

LESS A - THIS IS THE TEXT FOR NEXT
WEEK'S LECTURE

F.

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Keith Joseph must have been the first serious politician I ever met. Sometimes I think he was the only serious politician I ever met. It was an extraordinary experience to encounter in your first proper job someone so exquisitely courteous, so unfailingly attentive to your least thought-out remark, so eager to identify the errors of the past and track down the right path for the future. Could all politicians be like this? Well, no they couldn't.

In the intervening thirty-five years, time and again Keith Joseph has been written off, by the media, for example, as "hopelessly mad, dear boy, gave his civil servants a reading list, whoever expected a permanent secretary to think". Some of his colleagues couldn't bear his habit of rolling those wonderful velvet eyes and lamenting, 'how wrong we all were and we meant so well'.

Yet to me he remains the most bewitching character I have met in British politics and the most crucial single influence in the thought and policy of the Conservative party since the war - and, since the Conservative Party has been in power so much of that period, the most crucial influence on domestic policy-making in the nation as a whole. Rab Butler would, I suppose, be his only rival, but Butler's wisdom consisted mostly in teaching Conservatives to accommodate themselves to the prevailing wisdom of the day. Joseph taught us how to question that wisdom, to seek practical ways of breaking away from it - altogether a more difficult business during a period in which the consensus among politicians, academics, businessmen and journalists took it for granted that no omelettes could be unscrambled and no clocks put back - or forward, for that matter.

He often seemed tactless. He was criticised for talking about "remoralizing the working class" and transforming the "pauperized" proletariat into a new self-reliant bourgeoisie, but what else is the present government engaged on, with its efforts to encourage and educate single mothers, stamp out truancy, and smarten up the

unemployable? Day after day, he stood at the despatch box trying to educate the Opposition in the need to make Britain competitive. That was uphill work, but not much more uphill than his campaign to teach some of his fellow Tories that it wasn't enough to unleash the energies of the enterprising and that society must also offer those at the bottom of the heap the prospect of a worthwhile life.

What topic would Keith Joseph be nagging away at if he were with us today? What would he be trying to make us think about, while softening any hint of presumptuousness by confessing that he had been the blindest of us all? He would have been quick to identify the new clichés, the latest hand-held devices for avoiding thought. 'We must rise to meet the challenge of the Internet' - or 'the challenge of globalization', 'we live in a borderless world' - one can go on happily chuntering all night in such a style without once actually engaging the brain. Indeed, such clichés have arisen precisely in order to avoid confronting the concrete problems of our time, problems which everyone knows about.

In any case, is globalization new, is it alarming, is it a challenge to our political system? I would say cheerfully that, in Britain's case at least, the answers are no, no, and certainly not. Economic historians often say that the British economy was actually more globalized in the later decades of the nineteenth century, when the City of London was financing the railways, mines and manufacturing industry of most of the planet, and when British ships carried British goods up the most distant creek and inlet. Some witnesses would even locate the first great heyday of globalization a little further back:

“The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country.”

That, of course, was Karl Marx in the *Communist Manifesto*, now 150 years old and not going quite so strong. Some lingering sympathisers tried to revive the old man's reputation as a prophet the other day by reminding us of this vivid diagnosis of globalization. But the whole point is that the Communist Manifesto was describing globalization as an already present reality in 1848, not a prophecy of terrifying things to come.

Our pressing problem, by contrast, is a different one, it is not particularly new, and it has nothing whatsoever to do with globalization. After all, it is hard to think of any globally traded good or service that we are short of in this country: not cars or butter, or steel or diamonds, or wine or videos or computers or mobile phones, or cosmetics, or insurance or investment or - but I could go on indefinitely. What are we short of then? Amid these scenes of brimming plenty, we do suffer from severe shortages of nurses, of doctors of all sorts, but particularly consultants and oncologists, of first-rate university teachers and academics in a wide variety of disciplines, of talented schoolteachers, both primary and secondary, of librarians, park-keepers, policemen and prison officers, and, last but very far from least, soldiers.

It will not escape your attention that the one thing common to all these categories is that they all consist of human beings and that although they may not all directly work for the government or be wholly paid for by the government, the supply of them is more or less directly controlled by the government or, to be more precise, by the amount that the government is prepared to allocate to supplying them. If you want to put it in a phrase, what all these public services suffer from is the strangulation imposed by State control in one form or another; or if you want a single rather old-fashioned word, nationalization. Those services which have been privatized, even those which once looked like natural monopolies, such as water and electricity, no longer suffer from such strangulation. Investment in pipes and dams, in power stations and rolling stock and telephones, is no longer constrained by the Treasury. The same cannot be said for pupil-teacher ratios or hospital waiting lists.

