



THE SOCIAL MARKET TWENTY YEARS ON

by Philip Collins

THE SOCIAL MARKET TWENTY YEARS ON

by Philip Collins

FIRST PUBLISHED BY

The Social Market Foundation, December 2010
11 Tufton Street, London SW1P 3QB

Copyright © The Social Market Foundation, 2010

The moral right of the authors has been asserted. All rights reserved. Without limiting the rights under copyright reserved above, no part of this publication may be reproduced, stored or introduced into a retrieval system, or transmitted, in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise), without the prior written permission of both the copyright owner and the publisher of this book.

THE SOCIAL MARKET FOUNDATION

The Foundation's main activity is to commission and publish original papers by independent academic and other experts on key topics in the economic and social fields, with a view to stimulating public discussion on the performance of markets and the social framework within which they operate.

The Foundation is a registered charity and a company limited by guarantee. It is independent of any political party or group and is financed by the sale of publications and by voluntary donations from individuals, organisations and companies. The views expressed in publications are those of the authors and do not represent a corporate opinion of the Foundation.

CHAIR

Mary Ann Sieghart

MEMBERS OF THE BOARD

Viscount (Tom) Chandos

Gavyn Davies

Daniel Franklin

Martin Ivens

Graham Mather

Brian Pomeroy

DIRECTOR

Ian Mulheirn

CONTENTS

| | |
|--|----|
| ABOUT THE AUTHOR | 7 |
| WHAT IS THE SOCIAL MARKET? | 8 |
| THE POLITICAL JOURNEY OF THE SOCIAL MARKET | 11 |
| THE SOCIAL MARKET PARTY | 15 |

ABOUT THE AUTHOR

PHILIP COLLINS

Philip Collins is a writer on The Times and a Senior Visiting Fellow in the Department of Government at the London School of Economics. He was, until July 2007, Chief Speech Writer to the Prime Minister, Tony Blair, in 10 Downing Street.

Between 2000 and 2004, he was director of the Social Market Foundation. Prior to that, Philip spent five years as an investment banker, ending his time in the City as the top ranked equity strategist in the smaller companies sector. He has also worked as a political assistant to Frank Field MP, for the Institute of Education at the University of London and for the BBC and London Weekend Television.

Philip has published two novels with Harper Collins and a number of academic books on broadcasting policy and public service reform.



WHAT IS THE SOCIAL MARKET?

The social market is an idea from the European right imported into Britain by the dissident left that now has a contested political home. It originates with the German Christian Democrats and the works of Wilhelm Röpke – but we will not unearth its relevance for Britain there. The social market in Britain was, instead, the ill-defined legitimization of the Social Democratic Party. For quite some time it was a reasonable summary to say that the social market was what David Owen did.

As philosophical support for a party of the “radical centre” that was a refugee from the left, it is inevitable that the first term in the pairing came to be seen as a caveat on the second. There is something apologetic about the social market in its early years, as if its advocates understood they were obliged to accept market economics but wanted to prefix it with something more solidly familiar and appealing.

This account of the social market contrasts with that in which the apology runs the other way. There is a certain kind of conservative for whom the word “social” is a welcome back to civilized company which, they fear, with their previous market advocacy, they may have abandoned.

All of this leaves too much unsaid. There is no need for the social market to sound like it would rather be something else or a failed solvent in which two incompatible liquids mix uneasily. The best account of the social market is still Robert Skidelsky’s founding

paper for the SMF.¹ In this paper we no longer see the join and the social market emerges as an important compound term which has three main components.

The first is that all markets are inescapably social organisms. That is to say that they work within host societies and they are inseparable from the civic networks and institutions to be found there. To take only the most obvious example, a sophisticated market is inconceivable without an extensive array of laws of tort and contract and the means for effective enforcement. Such laws are a fatal desideratum in many nations and, even in developed countries, they take drastically different forms, lending a different variety to the form of capitalism that prevails.

