

Social Market Foundation & Joseph Rowntree Foundation

Fair consumer markets for all

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I've been asked to talk about markets. Perhaps because I'm a Conservative. But the truth is, markets aren't political. They are an instinctive form of human organisation. Wherever you go in the world, you will find them. A few years ago – before I got involved in politics – I worked in Kabul. Perhaps the most famous street in the capital is Chicken Street – a name that reminds us of the two fundamentals of successful markets – competition and information. Once people went to Chicken Street for, guess what, chickens; now the street is known for tourist memorabilia and carpets.

But the point remains: if you were selling chickens, that was where you needed to be; as a consumer you had the widest choice and so information about quality, availability and so price, and if you were a trader you knew you would find customers.

But Chicken Street isn't just about chickens. Markets are the cornerstone of Afghan society, with customers looking to feed their families as well as they could, and store holders motivated by the same desires as those who start small businesses in the UK. Providing for their families, having the ability to control their own lives, and building a society. That's why Chicken Street was targeted by suicide bombers recently. They want to destroy a society that works together. Because markets, in the end, are about freedom.

The recipe is the same the world over. When people are free to make their own choices, to direct their own lives and spend their own money, they make good choices – or rather better choices than the ones that would be made for them by others – by government officials and, yes, by politicians. Economic freedom is a necessary, if not sufficient, condition of political freedom.

That's why societies that have embraced market economics have made their people wealthier and happier than those that have not. And because of the wealth created and distributed by the free exchange of goods, services and, more recently, ideas, many more people live happier and longer lives. In 1981 forty per cent of the world's population lived below the poverty line. [The spread of market economics has driven that number down to about ten per cent today.](#)

That's why Conservatives fight for markets and defend the market economy. This isn't some dogma, but pragmatism based on the evidence that markets work. They bring more wealth and more freedom for more people.

But in some cases, they need fixing. Many now believe that the market economy has failed them. A recent study published by the Legatum Institute showed that that support for statist solutions is on the rise. Over 70 percent of people believe that public ownership of the electricity, water and rail companies would help solve the problems.

I agree that there are problems in all three cases. But public ownership would simply replace an unbalanced market with a monopoly and make the situation worse. Bring in the government and you politicise every decision and take power from the consumer and hand it to the producer. That's not the cure, that's the disease.

So, what should Conservatives be doing? If we fail to address the feeling of injustice and unfairness that many people now have about the market economy, we risk allowing a government in who would not fix the problem but sweep away the market economy away and replace it with something very different. That would be a disaster for Britain.

Now, I'm proud to say I have good friends in the Labour Party. There are many good people in that party as in all others and many of my Labour friends are truly committed to improving the lives of the poor and disadvantaged. But their solutions would not empower them because their leadership wants to use reasonable public questions about the functioning of markets as an excuse to restrict markets.

Jeremy Corbyn and John McDonnell are like doctors who propose to treat a sprained [broken?] ankle by amputating the whole leg. And I wouldn't trust them to get the right leg, either.

Their strategy is to repeat the hypnotising mantra, "public good, private bad". By attacking councils, privatised industries, contractors, academies, threatening to seize private property, and much more they are expounding a mantra of statism that would lead the country to ruin.

Jeremy Corbyn and John McDonnell's deliberately distorting vision of the private sector in the provision of public services is a caricature of the truth. Because the private sector has always operated alongside the state services and, though there are well known problems, it can keep on helping. Instead, he is seeking an ideological mandate for the biggest power grab since the nationalisations of the 1940s. And that wouldn't come cheap.

Though he and McDonnell appear to be confused as to how debt works, or the laws on expropriating pensioners whose hard-earned savings are in the utility company shares, Labour's plans for nationalisation would cost at least £176 billion or about 10 percent of the national debt, and cost every household across the country some £6,500. This very think tank priced the water nationalisation alone at £90 billion.

