

Nicholas Ridley Memorial Lecture 13th September 2011

Conservative Way Forward

I am greatly honoured to have been asked to give this lecture this evening for two reasons. Firstly, the work of Conservative Way Forward is so important in helping to keep alive not just the memory of the great work done by Margaret Thatcher's governments in the 1980s but also in keeping alive the Conservative principles and values that did so much to rebuild our country when it last faced the scale of threat and challenges that we face today.

The second reason is the high regard and admiration that I have for Nick Ridley and the contribution that he made to British public life. I only had the pleasure of meeting NR once but all who knew him well speak of candour, integrity and wit – a great certainty, direction and passion. I also remember as a new graduate being asked to produce a profile of him for a client who was about to meet him at the DTI. A cursory examination of his achievements as a mathematician, engineer and landscape-gardener, shows him as something of a renaissance man. His own writings in which he describes himself as being a 'bad politician' by virtue of being a bad communicator might lead one to add modesty to the list of his qualities.

When Lady Thatcher gave this lecture in 1996 her assessment of his contribution was far from modest,

“No-one fought the battle against the tyranny of socialism more heroically, persistently and effectively than he”... going on to say,

“Had he and others not then stayed true to their beliefs I am not sure that we could later have turned the party around”

His communication may not always have been subtle but could certainly be direct as when he became head of the DTI in 1989 and asked: "What is the DTI for?" adding: "I've got bugger all to do, and thousands of staff to help me do it." This spoke clearly of his determination to reduce government intervention but perhaps it says just as much that by all accounts he was both liked and admired by his officials, too.

A friendly whip said to me that he would be interested to hear what I had to say today but with a twinkle in his eye said that it would of course be best to ‘say nothing’... I think we know what Nick Ridley would have made of such advice. Nonetheless, I shall keep in mind the experience of the great man whose own political career was tragically cut short by injudicious comments made to a friendly audience, in the person of Mr. Dominic Lawson of *The Spectator*.

Ridley Was Right

So we see that Nick Ridley was caustically witty, principled, a doughty fighter - but hindsight also shows his remarkable prescience:

An early supporter of Margaret Thatcher and an ardent free-marketeer with, as the Lady herself quipped, a better pedigree in that regard than most Thatcherites “or I may add – than Thatcher herself”.

A pioneer and early champion of privatisation – first a political conviction but tempered by his experiences of ship-building on the Tyne; a trenchant critic of the Heath government’s Prices and Incomes Bill; a supporter of nuclear power...

And among the many themes from the political battles of NR’s life that seem remarkably current today was the battle that he fought for planning policies that would ensure that young families would have homes to live in (this as a member of the National Trust’s council and a dedicated lover of the British countryside).

Indeed he saw clearly the importance of private property in giving citizens a *real* stake in society – not the semantic Blairite nonsense of ‘stake-holding’

In ‘My Style of Government’ he describes the concept of a property-owning democracy as one ‘*first articulated by Anthony Eden, but a course hardly advanced at all by successive Tory governments*’ and defines it thus,

“To own one’s own house, or business, or the capital which produced one’s retirement income extended freedom of choice, gave people a stake in the nation’s wealth, and required less tax-payer’s money to be spent on them. It produced a large and growing number of people who were not ‘dependent’”.

Margaret Thatcher went further in ascribing a powerful psychological effect,

“Of all the rights that we call ‘liberty’, the right to own property, though one of the more prosaic, is arguably that of greatest practical importance. Owning property gives a man independence against over-weaning government. Property ownership has also a more mysterious, but no less real effect: looking after what one owns provides a training in responsible citizenship...”

I doubt that anyone in this room would subscribe to the theories of some on the Left, that the breakdown of public order seen in this summer’s riots and looting can be ascribed, still less *justified* by poverty or unemployment – but in a more positive sense, we should see the spreading of the opportunity to own property, a *real* stake, as a part of the glue that holds a society together in common endeavour. In the aftermath of shocking events such as those over the summer, there is so often a tendency to reach for state intervention... but as we survey the scene of families without aspiration, standards, self-reliance, we should bear in

mind that this problem has grown during a period when state intervention in peoples' lives has also been growing rapidly.

