

MODERN COMPASSIONATE CONSERVATISM
DAVID CAMERON TO THE CENTRE FOR POLICY STUDIES

“Today I want to advance a number of propositions.

That free markets are essential for the creation of wealth.

That Conservative values are essential for the creation of free markets.

And that our values are also essential if everyone is to share in the benefits of free markets.

I will argue that we must make the creation of wealth and the elimination of poverty the central objectives of Conservative economic strategy.

And that this will require a new doctrine of economic empowerment.

This doctrine of economic empowerment should be applied not just in Britain, but in the wider world.

Our twin aims as a Party in advancing these propositions over the next four years should be to restore our reputation for economic competence, and to demonstrate that we are in this for everybody, not just the rich.

So there are two central questions we must answer.

How do we remove the barriers that hold prosperity back?

And how do we remove the shackles that lock poverty in?

THWARTED GROWTH, STUBBORN POVERTY

Let me tell you a story that shows why it’s so important for us to think about these twin challenges.

Just over two weeks ago I launched the national stage of my leadership campaign in Britain’s second city, Birmingham.

Birmingham’s a city on the way up.

It’s a powerhouse of our economy.

Its city centre is enjoying a fantastic revival. Brindleyplace, the Bull Ring, The Mailbox – great new developments which embody the

renaissance of a world-class city.

Outside the city centre, inspiring regeneration initiatives, like the Balsall Heath Forum, which I visited two weeks ago, are transforming the quality of life and the local economy.

But there's another side to the economic success story.

A local economy that's held back by taxes that are too high, regulation that's too tight, employees that don't have the right skills, and a transport infrastructure that's groaning under pressure.

The weekend I was in Birmingham was the weekend of the disturbance in Lozells, in which a young man lost his life.

Police officers were injured. Tension remains high, as we saw just a few days ago with the desecration of Muslim graves in a Handsworth cemetery.

I met community leaders from Lozells to learn about what caused the ugly confrontations on Birmingham's streets.

They told me to look deeper than the headline story about inter-ethnic disputes.

Time and again, they located the source of Lozell's problems not in issues of race or religion, but economics.

They explained how young black men feel they have no economic opportunity...

...that they can't start the businesses they want because they can't get access to capital, or to the right premises.

So there, within the same city, we see two distinct economic challenges.

Thwarted growth alongside stubborn poverty.

Two sides of the same economic coin.

But for many years we Conservatives have focused too much on one – the thwarted growth.

Creating wealth cannot be the only objective of Conservative economic

policy.

If that's all we stand for, we'll have little to say to the people of Lozells, untouched by Birmingham's city centre boom.

CREATING WEALTH

I believe that the Government is taking wealth creation and economic growth for granted. As a result, the healthy economic body which it inherited is being attacked by a number of diseases.

These diseases will not kill our economy overnight. But they are gradually squeezing the life from it.

No government can run businesses and create wealth. What governments can do is create the best possible conditions for wealth creation.

So I believe the next Conservative government should set itself a simple economic objective: to make Britain the best place in the world to do business.

There are five great dangers which stand in the way. We must attack these barriers to wealth creation as vigorously as we attacked the scourges of inflation and union domination in the 1980s.

FISCAL IRRESPONSIBILITY

The first great danger is fiscal irresponsibility. Tax and spend.

In monetary policy, an independent Bank of England setting interest rates with reference to a fixed inflation target is the right policy and has worked well.

But from a fiscal perspective, Gordon Brown has been devastatingly irresponsible...

...public spending up 37 per cent between 1999 and 2004...

...planned to increase by 86 per cent between 1999 and 2009...

...and with much of this money wasted: for example, the NHS itself admitting that 73 per cent of the extra spending has been eaten up by cost pressures.

Government borrowing was £35 billion last year, when we should have been in surplus, at that stage in the economic cycle...

...and we have some of the highest business taxes in the OECD, where just five years ago Britain had some of the lowest.

