

Holy Illusions



Reality-based politics and sustaining the Brexit Revolt

Rt Hon Lord Frost of Allenton CMG



Holy Illusions

Reality-based politics and sustaining the Brexit Revolt

Rt Hon Lord Frost of Allenton CMG



Policy Exchange is the UK's leading think tank. We are an independent, non-partisan educational charity whose mission is to develop and promote new policy ideas that will deliver better public services, a stronger society and a more dynamic economy.

Policy Exchange is committed to an evidence-based approach to policy development and retains copyright and full editorial control over all its written research. We work in partnership with academics and other experts and commission major studies involving thorough empirical research of alternative policy outcomes. We believe that the policy experience of other countries offers important lessons for government in the UK. We also believe that government has much to learn from business and the voluntary sector.

Registered charity no: 1096300.

Trustees

Alexander Downer, Pamela Dow, Andrew Feldman, David Harding, Patricia Hodgson, Greta Jones, Andrew Law, Charlotte Metcalf, David Ord, Roger Orf, Andrew Roberts, Robert Rosenkranz, William Salomon, Peter Wall, Simon Wolfson, Nigel Wright.

About the Author

David Frost, the Rt Hon Lord Frost of Allenton CMG, was Chief Negotiator and Europe adviser to Prime Minister Boris Johnson (2019-21) and then Cabinet Minister responsible for EU relations (2021). He led the negotiations which broke the political deadlock over Brexit, finally took the UK out of the EU, and put in place the world's broadest free trade agreement. He began the work of post-Brexit reform and of dealing with the problems of the Northern Ireland Protocol, but left the Government over broader policy differences in December 2021.

He spent most of his earlier life as a professional diplomat, notably as British Ambassador to Denmark, Europe Director and head of Policy Planning in the Foreign Office, and Britain's chief trade negotiator and member of the EU's Trade Policy Committee. He also has trade experience outside Government as CEO of one of the UK's biggest trade associations, the Scotch Whisky Association (2013-16).

He is now a Senior Fellow at Policy Exchange, a columnist for the Daily Telegraph, and a member of the Advisory Council of the Free Speech Union. He takes the Conservative whip in the House of Lords.

Acknowledgements

This short essay has been in gestation in my mind for several years but could not be published while I was in government. With a new Prime Minister imminent, and the chance for a restart in the offing, now seems a good moment.

The essay is deliberately big picture. Even so, it does not aim to cover the whole governmental waterfront. In particular, it largely leaves aside foreign affairs, not because they aren't important to the new national strategy I suggest needs to be created (self-evidently they are) but in order to keep focus on matters within the government's own direct control.

Thank you to the many colleagues, officials, politicians, or special advisers, with whom I have discussed some of the themes in the last few years, and also to those economists and commentators who have kindly reviewed the text in draft. All either wanted to, or probably should, remain anonymous. Thank you also to the Daily Telegraph for giving me the space to test out some of these ideas in recent months.

Finally, since publication takes place during the Conservative Party leadership campaign, it is right to make clear that the positions in this essay reflect my long-standing personal views only, and should not be assumed to represent the policy positions of the candidate of which I am a supporter.

© Policy Exchange 2022

Published by
Policy Exchange, 1 Old Queen Street, Westminster, London SW1H 9JA

www.policyexchange.org.uk

ISBN: 978-1-910812-XX-X

Contents

About the Author	2
Acknowledgements	3
1. Introduction	5
2. The Problems	7
3. The impact of Brexit	11
4. Why are we failing?	13
5. What is to be done?	18
6. How do we deliver what is necessary?	22
7. Conclusions	26

1. Introduction

“We have now sunk to a depth at which restatement of the obvious is the first duty of intelligent men.”

George Orwell (Eric Blair)

In the late 1970s a group of businessmen and think tankers put together a report for Margaret Thatcher (then Leader of the Opposition) that aimed to establish the priorities for a future Conservative Government. It was known as “Stepping Stones”. Its analysis was based on an earlier “wiring diagram” that, as best possible in early computer days, illustrated the difficulties afflicting the British economy and the connections between them. It concluded, correctly, that the key to solving the interlinked problems was dealing with over-mighty trade union power. Obvious as that conclusion seems in retrospect, many did not see it as so at the time.

As Sir John Hoskyns’ book about these events, *Just in Time*, makes clear, it is important not to idealise this process. The pre-1979 Conservative Opposition was not a group of inherently wise strategic thinkers. Like all politicians, they found it difficult to focus on the long run and the important under the pressures of managing day-to-day politics. Nevertheless, the sponsorship of Keith Joseph paid off: Margaret Thatcher was persuaded, and “Stepping Stones” formed an important intellectual underpinning of the early years of the Thatcher Government.

The value of the exercise was in forcing decision-takers to contemplate the measures that were *necessary* to solve Britain’s problems and then to try to create the political conditions in which those measures were *possible*. It was an attempt to change the prevailing mood of defeatism, in which measures incapable of dealing with Britain’s problems seemed to be the only ones possible. As Hoskyns wrote in his report, “It is not enough to settle for policies which cannot save us, on the grounds that they are the only ones which are politically possible or administratively convenient.”

These questions are, self-evidently, once again relevant today. The country has just experienced, for the third time in six years, a Prime Minister’s sudden and unexpected failure in office. For all the “partygate” noise, the underlying reason for Boris Johnson’s departure was his government’s seeming inability to craft a convincing economic and political programme. Instead, by working within the realms of the currently politically possible, as defined to a large extent by its enemies,

the government failed to establish a political strategy capable of convincing even its own supporters that it was equal to the challenges it faced.

Yet such a strategy is badly needed and the most urgent task for the next Prime Minister is to establish one. It must be built upon the consequences of the tumultuous developments of recent years and must accordingly be credible from both the political and the economic perspective. It cannot represent just continuity with the situation before 2016 or even the pre-Brexit years thereafter. People voted for change and any politically successful strategy must deliver it. As I said in the speech I gave in Brussels in February 2020¹, we have seen “the reappearance on the political scene not just of national feeling but of the wish for national decision-making and the revival of the nation state.” I added, “Brexit was surely above all a revolt against a system – against an “authorised version” of European politics, against a system in which there was only one way to do politics and only one policy choice to be made”.

