

Market Liberalism After Thatcher and Blair

Why We Should Work Towards a ‘Membership State’

David G. Green

Both the main political parties are undergoing periods of transition when there is a widespread perception that some problems, including high crime, falling education standards, unsustainable immigration, the low quality of the NHS and rising welfare dependency are not being properly confronted by our political leaders. In particular, the reform of some vital public services, including health, education and welfare, has stalled.

Government rhetoric embraces the terminology of markets – consumers, choice, competition – and the new language is reflected in some of its reforms. But political discussion of public services like health and education still seems stranded halfway between the age of collectivism and a more consumer-friendly alternative. For example, in 2006 the proposal in the education bill to create trust schools that would be a little more independent of local authorities sparked a hostile reaction among Labour backbenchers. They opposed any reduction of state control and expressed bitter animosity to private schools. In health care, too, the NHS remains a public sector monopoly, despite the frequent talk of putting consumers in the driving seat and increasing competition. Given the current balance of forces within the Labour party, progress is blocked by a collectivist minority that could become a majority.

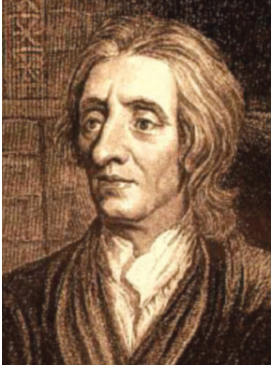
What should be the next steps? I argue that we need to re-think the guiding principles of a free society and the obligations we owe each other. What’s



good about our country – and there’s plenty to admire – and what’s gone wrong? How can we come together to fix the problems that our political leaders are afraid to confront?

In all three main parties the age-old dispute continues about the limits that should be placed on the power of government. Some voices among the Liberal Democrats – the Orange-book Liberals – are calling for a liberalism that reflects valid concerns about over-mighty government. Blairites in the Labour party have continuing doubts about producer-dominated public services. And the Conservatives have in their midst enthusiasts for a compassionate conservatism that respects the role of an autonomous civil society, as well as others who champion a new Tory fraternalism that acknowledges that we are ‘all in it together’ without embracing statism.

Where on the continuum that has totalitarianism at one end and liberalism at the other should we be? The Tories who are concerned about the failure of public sector monopolies in health and education are anxious to differentiate themselves from market fundamentalists, but know that calling for a reduced role for the state in health and education is to invite being caricatured as uncaring. Is there an idea that could be embraced by people of good will in all parties who see the dangers of intrusive government but who reject *laissez faire*? I will argue that the idea of a nation as a membership association provides useful guiding principles.


John Locke

Is it realistic to propose a strategy in the hope that it might be embraced by any of the leading political parties? Isn't the Labour party particularly unlikely to embrace market liberalism? It is true that political parties all contain diehard supporters of various doctrines and Labour is the primary home of egalitarian collectivists who want to extend the power of government. However, modern political parties are coalitions of convenience for winning elections and all contain many activists who are pragmatic problem-solvers, which makes them capable of reversing policy commitments once regarded as virtually sacred. For example, the Blair government has permitted mass immigration since 1997 and defends it by saying that it reduces inflation, something it can only do by driving down wages. An earlier generation of socialists would have called the policy one of importing cheap labour to depress wages and they would have campaigned against it. Whatever the rights and wrongs of this specific issue, all parties have to reach a view about the real or perceived problems of the day and all need to advocate convincing solutions.

This essay suggests one approach to the role of government that could work. Intellectually it owes a lot to John Stuart Mill, who was one of many thinkers in the late 19th century trying to develop liberalism beyond laissez faire whilst remaining recognisably liberal. Since then, we have gone through the age of collectivism, the Thatcherite reaction to it, and new Labour's response. During the 1980s there was a time when laissez faire seemed to have made an

unlikely comeback, but it did not sink deep roots beyond a few economists and lifestyle libertarians. We have yet to reach a consensus on the kind of relationship the people of Britain want with their government. The idea of the minimal state is still there, but more as a talking point than a practical option. The idea of limited government, as opposed to totalitarian rule that puts no constraints on what the state might do, is well understood across the spectrum. The present government has revealed a strong desire for a powerful state to provide health care, education and social security among other things, but it fully realises that a market economy is unavoidable.


John Stuart Mill

Is there a coherent alternative that better defines the proper roles of government and people? And is it, as I claim, one that could appeal to the liberal left in the Labour party, genuine liberals among the Liberal Democrats, and to Conservatives who are not paternalistic? The term I have chosen to describe this alternative is the 'membership state'. It is contrasted with the minimal state and the provider state. Our problem today is not merely 'too much government', which implies that the solution is 'less government'. We need to decide what kind of government we want.

Public Policy Failure

The Blair government's approach to services such as health and education has been to treat voters like children. It fears that it will suffer at the polls if

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voters are told that you only get what you pay for, and so the government promises that everything is free, there is going to be much more of it, and what's more there will be lots of consumer choice too. The consumer will be in the driving seat, with choice of school, choice of hospital and choice of doctor. The champions of New Labour know perfectly well that you can't really have consumer choice without consumer payment, but they are reluctant to say it in public.

Having got into the habit of hiding the truth, our leaders find it easy to hide their failures behind manipulated official statistics, often in the form of targets that are intended to avert our gaze as much as to inform us. Waiting lists have fallen, but hospital infections kill many patients every year. International comparisons show that the NHS has a poor record in combating the main killer diseases, cancer, heart disease and strokes. On education reform, the government has presided over falling standards, but refuses to admit it. Each year in August, the exam results show that more pupils are getting the grades, quickly followed by critics who complain that it's an illusion caused by falling standards – only to find

themselves being counter-attacked for not acknowledging all the hard work that young people have put in. But the false friends of young people who deploy flattery to disarm critics are, in reality, leaving students ill equipped to make their way in a competitive world.



On immigration a different tactic is used, namely guilt by association. There are bound to be some people who don't want more immigration because they are racially prejudiced, and so everyone who opposes immigration is said to be a racist. But the fact is that sheer numbers matter when nearly a quarter of a million legal immigrants arrive in a 12-month period, as they did in 2004. Where will they live? Will hospital waiting lists increase? Are there enough school places? Will it become even harder for young people to buy their first house?

And where will immigrants work? Wherever it has been studied systematically, it has been found that immigration drives down wages.¹ Can we not expect the same impact here? And will the impact be felt most by unskilled workers already here? These are legitimate questions, suppressed by playing the 'race card', a fact that has been acknowledged by Home Secretary, John Reid.

