent the publication of a report by academics at the LSE (London School of Economics) which calculated that the official £5.6 billion estimate of the cost of the ID card scheme was wildly inaccurate, and that the real cost was likely to be between £12 billion and £18 billion. Similar cost over-runs did not deter Labour from pressing ahead with the equally expensive NHS information system even though far more cost-effective and less intrusive alternatives were available.

5. TOWARDS A NEW IDEOLOGY

Though the deficit, the national debt and the distorted economy are the most conspicuous legacies of New Labour, the greatest challenge facing the policymakers of today lies in the synthetic ideology peddled to such great effect by Blair, Brown and their spin-doctors. So long as this ideology prevails, fundamental fiscal, economic and social reform is virtually impossible. How can the Coalition tackle this problem?

As we have seen, the high-points of ideology in post-war British politics have been the welfare agenda of Clement Attlee, and the Thatcherite free-market revolution. Both of these deeply sincere philosophies struck a chord with the British public and, in both cases, it was success in the battle for ideas which enabled these Governments to implement far-reaching reforms. The New Labour administration of Tony Blair and Gordon Brown, by contrast, crafted a synthetic ideology derived from the key elements of both.

Crises can offer fertile grounds for change – but only if the incoming government is able to carry the electorate with it in a programme of reform based on conviction. Competence may, arguably, be sufficient in relatively calm times, but managerial adequacy can never be enough in times of crisis.

This point can be reinforced by asking what a Government would do in these circumstances *if it held the ideological high-ground*. With the highest deficit in the developed world, and with a flat-lining economy, a secure, confident and popular Government would make real inroads into public spending, cutting not just administrative and public service costs but the welfare burden as well. Resources would be transferred wholesale from ex-growth to growth sectors of the economy, investment and enterprise would be encouraged, and self-reliance would be promoted. Institutional failings would be tackled head-on. To be able to do any of this, however, a Government would need to secure public assent for the philosophy which underpins its policies.

There are two factors which, taken together, make it very difficult for the Coalition implement such a programme today. The first of these is that the capitalist system is widely believed to have failed, both in practical terms and morally, as measured by the prevalent if simplistic and distorted test of 'fairness'. The second is that for 13 years Labour inculcated a synthetic ideology, an ideology which has been largely left unchallenged. Finally, to succeed, a new ideology must tackle both issues and, in addition, must bring in what might, in current parlance, be called a 'killer app'.

Imperative #1 – rehabilitating capitalism

Whether in Britain or elsewhere, the default instinct of centre-right policymakers is to defend free-market capitalism. But is the capitalism of today so corrupted that it now becomes indefensible?

The real living standards of the average person are falling more rapidly that any time in living memory. At the same time, an affluent élite appears to be just as prosperous as ever. It is not surprising, therefore, that popular support for capitalism is plumbing new lows.

The first thing to acknowledge is that, while no system ever conforms entirely to theoretical ideals, capitalism-in-practice today bears little resemblance to capitalism-in-principle. In addition, the current variant of capitalism is neither equitable nor effective. So what is needed is a popularly-acceptable capitalism which serves everyone, not a corrupted variant which serves only a minority. Thus it is *not* classical free-market capitalism that has failed. Rather, it is, as Dr Woody Brock has put it, a "bastardized" version of the capitalist system, one which has diverged a long way from real capitalism.

Left entirely to its own devices, capitalism tends to destroy its own first principles. The instinct of businesses is to seek combinations which diminish competition, to drive down wages (which undermines demand) and to endeavour to diminish the free flow of information upon which effective market functioning relies. Therefore, the aim of regulation, properly considered, should be to encourage innovation, competition and the flow of information, thereby saving capitalism from itself.

Ideally, transactions and contracts are entered into freely by parties whose bargaining positions are fairly equal, in a context in which information is available to all. While businesses pursue the best interests of their owners, their rewards should be closely aligned with the degree to which they meet their customers' demands. Both monopoly and monopsony are anathema to free market economics. The pricing of risk needs to be effective, such that there is an effectively functioning balance between risk and reward.

Under the current “bastardized” variant of capitalism, none of these predicates holds true. Contracting parties do *not* have roughly equal bargaining power. Market participants do *not* have equal access to information. Rewards and achievements are *not* in alignment. Decisions are *not* made by the owners of capital, but, rather, by managers, whose objectives may differ widely from those of shareholders. Decisions are *not* always rational. Risk has *not* been priced correctly (sub-prime mortgages being an example of the lethal mispricing of risk).

