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THE H LE WE'RE iN

*The Challenge for Free Marketeers
in 2010 and Beyond*

iea

*This paper is a transcript of a speech given by
Mark Littlewood, Director General, to a meeting of the
Institute of Economic Affairs on Wednesday 24th March 2010*

The Hole We're In

The Challenge for Free Marketeers in 2010 and Beyond

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The hole we're in: the challenge for free marketeers in 2010 and beyond

Mark Littlewood

Britain is in a very deep hole. Today's Budget and the response of the opposition parties show that at last even mainstream politicians – usually so addicted to statist, high-spend solutions to a plethora of real and perceived problems - are just about beginning to wake up to the fact that the splurge has to come to an end.

But there's a monumental difference between politicians giving a begrudging nod in the general direction of economic reality and in them demonstrating that they are actually serious in extricating the country from the parlous mess it finds itself in.

In thirteen days time, the Prime Minister is expected to seek a dissolution of Parliament and the General Election date will be set for May 6th.

A functioning democracy requires its aspiring leaders to be honest with the electorate about the choices, decisions and problems they face. Politicians from the main parties are shying away from doing so.

The Prime Minister and the Chancellor agree on increasingly little. The latter is more conscious than the former that the mushrooming spending of recent years cannot continue, but – even in the event of a Labour victory on May 6th – it would be a brave man indeed to bet on Alistair Darling remaining in No. 11 and an even braver man to believe that he would be willing or able to take an axe to public expenditure.

The Conservative opposition proudly claims on their pre-election poster blitz that they will cut the deficit, not the NHS. Such aspirations are not contradictory, of course, but they do pull in opposite directions. And a commitment to ringfence expenditure on the National Health Service, along with international aid – amongst the most catastrophically wasteful parts of the public expenditure budget - does not inspire confidence that the Conservatives are firmly committed to seriously slashing the deficit; merely that they hope they can do so. Good intentions simply won't be enough.

On most estimates, the present cuts envisaged by the Conservatives might save around £7bn a year. Were they to form the next government, the emergency budget they promise within fifty days of taking office will have to be considerably more radical than this – and to believe that enormous gains can be made from efficiency savings is a triumph of hope over reality. As the head of the National Audit Office pointed out last year, 'Much of the low-hanging fruit has been picked, and if it hasn't been picked it's turned into raisins long ago.'

No doubt some money could be saved by sourcing cheaper supplies of paperclips, installing a few more low energy intensive light bulbs and the like; but not much.

The problem is not that the public sector is being run inefficiently; the problem is that the public sector is intrinsically inefficient. Whole swathes of activity need to be moved from the public to the private sector, rather than relying on state bureaucrats under the next government showing a level of productivity on a different qualitative level compared to that displayed in the last ten years.

The Liberal Democrats – who may play a role in the next administration if the election outcome is indecisive – claim to be more honest than the other parties in facing up to the fiscal crisis. But their package is also hopelessly unambitious. They advocate no cuts at all in the next financial year – and cuts of just £15bn in 2011/12, a third of which would be recycled into paying for the LibDems' favourite public sector projects.

Overall, there is therefore a serious danger of the election being a sham. Mainstream politicians persist in claiming that the United Kingdom is the equivalent of Chelsea Football Club, when actually we're in danger of becoming the equivalent of Portsmouth.

The next government won't be able to claim after polling day that, having now looked at the books, the position is far worse than they knew. You only need to flick through any recent copy of the Financial Times or City AM to know how bad is the state of our public finances. If there's any suggestion that things might be even worse than this, then that's an imperative for advocating more severe cuts now.

If Britain were a patient, we would be in need of a heart bypass operation. And what we are apparently being offered is a choice of three surgeons who appear to disagree only about whether we need to take one aspirin or two and whether we should take this medicine today or tomorrow.

I am reminded of the story of a recently deceased man who finds himself at the pearly gates. Saint Peter informs him that – owing to recently introduced stakeholder engagement regulations – he will not merely be sent to heaven or hell, but as part of this new consultative approach in the celestial heights he must sample a day in both potential venues before making a decision as to where to spend the rest of eternity.