But behind the statistics lies a deeply worrying story.

Just as Nigel Lawson's supply-side reforms of the 1980s left a long and beneficial tail, so the destructive effects of Gordon Brown's fiscal irresponsibility will be felt for many years to come.

It's not just that he's increased taxes. It's how he's done it.

His pension tax rise both reduces security for pensioners and cuts company earnings as they try to fill the gap.

Increasing Stamp Duty hits individuals and families, but it also harms labour market flexibility.

Higher government borrowing not only puts pressure on interest rates, it gives us less flexibility to face the challenges of the future.

Gordon Brown's fiscal irresponsibility is undermining stability and our ability to create jobs.

So a top priority for the next Conservative government should be to restore prudence to the management of the nation's finances.

Fiscal responsibility is the first duty of any Chancellor.

On tax, I'm clear about the right priority. It's essential to reduce taxes on employment and wealth creation in order to enhance our economy's competitiveness.

HOSTILITY TO CAPITALISM

The second threat to our future prosperity is less direct. It's the growing cultural hostility to capitalism.

In 1970, MORI asked the public whether the "profits of large companies help make things better for everyone who buys their products and services".

The public agreed – by a majority of two to one.

Three decades later, when asked the same question, the public - by two-to-one - disagreed.

For too many people, profit and free trade are dirty words.

You can see it when our most popular capitalist entrepreneur thinks the best way to win his bid for the National Lottery is to make it “non-profit.”

You can see it in the Christian Aid poster that compares free trade to a tsunami.

The consequence of this cultural hostility to capitalism has been a massive rise in risk aversion, a willingness to concede more and more power to the state to try and take more and more risks out of life.

Health risks. Safety risks. Inequality risks. Security risks.
Environmental risks. An ever-increasing burden of regulation applied by modern states and their agencies.

We can see the results:

...a regulatory burden costing Britain’s economy an estimated £40 billion a year;

...Britain has fallen from 13th to 51st in the World Economic Forum’s regulation league table;

...and we dropped from 11th to 26th on bureaucracy;

...so that overall, Britain has fallen in the world competitiveness rankings from 4th to 13th.

But regulation is not a problem limited to Britain, or indeed to developed economies as a whole.

Some people argue that regulation in the developed world is a good thing, but that poorer countries are under-regulated, which is a bad thing.

They’re wrong on both counts.

A recent report by the World Bank found that businesses in poor countries face much higher regulatory burdens than those in rich countries.

The combination of the presence of higher administrative costs and the absence of property rights can have a devastating effect.

It takes 153 days to start a business in Maputo, but just 2 days in Toronto.

There are 21 procedures to register commercial property in Abuja, but only 3 procedures in Helsinki.

It costs 126 per cent of the value of a debt to enforce a contract in Jakarta, but 5.4 per cent of the value of a debt to do so in Seoul.

If a debtor becomes insolvent and enters bankruptcy, creditors would get 13 cents on the dollar in Mumbai, but more than 90 cents in Tokyo.

Where would you want to do business?

So promoting wealth creation – at home and abroad - means changing the climate of opinion so that politicians and bureaucrats who argue for measures that damage business and economic competitiveness are less likely to succeed.

In short, we need to campaign for capitalism.

To promote profit. To fight for free trade. To remind, indeed to educate our citizens about the facts of economic life.

The message is simple – you cannot win the battle against red tape unless you win the intellectual and cultural battle for open markets.

EUROPE

The third great danger which threatens our competitiveness is the regulatory culture of the European Union.

The recent i2010 report showed that Europe risks becoming a “second or third-world region” within a generation because of its excessive regulation.

I want the Conservative Party to take the lead in developing the diplomatic and policy agendas that will avoid that disastrous outcome.

There is now an exciting opportunity for a new alliance for EU reform, driven by new leadership on the centre-right.

EU reform should have three components.