The current fiscal climate makes it harder than ever to see the opportunities for government to facilitate the spreading of private ownership, but we should keep the objective at the forefront of our minds. It is something that strikes a chord just as much with people from Nick Ridley's privileged background as with those of us who have not just bought our own furniture – but all too frequently assembled it too.

There are those who contest that the UK has historically set far too much store by home-ownership and that we should be unconcerned that the average age of the first-time buyer is approaching forty but taken together, this trend, the spread of means-tested benefits, the regime for long term care, the damage done to private pension provision by one of Gordon Brown's earliest misjudgements, compounded by the current squeeze on household finances which has seen over a million people forced to abandon contributions to their pension funds, all amount to a massive turn away from a culture of property ownership with the responsibility and independence that goes with it.

Nick Ridley was right too, in fighting against the policy of Sterling shadowing the Deutsche Mark – which paved the way for Britain's disastrous membership

of the Exchange Rate Mechanism – seeing that this policy would have the effect of artificially reducing the value of the DM against the Pound, with all the inevitable effects that would have on Britain’s competitiveness. The circumstances of Britain’s exit from the ERM provide uncomfortable lessons about the economic and political damage that can be done by trying to maintain inappropriate exchange rates and about the power of the markets to drive events in spite of the efforts of governments. I shall return to matters European later and I am delighted that the Foreign Secretary has welcomed a wider debate within Parliament and beyond. The meeting called yesterday by George Eustice to discuss European Reform, attracted an attendance of 120 Conservative colleagues, indicating that there is no lack of interest.

Free Trade

Ridley’s belief in free trade, free markets and the energy that could be unleashed by liberal labour markets and supply-side improvements, was at the root of his enormous contribution to the success of the Conservative governments of the 1980s. Where Conservatives had been sceptical of the post-war settlement of nationalization and public subsidy, it took vision and

conviction to see that the cure for Britain's industrial and economic decline lay not in *more* government intervention but in *less*.

Subsidy was replaced with lower corporate tax. State-run corporations were privatized – where possible with the introduction of much more competition (the National Bus Company was split into 72 different businesses), trade unions were reformed and efforts were made to tackle the burden of red tape. In the jargon of today, he was largely responsible for the 'growth strategy' that turned Britain's economic fortunes around. Much of his approach is already being followed by George Osborne and others today, working for lower taxes, corporate and personal; pursuing deregulation and seeking a renewed impetus for the Doha round of world trade talks....

It was Nick Ridley's commitment to free trade and his absolute conviction that government did more harm than good when it sought to interfere in the management – or perhaps worse – the ownership of industry. That made him an early 'European' having been from 1962-66 a delegate to the Council of Europe where he claimed to have 'gone native'. Clearly, then, like many Conservatives he saw the EEC as a route to freer more open markets. It is instructive to look at why his views changed...

Europe

The language and tone of Ridley's comments in the Spectator interview were less than diplomatic and perhaps today even more than in 1990 they seem inflammatory and extreme, they could not be more different from the tone that I adopted during the three years that I spoke on Europe for the Conservative Party, which was always polite and respectful, even if my message was forthright. Part of the reason may be generational.

Born in 1929, Ridley was 16 when the war ended. His formative years were spent first with our country fighting for survival and then fighting to rebuild in the aftermath of war. It would be easy to caricature his remarks as being borne of prejudice but one should also remember that the architects of European integration habitually justified their own proposition in the context of World War II and the century of conflict that preceded it. The French wanted to embrace Germany so closely as to prevent future aggression and the Germans wanted to channel their ambition in a more benign way. It was common too, for British supporters of European integration to explain their position by reference to the importance of preventing future conflicts.