The man is incredulous: 'I may be a new arrival here,' he protests, 'but I can tell you my decision now – I'd rather go to heaven.' But Saint Peter – with the sort of robust inflexibility that one would expect from someone who has recently undergone intensive health and safety training – is unmoved. 'Rules are rules,' he insists, 'you must spend a day in each and then decide.'

The man's day in heaven is pleasant enough. He finds the music of the celestial choirs blissful, floating on the clouds most soothing, and is suitably touched by the friendliness and warmth of all he meets.

The next morning, the man again meets with Saint Peter and pleads that although heaven didn't have all the leisure and entertainment facilities he had hoped for, he was happy to settle for heaven right there and then.

But Saint Peter is adamant he must consider the alternative and guides the man to a nearby elevator – instructing him to press the button for the very lowest floor. A few minutes later, the elevator comes to a halt and – with the man now trembling in fear – the lift doors begin to open.

He is astonished by what he sees. Beautiful rolling pastures and waterfalls stretch out as far as the eye can see. Satan himself – immaculately attired – greets him warmly and immediately takes him off for a round of golf on the best course he's ever seen.

After shooting a stunning twelve under par and enjoying a few jars of the finest ale in the clubhouse, he is whisked off to dinner in a stretch limo where he gorges himself on the finest lobster, caviar and champagne. He then dances the night away to the best live music he has ever heard.

The next morning, he meets Saint Peter again: 'I never thought I'd say this,' he concedes, 'but I'm changing my choice. I want to plump for hell.' Saint Peter nods in a very matter of fact fashion and escorts him back to the elevator.

Looking forward to another round of 18 holes and more wining and dining, the poor man is shocked when the elevator doors open. Fire is erupting from the ground, ash falling from the sky and everywhere people are dressed in rags. Satan himself is the only person who looks pleased as he welcomes the new guest through the gates of hell.

'What happened?' cries the new recruit. 'Yesterday, there were golf courses and fantastic restaurants. There were the best nightclubs imaginable and everyone was dressed in designer clothes, not in rags. What changed?'

Satan smiles. 'Yesterday we were campaigning, but as of today, you've already voted.'

Now, I accept that ongoing fiscal irresponsibility and the possible loss of our triple-A rating might not quite reduce Britons to the status of those trapped in hell. But nevertheless, the explosion of public spending that we have witnessed since 1997 – a near doubling in nominal terms – doesn't just need to be halted or trimmed a little.

We need to take dramatic action and make substantial structural changes over the medium term to ensure we guard against the country being driven to the brink of effective bankruptcy again.

And let's start by saying that we shouldn't get too involved in the rather petty party political squabble about whether cuts should kick in now, tomorrow, next week or a little later. I think there is a strong case for making substantial cuts immediately, but much more important element is that the cuts are swingeing and that they are credible. The public sector moves at such a snail's pace that a good number of cuts, even if announced now, could take many months to bear fruit.

You can, for sure, reap the benefits of a public sector pay freeze with almost immediate effect – but the returns from full scale reform of, say, health and education might take rather longer to come in.

We also need to revisit privatisation of state assets as part of a package of reform. Selling off unnecessarily state owned enterprises shouldn't be an alternative to reducing spending, but should be a complement to it.

I had rather hoped to find a way of selling off state assets to dramatically reduce our overall national debt. But the sheer depth of the fiscal hole is so vast, that you'd have to make an enormous transfer off the state's asset sheet to even dent it. Flogging off Royal Mail might bring you in £6bn. BBC Worldwide – the corporation's carnivorous commercial arm – might bring in £10bn or so. Flog off Ordnance Survey, The Met Office, The Tote, The National Air Traffic Services, The Hydrographic Office, The Queen Elizabeth II Conference Centre, Channel 4, The British Waterways Authority, The National Nuclear Laboratories, The Forensic Science Service and Bradford and Bingley and you've brought in about another £5bn. Well done - in total that amounts to a bit more than a tenth of the deficit the government is running this year. Meanwhile, the overall one trillion pound debt continues to rise.

