



JACOB REES-MOGG MP

**IS DISRAELI RIGHT: 'A SOUND CONSERVATIVE GOVERNMENT...
TORY MEN AND WHIG MEASURES'?**

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Ladies and Gentlemen, it is a great honour to address the Centre for Policy Studies especially at the invitation of Lady Keswick, whom I have long-admired and agreed with. Indeed, when we both sat on a CPS tax committee we always seemed to be the only ones who argued for lower taxes.

The danger of setting a quotation as a title of a speech is that the speech can end up fitting the title rather than vice versa. When Taper says, in *Coningsby*, 'a sound Conservative government...Tory men and Whig measures' he is agreeing with Tadpole that there will not be another proper Tory government, merely a Conservative one. However, I do not want to run through the politics of the 1840s – beyond saying 'why are Tories like walnuts? Because they are troublesome to Peel'. I want to update it at least to the early 20th Century to describe the Lloyd-George settlement that has dominated political life from his Budget in 1909. His proposition that re-distribution was an end in itself has been broadly accepted ever since and along with his unfunded pension policy and National Insurance Act he laid the foundation for subsequent welfarism.

It is worth remembering the low level at which this started. Lloyd-George added a 6d surtax to take the top rate to 1s 6d for incomes over £5,000 per year or 7.5%. A rate that even the driest Tory would not now object to. Wartime spending increased the level of taxation that people were used to and the size of government so that the settlement after the Second World War was one very much led by the state. This is the key to the Beveridge Report which believed in an insurance approach administered by the state to take the burden off individuals and corporations. Although the system was designed as a contributory one the premium did not represent the risk. This meant that insufficient funds were raised to pay the benefits accrued so the general taxpayer has to make up the difference. Also, because National Insurance operated on a cash basis no proper provisioning was made for bad years so there was no real surplus to pay out from in periods of recession. This undermined the contributory basis so that National Insurance is now an accounting or taxing fiction.

New Labour tested the model to destruction boosting spending and extending the reach of tax credits so that nine out of ten families were caught by them. This meant that



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an increasing number of people were paying tax which they then received back in benefits subject to their activities being broadly approved of by the government. It is worth noting in this context that even those on low incomes pay indirect taxes of around £3,000 per year of which £2,000 is from sin taxes. (I am including the television licence fee as a sin tax which may be a little unfair to the BBC).

Bear in mind the expansion of the state between 1997 and 2010/11. GDP rose in cash terms by 4.4% per annum but spending by 5.7%. This meant that the government's share of GDP went up from 38.1% to 45.3%. Education spending rose by an annual 6.5%, health by 6.3% and welfare by 5.8%. All of this has to be earned by the private sector so that corporations and those in employment are increasingly encumbered by high taxes. This has inevitably made Britain less globally competitive as emerging market economies do not have the same burdens.

While it may be easy to dismiss Hong Kong and Singapore with 18.6% and 17% of their economies being spent by the state as small and unrepresentative it is not so easy to do so for China (20.8%), Mexico (23.7%) and India (27.2%). These are the countries that the UK will have to compete with in the 21st Century but they are not carrying weights round their neck in the way that we are.

In a way the failure of New Labour was essential because until then it could be argued that the big state might have worked if only enough money had been spent. This was a common criticism of the Conservatives in the 1980s and 1990s. However, even with a deluge of spending this model failed. Economic inactivity rose and in spite of a recent fall is still at 9.27 million people while 352,000 households in 2010 had never worked. In inner London 6.5% of all households in 2010 had never worked.

What are the answers? Managing decline is not enough. The image that comes to mind is the grand stately home where the great grandfather gambled away all the money, the family is living there with buckets to catch the water coming in through the roof, which has recently been a flood. They reminisce about their noble ancestors while they look enviously at the neighbouring house which has just been bought by an oligarch who is now living off the fat of the land that they used to own. This must not be the future for the United Kingdom and will not be if the right choices are made now.



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The battle of ideas has to be won. Currently, the Government is doing tremendously important things in terms of reforming welfare, education and other parts of the public service. However, this is done within a context of business as normal and it is not being seen as necessary to persuade people that life has changed. In the last hundred years we were competing against murderous Marxist dictatorships who ruined their economies. Outside Cuba and North Korea this is no longer true.

I must stress that we need to proceed gradually. Having forced millions of people into dependency they cannot be thrown out of it thoughtlessly. This is an area where the welfare reforms are going well by helping people on disability allowances to work out what they can do rather than assuming they cannot do anything. In some instances grandfathering existing benefit recipients may be the best approach.

We must challenge preconceptions around equality and fairness. These words trip easily off politicians' tongues without being thought through. Equality of opportunity is important but not of outcome. It is not the job of the state to re-distribute wealth except as a by-product of its general activities. The creation of wealth needs to be encouraged and praised rather than greeted with envy and a tax bill. Fairness does not mean equality of outcome, if anything it depends upon the rule of law and a state that does not behave in an arbitrary way. Currently the state can appear extremely arbitrary favouring the spendthrift over the saver, especially through the benefits system.

