



TORY REFORM
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It is increasingly clear that the central purpose of the Welfare State, to equalise entitlement to essential services, has never been fulfilled. The United Kingdom, the fourth largest economy in the world, still makes 1 million people wait for hospital treatment. 25,000 people die every year in this country because we cannot meet the best European performance on cancer care and a fifth of all school leavers are functionally illiterate and innumerate. It is with this in mind that Sir Christopher Gent, in *The radical route to one nation* argues for a distinctive and bold reappraisal of the Welfare State in order to break down the barriers between private and public provision and extend opportunity to all.



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The TRG 2004 Macmillan Lecture

The Radical Route to One Nation

By Sir Christopher Gent



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The Tory Reform Group



The Tory Reform Group seeks to promote the One Nation values of social justice, political progress and prosperity for all, through open minded debate.

The TRG advocates the benefits of a society founded on freedom, individual responsibility and community. We see a mutually beneficial relationship between market efficiency and a better society.

The TRG brings together members and supporters of the Conservative Party who share this approach to Conservative politics. Our members include parliamentarians, councillors, association officers and private individuals from all parts of the United Kingdom.

Members of the TRG are part of a respected movement in the tradition of moderate and pragmatic Conservatism. Members can join the debate and help to develop ideas and policies through:

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The strength of TRG lies in the breadth and blend of its membership, which is drawn from all ages, backgrounds and walks of life.

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Foreword

This is the transcript of the Tory Reform Group Macmillan Lecture delivered by Sir Christopher Gent, in Autumn 2004 at Portcullis House, Westminster, London SW1. Sir Christopher is Chairman of the Advisory Board of the think tank Reform, but this lecture was given in a personal capacity, since Reform is a non-party political organisation.

The remarkable text is a synthesis of some of Sir Christopher's thoughts on change in modern society and the ways in which the political parties (and indeed the political process) could and should develop to embrace it. It is a thought provoking piece of originality and intelligence. It's publication is also timely, given how many of the themes of this book should figure in forthcoming elections.

We are very grateful to Sir Christopher for his time and commitment to making this important contribution to the debate. The Tory Reform Group is also grateful to Reform for their help and assistance in promoting this event.

Alastair King, Chairman, Tory Reform Group

Sir Christopher Gent

Sir Christopher is Chairman of Reform which was set up in 2002 with a mission “to set out a better way to deliver public services and economic prosperity.” Sir Christopher is also on the Board of Conservative Mainstream. He is Chairman of GlaxoSmithKline plc and a non-executive director of Lehman Brothers Holdings Inc. He was Chief Executive of Vodafone Group plc until August 2003.

The Radical Route to One Nation

I believe that the new centre ground of politics is being taken by those politicians - some in our party, some not - who are taking up the modern cause of public service reform. I do however also believe that, if it is to be successful, reform requires fundamental reappraisal of the Welfare State. That is why my theme is “The radical route to one nation”.

The 1945 settlement

I want to begin by tracing the origins of the Welfare State and the Conservative Party’s relationship with it. Perhaps, sixty years on, it is becoming increasingly hard for us to understand the conditions which shaped Beveridge’s report, the Welfare State which it spawned and the NHS. Macmillan spoke later of being “haunted” by mass unemployment in the 1920s. Butler wrote of the “deepening awareness that the ‘two nations’ still existed in England a century after Disraeli”. Churchill sensed the national mood for renewal during the war. He implored the public: “You must rank me and my colleagues as strong partisans of national compulsory insurance for all classes for all purposes from the cradle to the grave”. Speaking to boys at Harrow in 1940, he said: “When this war is won, as it surely will be, it must be one of our aims to establish a state of society where the advantages and privileges which have hitherto been enjoyed by the few shall be far more widely shared by the many”.

Certainly the sentiments behind the creation of the Welfare State can properly resonate with the Tory Party. Ever since Disraeli - perhaps before then - Conservatives have felt a sense of responsibility to the people of the country and a duty to act when necessary to maintain stability and prosperity for all. Many have argued that it was these values, as much as the prevailing political weather, which saw Conservatives adapt to the new world and structures that were put in place after the War, and subscribe to a political consensus which endured for at least another three decades.