Empowering the shareholder

Ordinary people (be they employees or consumers) need a much better deal. The place to start is with a long-overdue recognition of the implications of “the divorce between ownership and control”. In the early days of the Industrial Revolution, businesses were small enough to be managed by their owners. As businesses grew from the local to the national and the multinational, this relationship broke down. Today, almost all large businesses are managed by executives acting as stewards for a large and diverse body of shareholders, and it is rash in the extreme to assume that the interests of both are coterminous. This is what made Alan Greenspan’s belief that banks would always act in the best interests of their shareholders so harmfully naïve.

The banking sector is an extreme example of the divergence between shareholder and management interests. Over the last decade, whilst banking executives have received huge remuneration, returns to shareholders, in the form of dividends and capital appreciation, have varied between the derisory and the sharply negative. Public resentment against the rewards earned by bankers misses a crucial point: these rewards have been totally out-of-kilter with returns for shareholders whom, for the most part, are ordinary people whose investments are controlled by institutions.

Logically, of course, this should not have happened, because managers have a fiduciary duty towards their shareholders. In reality, this relationship has been subjected to gross abuse. Managers have taken risks which, whilst they pay off for managers themselves in good times, harm shareholders (rather than managers) when things go wrong.

Much could be done to create a more equitable relationship between managers and shareholders. Bonus pools could be held in long-term escrow accounts, from which sums are *deducted* if returns to shareholders are negative. Strengthened disclosure rules could require that the income-and-capital-appreciation streams of managers and owners are published, in order to enable comparisons between the two. Such a system could also mandate the anonymous disclosure of all remuneration packages in excess of, say, 10 times average national earnings (so about £230,000 in the UK).

The banking industry complains that such an approach would stifle innovation. But innovation is not everything. A balance between innovation and probity is just as important. Rewards for innovation are appropriate, but not when these rewards are rendered risk-free in ways which expose shareholders to losses and which also, in extreme cases, put the taxpayer at risk.

Ending "too big to fail"

Governments throughout the western world are also grappling with the "too big to fail" conundrum. The pure answer to this conundrum, of course, is the re-establishment of separation between low-risk retail ("high street") and high-risk investment banking. If investment bankers wish to take risks, they should be free to do so, but the penalties for failure should not be cancelled out by taxpayer intervention.

Short of complete separation, the concept of *internal bankruptcy* should be considered. If a "normal" business fails, entrepreneurs suffer heavily. In the event of bankruptcy, these people stand to lose their jobs, their assets and their pension investments, and in some circumstances may be disqualified for lengthy periods.

Where an investment banking operation cripples a bank to the point where taxpayers have to intervene, an *internal equivalent* of the normal bankruptcy process should apply. Though the bank itself survives thanks to the taxpayer, senior executives should lose their jobs, forfeit their escrowed bonus pools and pension schemes, and, in some cases, face disqualification as well. If, in rescuing troubled banks, the Labour Government had imposed such sanctions on those responsible for excessive risk-taking, today's widespread contempt for bankers would have been very much diminished.

Preventing asset bubbles

Additionally, the Bank of England needs to be empowered to prevent the development of bubbles. The MPC mandate should incorporate asset price as well as retail inflation, and the Bank should act if lenders exceed prudent LTV and loan-to-income ratios.

The Government also needs to recognise that high house prices are *not* necessarily a social good. Excessive investment in inflating the values of properties – which are *unproductive* assets – acts as a capital sink, denying investment to genuinely productive activities. Inflated house prices encourage the excessive accumulation of consumer credit, and high property prices act both as a rigidity in the labour market and as a penalty on young people. Any sustained boom in house prices also, of course, creates the inevitability of a subsequent crash. No credibility whatsoever can be accorded to regulators' ritual claims that property price bubbles can neither be identified nor prevented.

Towards equitable contracts

Reforms aimed at securing a better deal for individuals (such as employees and customers) need to go far beyond the tighter regulation of banking. Whilst, theoretically, contracts in a capitalist economy are freely entered into between equal parties, in reality this is not the case. It never can be, in absolute terms, of course, but the balance of power has swung much too far against the smaller players. These smaller players, be they customers, employees or suppliers, need to have their negotiating positions strengthened if anything approaching a level playing field is to be restored.

The usual means for exerting power imbalances is the imposition of "terms and conditions" which the smaller player has no choice but to accept, either explicitly or implicitly. Such terms are often written in ways which are almost completely biased in favour of the supplier, and are used routinely as a shield behind which suppliers can defend inequitable practices.