It is only natural to expect the ruling party to use its time in office to help it win the next election. If it does so by doing a good job, who could object? But power can also be abused. It's not only a matter of playing games with official statistics and policy targets, a ruling party can also try to keep power by granting privileged status to some groups in return for votes. There is a danger that such policies will create entrenched social divisions, when the primary obligation of government should be to act for the good of all. For example, the government has repeatedly made legal concessions to Muslim activists and ethnic minorities in the hope of winning votes. Quotas have been set for the recruitment of ethnic minorities to government departments. In 1998 a crime against a member of an ethnic minority was, for all practical purposes, made liable to more severe punishment than when committed against a white person. Other groups soon demanded similar privileges, and now offences that are religiously aggravated lead to more serious punishments as well as crimes committed against disabled people or against gays and lesbians. Buying off special groups with legal privileges may yield short-term electoral gains but it creates long-term resentment.

A similar strategy has been deployed in welfare policy, which has been designed to create beholden voters rather than independent people. Tax credits are only the most prominent example of welfare policies intended to create a grateful electorate rather than free-thinking citizens. Now some 30 per cent of households receive half or more of their income from state benefits.

Perhaps the strongest influence on welfare policies has been the pursuit of more equal outcomes. Few socialists have wanted absolute equality of



Tony Blair

outcome, but they have sought to compress the ratio between high and low earners. George Orwell spoke for many post-war socialists when he suggested that a ratio of ten to one should be the maximum. It is no use at this stage of the world's history, he said, to argue that all human beings should have exactly equal

incomes: 'It has been shown over and over again that without some kind of money reward there is no incentive to undertake certain jobs'.² Pressure to redistribute incomes has been a powerful influence on public policy since he was writing and few are probably aware of the scale of equalisation. Each year the Office for National Statistics publishes a report on the impact of taxes and benefits on household income. It compares the 'original income' from wages, salaries and investments of the top 20% of earners with that of the bottom 20% and found in 2004/05 that the ratio was 16 to one. However, after taxes and benefits were taken into account, the ratio was only four to one.³

Crime reduction policies tell another story. Here it is more a case of half-measures being carried out to appease factions with incompatible views, concealed behind a smokescreen of talk about being tough on crime. Recent scandals about the early release of dangerous criminals highlighted the weakness of the Home Office to such an extent that the Government took pains to distance itself from civil servants.

These are some of the issues not being effectively tackled. In each case it would be possible to devise some practical proposals that would alleviate problems, but my argument is that they remain stubbornly resistant to change because of more fundamental flaws in the way we think about the legitimate tasks of government.

What is the alternative? We first need to fight our way past the false opposites and caricatures that continue to linger in the sub-conscious of policy makers. Although we have now gone beyond the stark contrast between the market and the state that typified the age of collectivism, some ideas from that era have retained their persuasive power. One is the notion that there are only two types of people: those who care about the needs of others and those who don't. If you are against big welfare spending programmes, you don't care. Other variations on the same theme include the assertion that the public sector equals altruism and the private sector equals selfishness. It is closely connected with the idea that more and more welfare spending is required by the fact that 'we are all in it together', implying that opponents of higher welfare spending are only out for themselves.



Margaret Thatcher

The manifest failings of public policy have had an effect on public opinion. Voter turnout is down and expressions of mistrust in politicians are common, leading some political leaders to become concerned that the lack of public confidence in the political process may encourage support for extreme parties. Despite this concern, and despite repeated disappointment of public expectations, the scale of promises being made by politicians has not diminished, even when it is known that much of what is being promised is not within the gift of government but rather depends on individual decisions about lifestyle or behaviour. Health outcomes, for example, depend a good deal on personal decisions about smoking, drinking and exercise, and educational attainment is not purely a function of classroom teaching practices but is heavily influenced by parents. In a speech in July 2006 Mr Blair acknowledged some of these difficulties, yet in its anxiety to win the approval of voters, the

Government has been reluctant to speak of the limitations of political action. Unless these attitudes change, public expectations about what politicians can ‘deliver’ are likely to remain unrealistically high and disillusion likely to increase.

The True Nature of the Political Process

Is there something about government or the political process as such that makes failure inevitable, or at least more likely? Or, is it just that, in certain cases, the right management solutions have proved elusive so far? What is distinctive about the political process as opposed to the perceived alternatives?

The essential characteristic of the state is that it exerts legitimate compulsion. The alternative is not, therefore, merely the voluntary exchange of goods at agreed prices (a market), but voluntary co-operation of all forms, whether inspired by religious faith, philanthropy, family loyalty, self-interest or mutual benefit. To speak of the market as the alternative often awakens animosity, largely because the market is associated with a self-regarding interest in making money. Moreover, in recent years the champions of the market have harmed its reputation by willingly accepting that it rests primarily on self-regard. As John Kay has convincingly argued in *The Truth About Markets*, the market process is valuable by comparison with political authority, not because of self-interest (which in any event is found in abundance in political systems) but because it is a system of voluntary co-operation and pluralism rather than compulsory co-ordination. To avoid confusion and to make clear the vital characteristic of the alternative, I will refer to pluralistic or unforced systems, rather than market systems because markets are only one form the unforced alternative might take.

The defining characteristic of the state – democratic politics in our country – therefore, is legitimate compulsion. That is, individuals are elected or appointed and have the political authority

to make decisions, subject to rules. There are winners and losers, and the winners can enforce their decisions on everyone. All members of society must pay for hospitals and schools provided by the government, whether they approve of its policies or not. We accept this degree of coercion because the authority to coerce can change hands. The hope of being able to coerce others in our turn leads us to accept coercion by them for the time being.

It is true that some things have to be decided and enforced by the state. Laws stipulating acceptable behaviour should apply equally to all and some services may also be best provided in the same manner. Policing, for example, is properly a public service. But in health and education the government has extended the authority of the state up to and beyond its capabilities.

In a system of voluntary co-operation – an unforced system – the power to decide lies in the hands of people who are, in effect, conducting small-scale experiments in how best to set up and make a success of schools, hospitals or provide other services. They cannot enforce their decisions on anyone else. Private schools, for example, decide what the school will teach, who they will admit, and the fees to be charged, and then offer themselves to parents who have the final say about where to send their child. There is no coercion – no winner takes all. The key to success is having something that parents want. The schools may be willing to teach only in a certain way (especially when run by a church) and, if they cannot attract pupils, some would rather close down than abandon their standards, but they cannot compel anyone to accept their approach. Similarly, parents can’t coerce schools or other parents. They each make their own decisions. A good deal of mutual adjustment follows, perhaps reluctantly in some cases, but there is no imposition of one solution on all.

Politics invariably rests on the assumption that there is ‘one best solution’. We tend to romanticise the democratic state as an institution that reflects the will of the people, but it is primarily the institution in

society that is entitled to use compulsion. Two characteristics of our democratic political system make it unsuitable for running services like health and education. First, it is a struggle for power, and second, political decisions often involve compromises between contending groups, some of whose aims are mutually incompatible.