For Britain, the first priority must be the return of powers over employment and social regulation. This would be the strategic imperative of my European policy.

Second, the EU must abandon the hubristic constitutional project once and for all.

Third, we must give the EU a clear remit to enforce free trade and open markets.

This will not only benefit European economies.

Removing trade barriers and eliminating trade-distorting agricultural subsidies are essential if developing countries are to become richer.

The benefits to Africa alone that would be achieved by a free trade regime in agriculture have been estimated as roughly the same as all countries' official spending on development assistance today.

It is both immoral and inefficient for rich countries to hide behind trade barriers in the era of globalisation.

Within the EU, we in Britain should be the cheerleaders for free trade, urging further and faster progress, and calling on rich countries to take down their trade barriers ahead of poor countries being required to do the same.

The Government has shown that it is not fit for the task of EU reform. It is too unwilling to stick its neck out. It doesn't want to ruffle feathers.

It will not countenance the return of powers from Brussels to Britain. But if you don't will the means, you will never achieve the ends.

Tony Blair and Gordon Brown's commitment to EU reform and an open, dynamic, forward-looking agenda for Europe simply does not extend beyond making speeches about it.

As a result, their approach will lead to economic stagnation, not economic opportunity.

INFRASTRUCTURE

The fourth great danger to our future prosperity is inadequate public infrastructure.

A world class economy needs to be able to move people and goods around efficiently and reliably. Yet Britain has the most congested roads in Europe. Our journeys to work take the longest. And punctuality on the railways is now at lower levels than it was in 1997.

Overall, the CBI estimates that the costs to employers of transport congestion are around £20 billion a year.

Britain now needs a concerted programme of road building, accompanied by the introduction of advanced traffic management methods, including new solutions for road charging based on usage and the time of day.

This, along with better market incentives for low or zero-carbon fuel sources, will enable us to meet the need for an efficient transport network while tackling the even more important challenge of climate change.

And in an economy where networks play an increasingly important role in value creation, we need to catch up with and overtake our competitors' investment in broadband, 3G and wi-fi.

HUMAN CAPITAL AND NETWORKS

The fifth barrier to wealth creation in Britain today is the fact that we are not doing enough to nurture the skills and talent of our people.

The purpose of education is to bring out people's potential. At its highest level, this is a spiritual and an intellectual adventure.

But it does have economic consequences.

So much potential is being wasted by this Government.

A devastating lack of rigour in primary and secondary education.

An examination system in which universities and employers have less and less confidence.

A complete absence, after eight years in office, of any kind of coherent

strategy for vocational education.

And universities that are held back by centralised bureaucracy, telling them how much they can spend, what they should teach - and now, even who they should admit.

Our universities need more resources and less government direction. As I've said, tuition fees are a necessary part of that change.

But we need to do more.

Businesses thrive in clusters. In the high value, high tech areas where we should be competing most vigorously, links between the private sector and fundamental science are of the utmost importance.

We need to reproduce – not just in Oxford and Cambridge, but elsewhere - the mix of conditions that exist in and around universities like Stanford in California, so crucial in the development of world-beating companies like Cisco Systems and Google.

TWIN ECONOMIC CHALLENGES

Removing these five barriers to wealth creation:

...fiscal irresponsibility;

...the growth of the regulatory culture;

...those aspects of the EU that undermine open markets and competitiveness;

...inadequate infrastructure,

...and insufficient capacity for developing the talents of our people...

...together these constitute a coherent and ambitious programme for wealth creation, based on economic liberalism and our Conservative values of freedom, self-help and personal responsibility.

But we are mistaken if we believe that this in itself constitutes an adequate economic policy for a modern, compassionate Conservatism.

Poverty is an economic waste and a moral outrage. The elimination of poverty must therefore be a central component of the Conservative

governing mission.

And there's more to eliminating poverty than engineering economic growth.