The revolt to which I referred has just suffered a setback. The Johnson Government’s failure to capitalise on the mood for change and its reversion to establishment policy-making norms on taxation, on net zero, and on regulation meant that a huge amount of momentum for change was lost. Many across that establishment see an opportunity to put an end to so-called “populism” (for want of a better word) and to return to cautious, pragmatic, steady-as-she-goes politics and economics. So if the setback is not to be permanent, new energy is needed. Those who want change need to keep control of the levers, regroup, and do better in the second half of this Parliament than the first.

This is now urgent. This Government’s experience so far shows that the challenges it faces are greater than any since that early Thatcher era. The nature of the problems is not well understood by many in government and politics, let alone the wider public. The deep roots of the difficulties are not grasped and as a result the solutions currently proposed tend to be superficial and short-term.

Tackling the problems requires a robust intellectual analysis of why we are in this situation; the creation of realistic yet far-reaching policy prescriptions based on it; and effective communication of that diagnosis and that prescription. These are the necessary preconditions for devising a strategy which can convince and on the basis of which an electoral mandate can be secured. That is how we can put the Brexit revolt back on track and maintain the coalition of supporters which sustained it. The rest of this essay suggests how.

1. <https://www.davidfrost.org.uk/news/reflections-revolutions-europe-my-brussels-speech-we-began-negotiations-eu>

2. The Problems

“All we can do is press every button we’ve got. We do not know which, if any, of them, will have the desired results.”

Tony Crosland, quoted in the Castle Diaries, entry for 17 November 1974

Just as in the 1970s, the country faces many interconnected, serious but superficially very different problems. As on the instrument panel of a malfunctioning airliner, Ministers face a bank of flashing red lights, with no clear guidance for which should be tackled first and why, and little time to decide while the situation deteriorates further.

Fortunately our relative position is less serious than in the 1970s. However, we cannot take huge comfort from that, precisely because many of our problems are common to Western countries, and there is significant turbulence in the Western economic model and potentially relative decline across the West generally.

The most significant underlying economic problem, as economists like Bernard Connolly have long been pointing out, is the malign consequences of low to negative interest rates over a prolonged period. This has gradually prevented the normal mechanisms of a market economy from working properly. Ultimately, because the interest rate can’t play the very important role of ensuring intertemporal equilibrium, there has been a greater and greater search for yield on riskier and riskier assets, with everything that follows upon that, notably, market instability, huge asset price inflation, and inequality. The lack of rewards to enterprise and the ease with which fundamentally unproductive “zombie” companies can be maintained have made it difficult to generate those normal improvement mechanisms of a market economy which drive productivity and growth.

But there are other significant problems too:

- Implausible energy policies based on technologies which can’t currently do the job and which seem likely to end up in rationing if not urgently rethought.
- “Furring up of the arteries” - over-regulation, antipathy to risk and experimentation, the decline of the spirit of enterprise.
- Unsustainable welfare systems, shrinking labour forces, and the declining birth-rate.
- Education systems that don’t educate and indeed very often inculcate attitudes inimical to prosperity; and
- the social and economic consequences of high volumes of

immigration over a prolonged period on a scale that the West has not seen before.

As a result of all this there has been a secular decline in productivity and growth across the West for the best part of twenty years. Few countries can now expect growth to reach the old trend levels of 2½% to 3%. In the UK, per capita growth is trending down towards 1%, and the cost of that is primarily borne by those aged under 40. Many of the phenomena we see are the product of that stagnant economy and the consequent competition for shares of a pie that is not much increasing in size — from resurgent union militancy to the growth of identity politics.

Of course we do have huge advantages: an open and still reasonably flexible economy, superb high-end science and higher education, an entrepreneurial spirit and a general openness to new ideas and adaptability. We have significant domestic sources of energy if we choose to use them. We can attract the highest-skilled migrants from around the world. We also have the advantage that all the levers of policy are once again in our hands, we are not stuck in a regulatory regime that suits others, and we are not locked in the rickety and dysfunctional Eurozone. It is due to these deep strengths that the economy has held up much better than many commentators expected, growing (excluding the effects of Test and Trace) between 0.4% and 0.8% in each of the first five months of this year.

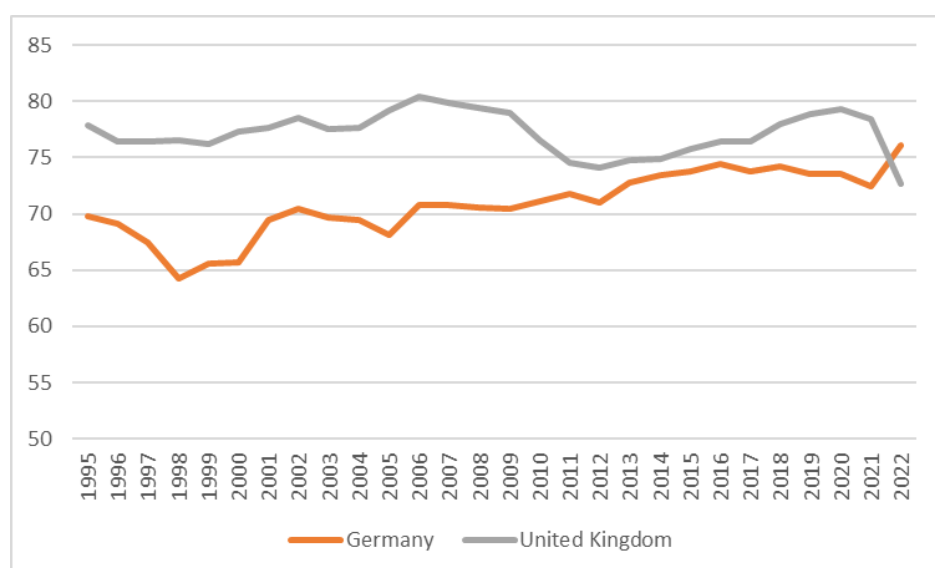
But we also have significant problems and many of our past advantages — for example, a low-tax environment — are waning fast. To name just a few, we have a dysfunctional housing market and planning system, poor economy-wide skills and training, and low levels of business investment; we have relatively poor infrastructure (including excessive dependence on Dover-Calais for our goods trade), an underperforming health system, a hopelessly over-complex tax system, and a labour market that is gradually “Europeanising”; our trade policy is a giant preference scheme in favour of the European Union and which therefore inhibits the internationalisation and reorientation of our broader economic relationships that is necessary given the long-term shifts in the patterns of growth. In education, there is a long tail of essentially pointless and unproductive higher education, and anti-capitalist attitudes in universities and schools are producing successive cohorts of people each of which is less productive than its predecessor. We also have a particularly weak and attenuated sense of national identity because of excessive devolution and decades of propaganda which has run down British history, culture, and values, coupled with a particularly virulent form of identity politics (sadly common to the Anglosphere).