Democratic politics tends to turn into a fight between factions that try to build up loyalties, often resembling tribalism. This kind of entrenched struggle for power leads to the tightening of central control at the expense of local discretion so that the ruling party can impose its views and demonstrate to the voters that it has been effective, either by informing them of real accomplishments or deceiving them. In practice those who win power are inclined to treat their election victory as a temporary licence to exercise the powers of a dictator. The need to stand for election is supposed to make the government responsive to the people, but the desire to win the next election also has an impact on the way power is used. The ruling party will need to show that it had clear aims and that they have been achieved. As under the Blair Government, this means that it must set central goals for areas such as health and education and establish systems to ensure that they are implemented by those with the day-to-day power in the schools and hospitals. However, in all large organisations, whether public or private, the senior managers have to deal with the reality that employees who carry out the work of the organisation have knowledge and skills not easily possessed by the chief executive, and may well have different motives or objectives. As a result, the chief executive who wants to impose central aims tends to establish rules and systems for monitoring and reporting to the centre to ensure compliance. These rules restrict the discretion of doctors and teachers, without necessarily improving standards in any real sense. For example, the government decided soon after 1997 that it wanted to reduce the number of pupils excluded from schools and set limits on the number

of exclusions. In practice, this policy made it impossible for teachers to use their knowledge of particular pupils and how best to educate them. The result was an increase in the number of disorderly schools. Targets for the NHS were prone to similar manipulation, perhaps most notoriously the requirement that Accident and Emergency departments should discharge

patients within four hours. In some cases patients were kept waiting outside A&E in ambulances until staff were confident they could be dealt with inside the target.

The second characteristic of modern British politics is that decisions are typically the outcome of compromises between rival groups with influence on the ruling party, perhaps internal factions, or outside organisations such as trade unions, businesses or pressure groups. Decisions are sometimes made and imposed on schools or hospitals to appease a pressure group when they may not be compatible with other government objectives. In some cases, measures encounter opposition but are introduced in a weakened form that achieves little. Foundation hospitals, for example, were established despite opposition to the very idea, but their powers of independent action were severely limited. So it was with the trust schools created by the Education and Inspections Act of 2006. When there are mutually incompatible objectives, we often learn more by letting the protagonists try out their ideas in competition with each other. All can then learn from the successes and failures that follow, whereas imposed compromises tend to suppress such mutual learning.

Two features of the unforced alternative stand out: pluralism and critical enquiry. By pluralism I mean a system that allows many people to follow their own judgements and offer members of the public better ways of doing things, which they can accept or reject. I have emphasised critical enquiry

as a separate characteristic to stress the importance of open debate in learning from both successes and failures. Experimentation on its own – mere diversity for its own sake – would not necessarily lead to widespread improvement unless accompanied by a spirit of free enquiry, public debate, openness to contradiction, and a willingness to abandon failed experiments in favour of more promising rivals.

It is common to complain that markets – just one element in an unforced system – only benefit the rich, and it is indeed always an advantage to have money in your pocket. But politics too has some built-in biases against the poor. In particular, it pays to be well organised rather than disorganised. Campaigns need to be funded and supporters kept happy. It is, therefore, an advantage in politics as well as in markets to have money. Moreover, insiders (the ruling party and officials) have a strong advantage over outsiders (voters and opposition parties) because the insiders control the information that allows their own efforts to be evaluated. It is no exaggeration to claim that the solitary man or woman, with little understanding of public affairs and with little money in the bank, is more likely to find a good school or hospital in an unforced system than under a state monopoly. But it is not merely getting the government out of the way that counts. Rather, the government should be restricted to what it can do best in the provision of schools and hospitals, namely guaranteeing access for all without public-sector monopoly.

Concentrated and Exclusive Power

The defects of command and control need a little more elaboration to justify my claim that the over-concentration of power is the root cause of failure in the provision of health and education. As Mill has argued, it tends to have five main (sometimes overlapping) consequences:

- experimentation with alternatives is suppressed, which means that improvements are less likely to

occur, the rate of growth of new knowledge slows down, and the ability to react to changes in external events is reduced.

- there are fewer outside experts with the knowledge to criticise, hence errors can more easily persist and power can more easily be abused.
- opportunities in the wider population for personal development are reduced, further curtailing the potential for independent oversight.
- ordinary citizens become more likely to look to the government to solve their problems instead of to their own idealism, energy and skill.
- the ambitious people in society become more likely to seek employment in the public sector, thus accelerating the process whereby independent expertise is diminished.

Competition is the opposite of monopoly, but what is meant by competition? Sometimes the term is used by people who are making very different assumptions. Of all the academic disciplines, economics is the one most sympathetic to free enterprise, but there is more than one school of thought and one is heavily influenced by collectivist assumptions. Some economists understand competition by contrasting the real world of manufacturing, buying and selling with an ideal situation, that of ‘perfect competition’. Essentially it is a state of affairs in which there are many suppliers, none of which is big enough to control the price; products are identical; and consumers and producers alike have full knowledge of prices and alternative products.

The rival view, associated especially with Hayek, is that competition should be understood, not by comparing the real world with an ideal situation, but as a voyage of discovery. The prices of goods and services remain to be discovered, not least because they are constantly changing. Our own preferences as consumers are changing as we learn more about what is on offer. It is not obvious in advance who

will turn out to be good at making products or providing a service. Nor is it obvious in advance which products or services people will want. In this sense a competitive system resembles scientific discovery. It is a facet of an open, liberal society, which recognises that we learn how to improve human affairs by avoiding the over-concentration of power in a few hands and, instead, rely on free discussion and the clash of opinion as the best way of revealing the truth and finding better ways of overcoming problems and advancing civilisation.

Today the Blair Government has begun to speak of competition (or contestability) in public services, and superficially it looks as if its members have become converts to market principles. But, in reality, they belong to the tradition that sees competition as a management technique to induce subordinates to behave as the chief executive requires. The NHS, for instance, has established a system of fixed prices, the NHS tariff, but in a fully competitive system, it is precisely the prices that must be allowed to vary.

A Presumption Against Government Interference?

Many can accept what has been said so far, but recoil a little from the assumption of non-interference made by many liberals. Surely, they say, government actions are often beneficial? Why advocate an automatic presumption against them?

Why did some writers in the liberal tradition speak of government interference as if they were always opposed to it? A few (such as William Godwin) were utopians who hoped for a world without any force, but this was always a minority taste and does not explain why many leading writers have argued in favour of a presumption against 'interference'. Hayek's explanation is that they used this term only when referring to government as a 'service agency', not to its core role as protector of personal security. This distinction needs a little more explanation. Hayek follows Mill in distinguishing between the 'authoritative' and 'non-authoritative'

roles of government: the first was concerned with controlling behaviour through threats of punishment; and the second with providing services for people financed from taxes.⁴ Payment of taxes is compulsory, to be sure, but it is a lesser form of coercion, particularly if the service genuinely benefits those who pay the taxes.