If capitalism is to function more equitably, and if the rights of smaller players are to be protected, the Government needs to formulate a method of redress. One way to achieve this would be to establish an Equity Court. This Court would be empowered to set aside terms and conditions which it deemed to be unduly biased. Businesses would need to write their contractual terms in ways which would not fall foul of the Court, thereby strengthening the position of the weaker players.

Whilst reasonable and equitable contracts are important to the functioning of markets, Government needs to check the tendency to use contract law to reinforce inequity between large and small participants in the market.

Re-establishing the link between achievement and reward

A reform of capitalism also needs to enforce far greater disclosure. The disclosure of information on senior salaries, and of the relationship between executive and shareholder returns, has already been mentioned, but more needs to be done to ensure a better alignment between achievement and reward.

Accordingly, bonuses should be held in long-term, rolling escrow accounts which are open to claw-back, and companies could be required to disclose the measures and criteria upon which bonus decisions are made. In principle, there could be a double-lock on bonuses, which should not be paid unless shareholders have benefited both through improved profits and through an increase in the share price. If a company's share price has fallen, or if earnings have declined, no bonuses should be paid. In addition, non-executive directors should form a majority on all remuneration committees.

Another area in which executives exert disproportionate influence in relation to shareholders involves the use of debt. The problem here is that shareholders are disadvantaged because debt capital is cheaper than equity capital, interest expense being deductible against tax whereas dividends are not. This is disadvantageous in any case, because it builds in a preference for debt over equity capital. As an interim measure, tax deductibility of interest should be restricted to 50% of pre-tax profits. A company making a profit of £100 million but also incurring £100 million of debt interest, should not be allowed to offset more than £50 million of that interest expense against taxable profits. The additional income received by the Treasury as a result of such a measure should be used to begin to reverse Gordon Brown's iniquitous removal of pension funds' dividend tax relief.

Internal bankruptcy, an equity court, enhanced disclosure, tighter rules on bonuses and the restriction of the tax deductibility of interest could be the key legislative components of a reform plan.

Imperative #2 – reclaiming ethical politics.

A distinguishing feature of Margaret Thatcher's Government, and one of the main reasons for its success, was its determination to win what Mrs Thatcher called "the battle of ideas". Her chief ally in this endeavour was Sir Keith Joseph. He believed that new opportunities were opening up because the Keynesian consensus, which hitherto had prevented the Conservatives from "fighting a vigorous battle of ideas", was now "grind[ing] to a dead end". The Thatcher government, Sir Keith said, needed "a different analysis and a different set of policies". A similar break with the past is needed today.

The return of the politics of envy

The distorted forms of selective morality peddled by New Labour did not happen by accident. When Tony Blair said that Labour "must do more than just defeat the Conservatives" and "must change the tide of ideas", he was presaging the creation of an ideology, based on a vague concept of 'fairness', which turned out to be both synthetic and deeply contradictory.

Was it 'fair', for example, to plunder the pension-funds of hard-working individuals? Where was the 'fairness' in piling huge debts onto future generations? What was the 'fairness' dimension of the massive extension of state surveillance? The latter, in particular, showed Labour's instinctive intolerance to plurality in issues of morality.

Such contradictions can be avoided by a philosophy which recognises that no Government has a monopoly of moral rectitude. A policy of empowering the individual can alone avoid these contradictions by recognising the legitimate plurality of opinions and values.

The problem for the centre-right is that Blair and Brown's subjective concept of 'fairness' still dominates the British political landscape, at least in the form of the politics of envy. Unless this New Labour legacy is challenged, the implementation of enterprise-based reforms is likely to prove all but impossible. Enterprise, after all, requires winners and losers, an outcome to which the politics of envy are antithetical.

And in times of austerity, the ideological challenge is even more difficult. The simultaneous ending both of the "Brown boom" and of the western credit super-cycle made a deterioration in living standards unavoidable, though Labour tried to delay this inevitability by borrowing in unprecedented quantities.

But most people now realise that Britain has been living beyond its means, and that belt-tightening is necessary, but they also tend to believe that the belts to be tightened should be those of others. This is particularly so for 'the squeezed middle': 'the rich', they believe, continue to prosper, whilst the state takes care of those living on benefits. The people suffering most are those in the middle.

This perception is largely justified. Bankers do indeed continue to pocket large bonuses, and FTSE executives do continue to grant themselves big salary increases. Little or nothing has been done to reduce the incomes of those at the top of the state machine, and the recent 5.2% up-rating of most benefits was in stark contrast to the stagnation in the wages of working people.