A sense of how these pros and cons stack up can be gained by comparing recent growth rates². Britain’s performance has been poor against the best performers, while better than the laggards. In GDP per capita we are behind Germany and the northern Europeans (and of course well behind the US), but ahead of France and the southern Europeans. If growth rates over the last ten years continue into the future, we will fall further behind countries like Germany, Sweden, or Denmark, let alone the US. Poland and

2. The Mountain to Climb website. <https://oliverkim.com/The-Mountain-To-Climb/>. These comparisons are obviously simplistic but give a sense of the relativities.

the Czech Republic will overtake us in 12-15 years. But we will remain ahead of France, Italy, and Spain. It is not good enough, particularly with the economic freedoms now afforded to us by Brexit, to be content with this mediocre growth performance.

This enumeration of our difficulties shows that it is not enough just to say, as so many do, that we need “increased growth” or higher productivity. Of course we do, but we need a strategy to achieve it. Undoubtedly many of these problems would be solved by higher growth. But growth is not exogenous — it is determined in large part by the decisions we take, and most of the recent decisions have actively discouraged wealth creation and weakened growth. Each action may have only a marginal effect, but added together, and taking into account the interactions between them, they come to be cumulatively significant. It would be foolish to assume, as so many even on the centre-Right implicitly seem to, that the Thatcher/Major reforms produced a robust economy which can withstand any amount of punishment. It is striking that this year’s Heritage Index of Economic Freedom shows Britain to have reversed, in two years, all the gains in economic freedom since 2010 (principally because of a sharp decline in business and labour freedom). That is not a product of the pandemic: Germany, for example, has gone in the opposite direction over the same period and for the first time ever is now above the UK.



Source: Heritage Index of World Economic Freedom, 2022

The current Government’s approach to these problems has been, caricaturing only slightly, to do lots of things and see what happens — “pressing every button we’ve got”, in the words of Tony Crosland. Some of those things have arguably been helpful — eg the investment super-deduction. Others are less so — the wave of tax rises striking the

economy. Others could in principle be helpful — infrastructure spending, increases in health spending — but are unlikely to be so in practice while the systems into which the spending is pumped remain essentially unchanged. Overall it is hard to say what the Government's economic policy has actually been over the last year and a half. There is no sense of a strategy, of prioritisation of objectives and effort, or very often even of cause and effect. That situation cannot be allowed to continue.

3. The impact of Brexit

“...their generally negative, querulous attitude, their complete lack at all times of any constructive suggestion...the emotional shallowness of people who live in a world of ideas and have little contact with physical reality...In the general patriotism of the country they form a sort of island of dissident thought.”

George Orwell on the English intelligentsia, in “The Lion and the Unicorn”

The effects of Brexit are also part of the picture and deserve specific consideration. Brexit in itself creates neither huge economic advantage nor disadvantage. It is a tool that gives us back full democracy and puts all the levers back in our hands. Now, it is all about how we act. It is obvious that the impact of such a significant recalibration will be felt over a prolonged period. Accordingly, the fact of leaving the EU has already hugely shaped our politics and political economy and we can expect it to do so for some years yet.

The first reason for this is that, self-evidently, Brexit represents a huge discontinuity in our external economic and to some extent political relationships. The adjustments and after-shocks will continue to reverberate for some years. It would be foolish to deny that leaving the single market and customs union involves some costs. The UK’s growth and trade trajectory since the referendum does not suggest that these costs are material, and the disasters that hostile critics expected have not materialised. Nevertheless, to be confident of keeping on the right path, it is crucial we energetically kick off economic reforms.

Second, our politics is affected by the willingness — insistence, even — of a large share of political and public opinion to attribute any symptom of the current problems to Brexit (even though the same problems are visible across the West to a greater or lesser extent). This is rarely justified by reality, but this instinct among so many commentators is nevertheless actively damaging in that it distracts attention from the real causes and encourages debate about superficialities.

Third, our governing elites still, to a large extent, seem to be suffering from a psychological hangover after EU membership. As a country we have not yet got used to having all the levers of policy in our own hands, still less using them to shape an agenda and creating a sense of determination to tackle them. For whatever reason, some politicians and many civil servants seem nervous of using the levers they have. Our governing class seems to have forgotten how to govern, how to guide a state, and how to set a goal and direction of travel.

Finally, nearly fifty years of EU membership has meant that the EU is still the reference point for too many issues and policies. This is more out of habit than for any objectively justified reason, and this is possibly because so many of our decision-makers have spent their lives dealing with the EU, have studied in the EU through the Erasmus scheme, or simply own property in Europe. (Some suffer from what I have called “Sentimental Journey syndrome”³ — an assumption that things are always done better in Continental Europe regardless of evidence or knowledge.) Certainly, many seem to find it hard to accept that there are high-quality producers outside of the EU regulatory machine or that the EU’s regulatory machine is not necessarily, as its propaganda suggests, the best in the world. By contrast, benchmarking from, and judging ourselves against, Canada, Australia, Switzerland, Taiwan, or Singapore (to take just a few examples) is still regarded as a little eccentric. EU membership has narrowed our horizons and they need once again to be widened.

