

EDITORIAL: EIGHT YEARS SINCE *THE ORANGE BOOK*: HAVE THE LIBERAL DEMOCRATS 'RECLAIMED' LIBERALISM?

Thomas Papworth

The Orange Book, Reclaiming Liberalism, was an intentionally challenging publication that proved controversial among Liberal Democrats. Its central message, as one of the co-editors, Paul Marshall, explains in his article in this volume, was 'the importance of using economically liberal means to deliver socially liberal ends'. Its title deliberately echoed and challenged that of *The Yellow Book*, the Report of the Liberal Industrial Inquiry (Liberal Party, 1928), which had heralded a major shift within the Liberal Party towards state intervention, and the cover portrayed a young woman painting out the yellow that was associated with the collectivist approach with the orange of liberalism.

The Liberal Democrat leader, Charles Kennedy, who contributed the Foreword for the book, was (as Sanderson-Nash explains in her article) nervous about the potential for it to prove divisive. This concern reflects the fears of earlier Liberal¹ leaders: in his paper, Stephen Davies cites Herbert Asquith's response to Francis Wrigley Hirst's *Essays in Liberalism*, in which he worried that it would be seen as 'a declaration of war against that section of Liberal opinion, which has of recent years gravitated towards modes of thought and fashions of speech which are called "Collectivist"'. The social democratic wing of the party certainly reacted as though it was a declaration of war: many activists condemned both specific policy proposals and the general thrust of the book, with its belief in the efficacy and morality of markets and its willingness to forego command and control interventions in pursuit of 'socially liberal' ends. It spawned a counter-publication entitled *Reinventing the State* (Brack *et al.*, 2007) that gave primacy to 'non-market outcomes'. And it sparked a factionalisation of the party that continues to proliferate to this day.

And yet, for all that, it is not by any means clear that *The Orange Book* was a consistently radical tract. Some chapters, such as those by

Steve Webb and Jo Holland on 'Children, the family and the state' and Christopher Huhne on 'Global governance, legitimacy and renewal' were in line with both Liberal Democrat and government policy at the time, and would have found few critics even within the (then-ruling) Labour Party. Nick Clegg's chapter on Europe, which proposed very minor shifts of responsibility between nation states and Brussels and a revival of the much-ignored European principle of subsidiarity, can only be seen as challenging in the context of a party all-too-easily caricatured as 'doctrinaire, fanatical, foot-soldiers of the European cause . . .' Edward Davey's chapter on localism proposed genuine and radical changes to local and national government, but was decidedly within the Lib Dem mainstream. Susan Kramer's chapter on 'Harnessing the market to achieve environmental goals' may have included some innovative ideas at the time, but looks quite unremarkable when viewed from 2012. Both Mark Oaten's chapter on law and order and Paul Marshall's on pensions made novel proposals, but they contained nothing that should have caused Liberal Democrat readers – even reactionary ones – particular concern.

Without doubt, the real challenges to the Liberal Democrat old guard came in the chapters by Vince Cable and – especially – David Laws. Laws contributed two chapters to the book: one on health policy, and the signature essay and first chapter, 'Reclaiming Liberalism: a liberal agenda for the Liberal Democrats'. It was this chapter that defined the book and set its tone; it was the views set out in this chapter that came to be associated with the 'Orange Booker', a term used occasionally by modernising Lib Dems of themselves and more frequently by collectivist Lib Dems of those who favour market mechanisms and classical liberalism.

Laws' second chapter, on health policy, was undoubtedly the most radical and – for a

Liberal Democrat audience (and probably those outside the party as well) – the most challenging. Laws was unflinching in his criticism of the National Health Service (NHS) and proposed instead a National Health Insurance Scheme.

Vince Cable's chapter on 'Liberal Economics and Social Justice' called for 'a wave of regulatory reform' involving the use of sunset clauses, a greater use of 'self-regulation reinforced by statute', the use of markets rather than quantitative regulations, and 'a satisfactory and independent system for regulatory impact assessment, to ensure that regulatory action is proportionate to the size of the problem and the costs of regulation'. He advocated the use of vouchers for further and vocational education and a plurality of providers in many public services including in the NHS. Cable argued that 'Penal rates of tax destroy . . . freedom' and proposed that marginal rates never exceed 50% and that the overall size of the state should not exceed 40% of GDP.