Now this is not a brilliant insight of mine. It is incredibly obvious. But the curious thing is how few people will say it, and how even those who do say it with weary

resignation rather than with impatience and indignation. Once the 'flu panic of January subsided, for example, we resumed our habitual torpor and the government began to do what governments always do: put just enough extra money into the NHS to appear sufficiently compassionate to win the election. But, of course, this isn't going to work properly. It can't work. The more billions Mr Blair persuades Mr Brown to release for the NHS, the less for other public services - unless they break their pledge to hold steady the proportion of national income taken by the government. To protect the NHS is only to tug the blanket away from the schools, the universities, the police, the army - and leave their limbs bare and shivering.

What I want to do now is briefly to look at the scale of the problem, then to consider potential solutions - and, just as important, the route required to get there from here. Here I cannot resist a little parenthesis. In my experience of speeches and pamphlets in assorted think tanks, their authors tend to be eloquent and full of information in their analysis and denunciation of the status quo, but when it comes to describing their remedies they tend to run out of time and out of steam. More particularly, any step-by-step description of how we are to get from the status quo to the New Jerusalem tends to be conspicuous by its absence. This means that their remedies are cruelly exposed to the defenders of the status quo - that powerful combination of political opponents, nervous colleagues, the senior civil service and, often the most stick-in-the-mud of the lot, the newspapers. In my view, the most useful pamphlet is one which is equally divided between stating the problem and offering the solution with a rough route map included. And that rule I shall follow this evening, if only to give you a better opportunity to spot the weaknesses in my suggestions, and put forward your own afterwards.

So first a few brief statistics: the United States spends just over twenty per cent of national income on health and education, the UK spends just over 12 per cent. France has twice as many hospital beds per head of population, Germany has twice as many doctors per head as we do. In fact, we seem to have fewer hospital beds per head than any OECD nation except Turkey (which on present form will soon overtake us). Only Korea, Mexico and Turkey, again, have fewer doctors per head than we do. Tony Blair's pledge to Sir David Frost - which quickly turned out to be

not so much a pledge, more a pious aspiration - to raise our health spending to the European average would still leave us far behind the £25 billion a year needed to get us up to the present French level, let alone the £35 billion needed to hoist us up to the German level. In education, the story is much the same. The United States, Germany and France all spend about half as much again as Britain does per secondary school pupil.

A recent survey of surveys carried out for Politeia by Chris Woodhead, Her Majesty's Chief Inspector of Schools, together with the redoubtable Professor Sig Prais and my colleague Caroline St John Brooks, editor of the *Times Education Supplement*, found British schoolchildren lagging far behind children in other advanced Western countries in most subjects. We can gain some inkling of the reason why by contemplating the fact that it costs about the same to keep a child at an independent school for a term, as it does to keep a child at a state comprehensive school for a year, roughly £2,500. Some part of the gap may be explained away - the upkeep of the extensive playing fields at the independent school or the headmaster's extensive wine cellar. But three times as much? Need you look any further for an explanation why so many teachers in state schools are disgruntled and inadequate? Some highly placed Conservatives stubbornly persist in the belief that the much needed reforms in the training of teachers and in classroom methods will be enough on their own to restore standards. Strange, this. In every other sphere of life, it is axiomatic among Conservatives that if you pay peanuts you get monkeys. Why should teachers, and indeed nurses, be the exception? I don't think anyone who has been in an NHS hospital recently can have any doubt how far the average standard of nursing has fallen - a decline which has affected private hospitals too, as they draw their nurses from the same pool. To know how bad many teachers are, alas, you have to be a child, and children don't make government policy, though it often seems that way.

The starvation of the universities by successive governments has reached such extremes that it is amazing that even more of the most talented younger academics have not emigrated to America. In 1929, according to the researches of A. H. Halsey, the average academic salary represented 3.7 times the average industrial

wage. In 1989 the figure was more like 1.5. Today it is probably lower than the average wage in manufacturing. An experienced lecturer at the LSE may well earn less than his departmental secretary. And a good thing, too, some people will say. Tory and Labour ministers alike enjoy sneering at the spoilt flâneurs of academe, but there is a limit to how far you can squeeze the orange without prejudicing the education of future generations.