So what should we, as Conservatives, do to avoid that poisonous medicine? The answer is clear: we need to make sure markets function properly and serve those they should – the people. And that means recognising the need for regulation and the hand of an enlightened state.

Markets are a means to an end, not an end in themselves. We must always ask: how well are they actually delivering what we want? How well are they ensuring innovation, prosperity, and opportunity? How good are they at opening up choice and driving down cost?

That's where the state and the private sector must work together. It's also, I think, where some of my friends who also support the market sometimes stumble.

Some on my side of politics are keen to talk about the noble goal of restoring faith in the market, saving capitalism from the angry populists but forget that, the process isn't sacred and that markets are made for people, not people for markets. They've forgotten the pragmatism that is the underpinning of Conservatism.

It would be easy now to launch an attack on big business. To condemn those whose interests dominate an industry. But that would be to misunderstand the role of companies. After all, what is a company but a collection of people working together to profit from their labour and deliver returns for themselves and those who have given them money – their shareholders?

Of course, they should try to maximise returns. Of course, they should try increase profits. Of course, they should try to increase their market share. That's what their employees are charged with doing so we shouldn't blame them for doing it. But that doesn't mean we should allow it unhindered.

Instead we should continuously ask: "what is the purpose of the market," and remember that the government has a role in ensuring that society, not just the company, benefits. Because society doesn't need monopolies either state or private. They drive out innovation, enterprise and creativity. Worse, they drive up prices, irresponsibility and instability. They are fundamentally unfair and bad for all.

But even seemingly well-run markets can have bias. Today, too many businesses impose a premium on the poorest in our community. To me, as a Conservative, this is an outrage. This is a distortion that sees those least able to bear it, carry the burden.

How can we ever be One Nation if the market that is the foundation of our economy treats rich and poor so differently, and unfairly? By undermining faith in society, it endangers everyone in our country.

This unfairness appears in other parts – people are discouraged from planning for their future because obscure markets fleece pension holders through deliberately opaque pricing structures. And even the state itself is scalped as private pensions are insufficient to pay for retirement, forcing the state to step in, and land-banking by house builders forces up rents and so housing benefits.

I know researchers, including those here, are still working on the exact causes of that unfairness and why it leads to a premium being paid by those least able to bear the cost. But it is clear that at least some of that poverty premium is about a lack of open, comprehensive and comprehensible information about products and prices. And that demands reform.

The first answer is clear – encourage competition. By opening markets up, innovation and experimentation rise, and costs fall. The profit margins on the most open product prove this time and again. They are narrow and the consumer benefits.

That's why the focus for regulation needs to change. We must be ferocious in supporting the consumer. That doesn't mean stopping people from making money or even getting rich, that's fine so long as the company is responsibly delivering for the whole society. But it does mean ensuring they are not simply acting as a rent taker. And companies change over time.

In the early days, a company may be innovative. They may even create a market.

Before I worked in Kabul, I worked for Bloomberg, in the days when that company was regarded as a rather ill-mannered upstart. The platform developed by that company allowed traders to calculate bond yields and compare government and corporate debt allowing trade to be simplified. That expanded bond trading enormously driving down the cost of debt and creating a market. Cheap debt has its downsides, but it is good for consumers.

Over time market players can change. Once challengers can become incumbents and where they were disruptors they can become monopolies of their own. How many companies in Palo Alto would be broken up if the products they were selling weren't almost free?

When we see them, Conservatives most of all should be quick to condemn because failure to do so undermines the most effective tool we have to tackle poverty and promote opportunity. Those of us who know that a state monopoly is no better than a private sector monopoly know it is our duty to make sure markets work better for everyone, particularly those on lower incomes.

As a Party we've known this a long time. The Corn Laws Reform in the early 1800s saw Robert Peel's Conservatives repealed tariffs that forced up food prices and allowed producers to make excessive profits, largely at the expense of the poor.