We used to say that a rising economic tide lifts all boats.

Well that obviously isn't true.

Not here in Britain, where nearly ten years of sustained economic growth have done little to eliminate the poverty in our most deprived neighbourhoods.

Neither has a rising tide lifted all boats around the world.

The greatest global economic expansion in the history of mankind has lifted billions out of poverty.

And we should celebrate that as a success for open markets and free trade.

But billions are still left behind, notably in sub-Saharan Africa where many countries and people are actually getting poorer.

ECONOMIC EMPOWERMENT

To eliminate poverty – at home and abroad - economic liberalism is not enough. It is necessary but not sufficient.

Neither is Gordon Brown's strategy of income redistribution the answer.

The real solution is to recognise that for some people in our country, and for many more around the world, the bottom rungs of the ladder to prosperity are broken.

And we need to fix them, one by one.

It is our instinctive values that uniquely equip us, as Conservatives, to do this...

...through a modern, compassionate, Conservative addition to the doctrine of economic liberalism: economic empowerment.

Economic empowerment means enabling people to move from dependency to self-sufficiency.

LABOUR BUREAUCRACY VS CONSERVATIVE EMPOWERMENT

Let's start at home.

Gordon Brown's favoured solution to poverty is straight out of the textbook of big government.

The state handing out means-tested benefits on a vast scale...

...the state running programmes to get people into work...

...the state developing ever more complex rules, processes and initiatives, but still leaving people and families behind.

This approach leads to big government failures like the tax credits system where a computer programme summarily docks the income of hundreds of thousands of people, leaving them desperate and unable to cope.

Earlier this year, we learnt from the Citizens Advice Bureau of a single mother who had to rely on a Salvation Army food parcel to survive.

A Salvation Army food parcel...in this, the fourth richest country in the world...run by a Labour Government, with a Labour Chancellor who has made income redistribution to help the poor his defining policy priority.

Think of the Pension Credit system that forces pensioners to disclose even their most meagre savings. As a result, a million of those who need the help don't apply.

One million pensioners penalised by Labour. And still Gordon Brown won't admit there's anything wrong with his approach.

Think of the Job Centres that churn young people through endless short term training programmes. But still leave them unprepared for the world of work.

Or the tax system where the poorest fifth pay the highest proportion of their income in tax.

I don't think for a moment that this was what Labour really intended.

When they said "welfare to work", I think they meant it.

But welfare to work, in all too many cases, hasn't worked.

Why not?

Because Labour brought to this, as to every other aspect of their reforms, a bureaucratic mindset.

It is in their DNA to think in terms of centralised, top-down, bureaucratic solutions.

So the whole Labour system of welfare to work is based on the means test. And what is a means test?

In Labour terms, it is a means of targeting money on those who need it most.

But in human terms, it is complexity, it is endless form-filling, it is imprisonment in a bureaucracy - and above all, it is a slap in the face for those who try hardest and do their best.

The tragic irony of Labour's well-intentioned but failing bureaucratic approach to reducing dependency...

...is that it has excluded literally millions of people who are defeated by the bureaucracy, and end up with none of the support to which they're entitled.

And the tragic deficiency in Labour's bureaucratic approach is the lack of human-scale help for those who are in need, not just of money, but of human support.

Sometimes it's simple things like the confidence to buy a suit, or knowing the importance of turning up on time to an interview.

A stable family environment, free of drug or alcohol dependency, are the first steps on the ladder to self-sufficiency. These are not things that a bureaucracy can provide.

Labour's big bureaucracies terrify. And they do not reach out a helping hand to those whom they terrify.

Compassionate, Conservative economic empowerment is a long-term agenda to address these defects in Labour's bureaucratic agenda.

It is a long-term agenda to lift more people, more securely, from dependency to self-sufficiency.

The details of that agenda will take years rather than months to develop. But the broad lines are clear:

...the gradual elimination of means-testing;

...the progressive reduction of complexity – made possible as we gradually reduce means testing;

...and a profound increase in voluntary and community support as we build up civil society in Britain.

