

# An Age Of Achievement

The social market opportunity

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## THE SOCIAL MARKET OPPORTUNITY

This essay develops an argument primarily about public service reform. It is written, I hope, in the tradition of the social market. This is the voice of the radical centre, optimistic about the potential of politics, frustrated by fixed conceptions of public and private, disdainful of short-term thinking.

My starting point is that we live in an era of extraordinary, revolutionary change at work, at home, through technology, through modern science. The possibilities are exciting. But the challenge is clear. How do we create in Britain a new age of achievement in which all of the people - not just a few but all of the people - can share?

And yet this is not the present tone of politics. Instead there is a remarkable consensus about future austerity – a downbeat, pessimistic consensus – which threatens to provide the defining task for politics over the next few years. I expect that it will soon fall apart. As it does, the social market opportunity to create an age of achievement will become remarkably clear.

I'll start by clearing the ground. Why do I think the consensus about austerity will fall apart? Simply because austerity on the scale that the headline political commitments on fiscal consolidation require is undeliverable. This is not to say that very significant cuts in public spending are undeliverable *per se* - but they will be made undeliverable by political calculation.

Now that the storm of a contracting economy and a rising deficit has passed the dominant political narrative is about undoing the impact of the downturn on peoples' pocketbooks and prospects. Whether that is done through tax cuts or universal childcare, a higher pupil premium or lower university tuition fees, it makes no contribution whatsoever to cutting public spending, quite the opposite. The frustrations of the past few years will be worked out into fiscal expansion and all the while the ring-fences of the first phase of austerity (2010-15) will in all likelihood remain in place. While every spending commitment for now is accompanied by solemn words on fiscal discipline the credibility of the latter is fading.

Even while the storm was overhead, public service reform remained timid in nature. This may be a surprising comment to make about a period when the state has been shrinking. But the way in which it has shrunk is by cuts rather than by reform; and, critically, this is unsustainable. What we have seen in the last few years is a combination of job cuts and a freeze on public sector pay; the passing of large budget cuts on to local authorities to implement; and the outsourcing of public functions. The former two strategies are reaching a breaking point when they can deliver no more savings and there is public as well as political disquiet about any expansion of the latter. The Labour Party at the least will fight the next election on the basis of rolling back private provision in the NHS, the railways and elsewhere. In the face of this, it is unlikely that the other parties will have bold proposals for contracting out more of the state.

Hence we move on to the alternative.

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The social market opportunity begins by eschewing the hard divide between the public and private sector and capturing the deeper sense of what is public in public services, what a French person might mean when they talk about *fraternité*, what in our history has taken the form of guilds, friendly societies, cooperatives and mutual, or less romantically a Citizen's Charter or a NHS constitution. At a practical level, this alternative view of public service reform is unafraid of market mechanisms because it recognises that we can capture the public nature of public services – our shared beliefs about equity and entitlement – in organisational forms other than the state and through framework documents such as contracts and constitutions that remind us what those are.

The organisational forms I have mentioned should be unthreatening, yet we have too few of them in this country, compared even to hard-headed neighbours such as Germany. And they have too little role in public services; by contrast a fifth of hospitals in France are run by the bodies I am talking about. Unthreatening though they may be, these bodies are privately-owned and that admission opens up a wider category of organisations that can be involved in delivering public services, so long as there is stewardship of these markets for the public good.

A realistic version of public service reform only appears when we use competition to drive efficiency within a framework that secures equity. However, while that may be fine in theory, it is obvious that most people are not neutral about who delivers, in particular profit-seeking companies raise suspicion even if they are bound by contractual standards.

There are two responses to this. The first is to broaden the field of who delivers from the traditional outsourcing firms to include in the scope of all commissioning exercises those who are “social by nature” – the mutuals and cooperatives that I have mentioned – recognising the value of their involvement specifically and the value of diversity in public services in general even if this detracts from “pure efficiency” in awarding contracts. The second is to watch over markets more closely, strengthening capability among commissioners and using persuasion (or blunter tools when necessary) so that companies providing public services train and help employees out of low pay and operate a high level of disclosure, what you might call making contractors “social by design”.

But these adaptations in who delivers will not be enough on their own to produce reform, we also need an account as to why – beside spending reductions – it is needed. Efficiency gets us started, it should be a basic operational principle for government given that it is using other people’s money. Modernisation is the next part of the rationale. A government isolated from the rest of the economy and society in the provision of services cannot hope to capture all the benefits of technological change. That information and those techniques will often be adopted more quickly elsewhere and so openness in who delivers services will mean they move closer to the cutting edge.

This still seems rather technical though and that is because we are neglecting the role of choice, the agency of the individual in public services. Some choice mechanisms are already working, such as in schools, but not all choosers are equal: wealthy parents

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are dominating the top schools with their choices, including of where to live, as well as whether to send their children to school in the state or independent sector. Wealthy parents maximise the utility of their choices. Others cannot. Ignoring that disparity undermines the case for reform and tackling it brings dilemmas such as, for example, whether the state should subsidise access to independent schools for children whose families cannot otherwise afford it.

In most other areas of the public services though, the challenge is at an earlier stage: creating a role for choice at all. Health and social care choices could be enabled by a much wider allocation of personal budgets. There is no choice in the various public services that help people to find a job, a new version of the Work Programme could enable the job seeker to choose who provides them with training and job search assistance. The savings will come from higher effectiveness.

