

POPULAR CAPITALISM

BY ROBERT COLVILE



About the Author

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About the Centre for Policy Studies

The Centre for Policy Studies is the home of a new generation of conservative thinking. Its mission is to develop policies that widen enterprise, ownership and opportunity, with a particular focus on housing, tax, business and welfare. In 2019, ComRes found that the CPS was the most influential think tank among Conservative MPs.

Founded in 1974 by Sir Keith Joseph and Margaret Thatcher, the CPS is responsible for developing a host of successful policies, including the raising of the personal allowance, the Enterprise Allowance, the ISA, transferable pensions, synthetic phonics, free ports and the bulk of the Thatcher reform agenda.

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Introduction

The Ownership Society

Take Back Control. Whatever side of the Brexit debate you were on, it's a fair bet that those three words have etched themselves into your consciousness. It's the message that swung Britain behind Leave, that has assumed its place in the pantheon of political mantras, alongside "Labour Isn't Working" or "Education, Education, Education".

The appeal of taking control is deep-rooted, almost instinctive. The more the world changes, the faster it spins, the more we want control. Control in the protective sense – to feel comfortable and secure. But also in the optimistic sense – to have control of our destinies and our finances, the freedom to choose our own path in life and seize the opportunities it presents.

One of the central problems of our politics is that too many people feel they do not have enough control – or worse, that they had control, but have now lost it.

This applies, most obviously, to the Brexit process. The only thing worse than being denied control is having it dangled before you then snatched away.

That is why, as this report will show, public trust in democracy has been corroded by the failure to deliver on the referendum verdict in 2016 – and why the new Government's commitment to delivering Brexit is so important.

But taking back control from Brussels can only be the start. This paper argues that, in order to persuade the public to buy into capitalism, politicians should devote themselves to giving control back to the people – to giving them a sense of ownership in the economy and the society around them.

This task is all the more important because the Left's central critique of modern capitalism – and by extension the political parties that seek to champion it – is that it has actively taken control from the masses and given it to the elites. That increases in wages, wealth and prosperity have been disproportionately concentrated among the few rather than the many – and that the system is rigged to keep it that way.

This is simply not true. Capitalism has delivered greater prosperity, for more people, than any political system yet devised. The power of the market, of choice and competition, remains the single best way to generate wealth and prosperity. But it cannot be championed simply by reference to the triumphs of the past, or the disasters that have ensued whenever alternatives have been tried.

In 1975, Margaret Thatcher warned her first party conference that “we have lost our vision for the future”. “Policies and programmes,” she insisted, “should not be just a list of unrelated items. They are part of a total vision of the kind of life we want for our country.”

Thatcher certainly had that vision. The ideas that she and Keith Joseph developed at the Centre for Policy Studies became a programme of “popular capitalism” – of a society driven by mass ownership, enterprise, opportunity and aspiration.

The arrival of Boris Johnson in Downing Street offers the Conservative Party an opportunity to reset its agenda. But it also offers a vitally necessary opportunity for the centre-right to reboot its reputation – to show voters why capitalism and by extension conservatism are best placed to meet their aspirations.

The polling and focus groups suggest that such a reboot is badly needed. The Conservatives, for example, consider themselves the party of low taxes, small businesses, home ownership and law and order. But the evidence suggests that they have, in recent years, failed to convince the voters of any of those propositions.

For example, in June 2018, in a survey by Deltapoll for *Prospect* magazine, the public were asked whether the Tories promoted the interests of particular groups. Were they on the side of small business owners? Single mothers? Farmers? Disabled people? Pensioners? The unemployed? Young working women? British-born workers with the ambition to better themselves?

The Left's central critique is that control has moved from the masses to the elites.

Voters told pollsters the Tories stood only for the rich.

Selected polling findings

Does the Conservative Party know what it stands for? 27% yes

Are the Tories on the side of pensioners? 25% yes

Is the Conservative Party the party of low taxes? 19% yes

Are the Tories on the side of British-born workers with ambitions to better themselves? 53% no

Is the Conservative Party on the side of small business? 60% no

Which group are the Conservatives most seen as supporting?
International bankers and billionaires

Taken from YouGov, Deltapoll & Hanbury polling, 2018-19

No, to all of the above, by sweeping margins. The only people the Conservatives were unequivocally felt to be promoting the interests of were “international bankers and billionaires”.

Another May-era polling exercise, by Hanbury Strategy, confirms the point. The Tories were seen by 63% of voters as being “only for the rich”. The figures for “incompetent” and “out of touch” were even higher.

Conservative politicians stress that there have been sustained increases in the income tax threshold under on their watch, putting thousands of pounds in ordinary workers’ pockets, and record numbers of jobs created. But the party was seen as “backing hard working people on an average wage” by fewer than 20% of electors.

Voters, in other words, told pollsters the party stood only for the rich. And they believed that it generally did not know what it stood for – or, when it did, that it stood for the wrong things.

This is not merely a problem for the Conservative Party. It is a problem because the Tories are traditionally the ones who have done most to champion the values, ideals and policies that have been proven to deliver prosperity. Support for capitalism and support for conservatism are, as a result, inextricably intertwined. Damage to one damages the other.

The early weeks of the Johnson administration have seen a welcome clarity about the Government's policy priorities: delivering Brexit, spreading prosperity more widely, supporting enterprise, hiring more police, fixing social care.

Yet this challenge is not just about policy. Many on the Left appear to believe – and are eager to tell the world – that they have a monopoly not just on compassion, but basic humanity. To be a conservative, in their view, is simultaneously illegitimate and inhumane. It is to hate the poor and love the rich, to put profits above people, to be wrong not just on the facts, but in your heart. And the same is true of being a capitalist.

Worse, the Left have snatched the clothes that conservatives once considered their own.

The Labour Party is now run by the people with the worst ideas in politics. A collection of old-school, far-left ideologues who spent the Eighties arguing that Michael Foot was too right-wing. Who divide the economy into three categories: things the state should tax, things the state should ban and things the state should own. When all you have is a hammer (and sickle) every problem looks like a nail.

But they have also taken inspiration from a surprising source – Margaret Thatcher.

John McDonnell and others on the new old Left have realised that Thatcherism – which they spent the Eighties reviling – was actually popular. And that was largely because it offered people ownership and control. Ownership of council houses, of shares in the privatised industries. And control of their lives and futures by slashing taxes, cutting regulation, facing down the unions and taming inflation.

Today, Labour talk relentlessly about ownership. But where Thatcher told people (rightly) that militant trade unions were preventing them from having the freedom to live good lives, McDonnell tells people (wrongly) that “the Tories” and “the bosses” are doing the same.

Labour is selling its renationalisation plans, for example, as being about taking from “the shareholders” and giving to the people. To the many, from the few.

The best way to provide a counter to the Left is to do what was promised in 2016, and give people back control.

Free market ideas are not just about helping people, but trusting people.

Yes, Brexit will and must be the immediate priority for the new Prime Minister. But those on the free-market side of the debate also need, as Thatcher did, to ensure that they have a “total vision of the kind of life they want for the country” – expressed resoundingly and relentlessly in every speech and policy announcement. And that applies not just to the Conservative Party, but to all of those who champion liberal market democracy as the best way to deliver prosperity.

The argument of this paper – and a central principle of the Centre for Policy Studies’ agenda – is that the best way to provide an intellectual and practical counter-offer to the Left’s reheated socialism is to do what was promised in the EU referendum campaign: to give people back control.

To give ordinary people ownership – of their finances, their homes and their futures. To explain to those hard-working men and women on average wages exactly what capitalism can and will do to make their lives better and more secure. To build popular capitalism – a capitalism that is popular because it works in the interests of the people.

In the process, politicians can show that to be a capitalist or a conservative is not just rational, but deeply moral – that free-market ideas are not just more effective than the alternatives, but ultimately more humane. Because they are fundamentally about not just helping people, but trusting people. About giving them control.

This paper, then, is divided into three sections.

The first makes the case that ownership must be at the philosophical core of the centre-right’s policy agenda – that today’s politicians must deliver a modern version of Thatcher and Joseph’s crusade for popular capitalism.

The second explores the vital connection between competition and control, showing that the only way to give people better public services is to ensure that power lies with consumers and citizens.

And the third sets out a concrete policy agenda that can bring that promise of control to life.



PART ONE
**WAS KARL
MARX RIGHT?**

Was Karl Marx Right?

The idea that mass affluence is the bedrock of a decent society is older than we realise. Aristotle himself wrote that “the best political community is formed by citizens of the middle class, and... those states are likely to be well-administered, in which the middle class is large, and larger if possible than both the other classes”.

And the best argument for the free market is that it has done better than any other economic system in history not just at increasing prosperity, but distributing it.

For proof, consider the words of none other than Karl Marx. The very first chapter of *The Communist Manifesto* acknowledges, in tones equal parts admiring and horrified, that the bourgeoisie – the new capitalist middle class – has:

“...accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades... the bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of Nature’s forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalisation of rivers, whole populations conjured out of the ground – what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?”