We need to recognise that turning a youngster from a life of crime to a life climbing the ladder of prosperity will often involve intensive, long-term commitment of time.

It is local voluntary organisations and social enterprises that are best placed to do this.

So let's set them free to do the job properly.

For example, let's establish Social Action Zones in our most deprived neighbourhoods which replicate the freedoms of Enterprise Zones in the 1980s.

I want to ensure that, when the public sector invites the voluntary sector to provide a helping hand...

...it trusts the judgement and discretion of the voluntary sector, instead of trying to control and audit every move.

I want the social sector to be able to compete for the right to offer services on terms that are fair.

And I want long-term commitment in place of short-term contracts.

Taken together, this strategy for economic empowerment...

...designed to fix the lower rungs of the ladder to prosperity...

...constitutes a distinctive, modern Conservative approach.

Improving the effectiveness of the welfare system.

Moving people from dependency to self-sufficiency.

Supporting them as they climb the ladder of prosperity.

This is an approach which adds to, and fulfils the promise of, economic liberalism.

It is a Conservative approach: a powerful alternative to the failure of Labour's top-down centralism.

GLOBAL POVERTY

Internationally, we need to think about poverty elimination in exactly the same way: as a question of economic empowerment.

And here again, there is an opportunity for Conservatives to stake out a distinctive position.

A FALSE DICHOTOMY

Every serious participant in the development debate now accepts that freer and fairer trade is the indispensable precondition for economic development.

But there are those who argue that aid must remain the principal immediate mechanism for tackling poverty. Aid is essential, it is argued, for eliminating disease and creating the basic infrastructure that development requires.

Jeffrey Sachs, the intellectual backbone of the Make Poverty History movement, is today probably the most eloquent exponent of this point of view.

On the other hand there are those who argue that the real reason countries are poor is not that they lack physical infrastructure, but that they lack the infrastructure of capitalism...

...property rights, collateral for business formation, and legally enforceable contracts.

The international champion of this approach is Hernando de Soto, whose

influential book *The Mystery of Capital* has led to him being consulted by heads of state of over thirty countries.

A SYNTHESIS OF SACHS AND DE SOTO

Tony Blair has rightly put sub-Saharan poverty high on the political agenda.

But I fear that he has adopted an unbalanced approach which draws too heavily on the traditional aid model...

...and too lightly on the importance of property rights and the rule of law.

This bias is reflected in the conclusions and recommendations of the Commission for Africa.

I believe that a modern Conservative model of economic empowerment would apply the same approach to sub-Saharan Africa as it does to Britain.

We need to fix the broken rungs on the ladder of prosperity.

THE BOTTOM RUNG: DISEASE

The bottom rung is disease. Economic empowerment is impossible if a country's people are dying.

Jeffrey Sachs is right to make this a priority.

I read his book over the summer, and challenge anyone to read it and not be convinced by the overwhelming power of his moral case for action.

So tackling killer disease should become the focus of our aid efforts.

This is an area where a relatively small amount of money, effectively spent, can achieve disproportionate results.

Smallpox was eradicated in 1978 after a worldwide campaign costing just a few million dollars.

Our priority today should be malaria.

According to the World Health Organisation, about 300 million people suffer from malaria every year: it affects almost twice as many people as

TB, HIV/AIDS, measles and leprosy combined.

Solutions are often cheap: a bednet can protect a whole family against mosquitoes, and oral rehydration therapy can save a child's life for just a few pence.

I welcome the Roll Back Malaria campaign, unveiled a few days ago and backed by, amongst others, Bill Gates.

But enormous effort will be required to achieve its aim of eradicating malaria within a decade.

In too many poor countries, governments impose taxes and tariffs on vital medicines and bednets. We should consider making our aid conditional on the removal of these killer taxes.