That's right. The Tories used the power of the market to put rich suppliers under pressure to do better, and the result was cheaper food and better lives for ordinary people.

The same happened in the 1980s. Though much has been said about Margaret Thatcher's reforms, the empowerment she gave to millions by opening up markets has been too often forgotten. Forcing customers to wait weeks for a phone line was only one example of the way a monopoly treated its customers who couldn't choose another supplier.

As Oliver Letwin put it recently, "arguments for the "common ground" and the "social market" were aimed at establishing the contention that free markets, properly harnessed, are the most powerful engine yet invented by humanity for elevating the condition of the poor and the disadvantaged." Those ideas fed into the policies of David Cameron and Iain Duncan Smith.

Of course, sensible, practical Conservatives remember this. Theresa May has talked about the need to make markets feel fairer for the people in them, and Greg Clark is working to put those words into action with his consumer green paper. Thoughtful, compassionate Conservatives like Jesse Norman remind us that Adam Smith was not the crude caricature sometimes drawn today but a moral leader with a profound sense of social responsibility. And Kevin Hollinrake and the All Party Parliamentary Group he has founded on Poverty show that this is at the heart of the modern Conservative Party.

So how do we win today without echoing the 1970s? If we repeat old arguments to win 21st Century elections, we will lose, and we will not just lose power and office, we will lose the fight for Britain as a free and dynamic market economy. And that would mean the

people we serve would have lives that were poorer and shorter. We cannot let that happen.

We must instead restart the debate to renew faith in the market and that means focussing ourselves utterly and even ruthlessly on what markets are delivering for the people we serve – especially those who enter the market with less money and fewer means than the typical consumer.

We have, to be frank, been lax in making and re-making the argument for markets and economic freedom. Perhaps because it is so obvious to us that markets are the best way to organise our affairs, we have sometimes forgotten to make the case for them from first principles. The result is that when some hear words like “markets” or “capitalism”, they think of a system that works for someone else, that serves the rich and not them.

Our job comes in two parts. The first is about argument and that’s what I have been covering so far, but the second is about action. Words have their uses in politics, but voters, quite rightly, judge us on results. So, we need to start offering – and implementing – practical, tangible solutions.

Today, we are living in the shadow of the 2008 crash. The market failure of the finance industry was not just a tragedy, it was a crime. But somehow there were no criminals. We need to show that we are equally as tough on those who deceive regulators about the structural stability of their bank as we would be about the structural stability of a building. Both can cost lives and we need to treat both seriously.

We also need to reform markets – whether banking or housebuilding – to ensure smaller, disrupting companies can end the dominance of the huge firms and ensure corporate failure – an essential part of innovation – never becomes system failure.

Together these are arguments for more power for the Competition and Markets Authority to enforce transparency and openness and the Financial Services Authority, and others to enforce compliance.

Only by opening the market to new challengers can we put incumbents under pressure to do better for customers and this has never been more important. Recent work by the Social Market Foundation showed that 8 of the 10 most important UK consumer markets aren’t really competitive, meaning consumers, especially the poorest, are missing out. We should be encouraging and helping enterprising challengers who can make markets more competitive – because that benefits British households.

Those challengers don't all have to be conventional profit-making companies – as I said, competition is about outcomes, not dogma, and as Conservatives we should be profoundly agnostic about who the competitors are, so long as the playing field is even.

One example is on the railways. Yesterday we learnt again that a train operator was not viable. The East Coast Mainline has got its sums wrong and couldn't continue. That means, in the interim, that the state will take back control of the line. When it is refranchised, why shouldn't a mutual, a not-for-profit, or even a charity be able to bid? While as state business puts politicians in charge, neither of the other solutions has that obvious downside.

Social investors with a real sense of duty to the areas and passengers they serve could bring competition into a market that is constrained by rules that only allow the biggest to enter, restricting real rivalry. Rewriting franchises could bring in more investment and enable long term returns that many may choose transforming an industry already much improved by the end of state ownership.