In fact the Conservative Party were never true “partisans” of the Welfare State, as the public knew at the time. They voted against the NHS and opposed the nationalisation of industry, government provision of housing and benefits. They may have willed the end, but they saw danger in the means. Nonetheless the Party was a prisoner of its time. The Second World War bequeathed a command style of government for which planning and intervention had become the *modus operandi*. Britain had been socialised before Attlee walked into Downing Street.

The fundamental flaw in the 1945 settlement was not its noble ambition to eliminate poverty and raise the condition of the people, but its mistaken belief that government could legislate for outcomes such as making people healthy and deliver through administrative means. When Britain’s economic decline reached its nadir in the late 1970s, the consensus over industrial nationalisation broke down. First the Conservatives under Margaret Thatcher and then Tony Blair with his Clause IV revisions permanently reversed one of the central planks of the Attlee reforms. However the other half of the 1945 legacy - the unique consensus that public services should be funded, owned and run by the State - endured.

Owing to the economic reforms of the 1980s there is a tendency to believe that we have a more advanced economy today than the rest

of Europe. In respect of our labour market flexibility and unsustainable Continental social security systems, our confidence in Britain's advantages is entirely justifiable. Yet in respect of our public services, the belief that Britain is better is misplaced chauvinism, as demonstrated by Gordon Brown's bizarre assertion to his European counterparts that the NHS is better than Continental healthcare systems. These are stressful times for our Chancellor, but does he seriously believe that France envies our waiting lists - a phrase which, as one French doctor told the Today programme recently, does not actually exist in their language?

The truth is that as a consequence of the post-war settlement no other western European country regressed economically as far as Britain. The consequence is that our public services have fallen far behind the standards set by our peer group countries. 25,000 people die every year in this country because we cannot meet the best European performance on cancer care. We have the most congested roads in the EU and our journeys to work take the longest. We have the highest rate of crime of any country in the EU except for Sweden. The mantra of the left is that the sole cause of Britain's underperformance is relative lack of resources. Nevertheless we know from the experience of the NHS in Scotland and Wales, which has been much better funded than in England for some time but has worse health outcomes and longer waiting times, that spending alone does not necessarily produce results.

A more compelling explanation of the difference is that on the Continent services are frequently less monopolistic, less centralised and there is less ideological objection to engaging the private sector in their delivery. In 1917, as the Bolsheviks seized Russia, more enlightened reformers gave parents in the Netherlands a constitutional right to choice. Today about 70 per cent of children attend independent schools - funded by the government.

In France, a third of hospitals are not owned by the State. In Germany, half are not. Yet they deliver care within equitable, universal insurance-based systems which on any objective measure deliver far better outcomes than the NHS. These systems simply do not recognise the ideological apartheid between public and private provision which has existed in Britain since Bevan legislated - in his words - for the “extinction” of local hospitals. These countries of Continental Europe generally have left-of-centre governments and a commitment to social justice which is as great, often greater, than our own. Their public services fulfil the ambition of helping the poorest in society. They empower the poorest in society by giving them access to the same, high quality services as everyone else.

Changing society

The Britain onto which the Welfare State was launched in the middle of the last century was a country which in many ways we would barely recognise today. Food was rationed. The average life expectancy was about 50 (it is 80 today). Disease and poverty was widespread. A quarter of the children in Sheffield had to be treated for skin diseases. 40 per cent of houses in Hull and 33 per cent in Birmingham had no sanitation. Heathrow airport did not exist. The nation’s economy depended on coal and steel. Only one in eight married women worked. Only 19,000 pupils stayed on at school until the age of 18 - and only half of these went on to university. Today there are a million students in full time further education. Society in the 1940s was deferential. People queued patiently for food and gratefully for healthcare.

Today people’s expectations of service are rising and their willingness to accept their lot without complaint or to put up with substandard service is falling. These changing expectations are fuelled by the public’s experience of services which are not provided by government. Technological revolution and rapidly rising levels of disposable income have created a new nation of

empowered consumers who expect to make choices, whether it is over their mobile phone, their holiday or their car. As Alan Milburn warned his party, “we are in a consumer age whether people like it or not”.