Mainstream liberals have always accepted that the government can legitimately provide services for its people. In *The Wealth of Nations* Adam Smith argued that under a 'system of natural liberty' government had three main duties. The first two concerned personal protection. The government should protect citizens from invasion by foreign countries; and it should provide a system of justice to protect members of the society from criminals. The third duty acknowledged that the government could legitimately provide useful services. It could erect and maintain public works and institutions that would not be provided privately because the profit could never repay the expense, even though it might frequently 'do much more than repay it to a great society'.⁵

Smith had in mind two main types of public works. First, there were those necessary to promote the commerce of society, including roads, bridges and canals and the defence of trade in dangerous regions of the world. Second, there were measures for promoting the 'instruction of the people', not only children but also people of all ages to ensure that they were able to play their part in the intellectual life of the society.

In the nineteenth century John Stuart Mill continued the debate about where to draw the line between the state and civil society. He gave three reasons for limiting 'non-authoritative' state services.

1. When private individuals could provide a better service, the state should not be involved.
2. Even if government officials could do a better job, there was still a presumption in favour of private provision as a means of educating people in the skills

of voluntary co-operation. This reason, said Mill, was not so much a question of liberty but personal development.⁶ He had in mind a wide range of activities, from industrial and philanthropic enterprise to jury trials and local government. Direct involvement in local organisations creates institutions and skilled people that serve as bulwarks against absolutism. A state ‘that dwarfs its men, in order that they may be more docile instruments in its hands even for beneficial purposes – will find that with small men no great thing can really be accomplished’.⁷ He does not say that government has no useful role in the provision of services, but thinks it should act like a ‘central depository’ actively circulating the results of experiments. Its aim should be to ‘enable each experimentalist to benefit by the experiments of others; instead of tolerating no experiments but its own’.⁸



Hans Sebald Beham: Charity

3. There was a general presumption against adding too much to the government’s powers, because the bigger it got, the greater its potential for harm. The more it does, the more it converts ‘the active and ambitious part of the public into hangers-on of the government’ or some party that hopes to become the government.⁹ He gives the example of Russia, which in his time was run by a highly centralised bureaucracy. The mass of people looked to it for direction and the ambitious for personal advancement. In such a society, where most people look to the state to solve their main problems, they ‘naturally hold the state responsible for all evil which befalls them’.¹⁰ Occasionally there may be a revolution and the supreme ruler may be changed, but the power of the bureaucracy remains, for few others have the knowledge or experience to run the key institutions. Ultimately such a concentration of talent is fatal to the bureaucracy itself, as it sinks into indolence in the absence of effective criticism by outsiders of equal ability and knowledge.

No absolute rule could be laid down to define the limits of government, Mill thought, but the bench-mark against which to test all arrangements was this: ‘the greatest dissemination of power consistent with efficiency; but the greatest possible centralisation of information, and diffusion of it from the centre’.¹¹

How many people would seize the opportunity for greater personal development if it were offered? We can’t be sure and, if Mill is correct, we must assume that the pervasiveness of the state will have already have diminished the readiness of many people to take up additional challenges. On the other hand, there are still huge amounts of voluntary activity, and regular displays of enormous generosity to good causes. It is not too late to change our ways, but it may take time for the social fabric to be fully repaired.

During the twentieth century Hayek developed Mill’s thinking. He tried to identify the character of government activity that was incompatible with freedom. Governments may prohibit harmful actions by law and they may provide services in order to widen the means of co-operation available to private individuals. The doctrine of a ‘government of laws’, Hayek argued, was intended to deny governments the method of issuing specific orders or prohibitions directed at known individuals, as if it were an army commander.

For example, governments should never control prices, access to occupations, or the amounts of a product to be made or sold. The test was whether the government was providing means enabling people to use their judgement in pursuit of their own goals or whether it was using people as means to ends wanted by the government itself. Hayek also absolutely ruled out the redistribution of wealth or income because, he said, it is incompatible with the

free exercise of talent. The manner in which legitimate public services are provided may also infringe liberty. Above all, the state should never give itself a monopoly. Except in its role as upholder of the law, it should in all other respects operate on the same basis as everyone else. If subsidies, for example, were found necessary they should be available to all.¹² He accepted that it was inherently difficult to prevent the emergence of *de facto* monopolies, not least because payment of taxes is compulsory. For this reason he favoured a presumption against government services, but he did not rule them out altogether.

Writing at about the same time as Hayek, H.L.A. Hart distinguished between, on the one hand, laws that prohibited or required specified conduct on pain of punishment and, on the other, laws that facilitated human action, including laws relating to companies, contracts, wills and marriages. Like Hayek, he pointed out that this second type of law created institutions that could be used by people to improve their own lives. Law in the first sense was about exerting control, but in the second it was about creating useful frameworks for free enterprise.

Drawing on these writers, and if we accept that the government is characterised by its use of legitimate coercion, we can now say that there are three main uses of its coercive powers: enacting and enforcing laws to guide conduct; creating legal facilities to aid social co-operation; and raising taxes to provide services. Each has different implications.

Three Legitimate Roles For Government

The first involves the most fundamental use of coercion: laws applying equally to all to prohibit or require a type of behaviour on pain of punishment. The second type of law is not coercive to the same extent. Governments also create legal institutions or ‘facilities’ that can be used by free citizens to run their affairs. The best examples of the law as a

facilitator of freedom are company law, charity law and the law of marriage and inheritance. The whole system of civil law can also be looked upon in a similar light. In this case the state essentially provides a framework for the settling of private disputes.

Third, the government can require compulsory payment for public services. In this ‘service’ capacity a number of variations are possible. For present purposes five can be distinguished:

1. *Everyone pays taxes because everyone may benefit:* For example, the government imposes an obligation to meet the cost of the state safety net. We have had a national minimum for many years. Because it is available to all, it is reasonable to expect everyone to contribute even though the need will never arise for many.

2. *Everyone pays taxes because everyone does benefit:* The state may impose an obligation to pay for a service provided by the government itself because all benefit from it. Policing is one such example.

3. *The user pays because only the user benefits:* For example, user charges are required by the government but not imposed on all taxpayers, only on service users, such as road tolls imposed on drivers.

4. *Compulsory insurance to avoid imposition on other people:* The government imposes an obligation to spend on a specific thing to prevent private individuals from imposing costs on other people, often called ‘free riding’. Third-party car insurance is the most obvious example. In some other countries health insurance is also obligatory.

5. *Everyone pays but the government gives back limited spending authority:* The government may impose an obligation to pay taxes, and then return the money in the form of a limited authority to buy a service, subject to conditions. Education or nursery vouchers are prominent examples.

Positive Government!