Indeed, his call for 'a fully independent Fiscal Policy Committee . . . to evaluate budget assumptions and outcomes . . .', six years before the establishment of the Office for Budget Responsibility, and his observation that 'a small and expensive army of financial regulators ticking numerous boxes . . . currently seems totally blind to the dangers presented by unrestrained debt promotion and spiralling personal debt', four years before the financial crisis, has led to him acquiring something of a reputation as a prophet.

In the articles in this volume, the six contributors review different aspects of the context and impact of *The Orange Book* since its publication eight years ago.

Emma Sanderson-Nash challenges the traditional view that the significance of *The Orange Book* lies in its 'rightward' shift in the party's positioning, and instead suggests that it marked a change in the way the parliamentary party wanted to operate and to be perceived: in effect, a shift towards professionalism. This is not to deny its real and important ideological significance:

'It marked a new phase of ideological development for the party in which its authors aimed to "reclaim" the party's classic liberal roots . . . it ignited a lively discussion within the party and beyond about classic (or economic) and social liberalism, and what these things mean in the context of the Liberal Democrats . . . For a party originally positioned in the centre, but which had apparently shifted to the left of Labour and back again, many felt this was a debate long overdue.'

Rather, Sanderson-Nash argues that both commentators and members tend to focus upon shifts of policy, while ignoring the equally significant move to professionalism. Yet it is this move towards increased choreography, bolder and more independent moves by the leadership, and a willingness to present the Liberal Democrats as a plausible party of government, that led not just to unprecedented electoral success in the decade after 1997, but eventually to government in 2010.

Whether the book did in fact represent a new front, or merely signalled a change in the weather, is a moot point. As Sanderson-Nash notes, it came in the wake of the launch of the Centre for Reform and Liberal Future and perhaps, more than anything, gave voice to a long-suppressed but never fully dormant classical liberalism that had survived the pre-merger Liberal Party.

David Laws, the other co-editor of *The Orange Book*, argues in his article that it did indeed make a direct impact, marking

'the beginnings of a re-assertion of the role of economic liberalism within the Party. The book is also seen to have helped pave the way for the current coalition between the Conservatives and Liberal Democrats, by moving Liberal Democrat policy "to the right" on economics, tax and public services.'

Sanderson-Nash confirms this point. Laws also identifies the book as the trigger for the formation of CentreForum. His description of the reaction, both in the parliamentary party (not yet bolstered by three new *Orange Book* MPs) and in the wider membership shows just how radical the ideas were.

Laws explains that *The Orange Book* gave him and Marshall the opportunity to express their concern that

'the Liberal Democrats had moved too far away from the small l "liberal" inheritance of the party, particularly in relation to economic policy and our attitude to public service reform. Bluntly, we believed that the Lib Dems were not sufficiently liberal . . . the party's well meaning attitudes in a range of policy areas was leading to a "nanny state liberalism" . . .

In short, we wanted to see a Lib Dem party which would champion economic, political, social and personal liberalism. We wanted our policy solutions to be firmly grounded in liberal principles, rather than in unanchored political populism.'

Laws' criticism of party thinking echoes that set out by Tom Papworth in his article – indeed, the similarity between Laws' statement that 'choice was too often regarded as a dirty right-wing word' and Papworth's statement that 'competition, deregulation and tax cuts are viewed as a dirty Tory plot' is uncanny, as neither had previously read the other's article. Laws emphasises the obsession amongst Lib Dems of devolving power to local government rather than to individuals and communities 'in spite of strong evidence that this wasn't working for the majority of people'. Replacing Whitehall with the Town Hall is not sufficient.

In looking to the future, Laws rightly observes that 'we' (by which he might mean 'the Lib Dems', but might equally mean 'society as a whole')

'must keep the faith with economic liberalism, notwithstanding the problems in the global economy since 2007 . . .

and that

'Government's role should remain focused on creating the right conditions for growth – economic stability, good infrastructure, low inflation, competitive taxes, and efficient markets.'

The agenda he sets out, of reduced and simplified taxation, reduced public spending as a share of GDP, competitive corporation tax and reduced intervention in the economy, is undoubtedly the correct one, even if 'after the existing fiscal consolidation, state spending will account for some 40% of GDP, a figure that would have shocked not only Adam Smith, Gladstone and J. S. Mill, but also Keynes and Lloyd George'.