For now, the wrath of the squeezed middle is targeted at 'the rich'. Initially, anger was directed, wholly understandably, at those bankers who had profited mightily from the taking of risks which imperilled the economy. Then, this anger was extended outwards to bankers in general, and to the chief executives of large corporations. With the exception of celebrities – who somehow have remained immune – the circle of resentment has now widened to include anyone who might be regarded as 'rich'.

These are dangerous trends. Since anger directed at "the rich" endangers the concept of enterprise, this is adverse for the economy. Carried to logical extremes, this logic would make a target of anyone raising his or her head above the middle-income parapet. A society which resents success is a society which disavows achievement, and a society which is antithetical to achievement is one which, consciously or unconsciously, has chosen a path of rapid economic decline.

The next logical step, damaging this time even more to society than to the economy, would be for the bile of the squeezed middle to be vented at those at the bottom as well. If this were to happen, benefits recipients could become another target of squeezed middle resentment.

There are two ways in which the self-defeating politics of envy, cloaked in the spurious morality of "fairness", can be challenged. First, there is the imperative need to embrace the reform of capitalism. The second imperative is to tackle the issue of political linguistics. For language is not simply a neutral vehicle in which ideas are discussed. Rather, the choice of language is in itself normative, a point clearly understood by Tony Blair and his spin-doctors.

To illustrate this point, here is another example in which a case for redistribution can be phrased:

1. “Society should take money from the rich, and give it to the poor.”

2. “Society should take money from people who work hard, and give it to those who do not work at all.”

The point is that, while most people would accept the former proposition as equitable, far fewer would assent to the latter. The tricks-of-the-trade for New Labour included the capture of language and the creation of euphemism. Here are two further examples:

1. “Protecting the rights of workers is imperative.”

2. “We need to protect the privileges of those who already have jobs even if this hinders the unemployed from finding work.”

The linguistics are critical if the ethical high ground is to be recaptured. It is not enough simply to point out that there are too few “rich” people to bail out the Exchequer, that high tax rates deliver diminishing revenue returns, or that a system which is avowedly punitive of the successful will undermine economic growth. Logic needs to be complemented by appropriate linguistics. The following lines are examples of what could work:

1. “We will reward effort and success. Failure and mediocrity will not be rewarded”.

2. “Our economic success should serve everyone who works, not just a greedy minority”.

3. “We will root out unmerited advantage and privilege”.

4. “We will stop companies and government bodies exploiting, or taking advantage of, ordinary people”.

These sample statements need to be supported by policy. After eleven years of New Labour, the electorate can easily detect empty rhetoric. Fortunately, all of these statements are consistent with the imperative of reforming capitalism.

Imperative #3 – applying the ‘killer app’ of individualism

As we have seen, political ideologies have varied widely across the decades since the Second World War, from the socialist agenda of Clement Attlee to the *laissez-faire* free market economics of Margaret Thatcher. But, through all of these changes, one factor has been a constant. That factor is the diminution of the status of the individual in relation to the collective and the corporate, a trend which is symbolized in the continuing erosion of individual liberties.

The practical issue here is that the growth of both state and corporate power is evolving into a greater and much more dangerous division of society into “us” and “them”. “They”, increasingly, are “the rich”, the rule-makers, the state machine and its functionaries, the media, and corporate power. Recent scandals have confirmed long-held suspicions: parliamentarians have been tarnished by the expenses scandal, the media have been discredited by revelations of phone-hacking, the police have been compromised by allegations of bribery, bankers are held in contempt over rewards for failure, and corporate bosses are reviled over big increases in remuneration. National and local government is seen as increasingly intrusive, seeking to micro-manage in areas as trivial as pot plants, dustbins and hedges while failing to provide competent government.

At one level, the diminution of the individual has resulted from the growth of the bureaucracy. During Labour administrations, the bureaucracy (and a related growth, the quangocracy) have prospered in an environment of rising state expenditure. But even when the Conservatives have been in power, the bureaucracy has managed to keep almost all of its power intact. Successive "bonfires of quangos" have been reduced to little more than camp-fires.

There have been two basic problems with Coalition efforts to reverse the growth of the bureaucracy. The first is that there is an intrinsic contradiction in asking bureaucrats to reduce bureaucracy. Faced with a choice between cutting administrative overhead and cutting public services, the bureaucracy will tend to opt for the latter, which has the dual advantage of maintaining the power and privileges of the state apparatus whilst maximising the electoral unpopularity of spending reductions.