The question that concerned liberals who followed Mill at the end of the 19th century was whether the state could assume a more positive role without endangering liberty. A group led by the Oxford philosopher, T.H. Green, advocated freedom in a more 'positive' sense, not merely the removal of hindrances to individual liberty. Freedom 'in the positive sense', said Green, was 'the liberation of the powers of all men equally for contributions to a common good'.¹³

By the 1870s the role of the state was already being extended and the doctrine of *laissez faire* seemed to many to be inadequate. In 1879, T.H. Green responded by putting forward a new defence of liberalism that tried to place it on a morally more defensible footing than was offered by utilitarianism, the intellectual driving force behind *laissez faire*.

Utilitarianism treated human happiness as a primary purpose and Green accepted that during the first half of the 19th century it had been a reforming and progressive doctrine. By the second half, however, many people found it to be a defence of privilege. Green and his followers such as Ritchie and Bosanquet felt that the defence of liberty offered by utilitarianism was based on too shallow a view of human nature, especially because it offered too restricted view about the purpose of government. Green rejected what he took to be the excessive individualism of the utilitarians. The state might have been too intrusive when Bentham was writing but by the second half of the nineteenth century the purpose of the state was not merely to get out of the way. For Green its main purpose was to create the conditions for individuals to lead a moral life – not to create the good life for them but to create conditions in which they could develop their benign capacities to the full and advance civilisation through their own free endeavours. It must not replace their efforts. He shared the concern of the utilitarians that the state might overstep its boundaries. It should not try to bring about human happiness and it should not try to make people morally good, but it should try to

create the conditions in which the highest idealism could flourish.

Green made no concessions to socialist criticisms already being advanced, and defended private property, freedom of trade and freedom of bequests against those who attacked them. The increased wealth of one person, he said, was not necessarily at the expense of anyone else.¹⁴ He accepted that the accumulation of capital had led to many people working as hired labourers, but there was nothing to prevent them from being educated or otherwise improving their lives, as many had done.¹⁵ He accepted that there was a small impoverished and reckless proletariat, but not because of the system of wage labour as such. It was a legacy of serfdom and deferential rural labour.¹⁶ The remedy was not to suppress economic freedom but to encourage education.

The test to be applied to any proposed government action or change in the law was pragmatic. Did it liberate individuals by increasing self-reliance or enhancing their ability to add to human progress? Naturally, Green's examples were drawn from his own day. If the object of government were for all people to be able to make the most of themselves, then he thought it legitimate to 'interfere' with working conditions fatal to health by limiting hours of work for women and children. He favoured public health measures to eliminate disease and he supported compulsory education. Would these aims not have been better attained by voluntary action? Green agreed that a society that protected health and secured education spontaneously was preferable but felt that we must take people as they are.¹⁷ A law requiring a man to educate his child if he would have done so anyway will not be seen as a restraint but a 'powerful friend'.

The control of alcohol was an issue in the 1870s. Was control a short-cut that would be self-defeating? Would it not be better to wait until people came to accept voluntary self-restraint? Green thought it would be better to wait if waiting were a remedy, but believed that drunkenness was getting worse. Self-

reliance and independence, therefore, were not weakened by legal control but enhanced by it.

In the hands of later liberals this line of thought was considerably extended and it became difficult to distinguish liberalism from socialism, but at least until Hobhouse was writing (his *Liberalism* was published in 1911) there was a recognisable difference between a liberalism that Locke would have acknowledged and the emerging socialist theories that put no effective limit on what the state should do. Hobhouse distinguished between three types of socialism: official, mechanical and liberal.

By ‘mechanical socialism’ he meant Marxist theories that explained everything as the ‘mechanical’ outcome of economic relations. He used the term ‘official socialism’ to describe the Fabians and other centralisers who saw themselves as a superior class with a duty to win power and, for the good of the masses, impose their views through officialdom. Liberal socialism ought to be democratic, that is, it should come from below, not from a few superiors who believed they were above the rest. It must give the average citizen ‘free play in the personal life for which he really cares’. And it must make for the development of all the potential powers of an individual personality, not their atrophy or suppression.¹⁸

So, for Hobhouse and others like him, the state could be a liberator, helping to release individual talent and energy to improve social conditions for all. The state could be a force for good, allowing everyone to be the best that they could become. Unfortunately, this well intentioned idealism, despite being clearly distinguished from elitist and authoritarian brands of socialism by Hobhouse and T.H. Green, led many people to lower their guard over the next few decades. The great majority of young intellectuals between the wars and immediately after the Second World War were drawn to such ideals and, in the hope of creating a better life for everyone, unwittingly did surrender their power of autonomous action – more often the autonomy of others – to the centralised state.¹⁹ Today the challenge

is to take forward the ideals of T.H. Green and Hobhouse without walking into the same trap. A somewhat neglected writer, Michael Polanyi, has suggested a distinction that helps to avoid doing so.

Limited Government and Public Liberty

A defence of the tradition of liberty must be more than a scheme for reducing the scope of government. It must also provide a strategy for private action to supersede failed collectivism. Collectivists in the West try to give the impression that freedom from state supervision and state-provided services means nothing but the ability to pursue private hedonistic and self-regarding satisfactions. (In spite of the fact that private and self-regarding hedonism has emerged as the monstrous bedfellow of state supervision and public sector monopolies.) This caricature has become so pervasive that we need new words to combat it and Michael Polanyi has suggested ‘public liberty’ as distinct from ‘private liberty’. Private liberty referred to private pleasures, whereas public liberty is the name Polanyi used for unforced, non-government, non-political actions in pursuit of public purposes – the common good.²⁰

One of the mistakes that took root during the 20th century was the association of public purposes exclusively with the state. But if the ideal of liberty deserves our admiration and commitment, it must involve more than a desire to satisfy our purely personal wants. It is noteworthy that totalitarian regimes, whether communist or fascist, reserve special hatred for public liberty. Communist Russia, for example, was tolerant of people who used their private time to get drunk and turned a blind eye to a high level of drunkenness. But if journalists formed an association to encourage the media to print the truth, or university professors campaigned for the ability to pursue their studies without fear or favour, or if doctors formed a professional association to uphold ethical standards in medicine, the authorities cracked down. Such was their determination to maintain total control, no private activity for the



The Palace of Westminster

common good was tolerated. In a genuinely free society, it is precisely this sphere of public liberty that should be nourished and strengthened.

The pioneers of freedom, from Locke to Mill, understood this need perfectly well and had far more in mind than defending mere private preferences or the simple making of money by providing goods and services. It is no coincidence that the high point of liberty in Britain – from the late 18th century until the early 20th century – was also the high point of philanthropy and mutual aid. Classical liberals wanted to set creative talent and idealism free from dogmatism and control by others to allow anyone with the ability and inclination to find better ways of improving human life, whether in medicine, engineering, agriculture or industry. The need for better health care led to charitable hospitals and a network of primary care organised by friendly societies. The need for education led to the spread of schools to reach the vast majority of the population long before governments got involved. The need to provide for the poor, over and above the minimum offered by the poor law, led to the flowering of charities, and the desire for independence in the face of misfortune led to mutual aid associations.