Many of these difficulties will pass. They will pass all the more quickly if the next government shows the necessary energy to set a new strategy to take the country in a different direction. Brexit gives Britain’s leadership a historic opportunity to create, and get people to support, a new national strategy to replace the failed one of the last fifty years. It is crucial to exploit the free hand that our democracy and autonomy gives us to achieve that.

3. From Laurence Sterne’s novel *A Sentimental Journey through France and Italy* (1765). The opening words, in the voice of the narrator “Mr Yorick”, are “They order, said I, this matter better in France” - though it immediately becomes clear that he has never been to France.

4. Why are we failing?

“You can wake a man who’s asleep, but you can’t wake a man who’s pretending to be asleep”

Alfred Sherman (quoted in “Just in Time” by John Hoskyns)

Given this set of daunting problems in all our countries, there really ought to be strong political movements in at least some of them to analyse and begin to deal with them. That is not the case. Instead we see the reverse — a refusal to get to grips with the problems or even to acknowledge them. It is easier to ignore the most pressing economic and societal issues of the day, pretend they don’t exist, or claim they will be solved automatically as normal conditions return. We are, it seems, studiously pretending to be asleep.

The major reason for this is that the deep-seated intellectual environment in which policymakers operate has come to be highly collectivist. I identify four reasons for that — the four “c”s. C for crash — the effects of the 2008 financial crisis. C for climate — the effects of the approach to climate policy. C for covid — the changes wrought by the pandemic. And finally C for complacency — the assumption that the West will always succeed. All these produce the final C — collectivism.

The roots of the 2008 **crash** and the current economic dysfunctions were of course laid in the late 1990s. This is not the place to go into detail on this huge issue, around which controversy still swirls. But undoubtedly a major underlying cause was the failure of the then Federal Reserve President Alan Greenspan to raise rates quickly enough in response to productivity changes and then to hold them down too long following the Asian financial crisis and the end of the dotcom boom. Market actors sought more yield in riskier and riskier ways until it all came apart in 2008. By that point Western economies simply could not withstand normalisation. The rescue programme with QE (justified initially at that point, but which then mushroomed)⁴ and the subsequent negative interest rate regime broke some of the underlying motors of capitalism. Saving became pointless and most people could not hope to accumulate capital. Unviable companies survived as zombies. House prices exploded. The situation has deteriorated pretty consistently over the fifteen years since then. If it remains unaddressed, we will draw ever closer to an unpalatable choice: on the one hand, massive capital liquidation and significant economic disturbance if we ever wish to normalise interest rates again, and on the other eventual socialisation of risk and credit if we continue

4. The issues were well set out in the 16 July 2021 Report from the Lords Economic Committee “Quantitative Easing - a dangerous addiction?”, to be found at <https://committees.parliament.uk/work/993/quantitative-easing/publications/>

with the existing super-low rates. It is possible, though not yet certain, that getting the current inflation under control may force us to face that choice imminently.

This situation has unfortunately fostered a general anti-capitalist mood across the West. A primitivist view of modern capitalism has been re-established — a view that the crash was caused by “greedy bankers” (as if they were more greedy than before) and that business and the rich protected themselves after the crash while others suffered. A psychology of “if the government can bail out the banks, it can help me out too” has become ingrained. It has suited governments in all countries and most parties to play along with this, but the consequence is the establishment of a widespread view that people are not capable of improving their lives by their own efforts, and indeed should not be expected to do so. As a result, we see policies that are designed not to solve underlying problems but merely to mitigate them or deal with their symptoms. To take two examples:

- Universal Credit has expanded to become a wage subsidy available a long way up the salary chain. This is beginning to prepare the intellectual and political ground for universal basic income schemes which explicitly aim to protect everyone from losing income in any circumstances (as foreshadowed by furlough during the pandemic).
- Another is the increasingly desperate, and indeed counter-productive, attempts to manage the consequences of a totally dysfunctional housing market — borrowing support mechanisms, the proposed bans on no-fault evictions and similar, all of which artificially increase demand for and the price which can be paid for housing, while reducing supply. Even accepting the difficulties in increasing supply in the short run, there seems remarkably little interest in tackling some fundamentals, including the market domination of the major house builders.

These are all symptoms of a belief that government, not individuals themselves, has the primary responsibility to help people deal with their circumstances. There will of course always be people for whom such support is necessary. But the fundamental driver of centre-Right politics over the years, and indeed the fundamental support for freedom itself, is the belief that for most people it is their own job to improve their life. This fundamental driver of success, of commercial enterprise and hence broader societal prosperity, is being lost.

The second C is the growth of **climate collectivism**: the insidious effects of twenty years of a totally unrealistic approach to climate and energy policy. The current evidence does not support the assertion that we are in a climate “emergency”. Rather, the effects of climate change are a problem, one of the many we face, and should be tackled in that pragmatic way rather than by asking us to up-end the whole way our societies work.

Western society, and indeed world civilisation, depends on copious supplies of energy. Yet the prevailing mood is one in which individuals are asked to restrict their use of energy and in which unsatisfactory renewables technology is touted as the best solution to our problems. Instead of focusing on technological solutions that enable us to master our environment and get more energy in a more carbon-efficient way — nuclear, CCS, fracking, one day fusion — we have focused on managing demand so we can use medieval technology like wind power.

