



# Newsletter

## March 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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### Social Market Foundation

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In March, the SMF will be launching two new publications. *Anglo-flexicurity: A Safety Net for UK Workers*, presents robust policy recommendations for unemployment insurance in the UK. It will be launched on 18th March at a panel discussion with Rt. Hon Stephen Timms MP. The following week, our eagerly awaited book on 14-19 Education, *Staying the Course*, edited by Conor Ryan, will be launched at a debate between the SMF and Policy Exchange, with Barry Sheerman MP and David Willetts MP. Summaries for each book and full details for both events are given below. We would be delighted if you would join us at these events to discuss the important issues raised by our research.

This month's newsletter contains three provocative essays from the Social Market Foundation's senior staff. First, our Director Ann Rossiter argues that road pricing is still the best option we have to tackle congestion problems and carbon dioxide emissions, despite effective campaigning from special interest groups. Our new Chief Economist, Ian Mulheirn, challenges the Government to ditch the 2010 Child Poverty target. Finally, Dermot Kehoe, SMF's Managing Director (and a US Citizen) asks what outcomes European social democracies can expect from the next President of the United States.

As always, our website at [www.smf.co.uk](http://www.smf.co.uk) carries the most up-to-date information about our activities. Details of our forthcoming cabinet lectures with Jacqui Smith (April), and Hazel Blears (May) will be posted soon. You can also read the text of recent speeches in the series from John Denham and James Purnell, and download PDF versions of all our publications. From April onwards, we plan to begin podcasting recordings of our events too.

## Note from the Director

*Ann Rossiter*

For more information, please contact  
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### Road Pricing: a solution postponed

The Transport Secretary Ruth Kelly's speech earlier this month represents a careful retreat from the Government's earlier ambitious plans for a national road pricing scheme. While the speech pulled no punches in describing the extent of road congestion and the damage it does – and resisted the temptation to splurge public money on further road building – it is clear that vociferously-expressed concerns about privacy and fairness have had their impact. Instead, it now looks like road policy will be concerned with packages of small, mostly local measures, such as expanding the use of hard-shoulders.

This is a pity. Road congestion (and related issues of road-based carbon emissions) is every bit as serious as Ruth Kelly described, but is not going to be solved without a bold approach. Unfortunately, the last two years have seen a damaging portrayal of the argument as one between hard-pressed road users who will have their rights and wallets invaded, and an interfering government uninterested in the health of road transport. But, as our own work on the subject has argued, road pricing is still the best and fairest way to solve a problem the main victims of which are the road users themselves. Its revenues ought to go towards benefiting all transport users. There is no 'them and us' in this debate.

It is in no-one's interest for the current status quo to continue. Some scheme or other will eventually be needed to reduce the traffic clogging up our roads, and if it is not road-pricing – ideally, to reflect the underlying traffic volumes so that the busiest roads are targeted most – it will be something less fair or efficient, like increased regulation or fuel taxes. The only other alternative is for road users to continue to pay with their time, stuck in traffic queues, with the wider economy footing a greater bill.

Travelling by car, unlike public transport, has been getting steadily cheaper in the last ten years, a trend exacerbated by the ending of the fuel duty escalator in 2000. Meanwhile, its environmental costs are becoming more apparent – transport being the only sector to increase its carbon emissions in the last decade. Congested roads are also polluting roads. It will take a multi-pronged approach to turn this trend around, one that will also involve the design of our cars and cities, and sensible car-sharing incentives like those mentioned in the Secretary of State's speech. The SMF hopes to contribute to the debate by evaluating all the policy options open to us. A sensible road pricing system has a part to play. But what is most disturbing about the course of the debate in the last few years is the idea that a concentrated special interest group might find itself able to undermine any such efforts to move towards long-term solutions to such pressing problems. We hope, in keeping the debate alive, to head off that worrying outcome.

**“There is no ‘them and us’ in this debate.”**

For more information, please contact Sally Dobson on 020 7227 4401 or e-mail [sdobson@smf.co.uk](mailto:sdobson@smf.co.uk)

## Forthcoming SMF events

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### 'Enabling Choice for Retirement' launch

An SMF debate to mark the launch of the Investment Management Association's paper *Enabling Choice for Retirement*.