If you want to get really radical, you could sell off Hyde Park as prime real estate to property developers – that might net you £5bn; throw in Regents Park, Kensington Gardens and Richmond Park and you have £16bn more. Even after concreting over these national treasures, you're still less than a quarter of the way to eliminating this year's deficit.

That's not to say these steps shouldn't be taken, but just goes to highlight how enormous the hole in our public expenditure truly is.

This is hardly surprising. When a third of households in Britain rely on state handouts for more than half of their income, you don't have a safety net, but a suffocating and crushingly expensive blanket that smothers aspiration and entraps the poor. When you insist on perpetuating the absurd idea that virtually all health care can be provided forever free at the point of use through the NHS,

you have spiralling and untenable health costs – despite, of course, yielding some of the worst health outcomes in the whole of the developed world.

I paint a pretty bleak picture of the immediate future of our economy – and, of course, the sort of policies I've suggested, however wise, are nowhere near being feasible, politically.

Does this leave the IEA and the wider free-market movement making interjections and contributions from the sidelines that whilst of intellectual merit have absolutely no traction in modern Britain? Are we a dwindling movement, speaking largely to ourselves, as our country continues its inexorable march down the road to serfdom?

I don't believe so. I'm reminded of something Ralph Harris said in the 1970s. 'Cheer up,' he said, 'things are getting worse.'

Those words are very applicable to the situation that supporters of free markets find themselves in today.

The social democratic consensus amongst the political classes is reaching the absolute limits of what it can achieve.

So, although the upcoming General Election may essentially be a choice between different managerial corporatist approaches, we are surely entering a period where there is a growing public appetite for considering paradigm shifts owing to an emerging, if ill-defined, sense that the way we do things at the moment just isn't working.

This does not guarantee the success of radical free-market liberalism of course, but it does provide the sort of circumstances in which it might succeed. The collapse in trust in the political classes provoked by the expenses scandal provides the backdrop in which our sort of thinking could flourish. There are substantial differences in the public mood now compared with 1997, when an incumbent government last looked at serious risk of electoral defeat. Back in 1997, the feeling was that the politicians from the governing party were up to no good and there needed to be a change in personnel. But today, the feeling seems to be that none of them are up to any good – that they are all as bad as each other.

We need to find ways of tapping into this growing antipathy towards and scepticism about politicians of all stripes. Because the policies and ideas we advocate aren't about a change in personnel or a change in political style, they are about removing politicians entirely from whole swathes of public life. For the many who have lost faith in the political classes and the political process, this should be an instinctively attractive proposition.

I want to say a few words about the specific role that the Institute of Economic Affairs should play in the coming years.

And I'm going to begin by acknowledging our past. Antony Fisher, Ralph Harris, Arthur Seldon - and many others – achieved something quite remarkable in setting up the IEA and pursuing its mission with such imagination and rigour. The IEA has been an inspiration for so many, and Andrew Marr was not wrong (for once) when he described the Institute as being undoubtedly the most influential think tank in British history. I feel I have much to be grateful for – and much to learn – from the previous leaders of this Institute. I am genuinely honoured to be the Institute's new Director General, but I am also in no doubt about the responsibility I shoulder.

But whilst I am in awe of many of the things the IEA has previously achieved, I am determined that we should not – and can not - rely on our past triumphs in order to meet the challenges ahead.

So much has changed in the wider think tank world over the past two or three decades that we now need to conduct our business and pursue our mission in very different ways.

But let's start with the things that must not change. The IEA has built a deserved reputation for intellectual honesty and academic rigour and has always seen its goals as achievable only over a long-term horizon. We are not seeking to change today's government policies by an inch, but we are seeking to change the whole future approach to government by a mile.

In Philip Booth, our Editorial Director, we have perhaps the sharpest free-market brain in the contemporary British debate. The work that he and his editorial team produce is not tomorrow's fish and chip paper; it stands the test of time. We do not shirk from difficult issues, nor bend our agenda to supposed day-to-day political realities.