The free school programme also shows that competition doesn't mean privatisation. Community groups working with non-profit partners have transformed the life chances of thousands by delivering public services in areas that had been failed by the traditional statist model. That's why looking at contracts that keep innovative providers out of the bidding should be reviewed – they punish the poorest.

And even the NHS, that bastion of state provision isn't quite what it appears. Firstly, most people's interaction with the health service is with a private company – their GP; and secondly, many people's final care is provided by a charity – the hospice movement. Neither are state run, but the care given by both is second to none.

Similar models should be explored for the provision of some of the local services that are currently swallowed up by flawed giants from the corporate world. We should see community construction projects to improve a village, expand a town, and give those who want beautiful architecture and quality from the homes around them, not just the raw profit of companies like Carillions or Persimmons who currently dominate the market.

Though it may appear to make markets more inefficient, small companies improve innovation, resilience, opportunity, and enterprise. That's why we need government procurement systems to make it easier for smaller companies to compete with the giants.

In short, we must make life more challenging for the biggest players in the market, so they cannot simply dominate a market. That will give them new reasons to do better for consumers – of all incomes.

For some commentators, there's an idea that this agenda is somehow anti-business, that getting a better deal for people must somehow entail shackling or stigmatising successful wealth-creating employers.

In fact, the opposite is true. Making markets fair is a way to restore faith in business and to highlight the good that business does. It frees capital for enterprise, investment and innovation. And if we get it right, it will encourage ownership to flow through society. Getting Brits to stop killing capital by using it to inflate property prices and instead use their cash to give life to new corporate ideas would be evidence that this transformation is working. And there are clues that it will.

People today don't leave school or university simply looking for a job. Unlike my generation, many thousands are looking to start their own business. They want to change the world or at least change the way we date. That's an entrepreneurial culture incompatible with anything except free markets and the liberties they require. That's a culture that understands that profit is good, but competition keeps it honest. That's a culture of free markets and a pro-business agenda.

But to achieve it requires the hand of a regulator. Those who want the state to retreat completely from the public square and allow a sort of economic free-for-all with no check on bad behaviour and no protection for the weak and unlucky are arguing the reverse. Their distorted vision of the marketplace would create monopolies, and that would cost everyone more, and lead to the sort of public discontent that would give Britain a government intent on shutting down markets for good.

That's why ensuring consumers get a better deal without being ripped off isn't just right in itself, it's about ensuring the freedoms we enjoy are promoted through our whole society.

Anything else would be a backwards step, one that would make everyone worse off – especially the people on low-incomes who this event is, quite rightly about. For the market remains the best tool we have for giving them the security, dignity and fairness they deserve.

That is, has been, and always will be the job and mission of the Conservative Party. Now is the time for us to rededicate ourselves to that purpose. For that, we will need to be open to new ideas and new policies, which is why I am here today.

But our aim will remain unchanged as it always has: to create and spread wealth and freedom – for everyone.

I said earlier on that some people on my side of politics misremember Adam Smith. I'd like to finish by talking about another very practical thinker about markets else who is sometimes misremembered.

Someone who said this:

“By encouraging the energies and initiative of the creative and sturdier members of society our resources for helping the aged, the sick, and the disabled are substantially enlarged.

That is why, “the aim should be to promote personal independence and development of responsibility by encouraging the growth of the maximum number of autonomous economic units, be they companies, large or small, partnerships or cooperatives.”

Securing dignity, resources, and independence for all while remaining agnostic as to the way it is provided. That was and will remain the goal of the Conservative Party, and the market will remain the tool we use to do that, not because of faith but fact. Even if that tool needs a little fine-tuning from time to time.

Oh, and the person who promised that dignity and independence, and who would have seen charities and cooperatives as part of the market economy, even perhaps on the railways? His name was Keith Joseph.