Be that as it may this revolution has been almost entirely in the non-government sector. It wasn't government which brought you low cost air travel, mobile telephones or the internet. While enterprise has provided opportunities for ordinary people which as little as two decades ago we could only dream of, public services have stuck resolutely in the mould of the last century.

The UK, the fourth largest economy in the world and now with a higher GDP per head than France or Germany, still makes 1 million people wait for hospital treatment. 60 per cent of British children fail to get decent grades - A, B or C - in the GCSE core subjects, even when standards are falling and the examinations become easier - a situation described by the CBI as a “national disgrace”. A fifth of all-school leavers are functionally illiterate and innumerate. Most people have little choice but to accept this poor quality of provision. Good healthcare and education are fundamental to the quality of our lives and to national prosperity, yet they remain systems from which the concept of choice has been designed out.

Two nations

Disraeli spoke of Britain's two nations being the rich and the poor. Today we can see a new divide in society, those who rely on state services and those who can opt out. The wealthiest in society take out private health insurance and send their children to independent schools. The rest depend on public provision. There is little middle ground available between public and private.

However, the provision of those state services is not equitable. The disadvantaged in society receive the poorest standards of healthcare. They face the worst schools and the highest levels of

crime. The central purpose of the Welfare State, to equalise entitlement to essential services, has never been fulfilled. As Professor Julian Le Grand - now an adviser to the Prime Minister - has argued, “the strategy of equality through public provision has failed”.

A better way

The mission of the Welfare State ought to be to guarantee access, irrespective of people’s ability to pay, to essential services. But why should government production be essential to that mission, an end in itself? By taking on the multiple role of funder, producer and regulator of services, government is intervening in areas where its competence is limited. Ministers are attempting to run what is effectively a £400 billion conglomerate with 5.3 million employees. Such a task would be impossible for the most brilliant and experienced manager. Ministers, with no management expertise, are in their posts for on average less than two years.

The role of government needs fundamental change, so that it is no longer a monopoly producer but instead acts as the funder and regulator to guarantee access to services. For years, politicians have told us that the choice is between the status quo of state monopoly or the total absence of government support. This is a false choice. Real reform is not about withdrawing the State. It is about changing the nature of the State’s intervention to match its competencies. By transferring the State’s spending power to consumers, supporting those whose ability to make choices is restricted by their income, we could ensure that the poor can have access to high quality services for the first time. At the same time we can change the role of ministers so that they are no longer attempting to do the impossible. Managers must be given the freedom to manage and made accountable for their performance, while politicians are left to set strategic objectives. The model of the Bank of England reform is one that should be extended to the public services.

Such accountability is particularly important for true public goods where consumer choice is not relevant, for instance in the provision of policing. We should reject what has been a favourite remedy of the right, the incentivised opt-out. Allowing some to opt-out means leaving others behind, while the fundamental structure of service provision is unchallenged. A far better model is that of Continental 'social' health insurance, where everyone is covered, irrespective of their means. Similarly, we have a British model of successful liberalisation in relation to our optical services, where reform in the 1980s produced a flourishing of new investment, responsive high street services and healthy competition benefiting the consumer. The State still ensures that the poorest in society have access to free eye checks. Does anyone believe we would have 20:20, Specsavers or Vision Express if the Government was still trying to own and deliver optical services itself?

Spending without reform

The optical revolution is significant because it demonstrates what can be achieved when mixed funding is introduced into the delivery of services. Too often today political debate about public services turns around how much government spends on them. Indeed, it sometimes seems that the three major parties are locked into a spending auction, desperately seeking to outbid each other in pledging more money for services, a contest only recently moderated by a subsidiary competition as to who can cut the largest numbers of civil servants at the same time.

There are no prizes for winning the spending auction and certainly not for the Conservative Party, which above all should be questioning the wisdom and effectiveness of spending without reform, not seeking to outbid it. Today, Britain is already spending at above the EU average (and these figures are pre-enlargement) on healthcare and education. In four years' time, we will spend as much on healthcare as in France, which has one of the most expensive systems in the world. But there will be a significant

difference: a quarter of France's spend will be from private sources, twice as much as in Britain. Beveridge himself never envisaged that the State would take over all responsibility for welfare provision. Right at the beginning, his report says:

“The third principle [of the Welfare State] is that social security must be achieved by co-operation between the State and the individual. The State should offer security for service and contribution. The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family.”