One of the consequences is that we have all got used to being hectored by the government and by a huge body of intellectual and NGO opinion to make sacrifices to save the planet. We are told to stop travelling, live local, eat less, stop eating meat, turn our lights out, and generally to stop being a burden. As most of us are generally reluctant to do this as individuals, the state has had to step in, with smart meters, heat pumps, LTZs, unsatisfactory electric cars, tailored taxation measures, and “nudges”. We have all gradually got used to this, and indeed internalised it, so that it seems normal to be lectured about the moral aspects of virtually every choice in our everyday lives. “Getting on with your life” is not just what you do but has become invested with a ‘green’ moral purpose, a purpose which not everyone endorses but from which dissent, if not impossible, is potentially costly to an individual’s social and economic prospects.

The other consequence is a further loss of trust in free market economics. Despite the overwhelming evidence that socialist systems have worse environmental outcomes, including on CO2 reduction, normal market mechanisms are thought to be inadequate to accomplish climate goals. Governments pick technological winners. Taxes increase, supposedly on “externalities” but increasingly to encourage particular kinds of behaviour. We are increasingly told — by the respected economist Dieter Helm for example⁵ — that “net zero does require an economic transformation analogous to that from a peacetime to a wartime economy”. Once again, we see the argument that normal means are not enough, and only collectivism will do the job.

The third C is **covid**, that is, our reaction to the pandemic through the lockdowns and restrictions on normal social contact. These measures were unprecedented. Twenty years ago they would have been impossible. This is in part for technological reasons (the necessary passport/certification mechanisms would not have been available and much work would simply have been impossible at home pre-internet). But it is also because the intellectual climate made them possible. In an environment where we have all got used to “living local”, taking money from the government, and being told what to do, these measures were not fundamentally new but rather an extension of existing trends. The acceptance that we should all simply follow government instruction explains why we went along with obviously ineffective symbolic “covid theatre” measures like mask wearing, and why people were so slow to challenge obvious facts such as the vaccine’s inability to prevent transmission of covid, only to reduce symptoms. “Best not to question the public health messaging” seems

5. <http://www.dieterhelm.co.uk/energy/energy/how-to-pay-for-energy/> : “Decarbonisation is a massive national project, on a scale not really seen since rearmament in the run-up to the Second World War. This time we are turning a carbon-intense economy into a low-carbon one; then it was a peacetime economy into a wartime one. It is [a] huge national undertaking. (...) No one would argue that, faced with a war, prices should equal costs. Keynes certainly did not. There would be burden sharing – between customer classes, and between taxpayers and consumers. All citizens would be carried along, and the ability to pay would be crucial to the degree of social and political coherence necessary to push this all through. (Keynes argued in his 1940 paper that universal benefits should be introduced, compulsory savings, and a capital levy on the rich, amongst other things.) Arguably some of that is where we are now.”

to have been a worryingly widespread view, otherwise you were felt to be undermining the overall effort — even if that messaging was highly questionable.

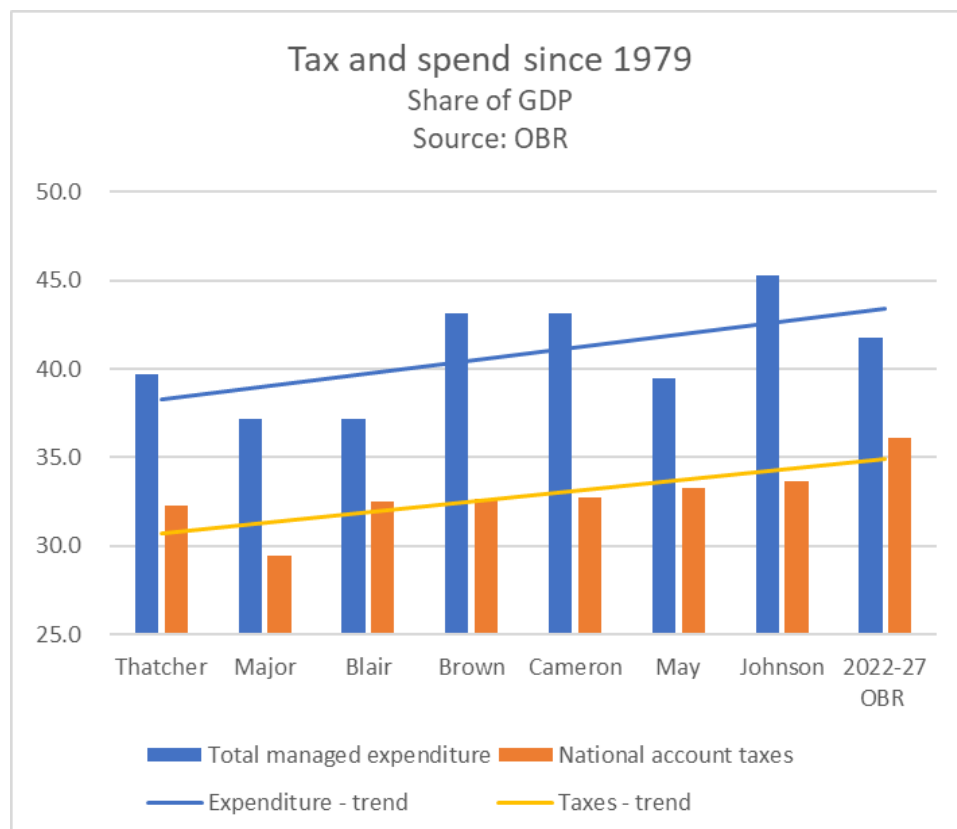
These consequences have lingered even now the pandemic is more or less over. To many people it no longer seems totally unnatural that we should be asked to restrict our own individual behaviour to protect a government service, the NHS. It no longer seems strange for ministers to lecture us about healthy eating and exercise, just as Winston Smith was hectored through his telescreen every morning. Too many of us have even got used to accepting there are certain things you “can’t say” on YouTube, Twitter, or Facebook and that “not harming people” is more important than free debate.