It follows from this claim – that the line between politics and markets is thin to the point of invisibility – that markets have obvious social consequences. Market societies have a great deal in the credit ledger – in the battle with the command economies to generate prosperity they won a decisive victory. But a social market economy is one in which it is understood and proclaimed that there are other values besides prosperity and that the outcomes of market processes are neither necessarily fair nor just.² Markets can have egregious results, results which might even throw into disrepute the very legitimacy of the social market order itself. The ludicrous remuneration of some bankers is a case in point. Of course there is always an argument about what counts as an egregious consequence but,

1 Robert Skidelsky, *The social market economy* (London: Social Market Foundation, 1989).

2 The most distinguished thinker along these lines, and someone who can enrich the social market tradition, is Amartya Sen who, in a series of works, culminating in his recent *The idea of justice*, has broadened the focus of market economies beyond the narrow remit of mathematical measurement and who has demanded that we pay attention to the capabilities that individuals enjoy to live as they please, not just the pattern of income distribution that obtains.



for the moment, all that needs to be established is that the social market is not the product of *laissez faire* economic thought.

This widening of the focus leads to the third argument for the superiority of the social market over alternate political guides. It is no small matter that market economies will, for good reason, defeat command economies, or extensively planned economies, in the fields of production and exchange. But imagine for a moment economic identity between two nations, one of which was governed by a comprehensive system of collective planning while the other was the upshot of the unstructured actions of players within a market.

The advocate of the social market would argue that there is good reason to prefer the latter society because it is a considerably more hospitable system for a plural and heterogeneous civil society. A nation in which individual difference can flourish according to desire is a good to be pursued for its own sake. Diversity is an intrinsic value of a social market and to the extent that some markets tend towards monopoly, public vigilance will be required. The social market is a plural doctrine, which begins and ends with the ugly term subsidiarity – that power should be at the lowest possible level.

THE POLITICAL JOURNEY OF THE SOCIAL MARKET

That is the nature of the idea and it is now, in its British incarnation, twenty years old. Not many political formulas wear well for twenty years. Certainly, most ideas associated with the political left in Britain have worn badly over that same period, notwithstanding the capacity of its adherents to carry on proclaiming them.³ It is a shame, in a way, that no political party has taken on the social market mantle and become its undisputed champion. Perhaps that is, at least in part due, to its original association with the brilliant explosion of David Owen. Although, as David Marquand has pointed out, Owen never really developed the idea beyond some rudimentary political slogans it was, without question, his property as an idea. To that extent the social market became damagingly associated with the vicissitudes of his more than usually volcanic political career.

With the deposition of Margaret Thatcher as Prime Minister in 1990 and her replacement by John Major, social market ideas came into government, not least because the SMF's second Director, Daniel Finkelstein, became, in 1992, the Head of Research at Conservative Central Office. Though the Major Government was fatally blighted by the economic collapse of Black Wednesday, by the party's debilitating obsession with the European Union and by the curiously diffident character of the Prime Minister himself, social market ideas can certainly be discerned in its education and health policies. Indeed, the reform programmes of the

³ The best source for the gradual and reluctant apostasy of the political left is Edmund Dell's *A strange eventful history: democratic socialism in Britain* (London: HarperCollins, 2001).



later Major years, which drew on SMF work, prefigure some of the later controversies of the Blair premiership.

The Conservative years as a whole contained elements of public policy that derive from the tradition of social market thought. This was true under Thatcher, too. The battles over trade union law reform, privatization and the Falklands war are the headlines of the Thatcher period. But Kenneth Baker's school reforms and Kenneth Clarke's usually fruitless battles with the professions at Health and the Home Office were guided, at least in spirit, by social market impulses. By the end of the Conservative period of office, independent status (grant maintained) was available for schools, funding followed the people, the principle of parental choice had been enshrined in legislation and GPs held the health budgets.

It is hard to detect much of an SMF tone to the early Blair years. Blair himself was a restless reformer but his attention in opposition had been, understandably enough, in ensuring that his party was electable and therefore, in his view, as close to invisible as possible. Such policy development as had occurred was either the legacy of John Smith (devolution) or an ill-starred reversal of good policy begun under Major (health and, to a lesser extent, education).⁴

4 The one serious exception to this was the numeracy and literacy programme, which was a notable success, using essentially the methods of command and control. This idea shows how supple the social market idea can be. There was a very good case that the failure to teach sufficient numbers of children to read was such a terrible failure that control had to be relinquished, as in a state of emergency. The appropriate level of power, for a short period, was central government. Indeed, although the social market is a sceptical creed it is not anti-government.