**Date:** Tuesday 11<sup>th</sup> March, 10am-12pm  
**Speakers:** Richard Saunders, Chief Executive, IMA  
 Jeannie Drake, Deputy General Secretary, CWU  
 Chris Curry, Research Director, Pensions Policy Institute  
 Rachel Vahey, Head of Pensions Development, AEGON UK  
**Chair:** Ann Rossiter, Director, SMF  
**Venue:** John Tudor Room, Methodist Central Hall

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### 'Angloflexicurity' Launch with Rt. Hon Stephen Timms MP

The Social Market Foundation is hosting a panel discussion to mark the launch of our new publication: *Anglo-Flexicurity: A safety net for UK workers*, kindly supported by Genworth Financial.

**Date:** Tuesday 18<sup>th</sup> March, 12.15pm-1.45pm  
**Speakers:** Rt. Hon Stephen Timms MP, Minister for Employment and Welfare Reform  
 Ann Rossiter, Director, SMF  
 David Lane, Regional Director for Western Europe, Genworth Financial  
**Chair:** Brian Pomeroy, SMF Board Member  
**Venue:** Social Market Foundation, 11 Tufton Street, London SW1P 3QB

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### 'Staying The Course' Launch and Debate

To mark the publication of *Staying the Course: Changes to the Participation Age and Qualifications*, the SMF debate with Policy Exchange on the issues raised in the publication.

Presenting the case in support of proposals to raise the participation age will be Barry Sheerman MP, Chair of the Children, Schools and Families Select Committee, and Ann Rossiter, Director of the SMF.

Presenting the case against will be David Willetts MP, Shadow Secretary of State for Innovation, Universities and Skills, and Alan Smithers, Professor of Education and Director of the Centre for Education and Employment Research at the University of Buckingham.

**Date:** Thursday 27<sup>th</sup> March, 12.30pm-2pm  
**Chair:** Jane Scott Paul, Chief Executive, AAT  
**Venue:** Westminster, TBC

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

**Date:** Wednesday 23<sup>rd</sup> April

The Home Secretary will deliver an address to 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](mailto:events@smf.co.uk).

## Forthcoming SMF publications

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### *Anglo-Flexicurity: A safety net for UK workers*

**Stephen Evans, Ann Rossiter, Verena Menne and Kurt Mueller**

Despite the sustained success of the British labour market over the last decade, workers have become increasingly insecure. This is partly due to the increased financial consequences of losing employment today. At present, neither the state nor the private market provides an adequate safety net for middle-income workers. This SMF report argues that government, in co-operation with the private sector, can and should provide a safety net for the vulnerable middle class.

The authors sketch out a way to do this by significantly increasing access to insurance against the risks of unemployment among those facing the greatest financial fragility, in part through auto-enrolment in such insurance. Since this approach has been shown to significantly increase take-up of financial products elsewhere, it is expected to be successful in unemployment insurance as well.

Some might argue that growing insecurity is an inevitable consequence of economic flexibility and globalisation - however allowing insecurity to grow unchecked risks undermining popular support for both. The key, therefore, is to find a model that maintains this flexibility while providing greater security for workers. This paper aims to provide a blueprint for just such a model, ending the false choice between flexibility and security.

*This publication will be launched on **18<sup>th</sup> March 2008**, and is being published with the kind support of Genworth Financial.*

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## Staying the Course: Changes to the Participation Age and Qualifications

**Edited by Conor Ryan**

The education of 14-19 year-olds is one of the biggest political debates of our time. The Brown Government is legislating to raise the age at which young people leave compulsory education or training. Major reforms for qualifications are planned for later in 2008.

In this compelling collection of essays, leading education thinkers including Conor Ryan, Michael Barber, Alan Smithers, Mike Tomlinson and Alison Wolf consider these changes and debate their impact. They discuss the pros and cons of compulsion and the choices available to young people, including the new Diplomas and apprenticeships.

With a foreword by the Secretary of State for Children, Schools and Families, Ed Balls and an introductory essay by former BBC Education Editor Mike Baker, this is the essential guide to the issues at stake.

