



Newsletter

April highlights

The Social Market Foundation is an independent public policy think tank. It holds seminars and conferences and publishes pamphlets and books, all of which aim to elucidate the idea of the social market and explain why it is a fruitful source of solutions for public policy problems. Market economies must be social in two senses. First, no sophisticated economy can exist without an overlapping network of institutions in the public, private and voluntary sectors. Second, although markets are the most powerful and effective means of allocating resources yet devised, they can have unwanted social consequences which necessitate public action. It is to this question, defining the proper remits of the market and the state, that the work of the Social Market Foundation is principally devoted.

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Welcome to the April edition of the Social Market Foundation newsletter.

In early May, the SMF will publish *Creatures of Habit? The Art of Behavioural Change*. The book argues that policy-making often is often focused too narrowly on economic incentives and disincentives, such as subsidies and tax, and is therefore less effective than it could be. Our research examines some of the many drivers for why people act as they do, including social norms, habits and personal capacity. We examine how these insights can be translated into more effective policies in the areas of climate change, personal savings, and public health. The Government is slowly adopting the advice of behavioural economics, but could do more. *Creatures of Habit?* provides a framework that government may use to ensure that they have the broadest range of policy options at their disposal.

This topic permeates many different policy areas. Indeed, the essays in this month's newsletter all reflect this. When SMF Director **Ann Rossiter** argues for a cultural shift in our thinking on education, she is advocating a change in *social norms*.

Meanwhile, Senior Research Fellow **Simon Giffiths** asks whether 'aspiration' can be a useful part of political debate, or whether it is just a focus-group pleasing buzzword. This issue focuses heavily on the importance of role models and the *actions of others*, which are key factors in influencing decision-making.

Finally, behavioural economics tells us that individuals are very bad at adequately assessing *risk*. We ignore future benefits in favour of a short-term pay-off, and at other times drastically over-estimate our capabilities and chances. Nowhere do we find a better example of a collective failure to assess risk correctly, than in the market for sub-prime mortgages. As the effects of the credit crisis become ever more apparent, companies and individuals are becoming more risk-averse. The economy is slowing as a result. Former stock-market trader **Giles Wilkes** offers a defence of 'risk', suggesting that it is a necessary freedom in a liberal society, but that it is government's task to help us manage those risks more realistically.

Note from the Director

Ann Rossiter

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Creating a Culture of Achievement

Of the numerous debates about the future of our schools, there is arguably no topic that has more potential to change the face of education in this country than the proposal to raise the school leaving age from 16 to 18. Although opinion is still divided about its possible benefits, the proposal for a higher school leaving age has in fact been around for almost a century and should now finally be implemented.

The origins of the government's present course can be traced back to the Fischer Act of 1918, which legislated to compel all young people to remain in some form of education or training until the age of 18. However, plans to implement it were scuppered by the great depression of the 1920's. Nearly three decades later a similar proposal was put forward as part of the promise to rebuild the country after World War Two. Some might question the relevance of these historical events to the education system of the 21st century. However, the rationale that all young people must be equipped with the tools they need to succeed in society is no less relevant today than it was a hundred years ago. It is time that we took inspiration from the brave generations who stood in the ruins of the country after each of the two world wars and imagined something better for themselves, their children and their grandchildren.

The opponents of raising the leaving age to 18 have several valid arguments, although none of them is insurmountable. A broad base of consent among pupils, teachers, employers and Further Education providers will be essential, in addition to the need for greater provision of mentoring, academic support and financial assistance. Neither advocates nor opponents of raising the leaving age want to see qualifications being chopped and changed every few years, so stability in qualifications is imperative and will help to embed this cultural shift in the minds of all those involved in providing education at some level.

Indeed, the cultural shift needed to introduce a change of this magnitude into our education system will be substantial and this is why mandating that the education leaving age should rise is the only way to achieve real success. If education up to 18 remains voluntary, the mindset of pupils and parents alike will remain as it is now and the desire to have every child leaving school with appropriate qualifications would remain a optimistic target rather than a realistic ambition. That is not to say that children will never become disaffected with education, but simply that the signals sent out by the government cannot be anything less than direct and unequivocal if high-quality courses and qualifications are to become the norm.