So powerful were the forces of production and exchange, argued Marx, that they had “burst asunder” the fetters of feudalism: “Into their place stepped free competition, accompanied by a social and political constitution adapted in it, and the economic and political sway of the bourgeois class.”

Capitalism succeeded because it gave people control.

Capitalism succeeded, in other words, because it gave people control. Each of us had the right to – in the famous phrase – life, liberty and the pursuit of happiness. Each of us could own our own goods, and homes, and do what we wanted with them.

This freedom, both political and economic, was at first restricted to the few. But gradually, inexorably, it spread to the many.

Marx’s prediction, however, was that this astonishing process contained within it the seeds of its own destruction. The bourgeoisie would amass greater and greater wealth, take more and more control. The “little workshop of the patriarchal master” would become “the great factory of the industrial capitalist”. The workers, the proletariat, would become “slaves of the bourgeois class, and of the bourgeois State” – until, of course, they rose up, threw off their chains and established a new Utopia.

Yet Marx was wrong – wonderfully so. Yes, the rich became richer. But so did everyone else. The grand narrative of recent economic history is of a great surging expansion of the middle classes, of individuals taking control of their lives despite all the obstacles that politics and history threw in their way. In the process, billions of people have found themselves living longer, better, happier and safer lives than at any point in human history – on a scale that previous generations could never even have imagined.

Over the past 25 years, for example, extreme global poverty – defined as the number of people living on less than \$1.90 a day at 2011 prices – has fallen by more than two thirds. And the drop has been steepest in countries that have opened up to global markets.

In China alone, the move towards a market economy, via the reforms initiated under Deng Xiaoping, has resulted in perhaps the greatest economic and humanitarian miracle in human history, with the proportion in extreme poverty falling from two-thirds in 1990 to less than 1% in 2015.

Today, however, many people are convinced that Marx's prophecy is finally coming true.

One of the most alarming – and telling – things about Jeremy Corbyn is his adamant refusal to recognise this. In an infamous exchange with Andrew Marr in 2018, he denied point blank that capitalism has had anything to do with China's recent prosperity, instead crediting "its economic growth since 1949 and then after the death of Mao and the Great Leap Forward and so on".

Back in 1986, speaking in Parliament, he was even more explicit: "The appalling social conditions in Hong Kong are the result of deregulated unbridled capitalism. The conditions enjoyed by people in China now, compared to 1948, are immeasurably better. The country has pulled itself up without the assistance of anybody else, but by collectivising its economy, its efforts and its energy."

This is nonsense, and dangerous nonsense at that. The market system has – remarkably and uniquely –wiped away a great swathe of human suffering. It has ensured that for billions of people starvation and destitution have gone from being the normal way of life to less than a memory, something glimpsed on TV documentaries about other, less fortunate countries. And in developed countries, our standard of living has risen relentlessly.

Today, however, many people are convinced that Marx's prophecy is finally coming true.

One of the great trends in our economy – in fact, in pretty much every economy – is an increase in industrial concentration. In sector after sector, the big firms are becoming bigger, and fewer.

In my recent book, *The Great Acceleration*, I touched on some of the causes of this. The demands of the stock market for constant growth, and the short-term focus of many investors, force firms to scale up – and increasingly to do so via mergers and acquisitions rather than investing in creating new jobs and factories. Scale also brings efficiency, and lowers cost: Primark or Wal-Mart can sell clothes so cheaply because they are ordering cloth by the mile rather than the yard. In response, their suppliers scale up too, not least to cope with the constant pressure to lower their prices. Food, for example, is increasingly grown by mega-corps for sale to mega-corps.

But the phenomenon recurs where you might least notice it. If you are wearing a pair of glasses or sunglasses – particularly expensive ones – there is a good chance that they were made by an Italian firm called Luxottica. This little-known firm is the world's largest maker of glasses frames, and owner of brands such as Ray-Ban, Oakley, LensCrafters and Sunglasses Hut. Recently, it merged with the French firm Essilor – the world's largest maker of lenses. And if such corporate concentration leads you to drown your sorrows, you're probably doing so with booze produced by Diageo, or AB InBev.

Concern about inequality is now a defining motif of politics.

There is no problem, of course, with firms being big – if it enables them to serve their customers more effectively. The problem occurs if we fall into the world of cartels and oligopolies. And a wave of research from the US and elsewhere is now linking corporate concentration to all manner of economic ills, from a lack of dynamism in the market to falling real wages, as disgruntled or underpaid workers face a reduced choice of alternative employment options.

But it is not just big companies which appear to be relentlessly increasing their power and wealth. Concern about income and wealth inequality has become one of the defining motifs of our politics – a trend fostered and exacerbated by the sluggish growth rates since the financial crisis, which have led to an obsessive focus on how to share out the cake rather than increase its size.

The scale of inequality in our society is often overestimated. If you compare both pre-tax and post-tax incomes in 1999-2000 with what we see today, the bottom 1%, 5%, 10%, 25% and 50% are all earning more and keeping more of our national income. Despite all our fears about runaway inequality, the amount actually claimed by the top 1% after income tax has only gone up from 8.8% to 9.4%, with the rest of the elite seeing their share of national income after income tax is applied actually fall. In terms of income tax, the entire bottom half of the population pay just 9.2% of what goes into HMRC's coffers – down from 11.6% in 1999-2000. The share paid by the richest 10% has increased from 50.3% to 60.9% – with most of that falling on the very wealthiest.

The share of tax paid by the richest 10% has gone from 50.3% to 60.9%.

	Bottom/Top %									
	1%	5%	10%	25%	50%	50%	25%	10%	5%	1%
Share of pre-tax income (1999-2000)	0.2	1.3	2.8	8.9	23.8	76.2	53.4	32.9	23.3	11
Share of pre-tax income (2019-2020)	0.3	1.8	3.7	10.4	25.3	74.7	53.2	34.3	25	12.8
Share of post-tax income (1999-2000)	0.3	1.5	3.4	10.2	26.4	73.6	50	29.3	19.9	8.8
Share of post-tax income (2019-2020)	0.4	2.1	4.4	12.1	28.5	71.5	48.7	28.9	20	9.4
Share of income tax paid (1999-2000)	0	0.1	0.3	2.4	11.6	88.4	69.5	50.3	39.6	21.3
Share of income tax paid (2019-2020)	0	0.1	0.4	2.2	9.2	90.8	76.3	60.9	50.1	29.6

Taken from ONS data

Of course, there are other taxes to take account of. But the picture in terms of the Gini income inequality coefficient, for example, has been of a gentle slide down rather than up.

The inequality problem, in other words, is not about income – it’s about wealth. Years of rising asset prices, and in particular house prices, have rewarded those who already had ownership, and punished those who didn’t. That was entrenched and exacerbated by monetary policy – a combination of ultra-low interest rates, quantitative easing and post-crisis banking regulation that delivered cheap money to those with assets while shutting off access to credit for the rest.

The result is a situation in which we are asking younger people to embrace capitalism when they have no capital. We are telling them that competition is a wonderful thing, but denying them the table stakes to play the game in the first place. We are telling them that they should have control over their own lives – but not giving them the means to exert it.

And the most obvious example, of course, is the housing market.

In 2015-16, 62.9% of Britons were homeowners – the lowest proportion in 30 years, and down from 70.9% as recently as 2003. Since 1990, ownership among the old has actually grown. But ownership among the young has fallen off a cliff. In 1990, roughly 40% of those aged 20 to 24 owned their own home. Today, that figure is just 10% – and those who are buying are increasingly dependent on the Bank of Mum and Dad. There are now a million more people aged between 20 and 34 living with their parents than there were in 2000.

All of this has extraordinary political implications. The most likely predictor of whether a voter would swing to Labour, at the 2017 election, was not their age, but whether they rented or owned their home. This effect was powerful enough, on its own, to explain 77% of the swing between the parties. People who believe they cannot own feel they have no stake in society – so why should they conserve a system that has given them no tangible stake?

All the great Conservative leaders of the 20th century had home ownership at or near the top of their agenda: Baldwin in the 1930s, Macmillan in the 1950s, Thatcher in the 1980s. Even David Cameron, in 2015, promised to expand the Right to Buy to housing associations, build 200,000 new starter homes, and expand the supply of shared ownership, in order to create two million more homeowners. Yet while construction figures did rise, those promises and pledges around home ownership became stuck in the gullet of the Whitehall machine, being largely replaced with limited sticking plasters.

This is not just about politics. People in Britain tend to wait until they have homes to start families. If they can't get homes, they don't have kids, or at least not as many – especially not if they're still living with their parents.

Meanwhile, polls show that home ownership remains extraordinarily popular. It is what the overwhelming majority want for themselves and others – whatever their income or background. And the main reason they give is not that it is a good investment, that it is cheaper than renting, or even to have a home to pass on to their children. It is because it gives them somewhere to call their own. Home owners not only feel more positive about where they live, but are happier about their lives generally: healthier, more involved in their communities, more secure, less lonely.