The second reason for the resilience of the bureaucracy has been the tendency of ministers to "go native" when they attain office. A Labour minister who, in opposition, had resisted plans to restrict the right to trial by jury, brought forward almost exactly the same legislation once in office. The Conservatives, who in opposition opposed extensions of surveillance, seem now to be championing almost exactly the same type of intrusive legislation.

The balance between security and liberty

There can be no doubt that the UK faces real threats from radical Islam, though this is to some extent a problem of the West's own making. Initially, terrorist groups like al Qaeda commanded minimal support amongst the broader Islamic community. Invasions of two Islamic states changed all that.

But it can all too easily seem that there has been a glaring lack of cost-benefit analysis where security is concerned. Over the last decade, an average of five people a year have been killed in the UK by terrorists. Tragic though this is, it is a tiny number compared with the ten people killed on Britain's roads on an average *day*. Society could prevent these road deaths by mandating square wheels for all vehicles, but the public accepts the need to balance risk prevention against practicality. When it comes to Islamic terrorism, however, no sacrifice of liberties seems too great. This is a far cry from the much more measured responses to the threat posed by the IRA (whose 30 year campaign of violence resulted in about 1,800 deaths – or 60 deaths a year).

The aim should be to align the reform of capitalism with an enhancement of individual liberties. This can be regarded as a freedom agenda. Just as the government should reform the excesses of capitalism to rebalance the terms of exchange in favour of the smaller player, so there should be an agenda which emphasises freedom of choice for the individual.

There is one policy which, in terms of symbolising a new ideology, could become today's equivalent to council house sales: that of Individual Budgets. This policy has the potential to revolutionise the relationship between the citizen and the state as it entails granting the individual complete control of the pot of funds to which that individual is entitled. Instead of having to navigate their way through the 28 bodies which now provide some level of care to disabled children, the family of the child should be given complete control over how the funds are used. Currently limited to a few trials in social care and special education needs, this concept has huge potential: applying it to the whole school and health system would at a stroke move power to the citizen from the producer interests.

William Beveridge, the architect of the welfare state, said that "[t]he State in organising security should not stifle incentive, opportunity, [and] responsibility". But why should anyone act responsibly if the state has severely constrained the scope for individual choice? Advocating a message of responsibility and self-reliance can be persuasive only if the rights of the individual are boosted as well. A campaign to give power to the individual would therefore complement efforts to make inroads into Britain's unaffordable levels of benefit expenditures.

6. CHALLENGES AND CHOICES

Britain is treading an unsustainable course. This applies to the economy, government finances, our national defence and the stability of institutions and social cohesion.

The economy is stagnating, and is unlikely to do much better than that because of extreme structural biases towards sectors dependent on the now-defunct drivers of private borrowing and public spending. Unless output improves, the Coalition's fiscal rebalancing plan will unravel. Planned cuts to state expenditures are modest, and will still leave government spending far more than the economy can afford. Britain has developed an entitlement and compensation culture which makes a realistic rebalancing of the budget politically improbable. As public debt rises (and with individuals heavily indebted as well), the logical conclusion of the current economic direction is failure. A country which lives beyond its means soon reaches the point at which the willingness of foreign lenders to sustain that lifestyle becomes exhausted.

Many of Britain's most important institutions (including Parliament, the media, the police and the banking system) have been discredited. Public anger at "the rich" already stifles enterprise, and points towards a form of egalitarianism which makes the effective functioning of a free market economy impossible.

Contempt for “the rich” could develop into a more generalised contempt for those at the top of power structures. The riots which racked English cities in the summer of 2011 also revealed a growing popular disenchantment with institutions, and with a governing élite which increasingly is seen as corrupt, greedy and hypocritical.

The reforms needed to create economic resurgence are not difficult to identify. But implementation will be impossible unless electoral support is achieved. This in turn requires a persuasive ideology founded in reality, not a synthetic construct of the type used by New Labour.

The current Coalition, far from winning “the battle for ideas”, seems not even to be trying to do so. There is, as yet, no sense of a cohesive ideological alternative to the facile, superficial and now-discredited agenda of New Labour. This alternative ideology could be based on the three principles outlined above:

- A reform of captialism so that it serves everyone.
- The recapture of the moral high ground through the reform of institutions and structures in ways which benefit the majority.
- The championing of individual freedoms over the incursions both of the state machine and of corporate interests.

The alternative, which is a combination of supine inactivity and unfocused populism, can at best merely delay the inevitable.

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