*This publication will be launched on **27<sup>th</sup> March 2008** and is published with the kind support of the Association of Accounting Technicians.*

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## 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 has not shifted as quickly as policymakers have hoped to address climate change.

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 in April and is being published with the kind support of Ernst and Young.*

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## SMF Health Project – Interim Reports

In April, the Social Market Foundation's Health Project team will report their interim findings in a series of short publications. The papers look at: Systems management and governance in the NHS; Future financing pressures; Commissioning; Providers; and Patients.

These papers will 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](mailto:dfurness@smf.co.uk) or **020 7227 4410**.*

## Essays

### It's Time To Come Clean on the 2010 Child Poverty Target

**Ian Mulheirn, Chief Economist, Social Market Foundation**

As Alistair Darling prepares for his first Budget on 12<sup>th</sup> March, the elephant in the room is the 2010 child poverty target. As the Guardian reported at the beginning of March, time is running out for the Government to find the £3.4bn it needs to spend on families with children to hit its target. This looks unlikely in the current fiscal environment, and further spending in pursuit of the 2010 target would divert precious resources to tackle the symptoms of child poverty, while neglecting its underlying causes.

Since 1997, the Government has made excellent progress in reducing child poverty, mainly through the tax credit system. Changes since 1997 have meant that the poorest 20% of families are now around £3,500 per year better-off, in real terms. These policies, and overall economic stability, have taken 600,000 children out of poverty. Changes announced in Budget 2007 and the October Pre-Budget Report will lift a further 300,000 out of poverty in the next few years.

But the Government still has a mountain to climb if it is to achieve its ambitious goal of halving child poverty by 2010. Meeting the target will require lifting a further 800,000 children over the poverty line and the Institute of Fiscal Studies estimates that doing so through tax credits will cost a further £3bn each year. Despite better-than-expected tax receipts in January, the Government is running a structural deficit and the public finances are set to deteriorate further as the economy slows. With the Treasury's room for manoeuvre becoming increasingly constrained, finding the necessary cash seems unlikely.

Undaunted by these inauspicious omens, the new Secretary of State for Work and Pensions, James Purnell, speaking at a recent SMF event, said that the 2010 child poverty target would "not be quietly dropped". But it's time for the Government to recognise that the 2010 target is not the means to the noble end it seeks. Further substantial expenditure through the tax credits system risks papering over the child poverty cracks, while weakening the political coalition that supports greater spending to give all children an equal chance in life. What's more, eradicating child poverty by 2020 - the Government's longer-term child poverty target - using transfers alone would be prohibitively expensive, requiring additional expenditure of some £30bn per year<sup>1</sup>.

As the Social Market Foundation has previously argued<sup>2</sup>, a viable child poverty strategy for the long term will instead require much greater expenditure on schools, pre-school and other services, than we have seen to date. This kind of investment has a long gestation period in its impact on poverty, as we wait to see the results on child outcomes in the next generation.

<sup>1</sup> Hirsch, *What will it take to end child poverty? Firing on all cylinders*. JRF (2006)

<sup>2</sup> Alakeson, *Too much, too late: life chances and spending on education and training*. SMF (2005)

But this should not bias the Government in favour of cash transfers simply because poverty reduction through higher tax credits can be measured within a parliamentary cycle. Rather, it means that the 2010 and 2020 poverty targets now represent distinct visions of how to tackle child poverty. As money becomes scarcer, they are increasingly becoming opposing visions. It is clear that providing real equality of opportunity, as represented by the 2020 target, rather than the palliative of tax credits, should now be the priority.

Indeed, unlike the argument for cash transfers, the one for greater expenditure on education, to narrow the gap between outcomes for rich and poor children, is a rare example in public policy of equity and efficiency goals pulling in the same direction. Research from the United States shows how intensive investment in pre-school services for poor children can substantially improve their life: raising educational attainment in secondary school, increasing earning power and employment rates in adult life, and halving the chances that beneficiaries will later fall foul of the law<sup>3</sup>.