I must, however, pay tribute to one splendid action of the present government which Keith Joseph himself failed to persuade his colleagues to accept - the introduction of tuition fees. Paradoxically, as a result of this and other recent changes in funding, universities may be on the verge of recovering their independence. Robin Butler, the Master of University College, Oxford, tells us that “only about one third of the total income of the University of Oxford is now derived from the Higher Education Funding Council.” At the LSE over the past two decades, the direct government contribution to the School has fallen from 64 per cent to twenty-six per cent. So why shouldn't leading universities like these - and others too - recover the ability to set their own fees and so to pay attractive salaries?

But it is not as if health and education were the only public services which are suffering from a shortage of staff and equipment, despite the cheery reassurances of the Ministers responsible. The Army cannot recruit or retain the recruits even to fill its shrunken Establishment - the government seems to think you can cash the peace dividend every year. The Commons defence committee reported last month that no less than a dozen major exercises have recently had to be cancelled, either because of “financial constraints” or because troops could not be spared from Kosovo. And as for the police, only by the most extravagant rhetorical contortions can Mr Jack Straw claim to have improved on the numbers of officers he inherited.

There is, I think, a convenient fallacy to which the last government was even more addicted than the present one, which is that, in becoming “businesslike”, a public service ought to imitate the management style of an efficient manufacturer who has learnt the lean, just-in-time practices of the Japanese; hence “hot-bedding” in the Health Service, which, of course, doesn't work too badly in the summer months but

collapses at the first hint of a flu epidemic: hence all the absurd efforts to measure the productivity of dons by their publication output, when what a university needs is more teaching and pastoral care and fewer trivial and repetitive pieces of research.

The truth is that most public services need some elbow-room if they are to carry out their vocations to the highest standards, and that such elbow-room will be available if and only if those services are not permanently and wholly reliant on government funding.

The two sides in British politics are at least agreed on one thing: that the British taxpayer will not re-elect a government which adds substantially to the burden of taxation. Some Conservatives would prefer that burden to be markedly lower, nearer the Hong Kong or American levels, at about thirty-five per cent of GNP, rather than the present level of around 40 per cent, but no realist on either side really imagines that raising the level towards those endured by the French or the Germans or the Swedes would be sensible economics or practical politics.

So there are only two choices: either the State must do less, or private citizens must provide more out of their own pockets towards these services, whether directly through fees and charges or indirectly through insurance, voluntary or involuntary - or through a combination of these two approaches. There is no other possibility, no third way.

How are we to effect such a big turn in our arrangements, bearing in mind that, to be really effective, the private contribution where it can be made must be of a substantial order - let's say, 30 per cent - because there are large areas of the public service where there can be no contribution either from reduced State function or from private funding - the police, the prison service, the armed forces?

How do we set about this awesome task, as awesome in its way as the gradual removal from the state of large parts of the Attlee inheritance, in the face of the fiercest imaginable political opposition and those elegiac laments for the family silver?

My opening assumption is that we should try to make the programme as unafrightening as possible. Therefore, we should disturb as little as we need of the existing basis of state funding. This is partly to maximise political support and partly because, however these services are financed, there will still need to be a large element of direct state expenditure - to ensure decent treatment and fair opportunities for the poorest and most vulnerable, to finance first-class education for doctors, nurses, and teachers, to underpin day-to-day services with long-term research and pioneering treatment. So why not stick with the basis we already have, so long as this does not inhibit the flow of fresh additional funds into the service?

In fact, why not start by guaranteeing to abide by the existing public expenditure targets for the years in which they have already been announced and indeed go one step further - by projecting a modest rate of increase for those targets for five years beyond that? Anyone who has studied the ever-upward alteration in the figures of successive Public Expenditure White Papers - the notorious "porcupine profile" - knows that any such projections are extremely unlikely to represent overestimates of what will be needed when the time comes. In fact, the most likely effect of making such a long-term commitment is to reduce the share of GNP consumed by the public sector. This will be a virtuous byproduct of our attempt to broaden the funding base for the public services. Throughout the whole exercise, any reformer who hopes to be successful must emphasise that what he is offering is not "savage cuts" or alarming upheavals, but funding which is going to be greatly, systematically and permanently enhanced - education plus, health service plus, local services plus. If I may venture a vulgar slogan in these distinguished surroundings, this is going to be "the change that allows you to make the difference".