I grew up watching *The Battle of Britain* and *The Great Escape* but my children only do so in order to humour their father... times have changed and the idiom that was common even twenty years ago now seems bizarre.

Even in 1990 as he reproduced Nick's colourful language - peppered with wartime references - in the *Spectator*, Dominic Lawson was at pains to stress that Nick Ridley had not over-indulged at lunch whilst giving his interview, as he said,

“Far from it. Mr Ridley had the smallest glass of wine with his lunch, and then answered all my questions with a fierce frown of concentration”

The reaction to Nick's interview and the premature end that it brought to his ministerial career clearly show that in going so far beyond even *his* characteristically blunt style of communication he had made a serious misjudgement. If, as he believed, his absence from the Cabinet made Margaret Thatcher's own premature departure from office more likely, then the consequence was even worse.

So I have again to ask why this highly intelligent and civilised man, an early pro-European who had 'gone native' on his visits to Strasbourg, thought it so important to make his case, so deliberately, so forcefully?

Surely it was not just that (in Dominic Lawson's words) there was 'no more brutal practitioner of home truth' but rather that he was so animated by his fear

of the wrong turn that our country seemed poised to take and that he must make the case with all the strength he could muster.

He could see so clearly that economic union was inimical to political accountability. He illustrated his point with reference to Jarrow,

“Can you imagine me going to Jarrow in 1930 and saying, ‘look boys, there’s a general election coming up, I know half of you are unemployed and starving and the soup kitchen’s down the road. But we’re not going to talk about those things, because they’re for the Bundesbank...’”

Strip away the language that forced his resignation and he could have been peering through his bi-focals at the unfolding crisis in the Eurozone today...

The Current Crisis:

Some sources estimate that there is already Euro 1 trillion of mutualised debt effectively being guaranteed by Germany and France, this will continue to increase if the current strategy is maintained, even if the Eurozone was able to continue with its current ‘sticking plaster’ approach. The planned doubling of the European Financial Stability Facility to nearly Euro 400 billion is already highly controversial among politicians and the public in Germany, with recent polls showing two thirds of Germans wanting to see the plan rejected. There is a

bitter debate within the European Central Bank as to how far it should go in propping up peripheral Eurozone governments, which may have led to the recent resignation of the ECB's Chief Economist. In Britain we are in the habit of portraying the European debate in terms of British scepticism and Continental enthusiasm. In fact it never was that simple but it is now becoming increasingly plain that there is a debate about the future of the EU, in which we have a crucial role to play.

Euro Bonds, in whatever form may buy time but will not resolve the central, fundamental problem of a currency union without full fiscal union. Whilst I am told it isn't polite to say 'I told you so', many of us did - and clearly deserve some credit for whatever role we played in ensuring that the United Kingdom did not make the catastrophic mistake of joining the Euro.

The fact that monetary and fiscal union were indivisible was obvious to many people on both sides of the debate. Accordingly, one of the architects of monetary union, Jacques Delors pressed for complete central control of budget deficits but like all those who saw the Single Currency as an agent of integration, he was happy to concede in the face of hostility from the member states. Instead the EU maintained the fiction that Europe's divergent economies could be brought to the point of convergence through a system of fiscal transfers and subsidies: Structural Funds and Cohesion Funds.

If you will forgive an aside on this subject, I remember in 1998 or 1999 Mervyn King, then the Deputy Governor of the Bank, appearing in front of the Employment Select Committee when one of my colleagues asked him how long it would be – in the event of Britain joining the Euro - before we knew whether the UK and Eurozone economies had converged. He reflected for a moment before replying, “*Probably 200 or 300 years*”.

Few politicians are patient enough to wait that long for an answer but we should all accept that if something is unsustainable, it *will* go wrong at some point, it is just a matter of *when*. Writing in 1991 Ridley said this,

“It is not in fact possible to have a single currency except where the various economies within it are moving parallel in their pace of development. This manifestly does not apply in Europe, with countries whose economies are as far apart as Greece and Portugal and Ireland on the one hand and Germany on the other. It is a basically flawed concept... there has to be economic ‘convergence’ before there can be a single currency. That convergence must not only exist at the time of merging the currencies, but it must persist thereafter or strain will emerge.”