Raising the school leaving age will be a difficult journey and poses significant political, economic and social challenges. Regardless of where one sits in this debate, everyone wants the same thing: an education system that equips children to survive in an increasingly competitive marketplace for jobs. With the predicted fall in low-skilled vacancies over the coming decades, it will become even more critical to strengthen our qualifications (vocational qualifications in particular) and change our attitudes towards education. Given the right opportunities to learn, the benefit to young people of staying on at school until 18 could ultimately benefit us all.

“The signals sent out by the government cannot be anything less than direct and unequivocal if high-quality courses and qualifications are to become the norm.”

For more information, please contact Sally Dobson on 020 7227 4401 or e-mail sdobson@smf.co.uk

Forthcoming SMF events

Launch of *Creatures of Habit? The Art of Behavioural Change*

The Social Market Foundation will launch our new book on behavioural economics with a seminar for policy-makers at Number 11 Downing Street.

Date: Wednesday 7th May 2008
Venue: 11 Downing Street, London

Attendance at this event is on a strict invitation-only basis.

This project has been kindly supported by Ernst & Young.

Cabinet Lecture Series: Rt. Hon Hazel Blears MP Secretary of State for Communities and Local Government

Date: Tuesday 13th May 2008
Venue: TBC

Hazel Blears will address the SMF as part of our cabinet lecture series. If you would like to register early for this event please e-mail events@smf.co.uk.

Seminar: 'Choice in Mental Health'

Date: Wednesday 21st May 2008
Venue: Social Market Foundation, 11 Tufton Street, London SW1P 3QB

Choice has been one of the key planks of healthcare reform in recent years. To develop a patient-centred service, it is now widely accepted that choice for patients is both intrinsically desirable and a driver of improvement in service standards.

However, choice in mental health has been a neglected area despite the government's own figures showing that at any one time one in six adults in England is affected by mental distress. The SMF will be hosting a roundtable seminar to discuss how choice in mental health can become the norm rather than an exception.

This event is kindly supported by Janssen Cilag. For more information please e-mail events@smf.co.uk.

Cabinet Lecture Series: Rt. Hon Jacqui Smith MP Home Secretary

This event was originally scheduled for April, but unfortunately has been postponed until late Spring. If you would like to register early for the speech please e-mail events@smf.co.uk.

Forthcoming SMF publications

Creatures of Habit? The Art of Behavioural Change

Jessica Prendergrast, Beth Foley, Verena Menne and Alex Karalis Isaac

Many of the major challenges facing society today require that individuals change their behaviour. However, policies introduced so far have had mixed results. The proportion of the population classified as obese continues to grow, despite the significant provision of information on the health risks this brings and the diet and activity needed to avoid it. People continue to save too little for their old age, although numerous financial and other incentives have been deployed to promote saving. Despite high-profile campaigns on the harmful effects of human activity on the environment, individual behaviour to address climate change has not shifted as quickly as policymakers have hoped.

Currently, the Government tends to rely on policies that presume that people are rational agents making considered decisions based on the information and resources available to them. This approach has been challenged by developments in behavioural economics and indeed by the fact that much of recent policy activity has failed to bring about the desired change.

However, people can change their behaviour and successful case studies do exist. Unfortunately, little coordinated effort has been made to apply these insights in policymaking. This study has looked at a wide range of examples from across the international public policy spectrum to better understand the drivers behind people's choices and behaviour, and distilled the messages into a tool for policymakers to improve the future development and design of policy solutions.

This publication will be launched on 7th May 2008 and is being published with the kind support of Ernst and Young.

SMF Health Project – Interim Reports

In April, the Social Market Foundation's Health Project team will publish five background papers, completing the first phase of their research. The papers look at: Systems management and governance in the NHS; Future financing pressures; Commissioning; Providers; and Patients.

These papers set the framework for further SMF research and policy recommendations to be undertaken in 2008 and 2009.

For more information on the SMF's Health Project, please contact project leader David Furness dfurness@smf.co.uk or 020 7227 4410.