There are a million more people living with their parents than in 2000.

Having the cushion of savings, of ownership, gives you security and comfort.

Selected findings

Home ownership among 18-24s in 1991: 36.1%

Home ownership among 18-24s in 2016: 10.2%

Time for average first-time buyer to save for a deposit in 1991: 2 years

Time for average first-time buyer to save for a deposit in 2010: 11 years

18-24s say making housing more affordable is the single thing Government could do to most improve their lives

Three times as many say this should be done by making ownership easier as by improving renting

Among 25-39s, the most popular answer when asked “When will you be able to afford a home?” is “Never”

Taken from YouGov polling for CPS & CPS report by Chris Philp MP

To become a home owner, in other words, is not just to get your table stake at the property market casino. It is to gain something secure and tangible.

When council tenants in the 1980s were given the Right to Buy, the very landscape of our estates changed: new front doors, new gardens, new driveways. People took pride in – and drew comfort from – having a place that was theirs.

That is still true today. Recent polling of young voters by the Centre for Policy Studies shows that those aged 18-24 believe that housing is the area of their own life that they most need help with, followed by the cost of living. An overwhelming proportion of those young people would prefer to own their own home rather than rent – which is why they think government should focus its efforts on promoting ownership, rather than (say) making rents cheaper or more secure. In other words, they want control.

Control, after all, is the prerequisite for so many other things. As Nigel Vinson, one of the central figures in the history of the CPS, told its founder, Keith Joseph, “freedom starts with £1,000 in the bank” – or the modern equivalent. It was a sentiment shared by Martin Luther King, who argued that “it is cruel jest to say to a bootless man that he ought to lift himself by his own bootstraps”.

Having that control, having that security, doesn't just help the individual. It helps society. Is someone more or less likely to start their own company, to take risks with their career, when lumbered with tens of thousands of pounds in debt and facing a marathon slog to ever be able to afford a house? When they lack control of their future?

Having the cushion of savings, of ownership, gives you security and comfort. The pressure and misery of being in destitution, or flirting with it, not only denies you that security, but wreaks havoc on your ability to make the kind of decisions, or build up the kind of capital reserves, that might help you escape.

And this point, of course, goes beyond economic capital. Without ownership of the skills and abilities to compete in the marketplace, you are again excluded from the game – consigned to the lowest-earning, lowest-status jobs and liable to find yourself in a race with technology which you cannot win. You do not have control of your own future.

This, in turn, speaks to the nature of the society that conservatives should be striving to create.

It is striking, in opinion polls, that when you ask people about the ideal shape of the economy, they do not answer that it should deliver equal returns to everyone. They answer that it should reward people according to their efforts and talents.

An economy in which ownership is restricted is one in which those without it are locked out, are prevented from displaying those efforts and talents to the full. A society without ownership is one in which inequality and resentment flourish, in which society splits between the haves and have-nots.

It is also one in which it is all too easy to caricature capitalism as a code for extending and expanding the privileges of the privileged. When voters hear about deregulation and extending competition, they mostly do not hear “we will make things fair” but “we will dismantle protections”.

People do not believe the economy should deliver equal returns, but an equal chance.

If you are giving power to the powerless, you are doing good.

And this ties into a bigger problem. It is impossible to overstate the difficulties faced by Margaret Thatcher and those around her as they wrested the British economy on to a better course in the 1980s. The fact that Britain has a private sector that basically works, that it has millions more people in employment, that inflation has been tamed, that our lives are not disrupted by strike after strike, that we can afford to pay for our public services – all of these are ultimately down to the reforms she pioneered. And at their heart was the idea of putting people in control: of breaking up union power, of handing people ownership of their own homes, of giving ordinary people a stake and a say.

Yet in retrospect, it is clear that the reformers of those days had one under-appreciated advantage. If they wanted to show why they were right, they could simply say: “Look around you.” Their radical diagnosis of Britain’s problems could only be implemented because voters had lost all patience with the alternative.

Today, a free-marketeer invoking that phrase might seem, to harsher critics, more like Ozymandias, inviting those admiring his statue to survey what amounts to ruins. Or, to put it more prosaically, if people today see our society as capitalist, then they see the problems with it as the product of capitalism.

This is why defenders of capitalism cannot be satisfied with the status quo. They need to show how they can make people’s lives better – to accept that their problems are real, rather than telling them that they may not own a home, but at least they have an iPhone.

Arthur Brooks, the outgoing president of the American Enterprise Institute, has a beautiful way of challenging his fellow conservatives on this issue. Why, he asks, do you get up in the morning? Is it to entrench the power and wealth of those who already have power and wealth? Or is it to expand the power and wealth of those who do not have them?

If it is the former, he says, you are doing evil. If it is the latter, you are doing good.

All conservatives, in other words, need to dedicate themselves to giving people opportunity. To giving them ownership. To giving them control.



PART TWO
**CONTROL &
COMPETITION**

Control & Competition

So how should our leaders go about it? How can they create a society in which ordinary people feel like they have ownership of their futures, and control of their lives?

One central argument that needs to be made here is that the benefit of competition – and indeed its essential purpose – is that it puts the consumer in control, and keeps it that way.

When, for example, the Conservatives defend the privatised utilities, it often looks like they are standing up for the fat cats – as opposed to the voters. Because they have failed to make palpable this connection between competition and control.

This, crucially, is an argument that the Left utterly fail to grasp.

In 1994, that noted economic authority Fidel Castro denounced capitalism as “repugnant”: “It is filthy, it is gross, it is alienating... because it causes war, hypocrisy and competition.”

This is the same position taken by Castro’s admirer Jeremy Corbyn, discussing Royal Mail: “I do not agree with or accept the idea there has to be competition in mail delivery. After all, we all have one letterbox, and it is much more efficient to have one postal delivery person coming down the street rather than three or four from different or competing companies... Likewise, the idea that you have competition in water supplies is a little odd when there is only one water pipe comes to each house.”

The obvious rebuttal to this point is that we all have one mouth, so does that mean we only need one sandwich shop?

It has become a cliché, in discussing the respective merits of capitalism and socialism, to cite the tragic case of Venezuela – an economy held up as a model by the Corbynistas. But it is a cliché for a reason.

In the name of fairer outcomes – of rebalancing the economy between rich and poor – Hugo Chavez and Nicolas Maduro took more and more control away from individuals. They tried to dictate the outcomes of more and more of the economy via price fixing, quotas, nationalisation and all the rest of it.

The result was a slow-motion economic and humanitarian catastrophe: food hoarded by the rich or the well-connected, the return of mass malnutrition, hyperinflation, the collapse of the medical system, refugees flooding into neighbouring countries, and ultimately savage repression.

The more the socialists tried to fix things, the more control they took, the worse things got.

Within the capitalist system, however, there is a safety valve: competition. Competition is what keeps the market honest – what allows the consumer to remain in control.

Imagine that I own a button-making company. Thanks to a sympathetic friend in government, I've had a law passed saying that only Bob's Buttons can make the things. Under this scenario, I can make the buttons for 10p a pop. But I can charge 20p for them, or 50p, or £1. Whatever I ask for, you've got no choice but to pay it.

The damage caused by this kind of monopoly goes beyond the excessive profits that I'm taking out of my customers' pay packets. For one thing, I'm quite likely to lobby the government to impose a protectionist (and therefore economically damaging) trade policy: we don't want to be swamped by cheap foreign buttons which don't come up to our exacting standards. For another thing, such monopoly stifles innovation. Yes, I could invest in lowering the cost of production – but why would I bother, when I've got such a good thing going on? Likewise, if someone has a revolutionary idea for making buttons out of a new kind of material, I'm not going to bother to listen to him. What's he going to do – start his own firm? He can't.

The more the socialists tried to fix things, the more control they took, the worse things got.

Only the state, say Labour, has the wisdom to invest.

This isn't the end of it. We all know about monopoly. But fewer of us have heard of its mirror image: monopsony. This is a situation in which it is not the number of sellers that is restricted, but the number of buyers.

Why does this matter? Because often, monopolists are monopsonists too. If you're tempted to get into the button-making business, then working for Bob's Buttons is – under this hypothetical scenario – the only game in town. That means I can pay you pretty much what I feel like. The same is true of my suppliers.

Alternatively, my monopsony power might be geographical: if my giant button factory is your town's only big employer, then I can keep wages low because the only alternative is for you to pack up and leave. I have control: you don't.

We don't, of course, live in a world where there's only one button-making firm. But alongside outright monopoly, there is also the problem of oligopoly – of markets controlled not by one firm, but by a cosy few.

Adam Smith is often seen as the high priest of the market. Yet its opponents often cite his observation that “people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”.

Capitalism, in other words, has an in-built tendency towards monopoly – or at least towards self-serving cartels. Even Adam Smith says so!

What's less often quoted is what Smith says next: “It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.”

The word Smith uses to describe such assemblies is “corporations”. But by that he means not companies in the sense that we know them, but essentially lobby groups – an association of those in the same trade who lobby the government with one voice to impose regulations that, by happy chance, result in the enrichment of its members at the expense of the public, or foreign competitors, or both.