These organisations emerged because many people at the time believed their lives had a higher purpose. The point of life was not to pass the time with as little inconvenience and as much personal pleasure as possible. It was to do your bit to enhance

the society to which you belonged, perhaps modestly by improving conditions in your own town or village, or if you were fortunate enough to have a special talent, to add to the advance of human civilisation in your chosen sphere. Some aspired to push out the frontiers of scientific knowledge, to vanquish disease, to build better bridges, or extend the best education to all. Others focused on discovering better ways of manufacturing goods or growing crops and still others on ending poverty in less fortunate countries. Many felt they had a vocation. Certainly they would have been taught by church or community leaders that if you had a talent it came with a solemn duty not to waste it. Some believed they had a calling to relieve poverty or spread the gospel, or perhaps a vocation linked to paid work, or maybe a modest duty to do their best for their family and immediate circle. The sense of higher purpose varied in its grandeur, but during the heyday of liberty it was a real force. Whether it was defined in religious terms, or in more secular language, there was a strong expectation that the ideal to aim for was to be of service to some objective or hope beyond immediate personal satisfactions. Historically liberty was the ideal of those who wanted to free human talent and energy for higher purposes in every walk of life. It continued to be the inspiration of later liberals like T.H. Green and Hobhouse, but today this tradition stands in urgent need of renewal.

Much political debate has long assumed only two categories – commercial activity and state activity. As we have seen, most classical liberals recognised that there may be a legitimate role for the political sector in providing services for members of the public and, of course, commercial provision also has a part to play, but we should not neglect the role of independent organisations that are neither political nor commercial, but motivated by philanthropy or mutual aid and guided by the noble purpose of serving others.

Why did governments become involved in health, education and social security, if provision had already been made? The initial argument was that there were gaps in private provision that ought to be plugged

and that the best agency to do so was the government. We can now see the consequences in health, education and welfare.

Society as a Membership Association

What principles should guide reform? The approach to be described is grounded in the liberalism that has emerged step by step since the 17th century, a view that assigns to the government some vital but limited tasks. In particular, government is assigned a monopoly on the use of force so that it can protect personal security. Because this monopoly creates the danger that the government itself will become a threat, it too is subject to limits set by parliament. Above all, it should proceed through well-understood laws applied equally to all. This variety of liberalism implies a free people living in the same land, all prepared to accept restraints for the common good of each. In the 17th century there was a sense that the whole people, acting through parliament, had framed a new system of government for itself. The Bill of Rights of 1689, which embodied some key elements of early liberalism, is written in the name of ‘the lords spiritual and temporal and commons assembled at Westminster lawfully, fully and freely representing all the estates of the people of this realm’. It implied a sense of common purpose and shared beliefs.

The writings of John Locke encapsulated the essential ideas in 1689. His ideal might be called ‘homeland liberty’, because it is based on the assumption that a free people living in a particular land have come together to frame a system of government for themselves. Locke used the word ‘commonwealth’ to describe such an independent community of people.²¹ He described the essence of the English heritage of law and how it differed from the more authoritarian Continental tradition. We should have a ‘standing rule to live by, common to every one of that society’. As a result, all were free to follow their ‘own will in all things, where the rule prescribes not; and not to be subject to the inconstant, uncertain, unknown, arbitrary will of another’.²² English law, in other words, was a method of

protecting our right to use our time and energy as we thought best. The law provided a clear warning when force could be used and in all other respects left us free.

The strongest influence was a reaction against the years of religious conflict between Protestant denominations and Catholics. Instead of religious groups trying to win power to impose their views, liberals argued that it was best to leave religious disputes outside politics. The state should have a monopoly on the use of compulsion, but it should tolerate religious differences so long as they did not lead to violence or disorder. This was accomplished largely by legal silence on many matters of religious doctrine. The feeling was that some issues are best left outside the law, because no amount of discussion can resolve them. Hence liberals have called for a ‘live and let live’ society.

The English heritage of liberty is based on the idea of an independent community of people conceived as a kind of membership association that has founded a system of self-government to protect personal security, encourage open and democratic government, and provide for individual liberty under the law. Personal security is provided by assigning the government a monopoly of force, which must be deployed according to law understood in a particular sense. There is to be a ‘government of laws, not politicians’ to prevent the arbitrary use of power; and the law must apply equally to all, to prevent favouritism. Open and representative government is accomplished, not through majoritarian democracy, which implied enforcing fixed opinions, but by encouraging deliberative democracy – listening and reflecting before deciding. Individual liberty meant to be free to do anything not expressly prohibited by law, including the enjoyment of freedom of conscience and speech, the right to leave the country, and to move freely within it.

The system of liberal democracy evolved gradually based on these guiding principles. What should the government do? How wide should its powers be? Periods of deep mistrust of the state

produced *laissez faire* in the nineteenth century and romanticised over-confidence in government produced collectivism in the twentieth. Today the challenge remains.

The revival of interest in national loyalty partly reflects awareness among those who align themselves with the left that the role of the state remains an unresolved question of our time. It is rather surprising that Gordon Brown and David Goodhart chose to use the term nationalism rather than patriotism. The former term has been associated with national aggression towards foreigners, whereas patriotism has typically referred to a legitimate love of country because its values – freedom, democracy, pluralism, religious tolerance – were worthy of it. Nevertheless, the revival should be welcomed, not only because we find ourselves threatened by Islamist fundamentalists who hate the free and democratic systems of the West, but also because the nation has a legitimate role in providing, not just for the personal safety of every citizen, but also a welfare guarantee.

What should be the guiding principles for social security, education and health care? The underlying problem is that we have only partially progressed out of the age of collectivism, a period of narrow certainties that included the automatic association of ‘caring’ with the state and ‘not caring’ with the market. The origins of this notion lie in the association of freedom with selfish individualism.

To claim that a free society sets loose nothing but selfishness is in flat contradiction of the facts; and its corollary, that to politicise a walk of life removes selfishness, is plainly wrong. Selfishness is possible in all situations, public or private. A glance at the record of the present government, and the antics of David Blunkett and John Prescott, provides powerful evidence that politicisation is no guarantee of altruism. Selfishness is a problem built in to the human condition: the political sphere needs checks and balances to combat it, and civil society needs competition, pluralism and a spirit of critical inquiry.

The key divide is not public versus private, but absolute power versus pluralism.

Social Security

The Government’s Five Year Strategy in 2005 identified two problems. First, there was a pool of persistently economically inactive people of working age, especially lone parents and those on Incapacity Benefit (IB). And second, there was too much child poverty. The Government has repeatedly affirmed its view that the best way out of poverty is work and has declared its intention to increase the number of lone parents in work by 300,000 and the number of IB recipients by one million. Secretary of State John Hutton has even declared war on the ‘can work, won’t work culture’.