So it's time for a rethink on child poverty. While a fickle electorate might forget it, the Government has made vital progress on child poverty since 1997. But cash transfers on the scale required to further substantially reduce child poverty are not politically sustainable, whether or not we wish that they were. Nor do they address the underlying social injustice of child poverty by equalising children's life chances. The Government should have the courage to ditch the 2010 target, and take the credit for concentrating its efforts on the real prize represented by 2020.

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<sup>3</sup> Heckman & Masterov, *The productivity Argument for Investing in Young Children* (2007)

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## An American Civil War: What the US election could mean for European social markets.

**Dermot Kehoe, Managing Director, Social Market Foundation**

The US primary contest has certainly been one of the most gripping for more than a generation. The continuing crawl to the finish line between former First Lady Hillary Clinton and freshman Congressman Barack Obama has not only gripped America but has been followed avidly by political junkies on this side of the Atlantic too. So much so that the script writers for *The West Wing*, the award winning US TV Drama set in the White House, have even claimed that their two year old story line – pitching a handsome and charismatic Latino Congressman against an establishment party apparatchik for the Democratic nomination, culminating in a dramatic brokered Convention – was in fact inspired by the real life Barack Obama.

So once all the dust has settled – what will the outcome actually mean in terms of economic policies that will affect the rest of the world?

On the Republican side things are a little clearer. Senator John McCain is now the unopposed Republican nominee for President. Of all the potential Republican candidates he has taken the strongest line on curbing global warming, he is more welcoming to immigrants, and has always been an orthodox free-trader. All these things are likely to ensure that he gets a more welcoming reception in European capitals than the current Republican President.

However, according to Matt Welch, a critical biographer of John McCain, the Senator offers “a more militaristic foreign policy than any US president in a century”<sup>4</sup>. Indeed Mr McCain has been a long time advocate for the troop “surge” in Iraq and has suggested that America could remain in that country for up to a century.

On the Democratic side the increasingly bitter struggle between Obama and Clinton has been seen as more a clash of visions than of policies. Mr Obama offers inspiration, youth, hope and the prospect of a clean broom in Washington while Mrs Clinton offers serious-minded competence, experience and reassurance.

Nonetheless, policy differences do exist. Obama currently has the single most liberal voting record of any Senator in Congress; Clinton, on the other hand, has always been more of a centrist.

However, as the battle has stretched on, both candidates have drifted to the left to appeal to core Democratic constituencies. Blue collar workers in industrial areas of states like Ohio and Pennsylvania have seen alarming rises in unemployment and traditional industries shipped overseas. Many blame NAFTA, the free trade agreement between the US, Mexico and Canada. The 2007 Pew Global Attitudes Survey showed that America has seen the biggest rise in opposition to globalisation of any of the 47 countries studied. Only 58% of

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<sup>4</sup> [The Economist, Feb 7<sup>th</sup> 2008](#)

Americans now think that international trade is benefiting their country, compared with 78% in 2002.

This helps explain why both candidates have threatened to pull out of NAFTA unless it is rewritten – particularly surprising for Hillary since it was her husband who negotiated the original agreement when he was in the White House. But it is Obama who suffered from the issue most recently when he leaked a document indicated that while he was attacking NAFTA in public, a close aide was reassuring the Canadian consul in Chicago that this was just posturing to harvest embittered votes.

On climate change the Democrats in general have always made noises more welcoming to international ears and both candidates are committed to a more engaged and multilateral approach to the rest of the world. On Iraq, while both candidates are now critical of the US' role, Clinton is paying a high electoral price for giving George Bush the mandate to declare the war in the first place, while her opponent did not.

It was widely thought, or maybe just hoped, that after the critical votes in Texas and Ohio last week the Democratic battle would by now be decided, probably in Obama's favour. However, after witnessing another Clinton comeback, hostilities are still very much ongoing.

If Clinton wins it is assumed that she will return to the successful centrist economic policies that were pursued when she was First Lady in the White House. If Obama wins it is much more difficult to predict with any certainty the policies he will pursue. He has, however, clearly demonstrated excellent political skills and has been at pains to surround himself with the best and brightest advisers.

The next few months of intense campaigning will no doubt increase the rhetoric without necessarily bringing clarity. We will probably have to wait until the fog of war has lifted before we get a clearer idea of what the policy agenda of a Democrat in the White House would really mean.

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

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### 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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