So how to keep the bosses honest? Again, Smith had an answer. “The real and effectual discipline which is exercised over a workman is that of his customers,” he continues. “It is the fear of losing their employment which restrains his frauds and corrects his negligence.”

Competition, in other words, is what prevents that great conspiracy against the public – what forces businesses to make money by serving their customers, rather than milking them. Competition puts consumers in control, rather than producers.

If Pret a Manger start charging £20 for a sandwich, either all of their customers will desert them for Eat, or lots of other people will pile into the sandwich market because of the profit to be made, driving down prices.

Less competition means less pressure to invest in new ideas and technologies, rather than living off your existing market share. It means less pressure to be productive. It means lower wages for staff and higher profits for those who have done nothing to earn them.

And it also, at heart, means fewer new ideas – fewer opportunities for people to participate in the great game of trial and error which gradually, erratically and sometimes painfully rewards the good ideas and punishes the bad ones.

There are of course arguments to be had about how to apply these lessons in particular areas. It is true that competition works more easily in some sectors than others. But it is also true that it is towards greater competition and more control by individual consumers that those in Government must always be striving and working.

For Labour – especially the Corbynite strain of it – this is heresy. Only the state, John McDonnell has argued, has the wisdom and patience to invest long-term capital where it is most needed, rather than where the froth and speculation of the market dictate.

This argument is superficially attractive. We all cling to the idea that we would get better decisions – both economically and politically – if we delegated the task to those with no selfish interest in the matter, that some all-wise conclave of elders is better placed to guide us than the selfish profiteers of the market.

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The case for capitalism, in other words, is that it genuinely trusts the many not the few.

The problem, again, is that this does not quite stack up. Government has done some impressive things. But it has also made many catastrophically misguided decisions – often at times when there was near-universal consensus that the decision in question was the right one.

There are many, many examples of this (read, for example, *The Blunders of our Governments*, by Anthony King and Ivor Crewe). But perhaps the best is the Advanced Gas-Cooled Reactor programme.

The AGRs were to nuclear energy what Concorde was to supersonic flight – in every sense. John Kay, in his book *The Truth About Markets*, describes the programme, launched in 1965 by the Wilson Government, as the most financially disastrous enterprise embarked upon by any Western government.

The seven AGRs were built, in essence, because Britain wanted national champions. Rather than buying in foreign nuclear technology, we wanted to develop our own – and export it around the world.

The problem was that the resulting tenders were awarded on the basis of a back of the envelope design, which ran into huge technical problems: the first reactor, Dungeness in Kent, did not come on stream until 17 years after its planned completion date in 1970. Over the years, we ploughed in more than £50 billion – for assets which were eventually valued at less than £100 million.

It was, at least until the financial crisis, one of the biggest write-offs in the history of capitalism – so much so that for the first 25 years of its existence and probably more, the economically sensible thing to do would have been to swallow the losses and shut the entire programme down.

Why could people not spot what was going wrong? Partly because Edward Plowden, the arrogant and secretive head of the Atomic Energy Authority, urged that the electricity industry should be reorganised to speak to ministers with “a single voice”. But as Kay says, “the problem was that the industry did speak with a single voice and what that voice said was rarely true”.

The market does make mistakes. But it is more open to a multitude of voices – clamouring, clashing and conflicting, perhaps, but all offering an alternative path. There is, ultimately, no one person in control – because everybody is.

The case for capitalism, in other words, is that it genuinely trusts the many not the few. In fact, this is possibly the most profound belief of those who support the free market: that even the wisest individual in the world, possessed of as much information as can reasonably be gathered, will end up making worse decisions than a diverse range of people engaged in what amounts to a vast game of trial and error.

But one of the great merits of capitalism is that as well as thinking the best of people, it also thinks the worst of them – or rather, as Adam Smith showed, that it harnesses their self-interest for the common good.

In the section above, I generously assumed that – in a centralised system – those making the decisions are indeed making them for the right reasons, that they are genuinely trying to be selfless and dispassionate, to act for the good of all.

But the truth is that the world is not like that. Not at all.

Take the NHS. We all admire and respect doctors and nurses. We all wish that there were more of them, and fewer middle managers. But doctors and nurses are also human. Like the rest of us, they like life to be arranged for their own convenience. Even the most compassionate of them would like, all other things being equal, to be paid more for the same amount of work.

Why, for example, are hospital doctors public employees, but GPs private contractors? And why can consultants employed by the NHS still take on lucrative private patients? It is because, in the very earliest days of the NHS, the doctors refused to play ball. Faced with the prospect of a strike by the BMA, Nye Bevan promised that the GPs would remain independent; the consultants would keep their private practices; and the nurses would get a pay rise. As he put it of the consultants, he “stuffed their mouths with gold”.

The same thing happened many decades later. Tony Blair’s government was negotiating with GPs over their contracts. As if by magic, this process concluded with doctors getting more money to work fewer hours – or rather, being able to sacrifice a relatively small amount of pay in order to forgo working evenings and weekends. The result was immense frustration for patients, a stampede towards A&E, and calamitous pressure on our hospitals.

A key part of giving people control is giving them services they can rely on.

The further you go towards monopoly, the less pressure there is to perform.

The truth is that any organisation manned by fallible human beings will, to a greater or lesser extent, be run for the convenience of those very human beings. In a competitive system, this tendency is mitigated by the competition between rival organisations, and the need to pull together to achieve shared success.

But the further along the spectrum you go towards monopoly – the more control you take from the consumer and give to the producer – the less those competitive pressures are felt. Hence the stories about nationalised industries in the bad old days that were run for the benefit of their staff rather than their customers, about phone lines which took months to install. They had the control – we didn't.

One of the perennial Left-wing arguments is that Conservatives (and conservatives) do not care about public services. That as long as they have their private health insurance, they are perfectly happy to watch the rest of the world burn.

One particularly popular conspiracy theory, for example, is that the Tories are deliberately running down the NHS in order to flog its most profitable parts to giant American healthcare companies (for some reason, the giant companies involved are always American, rather than German, or French, or Dutch).

This argument is not just insulting, but wrong-headed. For one thing, if it were true, the relevant ministers would belong in prison rather than Parliament. For another, the NHS has been in existence for 70 years, and the Conservatives have been in power for 43 of them: if they have a secret plan to privatise it, it's not a very good one.

Giving people more control of their lives also means giving them public services they can rely on – and, indeed, a public realm that they feel safe within. If your streets are not safe, if your hospitals are shabby and ill-managed, if your high street is full of boarded-up shops, you are scarcely likely to feel optimistic about your future and in control of your destiny.

But how to do that?

The most obvious point, made repeatedly by Conservative leaders, is that the only way to fund the public services is via a dynamic economy.

As David Cameron said in 2015: “Everything depends on a strong economy. Every job; every pay packet; every business; every teacher’s salary in our schools; every heart operation in our NHS; every kind of help we can give the elderly and frail.”

If your child fails to get into a good school, then you’re screwed.

Or as Margaret Thatcher argued on the opening page of the Tories’ 1987 manifesto, it was only Britain’s new prosperity that allowed it to build a better health service and provide more care for those in need.

But there is also a vital philosophical difference between Left and Right when it comes to how the money generated by a vibrant private-sector economy is spent.

If you want to improve the public services, is it better to exert pressure from the top, or from the bottom – or simply to appeal to the better natures of those working in them?

As a parent, I know I would go through hell and back to secure my children’s futures. Traditionally in Britain, however, it has been the schools which audition the parents – resulting in a model in which even those top schools which are not actively selective are often effectively selecting via house prices, with places going to those who can afford to buy or rent homes in the appropriate catchment area.

Under this model, if your child fails to get into a good school – or simply happens to live in the catchment area of a bad one – then you’re screwed. If you’ve got money, you can pay to go private. If you’ve got time, you can join the board of governors and try to improve the quality of the school as a whole. But realistically, as an ordinary parent – like an ordinary customer of Bob’s Buttons – your ability to improve matters is limited.

In a competitive system, however, things are very different. If a school isn’t working for your child, you can simply move them somewhere else – or even help to set up a new one. The objection is that under this system, bad schools lose the very pupils and parents – engaged, passionate, determined – who might help them improve. But the counter-argument is that the pressure of competition forces them to do better.

In fact, pushing control away from Whitehall and down to schools and parents has had all manner of benefits.

And giving control to parents, it turns out, has had a remarkable effect. Even with all the flaws in the education system – the capacity problems and the limited data and the teaching to the test and the fact that the best schools cannot or will not expand enough to meet demand – we have still seen significant improvement thanks to the reforms introduced under Tony Blair, then turbo-charged under David Cameron.

In their 2017 manifesto, the Conservatives could boast that 1.8 million more children were going to schools rated “good” or “outstanding” by Ofsted than in 2010 – even though the criteria for those ratings had been substantially toughened up.