Essays

Rediscovering “Aspiration”

By Simon Griffiths, Senior Research Fellow, Social Market Foundation

Both Labour and the Conservatives now claim to be ‘The Party of Aspiration’. But is it all just an empty phrase? Is ‘aspiration’ just a term that pleases focus groups, or is there more to it? I argue that at its best ‘the politics of aspiration’ is not just an advertising slogan, but an important part of the debate about how to make the society we live in a fairer place.

Over the years, the right and the left have taken very different attitudes towards aspiration. A common response from the right was to promote and encourage personal aspiration, but to regard this largely as a factor of individual effort. This ‘pulling yourself up by your bootstraps’ approach neglected many of the important and sometimes overwhelming economic and sociological barriers that stood in the way of individual aspiration and its achievements. Instead the right focused on cutting back on government disincentives: high taxes, red tape, economic interference and so on.

On the other hand, the traditional, class-based politics of the left tended to be suspicious of individual aspiration, particularly in the form of private entrepreneurship. To the great socialist writer RH Tawney (writing between the wars) the entrepreneur pursuing profit was morally questionable, and contributed to an ethos of acquisitiveness in society. In recent decades, this scepticism about aspiration proved unattractive to voters because it seemed to reject the validity of the impulse to improve one’s lot.

Historically, what mattered more to the left was equality. Their view of this was often straightforward: equality was about economics. As one political commentator dryly noted, “If the problem with the poor is that they don’t have enough money, then the answer is simple: give them more”. The argument was that a good society was one in which material goods were shared more equally, and this was largely done through a system of progressive taxation.

More recently the links between aspiration and the creation of a fairer society have become much clearer. As the Nobel Prize winning economist Amartya Sen responded when asked about equality, the question is always “Equality of What?” It is not just economic inequality that matters, but greater equality of non-material goods as well, such as skills, opportunities, power... and aspiration. In a prescient phrase, it was Nye Bevan, the leading figure on the Labour left during the middle of the twentieth century, who argued that defeating the ‘poverty of aspiration’ mattered.

One of the most difficult questions in this area concerns the relationship between wealth and aspiration. Aspirations are passed down from one generation to the next, and in turn are a driver of future wealth. Parents who made money or who went to university themselves are far more likely to pass those aspirations on to their children. As Shadow Chancellor George Osborne commented earlier this year, "Poverty of assets is clearly linked to poverty of aspiration." And the reverse is true, too.

If we argue that it is not just material equality that matters, but – amongst other things – aspiration too, then further questions will arise. What about *unrealistic* goals, hopes and dreams (which are shared amongst young people from all backgrounds)? A recent survey of five to ten year olds found that above all "money and getting rich" was the best thing in the world, with being famous in second place (families and God were sixth and tenth on the list respectively). This raises the thorny question of which aspirations are worth encouraging. It turns out that my childhood aspiration to play cricket like Ian Botham or Viv Richards was not the kind that it would have been useful for government to encourage. On the other hand, who is to say which aspirations are realistic or useful for young people to have?

Despite its challenges, at its best the focus on aspiration is not just a sop to focus groups or an advertising slogan, but a positive development. It is based on a richer view of what is important in a good society and on the belief that one's background should not limit one's hopes in life. The revival of the aspiration debate opens the possibility of a route to a better society.

Simon Griffiths is editor of The Politics of Aspiration (2007).

A Defence of Risk-taking

By Giles Wilkes

Unlike the great majority of the bright young things who have interned at the Social Market Foundation, I reached here via a crooked path that passed through unpaid work at a Literature Festival, barely paid work editing encyclopaedias, secretarial temping and finally a decade shouting numbers down a telephone to gamblers. The last position – taking highly geared bets on stock-markets and currencies – was as different from my internship as can be imagined. Everything had an immediate, highly superficial but measurable impact. A good day was one where you made money. Prioritisation meant sorting the things that needed to be done in the next breath from those that could wait three minutes. Here, on the other hand, impacts are harder to measure – they stem from the rigour and originality of thought, the sense of having influenced important debates – and they take months or years to emerge.¹

However the greatest difference to be accommodated lay in the approach to risk. A great deal of policy research aims at reducing the risks inherent in life, be they from worklessness, poor health, or an under-funded retirement. This is clearly right, and relatively uncontroversial. Such issues invariably affect the worse-off by the greatest amount. To put it dryly, life at the bottom is asymmetric. People on the bare minimum have nothing to stake – there is nothing they *can* afford to lose. Moreover, the effect of people's misfortunes at this level becomes a social issue. The chronically ill or destitute cannot be ignored, and so the state inevitably regards their risks as its own. Recent events in the financial markets have also dealt a blow to risk-taking, as something privately motivated and socially selfish.