Under planned spending, Britain will very shortly face the highest tax burden for 25 years. This and falling productivity, as we transfer resources to the inefficient public sector, inevitably damages national competitiveness and our future living standards. There is little evidence that the Chancellor's great spending experiment has produced the results that it intended. Much of the increase is being dissipated on higher wages and increased bureaucracy.

What is clear is that the period of rapid expansion will shortly be over. As Derek Scott, until recently the Prime Minister's economics adviser, warns in his new book, “there are limits to the length of time public spending can increase at a faster rate than growth in GDP without causing problems”. Liberalising services will make increasing sense, not just because we are approaching the limits of State support, but because we can no longer deny the aspirations of an increasingly affluent electorate who at the moment are literally denied the means to add to the State's contribution so as to make provision for themselves.

Centre-left reformers have a limited ambition: to restore public provision so as to prevent middle-class flight from services. Our

ambition should be distinct and far bolder. It should be to break down the barriers between private and public provision and extend opportunity to all.

The Conservative opportunity

The public has grown tired of a relentless cycle of news management, unfulfilled promises and reactive initiatives. They are turned off by the “permanent campaign”. They want to hear something positive and different. Placing power in the hands of the people, giving opportunity to those who have never had it before could be a potent political message of our time.

Today it costs about £6,000 on average per annum to educate a day pupil in an independent school. Government spending will pass that level next year. Today Government spending on health stands at £3,200 per household per annum. That is higher than the cost of many private healthcare insurance packages. The sheer scale of Government spending has brought Michael Howard’s ambition “to give everyone the kind of choice in health and education that today only people with money can buy” within reach. It is absolutely right to make this ambition the cornerstone of a modern Conservative agenda. It is right morally, because the failure to reform services has left people behind. It is right economically, because the current approach of spending without reform is economically damaging and cannot deliver services to meet public expectations. It is right politically, because this is ground which the Conservative Party should not cede to its opponents.

Alan Milburn, whose appointment is a clear signal that the Prime Minister intends to drive forward his ‘modernising’ agenda, has spoken of the need for “radical” reforms to extend choice and opportunity. His words were preceded by remarkable new proposals by David Laws and other forward-thinking Liberal Democrats for a more market-oriented approach to social reform, including a bold plan to move to social health insurance. This is the

tide of modern politics, and the Conservative Party should be at the fore of it. As Damian Green argues, we have much to learn from President George W Bush's 'compassionate conservatism'. Bush made education reform a centrepiece of his platform in 2000 and his 'no child left behind' approach, extending choice to parents with children in failing schools, exemplified a universal reform whose ambition spoke to every citizen in the country. In the words of Stephen Goldsmith, the President's Chief Economics Adviser, "government has a responsibility not to redistribute the wealth of citizens but to provide the underprivileged with skills and opportunities to create their own wealth". Compassionate conservatism is "empowerment, not entitlement".

Arnold Schwarzenegger electrified the Republican Convention by declaring what it meant to be a supporter of his party. The cause of reform should give the Conservative Party that same sense of mission and purpose which it must demonstrate to the country. It should exemplify a social concern which is rooted in the party's history. It should restore the broad-based appeal which characterised the 20th Century, the "Conservative Century".

I share the Prime Minister's view that the old ideas of left and right simply are not relevant to today's debate. Is social health insurance a right-wing idea because it involves private provision and market forces in healthcare, or is it a left-wing idea because it involves compulsion and ensures that the weakest in society benefit as much as the strongest? The reforming agenda defies these crude labels which are of no interest to the public. Reform is, in the best Disraelian tradition, about achieving Conservative objects by modern means. It is about providing solutions to problems which for far too long we have been told are intractable. It is about offering hope to the communities which politics has left behind. It is about giving future generations the chance of an education and healthcare which their parents could only have dreamed of. It is about making Britain a better and safer place in which to live. It is - to coin a phrase - about shaping a modern Conservative agenda "for the many, not the few".



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