In fact, pushing control away from Whitehall and down to schools and parents has had all manner of benefits. For example, which is the better way to teach pupils: a rigid curriculum, or a more progressive system in which children are free to learn as they choose? Traditional, fact-filled instruction, or lessons which seek to engage the pupils’ imaginations? What are the right class sizes? Lesson lengths? Does co-ed work better than single-sex? Selective better than comprehensive?

The traditional way to answer those questions was to ask the man in Whitehall – to give control to the person who knows best. But the best way to answer them, it turns out, is to let people try what they believe – and then gather the evidence for what works.

Within the free school and academies movement, there are some schools which dress the kids up in blazers and caps, or teach them Latin. But there are others which don’t. The result is not just a massive experiment in what actually works educationally, but a system in which – at least in theory – every pupil can be matched to a school which best fits their interests and talents. And the lessons from the top performers can be spread by central government, or fed into the national curriculum.

To give just one small example: we at the Centre for Policy Studies, for many years, argued that it was better to teach children to read via synthetic phonics – that is, to have them focus on the sounds the letters made (“muh-ah-tuh” for “mat”). The educational establishment, however, was wedded to the “whole-language approach”, in which children were encouraged to read words by sight rather than sounding them out.

Eventually, the new approach was actually tested, alongside other educational reforms, in Clackmannanshire. The results were so overwhelmingly positive that the entire system was overhauled. Between 2012 and 2017, the proportion of six-year-olds who passed the Phonics Reading Check rose from 58% to 91% – and Britain is now climbing the international literacy league tables rather than falling down them.

So the point of differentiation between Left and Right isn't just about attitudes to competition. It's about where power and control should lie – and, therefore, where pressure for change should come from.

The justification for those education reforms is not just to create competition for its own sake. It is that handing power to parents – giving them the power to choose the school which they think is best for their child – also hands control to the people who have the most direct stake in the outcome.

When power is in the hands of consumers, the pressure within the system is to deliver what consumers want – and the scope is there for choice and competition to deliver innovative alternatives. When power is in the hands of producers, the pressure within the system is to deliver what suits them.

Hence the proposal by the National Education Union, the country's largest teaching union, that Ofsted should be shut down, and schools allowed to, in effect, mark their own homework. There is nothing in this that benefits consumers – because its entire purpose is to give teachers an easier life, and never mind the impact on the quality of education they are imparting.

Between 2012 and 2017, the proportion of six-year-olds who passed the phonics reading check rose from 58% to 91%.

In a state monopoly, you cannot take your money elsewhere.

Or consider another controversial example: the privatised utilities.

Jeremy Corbyn and John McDonnell offer a false, easy hope – that renationalisation can give control to everyone at once. These industries, they argue, should be run by a harmonious alliance of customers, workers (represented via their union leaders), the community (represented via council placemen or Left-wing activists), and the wise hand of government.

But what happens when these interests collide? What happens when the unions want a pay rise that is against the interests of the customers?

And what happens when the customer is dissatisfied? Under a nationalised system, they cannot take their money elsewhere. They have lost control in a fundamental way.

Yes, it is true that these industries are hardly hotbeds of competition in the first place. The rail network, for example, has gone from being a government-owned and -operated system to one in which the state regulates a series of regional monopolies, setting everything from the prices they can charge to the frequency of services, negotiated via franchise agreements so complex that the paperwork involved can fill whole rooms.

How to fix this? One solution, proposed by the Centre for Policy Studies – and endorsed by the Government’s own Competition and Markets Authority – is “on-rail competition”. Instead of handing over control of a long-distance line to a given operator in exchange for certain promises (including a hefty cut of the revenues), you allow multiple operators to compete and bid against each other to provide services on the same line.

Evidence from Britain and elsewhere shows that, if applied on Britain’s main trunk lines, this could result (to quote the CMA) in “lower fares and growth in passenger numbers, greater incentives for operators to improve service quality and innovate, greater efficiency by train operators [and] more effective use of network capacity”.

The same is true of the energy sector, and water, and mail. The more competitive these services become (or in some instances are forced to become), the more open they are made to new entrants, the more control is given to consumers, the better they perform. The best way to get Jeremy Corbyn's mailbox filled as quickly as possible is to have multiple firms fighting for the right to deliver to him.

The case for competition, in other words, is not ultimately an economic one. It is a moral one. It is that the economy, and the public services, should deliver for the people who use them, not the people who run them – and that wherever possible, we should put control in the hands of the former.

So what should this agenda look like in practice when it comes to some of the key policy challenges facing the UK today?

What would this agenda look like in practice?



PART THREE
GIVING BACK
CONTROL

Giving Back Control

In 2007, the Conservative Party were staring down the barrel of yet another election defeat. Gordon Brown was still in the honeymoon phase of his Premiership – Stalin had not yet morphed into Mr Bean – and David Cameron’s team knew that, if they did not alter the direction of the polls, they faced electoral disaster.

And so, at their party conference in October, they came up with a new policy: a tax cut. But not just any tax cut. George Osborne promised to raise the inheritance tax threshold from £300,000 to £1 million – at a cost of £3 billion – to ensure that “only millionaires pay death duties”. He would pay for this with a raid on those perennial bogeymen – the wealthy non-doms.

On the face of it, this was an odd decision. Inheritance tax seems, in many respects, perfectly fair. If we believe in meritocracy and social mobility – if we want people to compete on even terms – then it makes sense to do what we can to ensure a level playing field. Why, in the great race of life, should some people be forced to start 20 metres behind the start line, in second-hand trainers, while others pop out of the womb practically touching the finish line?

And if we have to collect tax (which we do), isn’t it better to let people keep as much of what they earn as possible – to let them accrue the rewards from their own efforts and talent – and then take a chunk of the proceeds when they’re no longer in a position to care?

Which taxes do voters think most unfair?

Then there was another objection: how irrelevant it seemed.

Inheritance tax is actually one of the easiest taxes to avoid, if you start giving your assets away at least seven years before you die – which is why some have even called it a “tax on laziness”. And it’s also only paid by a tiny handful of people.

When Osborne made his speech, the proportion of estates paying inheritance tax was rising sharply, up by more than 50% in five years (due largely to property prices taking an increasing number of estates above the £300,000 threshold). But the increase was only from 4% of estates to 6%. Some 94% of Britons were still paying no inheritance tax at all.

The Conservatives’ flagship plan to see off Gordon Brown, in other words, seemed to be to solve a problem which wasn’t really a problem at all – by cutting a tax that few really paid.

So why did Osborne do it? Because he could study the focus groups as well as anyone. And what they were telling him – what they have told everyone who has asked – is that inheritance tax is colossally, ridiculously unpopular.

In 2015, for example, a YouGov poll asked voters which taxes they thought were fair and unfair. The runaway winner on “unfairness” was – yes – inheritance tax, disliked by 59% of the population and approved of by just 22%. (The most popular were “sin taxes” on tobacco, alcohol and cigarettes, followed by National Insurance and income tax – which are, of course, effectively the same thing.)

As Osborne put it, his party wanted to help “people whose only crime in the eyes of the taxman is that instead of spending their savings on themselves they want to pass something on to their families”.

And when you think about it, this makes perfect sense. Most people do not earn money for the sheer giddy thrill of seeing their bank accounts grow larger. They earn money so that they can provide a better life for themselves and, in particular, their loved ones.

Inheritance tax is so unpopular because it threatens that: it means that the money you spent decades salting away, the home that you slaved to afford, goes to the government, rather than the people that you actually earned it for. It takes away your control of your family’s future.

For a traditional classical liberal, in other words, inheritance tax is wholly rational. But humans are inherently social creatures – and consider their families and their families' interests to be indivisible from their own. This is a vital truth for conservatives to keep in mind, especially in understanding why home ownership is so economically and socially vital, and so electorally totemic.

Our families' interests are indivisible from our own.

Owning your own home, as mentioned above, is not seen as an investment. It is something that is worked towards and preserved – an essential component of a good and secure life not just for those who bought it, but for those who come after them.

This is why, when it comes to social care, so many people object to the idea of being forced to sell their home to fund it. It is also why almost every developed country offers tax reliefs or outright exemptions on the sale or inheritance of the main family home – and why Labour's recent proposals to tax such generational transfers are liable to stir up a hornet's nest.

This phenomenon should inspire those on the centre-right – not to preserve unjust concentrations of ownership, but to ensure that ownership is something that is spread as widely as possible.

When Thatcher spoke of “popular capitalism” she meant “nothing less than a crusade to enfranchise the many in the economic life of the nation”. It was popular in that it was for the people. But as contemporary election results suggest, it was popular in the other sense, too. Because at its heart was a simple promise: we will give you control. The Right to Buy. More money in your pocket. Public services that respond to your own needs, rather than the demands of the unions.

This is the power of control. Not the Left-wing version, in which what you have is handed to you by the state – which may well take it away again should you succeed too much.

It is the vision of everyone having the opportunity to succeed, and to be rewarded for their efforts. Of a system under which if you do the right thing, if you try your best, the system will serve and support you.