However, government policy neglects three closely related problems. First, there is increasing welfare dependency, which is not being reduced by its policies. Indeed, there is a growing problem of partial or in-work dependency. In November 1997 there were 5.409m benefit recipients of working age plus 731,000 recipients of family credit, a total of 6.140m. In May 2006 there were 4.837m people of working age on benefits and in April 2006 1.884m on working tax credit according to Her Majesty’s Revenue and Customs, a total of 6.721m. In addition, working tax credits have been very prone to fraud. The Institute for Fiscal Studies (IFS) reported in March 2006 that the Government was paying tax credits or out-of-work benefits to about 200,000 more lone parents than the Office for National Statistics has estimated to be living in the UK. The IFS concluded that ‘it is highly likely that fraud or error explain much of this disparity’.²³

Second, the Government’s policy of reducing child poverty contradicts its aim of increasing the number of people in employment. Income has been transferred to households with children whether they work or not. Income support (paid only to claimants who are not working) for a lone

parent with one child under 11 increased in real terms from 1997 to 2003 by over 19% and for a couple with two children under 11 by over 31%.²⁴ Any increase in income that can be obtained without working will tend to discourage people from taking a job.

Third, the Government is encouraging large-scale immigration and ignoring its impact on the ability of people who are unemployed or on low incomes to fight their way to independence through work. Whenever academic studies of the effect on wages of immigration have been carried out, the evidence has been that an increase in the supply of unskilled labour leads to a fall in wages for the low paid. For example, a study of the impact of migration into the USA between 1979 and 1995 by George Borjas of Harvard University concluded that immigration had reduced the wages of unskilled workers (those without American high-school diplomas) by five percentage points.²⁵

But the problem has not just arisen since 1997. It has been worsening since the 1960s. In 1949/50 all social security benefits cost 4.7% of GDP. A decade later the figure was still only 5.5%, but by 1969/79 it had gone up to 7.1%. Ten years further on it had reached 9.0% and the post-war peak was in 1993/94 when it hit 12.6%, reflecting the high unemployment following Britain's departure from the Exchange Rate Mechanism.²⁶

After the introduction of working tax credit in 2003 it has become more difficult to track benefit expenditure because the Treasury treats payments of working tax credit as negative tax revenue. The most reliable estimate of expenditure on benefits is based on the cost of 'social protection'²⁷ in HM Treasury's Public Expenditure Statistical Analyses. In 2004/05 social protection expenditure was 11.4% of GDP.²⁸ Both the main political parties must accept responsibility. They have both been unwilling to impose obligations on benefit recipients and relied too heavily on 'making work pay' to the exclusion of other strategies.

What should we do? If a free nation is a kind of membership association made up of people willing to accept significant restraints for the good of all, and to give of their own time and energy to maintain freedom within these shores, is it not reasonable that all should be protected from severe material hardship? Liberty starts with personal security. But should material security be seen in a similar light? Guarantees of personal welfare can and should be provided by a membership state, but welfare should not substitute for personal effort. It should, wherever possible, aim to restore independence, and challenge people to achieve the best of which they are capable.

For at least the last 400 years we have always had a state safety net. Material help is available to everyone, because we never know who might need it. Once accepted, however, it is legitimate to expect every citizen to make provision against misfortune when able to do so. What should these expectations be? We can reasonably expect to make provision for the normal expenses of living, and for periods when expenditure will be high – most notably when children come along – or when income is lower, especially during retirement. If a person plans to have children, then their lifetime plan will need to include a partner to allow for the children to be both cared for and supported financially. Provision also needs to be made against misfortunes such as the early death of a partner, or illness, which may both reduce income and increase expenditure.

Policy makers often speak of 'low pay' as if it were something entirely outside the influence of individuals. The rate of pay depends in part on skills acquired and willingness to move jobs or to change locality in order to command a higher wage. And the number of hours worked can be increased either through overtime or a second job, or another household member taking a job. The vast majority of people who escape poverty do so because they work hard and use their freedom to make the most of the conditions they find themselves in. It is also true that a number of people are born with few advantages and, however much they try, they are unlikely to be able to earn a high income. We should not be too

hard on people who have been unlucky in the initial share-out of personal qualities.

What about people who are willing to work hard, but who are genuinely able to earn very little? The least defensible aspect of family credit, working families tax credit and now working tax credit is that benefit is paid to people who work as few as 16 hours a week. In effect, by working only part time, individuals can have their wages made up to the equivalent of a full-time income.

The guiding principle of reform should be that individuals are responsible for improving their income and for controlling their expenses. But what most people intuitively feel about welfare is not that no one should ever be poor, but rather that no one who has *worked hard* should be poor. But how could such a principle be part of a welfare policy?

A minimum wage has a part to play, but if a person has made a reasonable effort to earn as much as possible and is still on an unacceptably low income, are further measures defensible? It would be feasible to apply a simple administrative test of whether a 'reasonable effort' had been made based on a requirement to work a minimum number of hours. The figure could be 40 hours a week for 48 weeks per year. If working tax credit were abolished and replaced by a supplement payable only to claimants who had worked for 40 hours a week for 48 weeks a year, the benefit system would reward hard work, and be far more appealing to married couples with a hard-working single earner and far less a public subsidy of family breakdown.

To sum up: the underlying belief is that we should take personal or family responsibility for self-support throughout our lives, including provision against foreseeable contingencies like ill-health and certainties like getting older and death. If the



government takes responsibility for such provision it treats people as perpetual children incapable of providing for themselves. It also reduces the quality of human life to the extent that fulfilment rests on facing up to and overcoming life's difficulties.

Everyone should be expected to save enough to avoid relying on the work of other people, but compulsion would be kept to a minimum. Such would be the principles consistent with a 'membership state' in which everyone was expected to do their bit to be independent, with the absolute assurance that no one will fall below the national minimum if things go wrong. Such a guarantee, if it is to endure, can only be based on a system of reciprocal obligation.

Education

The Government has failed to achieve its primary objective: to provide a good start in life for every child, including those from the most disadvantaged backgrounds. In November 2006 Ofsted found that just over half our secondary schools were failing to provide a good standard of education. Over one in eight secondary schools was 'inadequate' and 38% were merely 'satisfactory' when according to the chief inspector of schools, satisfactory 'can never be good enough'. Soon afterwards Mr Blair announced that the number of city academies was to be doubled to 400, a tacit admission of nine years of failure. Yet public spending on education in the UK has increased from £44bn in 1997/98 to £66.5bn in 2005/06, a one point increase as a proportion of GDP from 4.5% to 5.5%.²⁹

In a nation viewed as a membership association, what should be the role of the government in education? The primary responsibility for education should lie with parents, but the government on behalf of the whole society should provide an unflinching

helping hand when necessary. Moreover, education has a special significance in a free society. The task of each generation of adults is to pass on to their children the values and knowledge necessary to preserve our liberal-democratic way of life. Much of this work takes place in the family, but schools are also central. Their task is not only to turn out youngsters trained to fill a role, but also to play their part in equipping young people with the habits and skills they will need in a society of freely co-operating individuals.