And finally, the fourth C, **complacency**. Across the West we pay lip service to the challenges but are not remotely facing up to dealing with them. Although the Ukraine war may yet possibly prove a wake-up call, there is still an assumption that nothing really bad can happen in the West, that we will always be in the lead — and therefore that we can afford to indulge ourselves with an ever larger government supplying ever more services, though badly, to an ever less productive population. Yet countries can decline both relatively and absolutely - Argentina, Venezuela - or just stagnate long term — Italy — and there is nothing that says we can’t too.

In short, we have statist economics, green politics, an overmighty government, and extreme reluctance to contemplate where this might be taking us. Not surprisingly, we are well on the road to a much more **collectivist** society. The consequence is that only certain solutions are considered to our problems. All involve going further down the same road rather than turning back. There is a general expansion of regulatory reach. The government becomes the first port of call for every economic and social difficulty, yet the sheer weight of tasks overwhelms it, giving us for example a state that cannot provide basic law and order yet nevertheless aspires to regulate normal behaviour in ever more intrusive ways. Initiative by individuals or private groups is discouraged as people increasingly think “we’ve paid our taxes, the government should solve our problem”. Businesses lose sight of their primary purpose, that of producing a product or service to make a profit, and increasingly talk about their social purpose and their responsibility to other stakeholders, echoing the message of government rather than being a repository of motivations and values different to the government.

One further and very visible consequence of this is that the state has grown hugely in recent years. The tax take under the Blair Government was 3.6 percentage points of GDP smaller than the average predicted for the next five years. Spending was 4.6 percentage points smaller. Accordingly, even though a smaller state is regularly said to be a totally unfeasible goal by commentators, it was the reality a mere two decades ago. And given the technological advances made feasible by the internet and broader information technology, not least the scope for cutting bureaucracy, there is a compelling logic that suggests the ongoing IT revolution means the

state — including the number of state employees — should be getting smaller, not bigger, over time. Yet, here we are, with tax and spending comprising a higher share of GDP now, under a Conservative government, than under a Labour administration a quarter of a century ago.



The result of all this is that it becomes difficult to undertake a serious and honest examination of our problems. The general belief is still that we have a generally functional system with some significant problems, rather than what we have — which is a fundamentally dysfunctional system with problems that cannot be solved by further governmental tinkering. Worse, far too many people are invested in the current dysfunctions — people who are part of the vast intrusive regulatory state or who derive their activity from identity politics or social and climate activism rather than anything useful or worthwhile. Every year all this persists, the harder it becomes to challenge it.

Yet challenge it we must. The only way we can get to solutions which can improve things is to wind back and make different choices. Continuity is not enough. Carrying on as we are leads inexorably to decline.

5. What is to be done?

“Failure is less frequently attributable to either insufficiency of means or impatience of labour, than to a confused understanding of the thing actually to be done”

John Ruskin, The Seven Lamps of Architecture

Any government that actually wishes to begin the task of solving Britain’s problems will need to take on the intellectual shibboleths described above. It must change the climate of opinion, not conform to it. It must aim to achieve the following.

- First, it must convince the public that change is needed. **The public must come to feel that we have taken a wrong path and to react against it.**
- Second, it must then **show the electorate an alternative.** It must set out why the most urgent task is to **increase the productive capacity of our economy** (because without that other problems simply cannot be solved) and persuade the public to see that collectivist, socialist solutions are incapable of achieving that.
- Third, it must **persuade the public that this alternative route is actually possible**; that the Government has a plan to get the country onto it; that continuing on the current path will simply make the inevitable correction measures more painful; and that failure to take such measures will mean a materially worse outcome.
- And finally, it must **make this alternative politically feasible and hence potentially attractive.** All history and experience teach us that free markets and individual freedom produce prosperity and wealth and that state control and collectivism destroy it. There genuinely is no alternative. But here the political difficulty is that governments and politicians have not for many years set out the reality of how economies work and how prosperity is created. Levels of understanding are low. The ground has not been prepared. That work must now begin urgently.

So what is the alternative that a reforming government needs to present? It is a broad reform programme, and, crucially, one which reflects the reality that **people don’t live only in a market or only in a community**

but in a country. A successful nation state needs market economics to create prosperity, and requires solidarity and a clear sense of identity to sustain itself. A reform programme must be similarly broad-based. **It should reject the artificial polarity between the “market” — “right wing” economics and economic globalisation — and “society” — “left wing” statism and solidarity — but recognise instead that running a successful country involves elements of both.** This is because in a democracy, the “churn” and turbulence of a free market economy will only be supported over time if they are felt to be based in a common community with an effective government and within a meaningful nation state.

All history and all modern politics show that this policy mix is the only one that can create a successful country and an attractive and prosperous society. It is a fallacy to take the view, as some on the left do, that people’s aspiration for a sense of community and solidarity means that we can dispense with free market economics, attack big business, and keep increasing the size of the state. That way lies economic decline. Equally, it is a fallacy to argue, as some on the right do, that economics is the only thing that matters. People engage in economic activity not only for its own sake but because they want to support themselves and their families, they want to build things that last after them, and they hope to be part of a successful, admirable, worthwhile national project in which as many individuals as possible can live a good life.

An important recent report by Michael Mazarr for the Rand Corporation⁶ concluded that “competitive societies tend to be open, tolerant, full of intellectual energy and commitment to learning; they have a powerful sense of their own role in the world and a sense of mission or will; they almost always benefit from strong public and private institutions, as well as a state apparatus that actively promotes advantage; and they embody a pluralistic clash of ideas and an ability of people from many backgrounds to offer their talents and succeed. We term this specific mix of characteristics the Renaissance spirit.” Britain is extremely well-placed to get onto this path — if we can change the direction of recent years.

So the reform programme needs to be broad-based and deal with the full range of issues. Accordingly it should be built around three pillars.

The first pillar is to begin the process of reversing the economic trends of recent years, get markets working properly again, get the state back to a normal size, and re-establish the cultural, political, and economic value of freedom. These are the only economics that work and there is no avoiding them. This must involve at a minimum:

- re-establishing the norms of a functioning free-market capitalist economy by gradually moving to normalise interest rates;
- increasing the productive capacity, actual and prospective, of the economy so that wages grow and so that these more normal interest rates can be sustained over time. This will require very significant supply-side reform coupled with a supportive policy framework involving a more assertive competition policy and a

6. The Societal Foundations of National Competitiveness: https://www.rand.org/pubs/research_reports/RR4499-1.html

more open trade policy.