Delivering Brexit is not just about electoral self-interest, but voters' trust in politics.

It will never be possible, of course, to create perfect outcomes for all. Capitalism will never work perfectly for everyone – and supporters of the free market should never cease in their efforts to improve it.

But to echo Arthur Brooks, this issue of control should be the litmus test for everything policy-makers do. Are they promoting competition? Are they widening ownership? Are they rewarding or punishing people for effort? Are they giving power to the powerful, or opportunity to the powerless?

There is an irony here. One of the best expressions of what has gone wrong with our politics, and needs to be put right, came from Theresa May on the steps of Downing Street, entering as Prime Minister for the first time.

She promised that her Government would be driven “not by the interests of the privileged few” but those who were “working around the clock”, “doing your best”, for whom “sometimes life can be a struggle”: “We will do everything we can to give you more control over your lives. When we take the big calls, we’ll think not of the powerful, but you. When we pass new laws, we’ll listen not to the mighty but to you. When it comes to taxes, we’ll prioritise not the wealthy, but you. When it comes to opportunity, we won’t entrench the advantages of the fortunate few. We will do everything we can to help anybody, whatever your background, to go as far as your talents will take you.”

Her central promise, in other words, was to give people more control of their lives. But her administration failed to develop the policies to match. To hear the then PM list her accomplishments, on leaving office, was to be confronted by a significant gap between promise and delivery.

This was not just because of the distractions of Brexit. It was because there was no coherent vision of how to actually implement those ideas in practice.

So what might such an agenda look like today?

The first thing to accept is that it must involve the delivery of Brexit.

This is not just about the electoral self-interest of one party or another. It is about basic trust in politics, and in democracy.

Last year, for a paper by Matt Warman MP, we at the Centre for Policy Studies asked voters how much they would trust various layers of Government to do the right thing if they needed to contact them with a complaint of any kind.

When it came to the House of Commons, just 5% of voters said that they would trust their MP “a lot”. 37% would trust them “a little”, and 40% would not trust them at all.

Following the postponement of Brexit, we repeated the exercise. We found that distrust in all levels of Government had risen sharply. But trust in the House of Commons, especially among Leave voters, had collapsed. It was alarming enough that, in 2018, the same number of Leavers – 43% – had said they had no trust at all in their MP as had some or a lot of trust. But re-running the exercise, 69% said they had no trust at all – versus just 24% who retained any of their faith.

That is a huge swing in terms of the number of Leavers not just disappointed by Brexit, but convinced that Parliament does not act in their interests on any level whatsoever. That is a catastrophe for democracy.

We found that distrust in all levels of Government had risen sharply.

How much would you trust X to do right by you if you had reason to contact them?

	2018 (%)			2019 (%)		
Parish council	Total	Leave	Remain	Total	Leave	Remain
<i>Trust a lot</i>	9	8	9	10	10	13
<i>Trust a little</i>	45	44	52	42	43	49
<i>Not trust at all</i>	18	19	15	27	31	22
<i>Don't know</i>	28	29	24	21	16	17
District council						
<i>Trust a lot</i>	6	5	8	7	6	8
<i>Trust a little</i>	50	50	55	42	39	51
<i>Not trust at all</i>	25	28	20	35	42	31
<i>Don't know</i>	20	18	17	16	13	11
House of Commons						
<i>Trust a lot</i>	5	6	5	4	3	5
<i>Trust a little</i>	37	37	43	29	21	41
<i>Not trust at all</i>	40	43	37	54	69	46
<i>Don't know</i>	18	14	15	13	6	9

Taken from Deltapoll polling for CPS

Yet while delivering Brexit is necessary, it is not sufficient.

This is why the new Prime Minister is right to focus on delivering Brexit, as an essential means of restoring those voters' trust.

Yet while Brexit is necessary, it is not sufficient. Finally delivering on an instruction issued by the voters several years ago is not the same thing as offering an optimistic, convincing vision of the future – especially when the process of leaving the European Union was until recently presented by ministers as an exercise in damage limitation, rather than an opportunity to do things better and differently.

Once Brexit is delivered, the public's focus will inevitably shift towards other matters. And political parties will need to build their policy platforms around, in Thatcher's words, that "total vision of the kind of life they want for the country".

This paper has argued that this can best be done by giving people control – giving them ownership and opportunity, and embracing the kind of competition that puts the public in charge rather than CEOs or public sector bureaucrats.

This should be informed by three elemental principles.

First, all the proposals should be – and feel – fair.

Second, they should reward those who do the right thing – or, at a bare minimum, ensure that they are not punished for it.

Third, these policies should be about values as well as numbers – yes, they must make people, and the country, better off, but they should also say something important about the kind of country you want Britain to be.

In our work at the Centre for Policy Studies, we have come up with four major examples. These are by no means the limit of our suggestions. But they each show what this kind of updated popular capitalist agenda could look like in practice.

Making work pay

The first area we chose was tax. In polling we carried out to determine voters' policy priorities, cutting taxes did not feature highly – but the cost of living most certainly did. And one of the most basic components of the cost of living is how much of your own money you have available to cope with it.

The increase in the income tax personal allowance – a policy that began life in a Centre for Policy Studies report by Lord Saatchi – almost single-handedly caused take-home pay to rise in the years after the financial crisis, even as real wages fell. Indeed, the rate of growth achieved in take-home pay from 2012-17 was higher than the rate of growth achieved from 2002-07.

The case for low taxes is often made on utilitarian grounds: that cutting taxes encourages economic activity and therefore increases growth. But there is a more basic point about control. It is fundamentally right that people should keep as much as possible of the money they earn, and should choose how it is spent. Whether I want to invest in a pension or get my hair dyed a shocking shade of pink is entirely up to me.

This is not to say that we do not need taxes at all. You do not feel terribly in control of your life if you are keeping all of your income but do not feel safe on the streets, face heavy delays on public transport or public services that do not meet your needs.

Our argument, then, was that we should reshape the tax system to ensure that you are always in control of your own future – in particular, that decisions about how much you work are made according to your own needs, not the dictates of the tax system.

There are, as we outlined in our report *Make Work Pay*, all too many points where the British tax system actively discourages you from increasing your hours and income – by taking away more than half of any extra pound you earn. Our polling and focus group work confirmed that this was hugely unpopular: everyone recognised the basic point that if it does not pay you to work, you will not do so. And everyone felt that all those who can work should be heavily encouraged and incentivised to do so.

We should reshape our tax system to ensure you are always in control of your own future.

At the moment, some 2.4 million people pay National Insurance but not income tax.

The worst of these pinch points – the most morally objectionable – comes as you attempt to move from welfare into work. The withdrawal of benefits can leave people facing marginal tax rates of up to 75p in the pound – or sometimes even higher. How can it be right that a cleaner has a higher proportion of every pound she earns confiscated by the state than the CEO whose office she tidies?

Our report’s proposals were simple. First, we should raise the National Insurance threshold to match the income tax threshold – offering everyone in the country a “Universal Working Income”, by ensuring that the first £1,000 they earned was completely free of tax.

We were delighted to see this proposal adopted by many of the candidates in the recent Conservative Party leadership election – indeed, Boris Johnson has declared it his “priority” when it comes to lowering taxes.

At the moment, some 2.4 million people pay National Insurance but not income tax – precisely the kind of low-paid individuals who would most benefit from future tax cuts, and who most need the freedom described above by Lord Vinson.

Second, we should guarantee that the tax system lets everyone keep at least 51p in each pound they earn from that point on – a guarantee that whether you earn £15,000 or £150,000, it will always pay to work. (This was also endorsed by the new Prime Minister, in a speech at JCB headquarters in January.) In addition, we proposed cutting the taper rate for Universal Credit sharply, to ensure that the benefit system is not taking away what the tax system gives.

These policies would not only give people more control of their finances, and their lives. They would be highly popular. The Universal Working Income was backed by voters by 76% to 14% – and was overwhelmingly more popular than the Universal Basic Income proposed by many on the Left, because it rewarded those who did the right thing by working. The tax guarantee was backed by 61% to 18% – because everyone recognised that when the Government takes more than half of what you earn, it has taken control from you in a fundamental way. It is clear that ordinary people do not think that taxes on the rich should go above this fundamental level – unlike many on the hard Left.

Helping small businesses

It is axiomatic that politicians should be supporting small businesses. They are the engines of employment and growth, of self-reliance and entrepreneurship.

Yet while the Conservatives have cut corporation tax significantly, recent polling by YouGov for the CPS found that voters believe – by a margin of 60% to 14% – that the Government is not on the side of small businesses. This view was echoed in a separate poll of more than 2,000 owners and managers of small businesses.

When we investigated – combing through the relevant literature, holding round tables and interviewing small businesses – we found that a huge part of the problem is tax and administration. Not so much the level of tax – although that is certainly a frequent complaint. But the endless burden of administration, regulation and compliance, the way that small businesses lose weeks of their time to jumping through hoops for the state, the fact that (as the Office of Tax Simplification says) Britain has a one-size-fits-all tax system which makes no concession to the greater burdens it places on smaller firms.