All this is most emphatically not a device to help those who don't need helping, some sort of scam to make the fat cats even fatter. On the contrary, the purpose, the only purpose of enhancing the system is to help those who are worst off, the patients who are last on the waiting-list, the children who are still learning little or nothing in sink schools, the families who are still trapped on the worst estates. The well-to-do in this country can already choose between some of the best schools and hospitals in

the world, institutions that attract parents and patients from other countries in droves. This exercise isn't for them. It's for the Also Rans, or rather for the Did Not Qualify or Were Never Entered in the First Places.

I will start with the easiest area - local services: understaffed, scruffy, graffiti-ridden, demoralised libraries and swimming pools closed half the week, parks unattended, hard-to-let estates riddled with druggers and muggers. Now if none of this applies to your borough or district, then you don't need a solution, which is why the answer must be a local one, and that answer must be, in a nutshell, "off with the cap". I don't know about you, but in my own legendary borough of Islington, we are still paying considerably less in council tax than we were in domestic rates twenty years ago. In real terms, we must, therefore, be paying about half. Twenty years ago, of course, we were paying too much, because of the loony Left, which was why the cap was introduced. Now our council isn't even Labour-controlled, but it is genuinely short of cash. That daring temporary expedient of putting a ceiling on local taxes has served its turn. Local government should be allowed to be local again. Abuses can, I think, be quite easily forestalled by a combination of controls on borrowing by local authorities and by stepping up the democratic pressures. Electronic voting and electing one-third of all councils every year would surely help to concentrate the mind.

But how do we cope with the two great challenges - the schools and the NHS? The first thing to recognise is that we have superabundant evidence to demonstrate that tax concessions - or the absence of them - can bring about huge swings in the way people use their money. To see this demonstrated, we have only to turn to what used to be the third great social problem - retirement and old age. Up to the post-war years, the vast majority of the population possessed only very modest savings of their own, and accordingly dreaded retirement. As a result of a generous range of tax incentives, half a century later the pensions and life funds dominate the stock market, and poverty in old age has dwindled from being a problem for the great majority to a problem for the minority (though none the less real for that). While governments in Europe agonise about how to meet pensions obligations over the

coming decade, the UK is sitting relatively pretty, with funds already invested to equal those in the rest of the European Union put together.

And if you want a still more immediate demonstration of the influence of tax concessions, reflect that when in 1997 Labour abolished the concession on private health insurance for the over-65s, it is estimated that 200,000 people cancelled their private health policies. Now if you propose simply to revive this tax exemption on health insurance premiums, or to extend it to the whole population, or to extend it further to cover school fees or university fees, you will be met with two objections: first, that you will thereby erode those very state revenues which you are seeking to supplement - you'll be leaking out money by one channel while pumping it in by the other. That's one objection. The other is that a good proportion of the revenue foregone will be "deadweight", that is, you'll be subsidising companies who already pay private health premiums for their staff who are at present fiercely taxed on them. The same with education. You'll be subsidising the well-off, who at present pay daunting school funds out of income which has already been taxed at the top rate.

These aren't insuperable objections. If, say, for every £1 currently contributed to health and education from private resources, a generous tax exemption generated £4 or £5 of income for those services, then the loss of tax revenue might well be worth accepting. But if we can devise a system of incentives which involves as little dead-weight as possible and is more or less revenue-neutral from the Treasury point of view, that would be better still, would it not?

Let us accordingly try a slightly different route. At present, the ordinary wage-earner enjoys two main kinds of tax allowance: first, his general personal allowance, which he can spend on anything he likes - drink, videos, foreign holidays, improving books, a new car, a new sofa, anything; and second, the various tax reliefs he enjoys on his dedicated savings - ISAs, pension contributions, life insurance, and so on. Suppose, that you freeze the first, and open up the second to include other purposes such as health and education, but place an upper limit on the total that any person can claim per year for all these purposes. Suppose further that every single person in the country, however young, however old, is entitled to just such a tax allowance and

that within the family these allowances can be aggregated and set against the incomes of the breadwinner or breadwinners. This may sound remote from our present family-unfriendly system, but it is in fact not all that different from the old system of child tax allowances swept away by Labour twenty years ago, and not very different either from the present-day French system of the quotient familial.