- boosting the rewards to enterprise and the returns to investment in order to provide the impetus to make these desirable developments happen. That means lower taxes and higher profits and salaries.

The second pillar is to start to rebuild an effective state, capable of delivering results. That involves showing that an effective state is not a big state — indeed in many ways the bigger a state is the less effective it is — and indeed that the state must shrink from its current size over time. The aim must be a state that delivers its core tasks properly in the way that it does not at the moment, run by a governing class and establishment that can be trusted and which is committed to accepting its responsibilities and doing its job properly. That will include, *inter alia*:

- A system of effective immigration control which properly implements the generally held belief that only people with a right to be in the UK should be in the UK. Given the way that the system has been allowed to deteriorate in recent decades, this will be a serious task which will involve much more robust use of the available instruments than has been contemplated hitherto;
- Similarly, a renewed emphasis on law and order, effective policing, speedy justice (and reform of our disgraceful prisons); and
- much else, including maintaining effective armed forces; requiring public services to deliver better results; and supporting enterprise and trade rather than getting in the way.

The third and final pillar is to make a determined effort to re-establish the viability, the attractiveness, and the cohesion of the United Kingdom as a country and to bed in the view irreversibly that leaving the EU was the necessary precursor to achieving this. To do so means:

- Doing much more to make clear we are all British citizens first. That means rejecting identity politics, especially in areas where the government has direct control, and making clear that our diversity is a strength only if we are tolerant of each other's lives and opinions, not if we all divide into competing interest groups;
- Being proud of the achievements of the United Kingdom, our culture, values, and history, and ensuring everyone going through our education system or settling permanently in the UK has a basic knowledge of it;
- Standing up for the unity of the country: overriding the Northern Ireland Protocol as envisaged in the Bill currently going through Parliament; making it clear that a further referendum in Scotland is not justified and will never be justified unless there is a significant majority for independence over a sustained period; and meanwhile ensuring that devolution is confined to domestic politics without the recent mission creep into foreign affairs and immigration.

In short: **free markets and revived capitalism are necessary to create wealth, but are not in themselves sufficient to create a successful country. To achieve that we need a sense of cohesion and common endeavour across the country. Accordingly we must revive the UK nation state, show pride in it, steer it properly, and make it work; and to be effective in doing so we need a smaller but more effective state that does its core tasks properly.** All these things must be tackled together.

Getting onto this track will not be easy or painless. The necessary measures will require significant upheaval and change if they are to put us onto a new growth trajectory. They will also require politicians and civil servants to accept they got some things wrong in the past and to change policies and methods to which they are very attached. But there is no avoiding this. As the authors of the original “Stepping Stones” report underlined repeatedly, there is no point in investing effort in policies which are politically possible but which cannot in fact solve our problems.

6. How do we deliver what is necessary?

“A country’s history is not changed by politicians who are unable to get control of their own diaries.” Norman Strauss

BBC interviewer “But with all this criticism, what do you feel about Civil Service morale?”

Norman Strauss: “Still too high”

both quoted in “Just in Time” by John Hoskyns

It is of course not possible to do everything described above immediately. Because the problems are linked, the necessary reforms must reflect these linkages and be carefully sequenced, while still ensuring gradual progress across all fronts. Normalisation of interest rates and fiscal / monetary policy needs to go together with very significant supply-side reform and a reduction in taxation and the size of the state. None of that will be possible unless people believe that their leaders believe in the country, want it to succeed, and are committed to making it work.

To make it happen, three things will be required:

- a **short-run** set of measures to signal a change of direction, domestically and internationally, and to support the economy through a difficult period. This will also be the moment when hard thinking is done about what comes next and an effort is made to prepare the political ground for it.
- a **longer-run plan**. This needs to be a “national strategy”, a programme for the viability of the British nation state over the next decade. The specific elements and precise sequencing need careful thought and work in the months to come. The tasks to be tackled first are those which are both most important and most likely to make a difference to growth and to perceptions. The plan will need electoral consent.
- a **communications effort** to clearly explain the goal, justify the measures, and why there is no alternative if the country is to get a grip on its problems.

These measures will need to be implemented by a determined team of

Ministers, strongly aligned on policy goals.

Short-run measures

The first set of short-run measures should aim at supporting the economy through the imminent difficulties (notably relaxing fiscal policy in anticipation of further monetary tightening to deal with the current inflation, and in order to support demand through the very serious energy shock that is coming). More widely, they should reverse out, as far as possible, the poor decisions taken or put in train since the 2019 election, and begin to establish a more credible economic and political framework. They should cover the following ground:

- The existing terms of Brexit must be protected and the Protocol issue must be resolved so as to put Northern Ireland firmly, durably and fully within the UK.
- The tax rises implemented and planned must be reversed. Tough immediate decisions on spending, including those on political projects such as HS2, will be required.
- To begin the process of supply-side reform, the status of inherited EU law, whether embodied in primary or secondary legislation, should be changed and it should all be subject to a sunset clause. This will switch the incentives and ensure that internal and external lobby groups do not have a lock on change.
- Energy policy must be rapidly refocused on security of supply and on cost. That is not straightforward given the appalling decisions of recent years. In the short run, VAT and renewables subsidies need to come off bills, fracking must be allowed to restart and the positive expectations of its proponents tested in real life, gas storage capacity increased, and the rush to technologically suspect renewables slowed.
- Unnecessary further regulation should be halted. The Online Safety Bill should be stopped and rethought. The rented sector “reforms” (fortunately only at White Paper stage) should be halted. There needs to be much more vigorous policing of the wave of regulatory measures brought in by secondary legislation.
- The Rwanda plan has to be delivered, including by passing the new Bill of Rights and if necessary in due course by derogating from parts of the European Convention on Human Rights.
- A push-back needs to begin against the pernicious politics of identity politics and group rights. The key tool should be a firmer and more vigorous advocacy of free speech so that necessary debates cannot be chilled.