Indeed, the first Labour term, judged solely by social market criteria, was a regression. GP fund holding was replaced – later to be, in effect, reinstated. The schools reforms of the Baker period were reversed too, only to be echoed by Trust status and City Academies in the second Blair term.

In time, the Blair Government changed its character. The usual verdict on the Blair years – great start that all went wrong as time went on and foreign affairs came to dominate – seems, from a social market perspective, exactly wrong. The first term, with its collection of small-scale central initiatives, was more or less wasted in undue caution. It is only in the second term, gathering pace in the third, that serious social market change began. The system of payment by results and patient choice in the health service and the Academy programme and tuition fees in education suddenly began to open up public services in a desirable way.⁵

It has to be said that the enthusiasm for social market reform that was exhibited in the later Blair years was not carried through into the premiership of Gordon Brown. Indeed, the gradual disintegration of the Labour Government's fortunes have raised once again the question of which party (if any) is keen to wear the mantle of social market ideas.

The answer came in the form of an inevitable Labour defeat and the emergence of the new coalition government, combining the social market wings of both the Conservative and the Liberal Democrat parties.

5 If the impact of the SMF's ideas can be measured by the destinations of its directors which, to some extent, it can, then it should be noted that another former director (me) spent some time in Downing Street as an employee of Mr Blair in his third term.



Of course the dominant political fact of 2010 is the deficit and the consequent need to cut public spending. As Tony Blair argues in the postscript to his memoir *A Journey* these are economic conditions which make serious reform even more vital. The Lib-Con coalition faces inpropitious circumstances in which to act – conducting an experiment in social market reform at the same time as cutting public spending is going to be very difficult. That said, the two main areas in which social market intentions to reform are visible are education and health.

The Education Secretary, Michael Gove, is an obvious convert to the social market philosophy. He recently wrote to every primary and secondary school in England inviting them to become an Academy. The City Academies were, until the policy was watered down by Ed Balls, one of the best reforms of the Labour period. His intention is that schools that are ranked as outstanding by the inspectorate – about one in five – will be fast-tracked into academy status by the autumn. They will have the same freedoms and status as the City Academies and will not be subject to local control. The coalition Government also wants parents and charities to set up completely new schools like the Swedish free school model or American charter schools. Policies have many authors but both of these ideas were proposed by the SMF in a series of publications on choice in education in 2004. There is, though, one important difference. Labour's Academies were all established in deprived parts of the country. Mr Gove plans to begin with the more affluent areas.

The place of social justice in social market thinking is the subject of much dispute. There are those from the political right who see it as an encumbrance on the social market and there are those on the left, still within the social market fold,

who see social justice as an intrinsic property of a social market. Perhaps the best resolution of this argument is to say that when the market throws up an obvious injustice that casts doubt on the social market model itself. Therefore, clear cases of injustice matter enormously to social market thinkers. It is not enough to say simply that the upshot of market encounters is, *ipso facto*, just.

The same trend can be seen in health policy, although to greatly more uncertain effect. The plan announced by the Health Secretary, Andrew Lansley, envisages the phasing out of strategic health authorities and many of the powers of Primary Care Trusts will be granted to new consortia, led by GPs. These new consortia will be given the power to commission although, at the time of writing, it is by no means obvious that it is a power they relish. This is another lesson about reform of a social market character, indeed any reform at all. If it designed poorly it will not only not work it will make subsequent reform of a similar kind all the more difficult to enact. Adversaries of reform, of which there are many, will not distinguish between good and bad variants of an idea.



THE SOCIAL MARKET PARTY

The doubts that advocates of the social market approach must always entertain about social democrats and conservatives points to a bigger philosophical question. Social markets emerge naturally out of neither, but from political liberalism. The abiding shame of British politics is that the liberals are scattered amongst three parties rather than concentrated into one. Given that both of the two main parties seem to win the consent of the electorate only when their liberal wings are uppermost, it would, if it only had a social base, be a highly successful enterprise.

This is not to say it is at all likely. From the point of view of one who was concerned, most of all, with establishing a social market approach to politics, a thorough realignment is devoutly to be wished. But, for all the current attempts of the coalition, there are two reasons why the future of the social market idea in Britain is likely to remain alternate administrations of partially committed parties rather than the full-blooded endorsement of a liberal party.