But despite this, my own experiences bias me heavily against a society that tries to eliminate all risk from life. My parents' generation were expected to pick a profession at a young age and stick to it. This remains the ideal for some other societies – a majority of French graduates aspire to government work, and the Japanese ethos of lifetime employment in large companies is still strong. For some writers – Will Hutton's *The State We're In* springs to mind – this remains preferable to the Anglo-Saxon model, which institutionalized short-termism for both workers and firms. But I am glad for the changes to the work environment that have allowed me to take numerous risks in my career – avoiding the risk of living a dull life in the wrong job.

On the other hand, a decade in the financial markets also warned me against the persistent issue of 'survivorship bias'. If you only read the autobiographies of successful businessmen, you would quickly conclude that risks are a good thing. The last-gasp re-mortgage of the family home always pays off. For some reason books about bankrupts with lousy ideas don't sell. It is the same with stories of financial heroics. You only get to hear from the winners. I

¹ Except when you spill tea all over the reception desk, when the impact is immediate, measurable and profound.

am also aware of how having a family has utterly changed my approach to risk: if I could now make a bargain to ensure a long, safe and dull life for my daughters, against one filled with heartache and danger, I would jump at it – paternalism in its very essence.

But it is an irony of modern politics that policy-makers labour to ensure that lives are lived so differently from those that they themselves endure. They work hours that break every European rule, their tenure is uncertain, their job descriptions woefully underspecified, and by all accounts their bosses often thoughtless and ill-trained in personnel management. They risk their health, financial future and their only chance to see their children grow up. Yet they would regard it as a gross infringement of their rights if the opportunity to gamble on a life in politics had been denied them. While such recklessness is not for everyone, I think it important that policies are designed with a view to preserving some space for people to choose, make mistakes, and take their own risks.

Giles Wilkes is a former stock-broker and now works as a political researcher.

For more information, please contact our Conference Manager Kirstine Roberts on 020 7227 4404 or kroberts@smf.co.uk

The SMF Party Conferences Fringe Programme

Party conference season is the highlight of the political year, providing an unparalleled opportunity for policymakers and experts to get together to debate the key issues of the day. The most passionate and influential of these debates often take place on the conference fringe.

The 2008 conference season could be the last before a General Election that, many commentators believe, will be the most unpredictable for a generation. In that context, the debates and discussions that take place this year will be particularly important.

Over the last few years, the Social Market Foundation's conference programme has earned an enviable reputation. With recognised experts debating key policy questions, our fringe events attract substantial audiences and high-profile media coverage.

The SMF combines a wealth of experience of the three main party conferences, with policy expertise and a reputation for producing first-rate events. We understand the importance of standout events supported by strong research and a dedicated conference team. We are well known in the policy arena and, as a non-partisan think-tank, enjoy strong links not only within government but also with the main opposition parties.

Our Programme

In autumn 2007 we presented a packed programme of more than 40 individual fringe events across the three conferences. Highlights included our highly popular keynote debates with Cabinet and Shadow Cabinet ministers, and our conference reception with comedian Jeremy Hardy. Speakers included the Rt. Hon Andy Burnham MP, The Rt. Hon John Denham MP, The Rt. Hon Stephen Timms MP, Andrew Mitchell MP, Sarah Teather MP and David Willetts MP.

Our meetings took on issues ranging from health and well-being, social and financial inclusion, education and skills, to corporate social responsibility and human rights, energy policy and climate change.

Building on the success of the 2007 programme, we are currently seeking sponsors to work with at the Labour, Conservative and Liberal Democrat conferences in autumn 2008.

The SMF offers in-depth policy knowledge and all our fringe themes are thoroughly researched and developed in consultation with our sponsors. The work we do would not be possible without our sponsors, and we work very hard to ensure that we deliver to an excellent quality in all our fringe events.

The Social Market Foundation

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