Frequently, these rules also distort companies' business decisions: witness the clustering of small firms and sole traders just under the £85,000 threshold for charging VAT, as companies deliberately depress their turnover in order to avoid the rigmarole involved. Or the way that business rates discourage companies from expanding and upgrading their premises, or setting up new sites. Or how Employer's National Insurance acts as a deterrent to hiring additional employees.

The cumulative effect of all this is that entrepreneurs of all sizes feel they have less and less control over their time, their priorities and their businesses.

Again, we suggested a clear solution. In our report *Think Small*, we argued that businesses with a turnover of less than £1 million should be given the choice of replacing the four big business taxes – VAT, corporation tax, Employer's NI and business rates – with a simple levy on turnover, set at 12.5% of their revenue.

Because it would be voluntary, no firm would have to lose out. Extensive modelling by Capital Economics showed that at the suggested rate, it would be revenue-neutral for the Treasury. And almost three quarters of those running small businesses who expressed a preference said they would want to use the new system, even if it resulted in no change to their overall tax burden.

It is axiomatic that politicians should be supporting small businesses.

Having a home puts you in control of your own life.

Helping people into home ownership

The housing crisis is an economic, social and moral catastrophe. All of the polling evidence shows that owning your own home is fundamental to leading a good life – it gives you security, contentment and, ultimately, an asset that can be used to support you in old age or handed on to your children. Far from being a uniquely British obsession, we actually have the fourth lowest rates of home ownership of any European nation (and the second largest stock of social housing).

Having a home, in other words, puts you in control of your own life. But that control has been taken away. It is not just that house prices have risen, to the point where the deposit looms in young people's lives like a cliff face. It is that Government policy has actively discriminated against ownership.

Under Labour, for example, mortgage interest relief was abolished for normal homeowners – but not for buy-to-let landlords. Gordon Brown's tax raid on pensions also incentivised people to park their savings in property – a process that accelerated after the financial crisis, when tighter mortgage rules and rock-bottom interest rates meant that only those with existing assets could afford homes, and homes were the only asset that promised a decent return. And despite warnings from Treasury officials (for example in a private memo to Tony Blair in 2004) that this was tilting the balance away from owner occupation and towards buy-to-let, nothing was done.

We proposed a dramatic intervention to tilt the balance back towards home ownership. Landlords would be told that if they agreed to sell their home to tenants, they would get a tax break of at least a third of the capital gains tax they would have paid – a £10,000 incentive for the gains made on an average home. However, the remaining two thirds of the CGT bill would go not to the Government, but to the tenant, up to a maximum of 7% of the value of the property. They would then have to find the remaining 3% themselves, in order to end up with a 10% deposit.

The beauty of this scheme, financially, was that it was actually revenue-neutral for the Government. Because so few landlords currently sell up, there would be a negligible loss in terms of capital gains tax forsaken – which on various assumptions would be more than outweighed by the long-term savings in housing benefit that would have been paid to renters.

In future work, we will set out how this principle could and should be applied more broadly – rebalancing the housing market by turning renters into owners. We will also be setting out how to reform the mortgage market so that it, too, puts voters in control.

At the moment, it has never been easier to afford a mortgage once you have it – but never been harder to afford one in the first place. The result has been the creation of more than two million “resentful renters” – people who would have been able to afford homes and mortgages before the financial crisis, but currently cannot.

Again, this comes back to the principle of control – which applies across the housing sector. People feel they have control of their lives when they own homes. Communities feel they have control when they are engaged with the planning process, can have an input into the aesthetics of the homes being built and know precisely what infrastructure benefits they will get – when planning is something done with them rather than to them. And those who already have homes feel more in control when they are able to trade up or trade down as their family circumstances change, without being smacked in the face by stamp duty charges.

Making welfare fair

The final strand of this agenda touches on some of the most visceral issues in British politics.

We all know that concern about immigration was one of the drivers of the Brexit vote. But did that mean that the British people were racist or small-minded? Not at all. Survey after survey shows that our country is and remains one of the most tolerant and welcoming in Europe. Polls both before and after the referendum show that voters welcome foreign students (certainly rather more than Theresa May did), appreciate the contribution of overseas workers to the NHS and other public services, and would like to see more rather than less high-skilled migration into the country.

In our focus groups on welfare, we found that you can tell a different story. There are many reasons people are concerned about immigration. But one of the main drivers is a feeling that it wasn't fair that people who had only just come over to this country were able to access the same services and benefits as those who had lived and worked here for generations. We had, as a country, lost control not just over who was able to come in, but what they would get when they were here.

It has never been easier to afford a mortgage once you have it, or harder to get one in the first place.

Why not trust you to determine your own future?

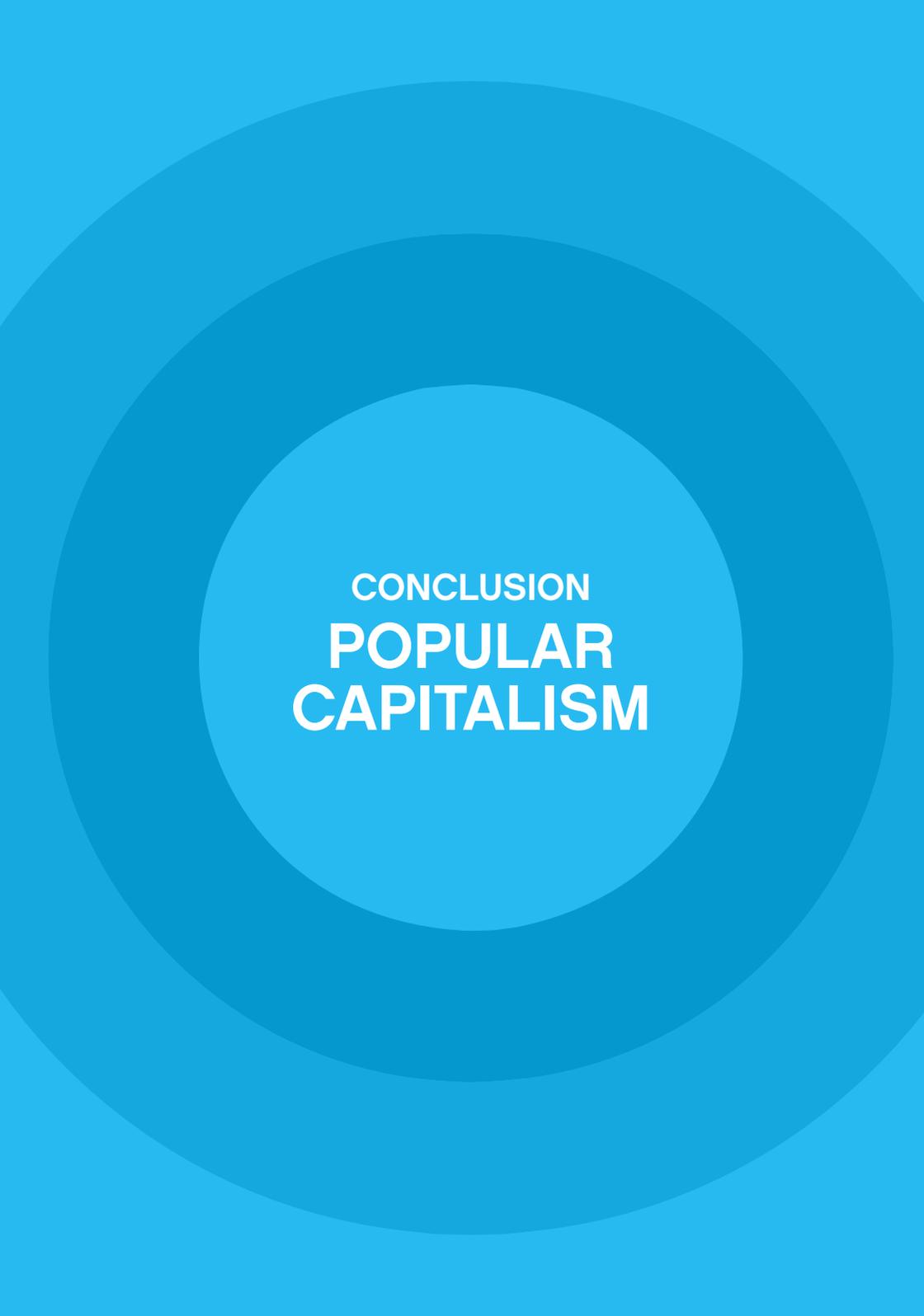
But this feeling of unfairness applied to the welfare system as a whole, too. Over the last few decades, support for the welfare state in the UK has halved – a phenomenon seen in no other areas of public spending, or indeed in other countries that we examined.

This turned out, as we investigated, to be bound up with a feeling that welfare was no longer fair. Not that it was too mean, or too generous. But that it did nothing to distinguish between the deserving and undeserving.