The first reason is the most important. Even at the depths of its unpopularity, in 1983, the Labour retained the vote of 28% of the electorate. It lost in 2010 with 29% of the electorate. It has roots that clutch. Those roots are stirring: slowly the tree will begin to move. But it is sturdy enough for the foreseeable future. Not sturdy enough to win a majority of the electorate but strong and tenacious enough to survive as a viable independent force.

The last time there was a major change in the political parties in Britain – when the Labour party supplanted the Liberal party in the mid-1920s – there was one obvious and huge difference with today. The electorate had changed. A series of Reform Acts over a thirty-five year period had changed the nature of the voting public beyond recognition. The working class had been enfranchised and a party had emerged out of the trade union movement to ensure they were represented in parliament.

The second reason was that the incipient ability of the Liberal party to respond to the new electorate, and accommodate its needs within an expanded radical liberalism (a possibility which as acute an observer as David Marquand entertains) was squashed by the split in the Liberal party after 1916 between the followers of the deposed Asquith and the supporters of his conqueror, David Lloyd George. And, of course, there was an epochal issue standing behind that extraordinary split – the Great War.

There is no comparable change to the nature of the electorate today. It is true that the public is more politically volatile than it was. It is true too that the public is less likely to vote automatically for one of the two main parties. If we project these trends forward – always a dangerous assumption – then we arrive eventually at realignment. But, unless the Labour party undergoes a serious convulsion in response to defeat, occasioning a split and the creation of a new party, it is difficult to see this as the harbinger of a central Liberal party.⁶

⁶ Of course the history of the Social Democratic Party – as close to an SMF party as it is possible to imagine, in both philosophy and personnel – is a warning against



So whoever demands social market ideas is likely to have to make their peace with those agreeable elements in the existing parties. But, in that sense at least, the omens are good. The Labour party has rid itself of the ideological *dirigisme* that was an article of faith for even its most revisionist thinkers. The Conservative party has had a decade-long lesson in the fact of economics that markets are sophisticated social creations, neither free nor necessarily to be left alone.⁷ The coalition has given a chance for the liberals in both parties to practice social market policies – so even if the party arrangement doesn't last more than one term, the policy ideas could well leave a legacy of social market innovations which will be heard to pull up.

The answer now, as it has been for a long while now, is to civilise capitalism rather than to fantasise about replacing it. Both social democracy and conservatism have their tendencies in this direction and so the future for the social market will be to civilise them rather than fantasise about their replacement.

To this limited extent, coalition government is good because social market thinking operates at the point of overlap between the parties. There are social market thinkers in all three parties and when two come together it is likely that they will find their common ground in a set of ideas which bear at least a family

optimism. It is remarkable to recall that the SDP-Liberal Alliance scored over 50% in some opinion polls. Despite that, Neil Kinnock was able to turn the tide for Labour and, ten years after the 1981 Limehouse Declaration, the seas had smoothed over the sands, to leave no trace.

7 The best source for this account of the market is, of course, Adam Smith who is usually traduced by selective quotation. The contraction in credit as a result of irresponsible bank lending which, at the time of writing, is the backdrop to the country's economic problems, is a perfect example of two of the basic precepts of the social market – that good markets are reliant upon good regulation, not diminished by it, and that legal behaviour can have collective consequences that are deleterious to the common good. That can, in turn, cause the very idea of the market order to be questioned – as it has in this case.

resemblance to the ideas ably promulgated, over twenty years now, by the Social Market Foundation.

Copyright © The Social Market Foundation, 2010

Philip Collins served as director of the SMF and as speechwriter for Tony Blair; he is perfectly placed to offer a history of social market thinking and its impact on government. In this essay, Collins defines three pillars upon which the social market philosophy stands: markets are 'social organisms'; the 'thin line' between politics and markets makes careful regulation necessary; and market systems are more productive than planned ones. He appraises the Thatcher, Major, Blair and Brown governments, and the Con-Lib coalition's education and health reforms from a social market perspective – and the prospects for a realignment of British politics with a Social Market Party at the centre.

SOCIAL MARKET FOUNDATION

11 Tufton Street | Westminster | London SW1P 3QB

Phone: 020 7222 7060 | Fax: 020 7222 0310

www.smf.co.uk