Not a bad summary of where we find ourselves today.

As George Osborne said in the House of Commons on 11th August,

“Existing Eurozone institutions need to do whatever necessary to maintain stability, and I welcome the ECB interventions through its Securities Markets Programme this week to do just that. But this can only ever be a bridge to a permanent solution. I have said many times before that the Eurozone countries need to accept the remorseless logic of monetary union that leads from a single currency to greater fiscal integration.... Solutions such as euro bonds or other forms of guarantees now require serious consideration. And they must be matched by much more effective economic governance in the Eurozone to ensure fiscal responsibility is hard wired into the system.”

The logic is indeed remorseless but as Nick Ridley pointed out, so too is the necessity for political accountability. It is surely right to say that the Eurozone should be free to seek the degree of fiscal integration that is necessary to allow the currency union to work. But that does not mean that the Greeks will find centrally ordained austerity tolerable, any more than the Germans will have an appetite for standing behind the debts of their less responsible neighbours.

How Should Britain Respond to the Eurozone Crisis?

So how Should Britain Respond to the Eurozone Crisis? When I was Shadow Europe Minister it was Conservative policy that we should not stand in the way of some or all of our EU partners if they chose to pursue a path to greater integration than was acceptable. We made it clear though, that for the British people the process of integration had already gone too far. The quid pro quo therefore for our acquiescence in further integration would be that we should be able to negotiate the return of some powers to the control of our own democratic institutions. This remained our policy and we fought the last General Election committed to seeking the return of social and employment law to UK control.

For many years the Left and much of the media found it convenient to portray the British Conservatives as being isolated in our desire for a more open, flexible, competitive European Union. In fact there was always a significant body of support – and not just in the new Member States of Eastern and Central Europe. Often German Christian Democrats would express to me how much they depended on the presence of the UK to slow the accretion of new layers of social cost and regulation that would harm German industries just as much as ours.

In 2004 even the Foreign Minister of the traditionally integrationist Netherlands said,

“The EU needs to practice self-restraint. It should look expressly at those parts of common policy for which Member States could take responsibility again.... The areas I am thinking of here include cultural policy, certain parts of the Common Agricultural Policy, and – although I know I am touching on sensitive issues here – healthcare and social policy.” [Bernard Bot, Humboldt University, 2 June 2004].

When George Osborne signals British willingness to countenance the closer integration of the Eurozone he too is expressing an acceptance of a more flexible EU but if it were to happen (for all or part of the Eurozone) without a corresponding increase in flexibility for the UK, it would presage a worrying change in the dynamics of EU decision-making. There is already a worrying tendency in Brussels to disregard the role of global trade. I remember an EU Commissioner showing off a map demonstrating how little of EU trade was conducted with non-member States and how unimportant it was that EU social costs should be internationally competitive. A fiscally-integrated Eurozone would be still more likely to allow social, employment and regulatory burdens to increase as trade was concentrated progressively more within its boundaries.

The Solution

The rebirth of Britain's economy in the current climate is inevitably going to be difficult and slow – harder than it was in the 1980s because the climate is worse. In 1979 we faced an over-regulated, over-taxed economy and a need to reduce public expenditure as a share of GDP. After the years of New Labour – in the words of Derek Scott, Tony Blair's former Downing Street economic adviser – steadily 'furring-up the arteries of the economy', those challenges are there again now. But the Thatcher governments did not face the scale of today's deficit, the massive burden of debt or the parlous state of our major trading partners.

Martin Wolf wrote recently in the FT,

“The current UK depression will be the longest since at least the First World War. Without a dramatic surge in growth, it is also quite likely to generate a bigger cumulative loss of output than the ‘Great Depression’. All this is disturbing enough. What is even more disturbing is the near universal view that almost nothing can be done to change the prognosis.”

