what’s the big idea?
the imperative need for a new ideology

“There is one thing stronger than all the armies in the world, and that is an idea whose time has come”

Victor Hugo

Effective government is not simply a matter of management. Even in good times, competence is barely enough. In bad times, ideological clarity is imperative, and the lack of a clear, ideas-based strategy is the black hole at the heart of the coalition administration.

Even before confirmation – in the latest set of official economic data – that the UK is mired in a double-dip recession, it was clear that this is one of those ‘bad times’ in which big ideas are not an optional extra. The recent damning report of the Public Administration Select Committee (PASC) criticised the coalition government’s “inability to express coherent and relevant strategic aims”, and warned that a “chaotic strategy” of “muddling through” carried grave risks for the future.

Those governments which have changed Britain for the better have done so on a platform of intellectual clarity. A coherent philosophy, accepted by the electorate, enabled the 1945-51 Attlee government to build a welfare state on the economic ruins of the Second World War. A clear free-market ideology played a decisive role when Margaret Thatcher’s 1979-90 government rescued Britain from the stagflation and decline of the 1970s. Now, however, when the problems are even worse than those which confronted Attlee or Thatcher, the coalition government seems to lack any ideological agenda or strategic direction whatsoever.

This is not simply a result of coalition politics. Rather, it reflects a glaring absence of intellectual originality on the centre-right of British politics.

This report seeks to explain three key points:

1. The outlook for the UK is so adverse that nothing short of radical change will suffice.
2. Comprehensive restructuring of an economy and a society can only be carried out if the government gains popular support for an ideology of change.
3. A popularly-accepted ideology requires, by definition, a radically new interpretation both of the problems facing Britain, and of the policies that can succeed.

Though the most obvious and urgent challenges facing Britain are economic and fiscal, the national malaise is by no means confined to a stuttering economy and an unsustainable deficit. A string of important institutions (including Parliament, the media, the police and the financial system) have been discredited and, worst of all, the public has lost faith in the capitalist economic system, believing (with much justification) that it serves only a tiny coterie of the rich and powerful. Clearly, if faith in capitalism has been undermined, a philosophy of Thatcherism nouveau will not suffice.

The centre-right is in desperate need of a new ideology, and this, we believe, needs to be based on a commitment to the wholesale reform of capitalism.
The economic challenge

In so far as the coalition government has any strategy at all, that strategy revolves around eliminating the unsustainable fiscal deficit inherited from Gordon Brown. But this plan is predicated on rates of economic recovery which are simply not happening.

The government’s fiscal plan is to reduce the deficit from 11% of GDP to less than the 3% level widely regarded as a prudent maximum. Despite the widespread public and media focus on spending cuts, the plan actually places far more reliance on revenue increases than on expenditure reductions. Whilst some rates of tax (such as VAT) have been increased, a resumption of growth (at annual rates well in excess of 2.5%) is assumed to supply the vast majority of the hoped-for increase in government revenues. The fiscal plan, then, is predicated on growth.

And, despite the pious hopes both of the government and the OBR\(^1\), this growth is simply not happening. In the recessions beginning in 1973, 1980 and 1990, real output regained its pre-recession level within twelve quarters of the downturn. This time, the downturn is into its seventeenth quarter, yet output remains more than 4% below pre-recession levels (see fig. 1).

Worse still, each of the different methods of forecasting the economic outlook points to the conclusion that there is no recovery in sight. Consumption-based analysis, for example, divides GDP into private consumption, government consumption, capital investment and net exports. The largest of these, private consumption, is unlikely to drive a recovery whilst real incomes are declining because rates of income growth are exceeded by inflation. The sheer scale of the deficit indicates that government consumption is most unlikely to increase. Where capital investment (both state and private) is concerned, large businesses have the cash to ramp up investment, but are unlikely to do so in a climate of such uncertainty, whilst successive governments have transferred resources from investment to consumption.