This, again, is not about money, but morality. It reflects a basic belief – echoed in our work on tax – that while we need to protect the poorest, everyone who can work should work, and should be rewarded for having done so. Or, at the very least, not actively punished, as happens all too frequently at the moment – for example by forcing people to drain their savings before they can access benefits.

And this, of course, speaks to the theme of control. Signing up for benefits – becoming, quite literally, a claimant – is the antithesis of control. For those who have always tried to do the right thing, it is fundamentally dispiriting and disheartening.

This vision of fair welfare says that the more you have put in, the more you should have control. If you have a good record of employment, but lose your job through no fault of your own, why should the system treat you like someone who has never worked a day in his life? Why not trust you to determine your own future?



CONCLUSION
**POPULAR
CAPITALISM**

Conclusion

Popular Capitalism

The principle behind the four areas outlined above is to apply the logic of 'take back control' to the domestic agenda. To offer people more control of their lives. But also to promise that the state will either reward you for doing the right thing, or at the very least stop punishing you for doing it, as happens all too frequently at the moment.

And these four areas are only a starting point. There are many more in which the principle of control could and should be applied.

It is at the heart, for example, of the debate over law and order – what is the point of having control of your finances if the Government does not have control of the streets?

Likewise, in education, you do not have control of your future if you do not get the training to match your talents – if the better-off have grabbed all the best school places and left no room at the inn for the rest. That is why the Government is right to focus on turbocharging the success of the free schools agenda – and to promote high-quality technical education so that we have a diverse educational ecosystem in which each pupil can choose the option most suited to their needs.

Or take social care, an area covered in a recent CPS paper by Damian Green MP. There are all kinds of debates to be had over the ideal architecture for the system, and the level and structure of funding. But ultimately, the battle is between a vision in which the elderly and vulnerable, and their families, are in charge of their own future – can choose the care home that most suits them, and be guaranteed (in particular) that the family home will not have to be sold to fund care.

There are legions of other examples. Why not revive Thatcher's principle of popular capitalism by promoting wider ownership, for example by using the Government's shareholding in RBS? Or give greater control to localities and communities, as outlined below? It is striking that despite the controversy surrounding the Brexit referendum, the British people still say that they would like to see more such plebiscites – to have more control over their own future, rather than less.

This is an agenda aimed squarely at improving the lot of the masses.

Embracing this kind of agenda would result in a conservatism squarely aimed at improving the lot of the masses. But it would be the best way to defend capitalism, too.

The central argument against capitalism, in an age of industrial concentration, is that it is finally proving Marx's prophecy right – that it is handing ever more power to those at the top, and taking it away from those at the bottom.

But the solution is not to take the almighty, ridiculous and counter-productive gamble of dispensing with capitalism altogether, but to do it right. To let people take back control. To put ownership and opportunity at the heart of society. To give everyone the capital to benefit from capitalism. And to contrast that agenda with those who want to empower Government, not ordinary people.

On housing, for example, Labour are promising to build tens of thousands, hundreds of thousands, of new homes. But these will largely be council properties, owned and controlled by the state – to the point where they promise to abandon the totemic Right to Buy introduced under Margaret Thatcher and accepted by Blair and Brown.

Yes, Labour will promote home ownership – but by confiscating homes from landlords to give to tenants. It is a warped mirror of the policy outlined earlier, because it takes from those landlords (most of whom, statistics show, are not robber baron rentiers with vast property portfolios) the most fundamental control of all: over the property they have legally acquired.

The same is true of Labour's plans for employee share ownership. Peer at the detail, and the much of the profit from the scheme turns out to accrue to the state. And the companies who are forced to add employee representatives to their boards will find not ordinary workers sitting alongside them, but self-interested trade unionists.

The divide between the richest and poorest regions of the UK is among the widest in Europe.

It is the same with the current Labour plans for decentralization. Ownership is to be returned to the people. Yet “the people” in this case are not the customers of the firms concerned, but the union barons.

In other words, Labour don't want ordinary people to have control – because they might make the wrong, selfish choices.

Popular capitalists, by contrast, should champion a different principle, one which the new Prime Minister has actually expounded in countless columns and speeches over the years: giving people control, and then seeing what they do with it.

For example, we have spent years – decades – bemoaning the fact that prosperity is not equally shared across our country. In fact, the divide between the richest and poorest regions of the UK is among the widest in Europe.

Partly, this is due to the predominance of London. One of the most profound economic laws is that larger communities are more productive – simply because they have more social interactions between individuals, more ideas and opportunities being generated. Add in the cluster effects of high-performing industries like advertising, or the City, or legal services, and it is obvious why London remains ahead.

But for all the ways we've tried to help the rest of the country catch up – for all the strategies and schemes and initiatives and funding – we rarely try the most basic idea, which is giving control back to local people.

Even though the economies of many of our regions are profoundly different, we still have an extraordinarily centralized system of government in comparison to virtually every other Western European nation. As Ferdinand Mount points out in his recent book *Prime Movers*, at the start of the 20th century, 90p in the £1 spent by British government was raised locally. By its end, the proportions had reversed, with Whitehall in control of 90% of the cash.

The result is that local leaders have lacked the freedom, the incentive and the resources to try really bold things – which, of course, has contributed to a talent drain away from local government and towards the national.

One of the underrated factors behind America's startling economic success over the last couple of centuries is simply that it has this idea of competition baked into the system, in the form of its dozens of states, each of which was largely free both to devise its own solutions to problems and to tailor those solutions to the needs and demands of its citizens.

The welfare reforms that began in Wisconsin in the 1990s, or the charter school movement which sprang up in Minnesota, have both changed the lives of millions of people – for the better. China's dramatic rise, likewise, owes much to the way in which individual prefectures become hotbeds for experiment, just like the schools we discussed earlier.

Yet in Britain, the idea of a council being able to set its own tax rates, or significantly depart from the line dictated by Whitehall, would be met by bafflement.

Even the new old Left have realised this. Having fought for their entire careers to seize control of the commanding heights of the state, they now argue that the nationalised industries failed not because they were nationalised, but because they were national: great big unaccountable monoliths run in the interests of Whitehall rather than the workers.

They now promise to hand power back to the people, all across the land. But unlike the centre-right version of localism – which is based on giving power back to individuals – they will give it to “the community”. Which means the control of every firm by union, every school by its NEU activists, every council by its Momentum branch. Their new vision of the future is not one supreme Soviet in Westminster, but a thousand tiny politburos, each propped up by the confiscation of wealth from the rich and the opening of the public spending floodgates.

The best counter to this is not a blind defence of the status quo, but a centre-right agenda for devolution, within both government and the public services, that offers genuine choice and genuine control. The new Government's embrace of free ports – first proposed for post-Brexit Britain by Rishi Sunak MP in a Centre for Policy Studies paper in 2016 – is a promising sign that it understands this. And we at the CPS plan to publish more on how to rebalance and level up the economy in the coming months.

Local leaders in Britain have lacked the freedom, incentive and resources to try new things.

The central truth that you must create wealth in order to share it is being challenged.

Over the years, there have been many attempts to work out what the building blocks of prosperity are – to calculate correlations between economic and political structures, and the growth that delivers better lives.

Invariably, they show that the countries that do best are those that sign up to certain basic rules: economic freedom, personal freedom, the rule of law, respect for property rights. The conditions, in other words, for fair competition to flourish. For people to have control of their own lives.

Those defending capitalism find themselves up against a would-be Prime Minister who insists that Hong Kong has been immiserated by capitalism while China has enriched by collectivism. Who claims that capitalism has done nothing to raise living standards in the developing world. Who has published articles claiming that the reunification of Germany should not be welcomed if it was on capitalist terms. Who thinks the free market's "very imperative is of ever hastening exploitation of all resources including people, and it needs armies and weapons to secure those supplies".

The central truth that you must first create wealth in order to share it is being challenged, and too often displaced, by a presumption that behind every fortune lies a crime – that a just society can only be built on levelling down rather than raising up. And the political movement whose historic role is to make those arguments has in recent years failed to do so with sufficient conviction – and certainly not in a way that enables people to readily connect those arguments with their own lives and experiences.

The immediate challenge for the new Prime Minister is, of course, to deliver Brexit.

But beyond that, those who champion capitalism need to do a far better job of articulating to the public, and sometimes even to themselves, why their values and ideas matter, and why they deserve the public's support.

This is not a hard thing to do. Do you believe that people respond to incentives? That it is better to reward people for behaviour you like than to ban behaviour you don't? That no one has a monopoly on good ideas? That problems are better solved when as many people as possible are trying to solve them? That competition is not only desirable, but the essential economic tool for improving people's lives?

Above all: Where do you believe power should sit? Who do you think should have control?

To build a popular capitalism, those of us on the centre-right need to show how our ideas can help the many, not just the few. How they can build a country that really does work for everyone.

Take Back Control was the message that persuaded the British people to vote for Brexit. But giving back control, via a relentless focus on competition, aspiration and ownership, is the only way to show them that capitalism, and conservatism, are working in their interest – and delivering the opportunity and prosperity that they deserve.

The central task is to show how these ideas can help the many, not the few.



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