Certainly we are where we are in spite of massive monetary stimulus, both through unprecedentedly low base rates and through quantitative easing. The

Chancellor is surely right that significant fiscal stimulus would simply lead to a monetary squeeze.

The solutions however, if we want the return to growth that is essential to the long term prosperity of our people, are substantially the same today as they were in the early Thatcher years. The case for less government, less regulation, less intervention or even a lower tax burden was not easy or popular then but men and women of courage and conviction saw that it was the only solution to the crisis afflicting our country. We must make the same case now.

That is why the Prime Minister has written of,

“A plan for growth that unlocks all the economic potential in our country – a plan that cuts across tax, red tape, planning, skills, infrastructure....”

Saying,

“This Coalition has made a strong start. We’re cutting corporation tax to the lowest rate in the G7, creating new Enterprise Zones across the country, making the planning system more supportive of the need to grow and increasing the number of apprenticeships to record levels. But frankly, we haven’t gone far enough. My order to Whitehall this autumn is to think even more boldly about what we can do to put the turbo-boosters on Britain’s economy – and nothing should be taboo.” [Mail on Sunday, 4th September 2011]

Downing Street's effort to reduce the damage that will be done by the new Agency Workers' Directive with its £2 billion cost for British business shows real intent but that is still seeking to stem the flow of *new* regulations, of which the Agency Workers' Directive is just one. What we need is a massive reduction in the burden of *existing* regulation.

It may be that Britain's insistence on returning social and employment law to our own control would be the catalyst for this massive deregulation but it is not only Britain that would benefit. Economic growth has now stalled across the whole of the EU and in a continent that is suffering from a massive burden of debt, growth can only be reignited if the EU as a whole is prepared to deregulate and compete in the world. The EU is suffering not just a Eurozone crisis but a crisis of competitiveness, which is already resulting in levels of youth unemployment in many member states that threaten to waste the talents of a generation. The scale of this crisis doesn't just present an opportunity for Britain and for British Conservatives as some have rightly argued: it places a *duty* on us to provide leadership. The Euro deficit countries cannot continue as they were, funding public spending by borrowing at German rates. The whole of Europe needs turbo-boosters, not just Britain and we should be leading a massive drive for competitiveness in a more flexible, less regulated EU. The alternative isn't a gradual return to growth and normality but a massive and permanent reduction in living standards in this country and across the continent.

In Conclusion

During what Mervyn King described as the NICE decade of Non-inflationary Constant Expansion it sometimes seemed churlish to suggest that public expenditure should be contained; to point out that increasing regulation and costs on employers would make them less competitive was considered kill joy; Conservatives who were concerned about the drive to ‘ever closer Union’ in Europe were portrayed as old-fashioned or obsessive. The ideas of smaller government, lower taxes, liberal labour markets and deregulation that Nick Ridley, Keith Joseph and Margaret Thatcher had championed may have helped to return our economy to health in the ‘80s but we had moved into a new age where prosperity continued to grow even as the burden of tax and regulation increased. It is now a common place to say that both the state and many of our citizens were living on an unsustainable bubble of debt – and that those debts must now be paid down.

But just as serious was the drift to a higher tax, more regulated, less competitive economy – the ‘furred up arteries’, that was concealed by the years of easy credit.

As we look at what must be done to restore our national fortunes once again, we need to look once again at the same clear, simple, common sense beliefs that

Nick Ridley and others fought for through thick and thin, popular or not. The whole of Europe is now paying a high price for subordinating everything to the realization of a political project. It is already obvious that the consequences will take years and a great deal of pain to unwind. It may be that some countries can see themselves as part of a politically and fiscally integrated core.

For the rest of the European Union Member States, including Britain, this is an opportunity to build a stronger, freer, more prosperous future where more power resides closer to the people, democratic accountability is restored and the dangerous creed of ‘ever closer Union’ is finally laid to rest.

Graham Brady MP