Schools should reinforce the family, but parents will never have sufficient influence unless the schools both depend on the parents for payment and face adequate competition. And there will never be sufficient competition while the authorities are able to restrict the expansion of popular schools because others in the locality have ‘surplus capacity’.

It has long been public policy to require parents to ensure that their children are educated, and it has long been accepted that the government can legitimately raise taxes to ensure that all children benefit from good schooling, regardless of their parents’ income. The issue today is not *whether* the state should guarantee access for all, but *how* it should do so. The chief reason given for government involvement since 1870 has always been that education was of such central importance that no one should go without it. Hence, it was legitimate for the government to fill gaps in the availability of schools and ensure that no children were excluded because their parents were poor. In practice, however, state provision has for many years failed the least fortunate members of society. The worst performing schools are concentrated in localities where poverty is worst and all but the most prejudiced observers would find it difficult to resist drawing the conclusion that state education has failed, not in some small particulars, but to achieve its primary aim.

Moreover, it has failed because of the inherent flaws in the political process, namely over-concentration of power, the side-effects of political struggle including manipulation of official

information, and the suppression of social entrepreneurs. We must search, therefore, for a new balance between government and citizens that confines central authority to what it can do best without presuming to run everything. There is now ample overseas evidence that a less politicised, unforced and pluralistic system can serve the interests of the poor more effectively than a state monopoly. This is the crucial moral test that any policy must pass.

To summarise: public policy for education should have two main aims. First, it should guarantee access for all. The government should ensure that all children are educated (though not necessarily in school) and ensure that parents’ income is not a barrier to a good standard of education. A voucher scheme would be a step in the right direction. Second, all schools should be independent of political control. To that end the government should transfer the ownership of state schools to non-profit trusts and remove barriers to the founding of new schools, including over-intrusive Ofsted inspections.

Mill’s concerns are acutely relevant to the provision of education. They can be placed in three groups: the consequences of deploying exclusive powers to suppress alternatives; the impact of reducing outlets for personal development; and the consequences of increasing the politicisation of private hopes and ambitions. Suppressing alternatives reduces opportunities for mutual learning from trial and error, compresses ability to react effectively to external events, and diminishes the number of independent experts able to cast a disinterested eye on government projects.

Reducing outlets for personal development diminishes the skills that individuals can acquire from working closely with others; above all it narrows outlets for the practical idealism that flourishes when people have to work with neighbours and fellow enthusiasts.

Increasing the politicisation of popular hopes for improvement has a harmful impact on ordinary

people. They are encouraged to look to the political process to demand action by other people instead of looking to their own efforts. A highly politicised society calls forth a very different set of skills from those demanded by a vibrant voluntary sector. Of equal importance is the impact on the most ambitious members of society. The risk is that the most able people will be drawn to the state sector and that businesses will look to government for their income, so that success depends, less on demonstrated ability, or effective service of consumers, and more on party-political links. A number of key special advisers in the Blair Government, for example, have gone to work in the private sector, and the scandal of party donations and loans is partly tied to the desire for government contracts. The end result is that business leaders are less independent voices who can frame impartial judgements about government services, and much more the hangers-on of politicians with the ability to swing contracts their way.

Health Care

Spending on the NHS in the UK has surged since 1997/98 when it was £52.5bn. By 2005/06 it was £87.6bn, an increase from 5.4% of GDP to 7.3%.³⁰

The NHS has two underlying problems: its almost total reliance on taxation, and our national infatuation with inequality. Reliance on taxation has three harmful consequences: individuals can't tell whether they are getting good value for money; people can't make judgements about the comparative worth of health care as against other good things; and there is no mechanism for bringing the expectations of users into balance with the capacity of the system to treat patients. This lack of transparency leads to a reluctance to pay more in taxes. Yet it is combined with a high demand, whipped up by the Government's professed enthusiasm for consumer choice.

The second problem is the obsession with inequality, which has led the Government to confuse solidarity and equality. Equality is the idea that no

one should ever get more than anyone else. Solidarity means that the better off must take responsibility for ensuring the least well off are provided for, and that the minimum standard should be high. In practice, in most European countries where solidarity is the guiding rule it means that everyone enjoys the care that middle-income people choose for themselves. Social solidarity in this sense is a morally legitimate and achievable goal; equality of outcomes is not.

Elsewhere in Europe, it is generally accepted that health policy should have two main aims: economic viability and social solidarity. As a result, the poorest people in countries such as France, Germany and Switzerland receive a higher standard of care than is typical of the UK. And greater economic viability has also been achieved. Demand and supply are more closely in balance and the people who are paying are sufficiently price conscious to be able to seek value for money, influence the flow of investment, and encourage higher standards by using their power of choice.

On the Continent citizens are treated more like grown-ups capable of paying for health care just as they pay for most other good things. Above all, members of the political left (defined by their commitment to the poorest in society rather than their attachment to using the coercive powers of government) do not object to personal payment. In Germany, for example, everyone must be covered by a sickness fund. Premiums are expressed as a percentage of salary, with employers and employees paying half each. It is the least well off members of society who stand to gain the most from reform. As in education, the government should confine itself to what it can do best, namely guaranteeing a good standard of care for rich and poor. It has, however, shown itself to be quite unsuited to managing hospitals and to employing medical staff. Hospitals should be independent of government and medical workers should be members of free professions, not employees of the state.

Conclusions

I have argued that the state today is too pervasive, but I do not contend that we should return to *laissez faire*. We need a debate about a new constitutional settlement to confine the government to its proper duties, neither preventing it from maintaining the personal security on which freedom rests, nor naively relying on it to discharge functions that are beyond the capabilities of any monopolistic human institution. We should look upon the nation as a membership association. The idea of belonging is central to any viable society. Unfortunately, it has been manipulated by collectivists to deceive many into accepting ‘command and control’ in public services. But belonging does not imply absolute power. We can belong without public-sector monopoly or the over-concentration of power at Whitehall.

More than anything else it is incumbent on defenders of liberal democracy to demolish the false characterisation of freedom as an excuse for selfishness. It is a rationale for creating a framework of laws, institutions, habits and beliefs that allow the finest human motivations to flourish and that permit every person to discover how much each can add to the improvement of the human condition. We should not romanticise freedom. Like any other human capacity it can be abused, and for many it means a life focused on the mundane effort of earning a living and raising a family, but it also ensures that no one with the ability or inclination is prevented from scaling the heights of human accomplishment.

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- ³⁰ PESA 2006, Table 3.4, p. 45.

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