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Fig. 1: a profoundly different downturn*  

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* Source of data: ONS

\(^1\) The Office for Budget Responsibility
A second way to forecast the outlook is to use GVA (gross value added) analysis to look at the economy on a segment-by-segment basis, much as an investor might assess the outlook for an industrial conglomerate. The result of such an assessment is extremely worrying. Between them, construction, real estate and financial services – the ‘CREF’ industries which grew rapidly thanks to the pre-2008 explosion in private borrowing – account for almost 40% of economic output, whilst the state-funded ‘HEPA’ (health, education and public administration) sectors, which prospered on the back of huge increases in public spending, account for a further 19%. Add in retailing – an 11% chunk of the economy beleaguered by falling real consumer incomes – and it becomes clear that a substantial majority of the economy has become ex-growth.

Barring fundamental reforms, a robust recovery seems highly implausible, given the severe headwinds facing the economy. The labour market is depressed, particularly if the huge numbers of underemployed are added to the official ‘unemployment’ figure. Households, having learned that housing-secured debt is not a one-way-street to prosperity, are deleveraging, and are certainly not about to start taking on big incremental debts. Inflation, and – in particular – the rising costs of non-discretionary items such as taxes, utility bills and fuel, are exerting downwards pressure on real disposable incomes. The construction sector, and the plethora of industries related to it, remain in the doldrums. Government spending is falling in real terms, and private investment is unlikely to increase in any material way unless and until the outlook for demand improves. Despite the extensive devaluation of sterling, the outlook for exports is far from encouraging, a problem compounded by the woes of the Eurozone.

**The ideological challenge**

Difficult though, as the economic and fiscal outlook is, we believe that the ideological challenge is even more profound. At least for now, Labour’s commitment to ever-increasing public spending has been discredited (meaning that the centre-left, too, needs a new narrative), but the centre-right has not even begun to articulate an alternative ideology. Some Conservatives advocate a return to full-blown Thatcherism, but others sense that this will not wash with the electorate.

The reason why Thatcherism nouveau is not the answer to the ideological chasm on the centre-right is that capitalism, as currently practised, has been discredited. Events of recent years have convinced the public, in Britain as elsewhere, that the capitalist system benefits only a tiny minority of “the rich”. This perception acts as a road-block to any advocacy of a re-run of the free market agenda of the 1980s.

Centre-right thinkers who look back fondly to the Thatcher revolution need to draw the right lesson from that experience, not the wrong one. The wrong lesson would be that government can, in 2012 as in 1979, turn around the economy by preaching a doctrine of unfettered free-market economics.

The right lesson from the Thatcher era is rather more nuanced. Beyond policy specifics based on market principles, Margaret Thatcher, and her policy guru Sir Keith Joseph, reasoned that what was required was a radically new intellectual philosophy which broke away from the contemporary consensus.

Translated from 1979 to 2012, the real lesson of the Thatcher-Joseph era is that the centre-right needs to seek radical reform, not a retread of past ideas. Those critics – whose ranks almost
certainly include a majority of the electorate – who argue that capitalism is failing to serve the majority of the population are right, at least where their verdict is based on outcomes.

The starting-point for the centre-right needs to be a recognition that capitalism has been corrupted away from its basic principles, becoming, as one observer\textsuperscript{2} has put it, a “bastardized” variant of the real thing. Far from defending the current system, the centre-right needs to embrace reforms designed to bring capitalism-in-practice back into alignment with capitalism-in-principle. An ideology of ‘popular capitalism’ needs to be advocated, in juxtaposition to the ‘crony capitalist’ system which has done so much to discredit the free market economic ideal as a whole. Reforms need to be aimed at levelling the playing field between the advantaged and the disadvantaged, and at bringing rewards back into line with achievement.

In the absence of a new and radical intellectual philosophy, major structural reforms will prove impossible, the economy will continue to flat-line (at best), and the twin targets of growth and fiscal rebalancing will be missed.

The centre-right, and Britain, are in urgent need of a new ideology based on the reform of capitalism.

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\textsuperscript{2} Dr Woody Brock, American Gridlock, 2012