It is necessary to re-visit what the state provides and where the spending goes. There are some savings that are easy and should be made as a priority. This includes our contributions to the European Union and our aid to other poorer countries. These are often separated but the reason we pay £12 billion to the EU is as a subsidy to the poorer member states. On top of this we pay out £7.8 billion in overseas aid. This is not the job of government but ought to be a matter of private charity. However, there are also hard targets such as universal benefits which are popular but expensive. This includes Child Benefit which has begun to be withdrawn from the wealthiest but it additionally needs to consider bus passes and winter fuel allowances. It may be easier to do this by not giving them to new beneficiaries rather than taking them away from existing recipients.



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It needs to be recognised that a growth strategy does not come from government spending but from business and individual activity. This needs considerable supply-side reform which must to be pursued regardless of the EU which I will come to later.

Some of the major obstacles to growth are in planning policy and the bureaucracy that has sprung up around it. Is it sensible that building works do not take place because bats wish to hibernate in an old barn even if there is no evidence of their recent occupation? Environmental and recycling targets need to be looked at to see if they serve any useful economic purpose or are merely part of green orthodoxy. This leads on to cheap energy which will be essential if we are to compete globally. Hydraulic fracturing may be part of the solution but carbon emission targets will not be. Even if the greens are right Britain will make very little difference on her own and I would rather my constituents were warm and prosperous rather than cold and impoverished as we are overtaken by emerging markets who understandably put people before polar bears.

The debate has to be whether individuals provide the solution or the state. If it is the individual taxes, spending and regulation all ought to be lower. If it is the state then we can carry on as we are. Economic experience shows that the millions of accidental and sometimes contradictory decisions made by consumers allocate resources more efficiently than the careful planning of the man in Whitehall. Yet even though the most centrally controlled economies have failed the man in Whitehall remains responsible for an increasing amount of our national wealth. Unfortunately, this centralises power. As government spends so it directs. Prior to the Localism Bill local authorities had been left with increasingly few areas of independent action. Much of the government grant was ring-fenced and even locally raised taxes had to be spent on the centre's priorities. In people's personal lives this is also true as the government provides funding for things it approves of and regulates those that it does not like. This even applies to the Health Service where some people have argued that those who drink or smoke should be penalised in their receipt of health treatment because the state pays for it.

I had hoped to avoid our relationship with Europe but its pervasive influence makes it impossible to do so. I am not an advocate of withdrawal from it but instead I want a fundamental renegotiation of terms. We must be willing to take unilateral action to avoid being dragged down economically. In my view Europe has decided that it cannot really



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compete with the emerging world and must, therefore, try to create an unthreatening but declining cocoon for its members. It has opted to apply the big state on an international scale, imposing restrictions and uncompetitive practices across a whole continent to have a level playing field of inefficiency and high cost. This has made the single market a millstone rather than an opportunity for commerce to bloom in what should to be the largest free trade area in the world.

This should not to be good enough for the United Kingdom, we ought to have the confidence to compete with the best in the world. This means opting out of employment regulation, including working time directives, re-nationalising financial services regulation so that we do not over-burden one of our major sources of overseas earnings. In truth, it requires an audit of all EU regulations – ideally to be conducted by Christopher Booker – to see which ones we need for genuine health and safety reasons and which can be binned.

We must trust the people. One of the dreaded clichéd words of politics is aspiration used to convey a mushy sense of pious hope. Nonetheless, the Government needs to be on the side of those who want to improve their lot and that of their children. This is a natural human inclination not the exclusive preserve of the sharp elbowed middle classes or any other socio-economic grouping. If we do trust the people they will make the right decisions for themselves and their families in enough cases to compensate for those who make the wrong ones. Encouraging excellence means accepting some failure. However, it is preferable to mandated mediocrity.

For 250 years the western world has been uniquely prosperous. We have enjoyed a standard of living unprecedented in history and until recently unknown in other nations. This was not an act of God but because we had the right systems early on and did not destroy our good fortune in the 20th Century as some other nations did. This has come to an end; others have caught up and are overtaking us. This means that the comfortable certainties no longer apply and we need to adapt to the more competitive environment that now exists. If we do not we will not be able to hold on to what we have got let alone get back to the position where it could be said that to be born an Englishman, by which I, of course mean Briton, male or female and not excluding those from Northern Ireland, is to win first prize in the lottery of life.



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Thus for a hundred years we have had essentially Whig measures even when the Tories have been in charge. This will not be enough to deal with the challenges of the next hundred years so it is time for full-blooded Toryism with confidence in our country and courage in our convictions and a smaller state.