The fact that the mainstream political classes essentially refuse to seriously debate the parlous state of our health service, the perverse impact of foreign aid, or the serious issues surrounding climate change policy, is not a reason for the IEA to ignore these topics. To the contrary, it is essential that the IEA redoubles its efforts in these areas – and refuses to shy away from subjects others sometimes see as beyond the pale.

But the Institute needs to augment this policy and research work with a much more aggressive and modern approach to communicating its message. Being right in the case we put is not enough; we also need our case to be written about, broadcast, discussed and, crucially, to be accessible.

We have often in the past subtly affected public opinion by working with commentators, editors, opinion formers and the like. But we need to be more direct. The problem is not so much that the British public are not disciples of Hayek, but that so few have even heard of him.

That's why I'm recruiting an entirely new communications team for the IEA, whose task is not to craft policy – but to sell it. And I'm delighted that Ruth Porter has joined us as our new communications manager just this week. Her role – alongside a new Communications Officer – will be to place IEA spokespeople in the media, revamp our website to further increase its readership and reach, and to liaise with opinion formers to make them aware of our ideas and thinking. The 24/7 television and internet world means we need to act with great speed and speak in succinct terms – not as an alternative to our weightier thinking, but as a complement to it.

In the course of the next couple of weeks, we are also seeking to recruit an Education Director for the IEA to substantially ramp up the work the Institute does in reaching out to teachers, students, academics and young people.

I'm not so pessimistic that I'd say there is absolutely no hope in my generation - in their late 30s and early 40s – but I do think it's fair to say that if we are planning for the long term, then people of my (relatively) tender age are already, frankly, past it. Those currently at – or about to go to – university, in their late teens and early twenties, who will be the politicians, commentators, businessmen, film producers and, indeed, leaders of Britain in 2030 and beyond, are surely a vital target audience for the Institute.

We already do some excellent work in this area – and I know many of you here today have contributed directly to sending students and young people to our annual State of the Economy conference, but we have to ensure that this area of outreach isn't a mere adjunct to the IEA's work, but is absolutely central to it. Already, the Adam Smith Institute does excellent work with its next generation programme. The IEA needs to do more work in this area. There is a growing network of Hayek and libertarian societies emerging on campuses across Britain. It's hard to imagine a more important and wiser long-term investment than supporting, growing and spreading this network – and exposing them to the undiluted and rigorous thinking that the IEA brings to the table.

The IEA is often described as the mothership of free-market think tanks – a reflection of its proud history in inspiring and facilitating the creation of so many similar think tanks across the globe.

But I think the IEA can act as the mothership in a more direct, more practical way, right here in the heart of Westminster. Owing to the good sense – and sound business acumen – of the Institute over the years, we are in the enviable position of owning these wonderful premises at 2 Lord North Street. But I think

we can do more to share these facilities with the wider free-market movement. This room, the Seldon room, and the boardroom opposite, need to become a thriving hub of free-market activity, not exclusively IEA activity. And we have begun to reach out to other groups and individuals who might make use of these premises. The Institute needs to open its doors to the wider free-market movement – literally, not just metaphorically. Watch this space for more developments.

Finally, I need to end with a plea. If you believe that the IEA can play a pivotal role in digging Britain out of the hole it has dug itself into, then, to be frank, I need your financial, not merely your intellectual support. I know, however deep or shallow your pockets, the actions of the British government in recent years are unlikely to have enriched you. But if you can assist – or know of others who can – please let me know.

These are challenging, but also exciting times for those who support free markets and free citizens; not just because they offer a way of extracting ourselves from the hole we find ourselves in, but because markets actually offer better, more efficient outcomes. We don't need to rely on market mechanisms merely out of necessity; we should turn to them because of their virtues.

I promise to do my utmost to ensure that the IEA plays a full and impactful role in making its case today and preparing the ground for a much more free market Britain in the future. Creating that free market Britain is not going to be an easy task, but it is an achievable one. Thank you all for support and thank you for listening.