The idea is to combine the increases in the personal allowance which we expect from the Chancellor in his Budget each year, with the reliefs hitherto available only for savings. Let us call the result of the combination a Lifetime Individual Family Tax Allowance or LIFTA. Every family could choose exactly how to allocate their LIFTA, thus enabling them to supplement the welfare state from cradle to grave. When the children were young, most of the allowance might go to education, the emphasis shifting in later years to pensions and then to health. If you don't use your LIFTA for any of these purposes, then of course you would lose it, just as you lose it today if you don't contribute to a pensions or savings scheme.

The Treasury ought to be able to minimise the impact on government revenue, by calculating the relief at a level which is likely to cost no more in total than the sum of the increase in personal tax allowance due that year and the cost of the tax reliefs available for retirement savings. Charging institutions - schools, universities, hospitals, general practices - would qualify for this tax relief only if they offered acceptable schemes for remitting the charges, in part or in whole, for needy parents and patients. The criterion of need would be rather more generous than the present categories of exemption for health charges, so as to include some remission for the not-quite-poor.

With inflation and economic growth, the amount available would rise within a few years to quite substantial proportions. Charging institutions would step up their tariffs in line with those increases, from modest levels at first to levels which would make a real difference to the quality of service provided. There would be an inbuilt elasticity, which at present the stiff haggling of the annual public expenditure round tends to frustrate.

A system of this sort offers strong fiscal recognition of the realities of family life, just as the French system does. It is fashionable to say that marriage and family life cannot be stimulated by financial incentives. This seems a curiously sentimental view. After all, throughout the history of the family, decisions about when to marry, and who to marry, have been strongly conditioned by financial pressures. And today more than ever before, it is part of the new consensus that financial incentives can influence our conduct in every other aspect of life. I would only add that the divorce rate in France is about half ours - and the situation is not very different in Germany, where again the tax system is much more marriage-friendly than it is in the United Kingdom.

Now, of course, as soon as you generate extra revenue from private pockets for these state services, you run into all sorts of interesting questions: how is the money to be channelled into maintained schools, which, ever since the 1944 Act, have not been allowed to charge fees? It is easy to see that more private hospitals will be built if there is more money around, but how is the extra revenue to be diverted into the NHS - through fees for visits to the GP, or for charges for stays in hospital? And how are those who are unable or unwilling to take out private insurance to be assured of continued equal access to the best services?

We can discuss answers to these questions at our leisure. All that needs to be said at this stage, I think, is that there are answers, because there are precedents, plenty of them. The NHS has long been comfortable with the idea of amenity pay beds, and with payment for drugs and appliances (mitigated by a whole raft of remissions and exemptions for vulnerable classes of people). Similarly, independent schools today, and the old direct-grant schools, and universities in the old days have operated, with remarkably little fuss, various means-tested scholarships, bursaries and free places. Computerisation makes all such systems simpler still to operate and even less likely to be blighted by social humiliation for claimants.

And, of course, in their desperation, state schools and NHS hospitals are already being driven to get round the restrictions on charging. Maintained schools will suggest a voluntary levy to finance school trips, or sports equipment, or a music

teacher. Hospitals will make available certain prohibitively expensive drugs to patients who are willing to pay for them.

But, first things first, and the first thing is to generate that extra revenue on a heroic and ongoing scale. This will mean, among other things, that future governments will not be driven to raid the National Lottery, which is intended for the adornment and enrichment of national life and not to bail out governments which have failed to contrive adequate funding for basic public services.

This fresh approach is offered gratis and for nothing to any political group which feels like picking it up and running with it. In theory, it ought to appeal as much to supporters of the present government who are prepared to offer fresh incentives for saving and who have a genuine concern with the present patchy quality of public services. But even in these non-political surroundings, I cannot help noting that here we do seem to run into one huge immovable relic of old Labour: the reluctance to contemplate the possibility that “ordinary working people”, to use Tony Benn’s hallowed phrase, might care to take a hand in helping to provide health and education for their families; that they might find life more satisfying and work more worthwhile if the State made it easy for them to spend any spare cash in this way, rather than on the usual pleasures of life.

I have no doubt that, once a future government has opened that gate, intelligent and alert Labour men and women of the next generation will see the advantages. But they don’t see it yet. And until they do, it seems both a pressing duty and a gorgeous opportunity for the present Opposition to show the way. Alas, the response so far seems to be a little sluggish from that quarter. So I shall end by trying to stir the blood a little and quote the last words in the message left to the public by Captain Robert Falcon Scott, as he lay stranded, forgotten and doomed at the South Pole:

“Surely, surely a great rich country like ours will see that those who are dependent on us are properly provided for.”