But again that is the easy part. The next stage of choice is for the individual to mix their own money with public money in securing the public service. On a bold social market view we should explore how income protection insurance comes in alongside Job Seeker's Allowance and other benefits to offset cuts, at a minimum, and then to enhance the income available to someone who is unemployed, as well as the quality of services they can access to help them back into work.

Look at it this way: if an insurance company is paying out too when people are unemployed, then there is suddenly someone else who comes in alongside the state to help with training needs

and job search. These insurance arrangements already exist in some workplaces. In many countries, they are also provided through trades unions, professional bodies or guilds.

This is not about abandoning the individual to the market; reform should be social all the way down. Sometimes discussions of choice make the mistake of envisaging the individual as a solitary consumer. This is wrong as a matter of description - (good) choices are made in a social context; and it neglects the role that existing and new social institutions should play in enabling choice, whether those are charities that provide advice and guidance based on experience and expertise or cooperatives that aggregate information and demand. The real objective is to move away from a situation where the state bears most of the risk in a society, risk that it deals with by gathering in tax, whereas if the risk is spread more widely then its mitigation will rely on other investment and innovation.

At some points the mingling of private money with public will look like taxation, except that the role of choice is built in from the beginning. The similarity to tax will likely be the closest in the area of health and social care. Personal budgets, especially at the end of life, can for example be allowed to run into a credit balance, with that balance to be cleared with the proceeds from the individual's estate. The amount that is paid in this way can be capped, it can also be varied by the amount of the person's estate, hence the similarity to tax. However, it is the personal budget rather than tax which builds in the role of choice and that is why it may be the best funding model for the expansion and integration of care.

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In sum, that is the case for more radical public service reform. The case does not stand or fall on the argument from austerity; that is important, austerity for austerity's sake is unlikely to have public or political support against a backdrop of growth. Instead the case for reform is linked to a much broader vision of the relationship between the state, the individual and other social institutions.

That said the changing backdrop does force the question of why we need to make these difficult choices about reform at all. A new approach to public services – whether the one proposed in this essay or any other – may be appealing, or it may sound dangerous. I suggested at the outset that we may be living in the last year of austerity. Well, fine, many people will suggest, why don't we stop there? Growth is back and we can use it to take care of the deficit and begin to erode the ratio of debt to GDP over the long run. Let's devote the political time and energy we would give to inherently controversial public service reforms, all of which carry risks of failure, to something else. This is certainly a tempting choice. The current growth rate will mean that the size of the economy doubles in real terms within a generation. On the face of it, the ratio of debt to GDP would more than halve if we were running a balanced budget throughout this time. We could achieve a less spectacular decrease while running small deficits every year.

While tempting, this is wrong. The first reason is that, if our economy does grow in the way that I have suggested, then we will want to use rising prosperity to make sure that fewer people in our society live in poverty and that even the most disadvantaged have access to better services. Certainly that's what we did during our last boom. Equally though, with the benefit of higher incomes and the ability to pay for private alternatives, many more people at the

other end of the income distribution will opt out of using public services. As a consequence we will have a much sharper divide between those who benefit from state services and those on the whole who pay for them via taxes and yet do not use them. This arrangement will be inherently unstable and the mingling of public and private money, as well as provision, promises a larger and happier common life than keeping rigid boundaries between them.

The second reason for pressing on with public service reform – despite whatever the final verdict is on continuing austerity or not – is that longevity is increasing. This means that many more people not in work will need income and they will also create more demand for public services. Collectivising all of this risk via the state will lead to massive intergenerational unfairness because it will mean that the young will be paying for those who are retired via taxes on their current incomes. Creating mechanisms by which the retired pay for themselves either through savings earlier in life or payments from their wealth or estate will ease that unfairness. Again the popular mandate for such funding changes is unlikely to exist unless there is a much more significant role for choice in public services and quality is increasing through innovation.

Finally, we should embrace the possibility that we are in an age of achievement and aim to increase prosperity stably over a long period of time. This is highly ambitious. In a strategy designed to achieve this aim, we will have a competitive tax environment. We will build lots of houses, train lines, renew our energy infrastructure, we might even give the go ahead to a new airport runway – or two. We will invest aggressively in education and skills. We will grow the research base. We will make some big bets

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on new technologies, picking races rather than winners. There will be more to it – such as envisaging the financial services that support such rapid economic growth, smart choices on regulation, a culture of deal-making shared across the public and private sector, the bold use of public procurement to support innovation – but I mention the earlier items in particular because they cost money and future spending reviews should make the room for such measures at the same time as rationalising spending elsewhere. A plan that is purely focused on cuts, or on keeping the status quo in so far as possible, is not long-termist. Hence alongside a bold economic strategy we will need a credible fiscal one.

It is customary at this closing stage of a political essay to end with a quote. But I cheated, there was one along the way. Some readers will have noticed that the second paragraph of this essay – and its title too – are adapted from Tony Blair’s Labour Party conference speech in 1996. While the SMF works on a non-partisan basis, the reason why I chose to adapt Blair’s speech is that it displays a blatant optimism that has been missing from our politics since the crisis. This essay is my small attempt to restore it even in the face of hard choices.

Emran Mian

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