We should investigate creative ways of avoiding the unforeseen consequences of top-down aid – like the local manufacturer of mosquito nets put out of business by international aid shipments of his product.

Why not give aid vouchers to poor communities, redeemable for disease-eradication services of any kind, from an aid agency or supplier of their choice?

Tackling disease is the essential first step in moving developing countries forward in their journey towards self-sufficiency.

THE SECOND RUNG: PROPERTY RIGHTS

The second rung on the ladder of prosperity is the need to move people into the formal economy.

While in Britain a minority of the economy is informal, in many developing countries the informal sector is vast.

This not only consigns individuals to poverty, it deprives governments of the tax revenues they need to invest in the public services that are a vital component of economic development.

Anyone who has worked in the developing world will have been struck by the ingenuity, energy and dynamism that is there.

Travelling salesmen who walk for a whole day to market.

Small-scale family businesses being run with 24-hour a day commitment.

Shopkeepers buying and selling on a margin of just a few pence.

But despite all this entrepreneurial energy and hard work, these people remain poor.

Why? It's not that they don't own assets.

Despite their poverty, it's been estimated that poor people around the world own assets worth some \$9.3 trillion.

But these assets are not formally recognised as legal property. So they can't be used as capital. The barriers to formal property rights in the developing world are formidable.

According to research carried out by Hernando de Soto's Institute for Liberty and Democracy, it would take someone almost a year, working full-time, to complete the paperwork to set up a legal one-man sewing business in Peru...

...and the legal costs would be 31 times the monthly minimum wage.

It would take five years of bureaucratic wrangling, including 77 administrative steps in 31 government offices, to get legal authorisation to build a house in Egypt.

So it is no wonder, for example, that only one per cent of the land in sub-Saharan Africa has been officially registered.

A lack of formal property rights means that poor people can't use their assets to create wealth...

... to trade assets outside local circles where people know and trust one another...

...or to use their assets as collateral for a loan to start a new business and invest for the future.

Without formal property rights, the basic machinery of wealth creation comes grinding to a halt. Entrepreneurship and risk-taking is stifled; wealth is not created; people stay poor.

We can do something about this.

We could investigate the establishment of a Property Rights Fund, which would encourage the development and formalisation of property rights in poor countries.

Hernando de Soto's Institute has developed an effective methodology to do this, but his capacity is limited.

A Property Rights Fund could pay for the manpower needed to enable the documentation and codification of property rights in multiple locations simultaneously.

It could help enlist the support of the private sector – multinational businesses with relevant expertise.

And it would be open to any government with a clear and demonstrated commitment to strengthening property rights.

With such support, we can help entrench market economics in poor countries, and lay the groundwork for growth and poverty elimination.

A legal system of property rights would also expand the effectiveness of the many thousands of fantastic micro-finance initiatives that are now spread throughout developing countries.

We need these micro enterprises to grow into small, then medium-sized companies that create jobs and wealth. Property rights will help this to happen.

CONCLUSION

This summer, millions of British people took part in the Make Poverty History campaign.

A new generation of concerned citizens want prosperity for themselves and progress for the poor – whether living on the other side of the street or the other side of the world.

Modern, compassionate Conservatism means responding to their demands.

I believe that as Conservatives, we have a vital contribution to make to the debate about creating wealth, and the debate about eliminating poverty.

We understand the golden thread that links property rights, free markets, free trade, the rule of law, honest government, sound finances, economic progress and social advance.

Because of our insights about how markets work, we can remove the barriers that hold wealth creation back.

Because we understand that markets must be matched by compassion...

...because we understand how to help people climb the ladder of prosperity from dependency to self-sufficiency...

...it's because of these things that we can remove the shackles that lock poverty in.

So a new Conservative economic strategy will use economic liberalism to create wealth, and economic empowerment to eliminate poverty.

This will bring new hope for Britain, and new hope for the world.”