Longer-run plan

The longer-term strategy is even more crucial. Because it will require significant and far-reaching change, it will need to be spelt out clearly and enjoy clear electoral backing. Time needs to be spent on getting it right while the short-run change of direction set out above is implemented.

The strategy should be explicitly based on reviving the country, rebuilding state capacity, allowing markets to work, and restoring individual liberty. It will need to include enterprise-boosting, trust-busting reforms to tackle vested interests, even where those interests are Conservative Party supporters. It should set out a clear direction of travel over a five-ten year period to do at least the following:

- enable normalisation of monetary policy (and hence *inter alia* reduce house price inflation);
- reduce the size of the state at least to the size of the Tony Blair years:
 - with rigorous and forceful targets for spending reduction and proper control of spending against those targets, where unremitting attention is required;
 - as a consequence, get lower and much simpler taxes.
- implement very significant regulatory reform and hugely increase the competitive pressures on our economy through a boosted CMA, tariff reduction, and much else.
- free up the housing market by abolishing stamp duty, reducing burdens on landlords, strengthen competition in the house-building market, and eliminate the unnecessary blockages to greater supply;
- put in place a refreshed energy strategy that reverses the decline in energy production and supply, prioritises security of supply and affordability, and still reduces carbon emissions over time;
- establish a credible plan to reduce immigration over time;
- begin the generation-long task of modernising the NHS, ensuring that better results are delivered for the vast sums spent;
- change benefit systems so that benefits are paid to those who need them, not those who don't.
- reform the Civil Service and the state machine through a Civil Service Reform Bill, together with fundamental change to Whitehall.
- abolish the Equalities Act.

Devising this strategy should not be done on the hoof. Getting the detail and sequencing right is crucial. It is inherently both a political and technocratic project and needs to be thought through accordingly with both the administrative machine and the right political input. The new Government should put this strategy together in its first six months.

Communication

The Government needs to level with the people about the scale of the challenges, but do so with positivity and encouragement about the ability of the British people to meet them, as they have in the past. Communications should focus on the underlying policy goals not day-to-day trivia, and should treat the people like adults. That means it is necessary to return to doing politics as a matter of urgency. The diagnosis, the thinking, and the policy need to be communicated effectively. An effort must be made to go beyond superficialities and get across the heart of the problem.

Communication should be seen as primarily part of political strategy not media management. It is about building understanding in public opinion for what is necessary, not about responding to the daily news cycle. The day-to-day ins and outs of Westminster politics pass unnoticed by the overwhelming majority of the population, yet it is on these policies that government communications activity is primarily focused.

But getting the communications methodology right is no substitute for getting the policy right. The problem is that so far the Government's discourse — for all the reasons set out earlier in this essay — has been about avoiding hard truths not facing them, about “putting its arms around the people”, not encouraging them to face challenges and deal with them. It is time to return to speaking of the principles of patriotism, of building a successful nation, of low taxation and enterprise, of freedom to act, to create and retain wealth, to debate and to speak freely even if others don't like your opinions, and to make your own economic choices for you or your family rather than have them made for you. These principles entail being honest with people. Not everyone can get everything they want from the state. Some people will of course require government help and support. Many do not, but have still got used to it.

The scale of the challenge is illustrated by the comments of Mick Whelan, ASLEF General Secretary, on 11 July 2022. Speaking of train drivers' pay, he said that “we want an increase in line with the cost of living — we want to be able to buy, in 2022, what we could buy in 2021.” Unfortunately, the nation as a whole cannot buy in 2022 what it could buy in 2021. Getting people to understand that is the first step to putting the country on the right path.

7. Conclusions

*“Not on a single issue, or in one direction or twain,
But conclusively, comprehensively, and several times and again,
Were all our most holy illusions knocked higher than Gilderoy’s kite.
We have had a jolly good lesson, and it serves us jolly well right!*

...

*It was our fault, and our very great fault, and not the judgment of Heaven.
We made an Army in our own image, on an island nine by seven,
Which faithfully mirrored its makers’ ideals, equipment, and mental attitude—
And so we got our lesson: and we ought to accept it with gratitude.”*

Kipling, *The Lesson*

This essay has set out a sober, but realistic, assessment of the problems facing our country. Tackling them will not be straightforward. Many issues would have been better dealt with earlier, and will now take longer and cost more to fix. But the current crisis does at least mean that we can see more clearly what is going on, what the underlying trends are, and where the mistakes – and there have been many of them – were made.

It is time to put aside our modern version of the “holy illusions” which Kipling denounces in *The Lesson*. Just as in the Army of a hundred years ago, we have today created a country that “faithfully mirror[s] its makers’ ideals, equipment, and mental attitude”. That is the problem and that is what needs to change. The habits of the last two decades will not enable us to make a successful country in the next two.

What needs to be done will be turbulent and disruptive. But it is necessary. Everyone will need to play their part. There is genuinely no alternative if we wish to heal the divisions, get to grips with the underlying causes of generational inequality, and hand on a better society to our children. Those who have benefited from the trends of recent years now have a responsibility to support the changes necessary to ensure others get a proper chance too. Otherwise, the path we are on will increase inequality in a random and unfair way and in the end be unsustainable. If that trend is allowed to continue, the destination will be more collectivism, more socialism, and a worse outcome for people who have saved, invested, and generally played by the rules.

In the real world sometimes — and now is one of those times — tough choices are the only ones there are. To avoid them is not only to choose decline as a country but to fail to grow as individuals and responsible citizens. There is no other way for our country to succeed.



£10.00
ISBN: 978-1-910812-XX-X

Policy Exchange
1 Old Queen Street
Westminster
London SW1H 9JA

www.policyexchange.org.uk