The supply-side reforms that Laws discusses, and which Cable and Laws proposed in the book, undoubtedly took many Liberal Democrats outside their comfort zone – as Laws' article makes clear. Supply-side reform is the subject of Tim Leunig's article, and is also one of the themes taken up by Tom Papworth.

The first half of Leunig's portmanteau article describes the shift away from and back to supply-side economics during the 19th and 20th centuries; the second half describes the reforming instincts of the leading members of the current Liberal Democrat parliamentary party and their efforts and effectiveness in government. At first this might seem oddly juxtaposed, until one reflects on the fact that the relative fortunes of supply-side policies reflect the waxing and waning of the fortunes of the Liberal Party and its successor.

The abolition of the Corn Laws, which 'opened up a major sector of the economy . . . to . . . foreign competition [and] should be seen as the high point of Victorian supply-side reform', was arguably the conception of the Liberal Party. It was won on the back of Whig and Radical votes, and those Tories who supported repeal left the Conservative Party to form the Peelites and eventually joined the Whigs and Radicals in forming the Liberal Party. The Liberals of the 19th century were committed 'supply-siders' and their success – and arguably that of the United Kingdom as a whole – was built on the back of free trade, open markets and low levels of taxation and regulation.

The eclipsing of these views by a more collectivist creed is clearly laid out in the article by Stephen Davies and, as Leunig rightly notes, during the period of demand management, the Liberal Party was largely irrelevant. The re-emergence of the Liberals and Liberal Democrats as a politically significant party coincided with the return to supply-side economics but, for the party mainstream, the economic revolution of the 1980s was cause for suspicion, anger and a refusal to acknowledge the need for change.

Yet, as Leunig sets out over several pages, the work of some Liberal Democrat ministers in reforming the supply side of the economy has been significant. In particular, Ed Davey has made substantial strides towards reform. Indeed, Davey's work is a quintessential example of *The Orange Book* in action, as Liberal Democrats achieve some of their much-cherished 'social liberal' goals through economically liberal means. As Leunig observes, 'Across Britain Liberal Democrats campaigned time and again to "save their local post office", rarely with success'. The explanation for this reveals much about the Liberal Democrats' approaches to service provision. For the activist, steeped in the Liberal Democrat tradition of community politics and local campaigning, the sight of a post office closing is a local problem that needs to be addressed locally. In reality, the local closure is the sign of an economic problem that needs to be resolved nationally. No amount of signatures on a petition or articles in Focus newsletters can change the fact that an individual post office is uneconomical to run. For the Liberal Democrats, the most powerful weapon in preventing further closure of post offices, 6,500 of which have closed in the decade to 2011 (a third of the total) (Maer, 2011), was the policy of supply-side reforms that Conference agreed, and which Ed Davey has implemented.

Complementing Leunig's article, Tom Papworth asks why it is that the Liberal Democrats struggle to appreciate the need for supply-side reform and looks in particular at one area where 'the Lib Dem position is potentially very damaging' – taxation. Papworth argues that three factors influence thinking among the activist base: a generally benign view of regulation; a view of workplace environments as generally hostile; and a tendency to look to the immediate, rather than the secondary, effects of policy. Drawing on Bastiat and Maslow, he argues that Federal Conference has 'a built-in tendency to load regulatory burdens and spending promises on the leadership'.

In the area of taxation, Papworth suggests that Liberal Democrat activists are primarily focussed on 'fairness' and redistribution – 'at the extreme . . . levelling down' – and are much less interested in 'efficiency or even . . . funding public services'. Consequently, they are either oblivious to, or reluctant to accept, the economic science on the impact of high marginal rates of tax, high taxes on capital or high overall government consumption. Indeed, his general conclusion is that

'In Liberal Democrat circles, any mention of the phrase "supply side reform" will probably be met with a blank stare; competition, deregulation and tax cuts are viewed as a dirty Tory plot; and interventionist policies are seen through the prism of passive citizens in need of protection by the state, rather than as impositions by the state upon businesses and individuals.'

The article by Paul Marshall focuses on 'the one great silo of public policy on which there was no specific chapter in *The Orange Book*': education. Marshall rightly identifies this lapse as a paradox, for education is the quintessence of social liberalism, focusing as it does on opportunity as distinct from Fabian welfarism. And he observes that it is education that has proven to be both a personal priority for many of the book's authors (notably Clegg and Laws) and the area of government policy where the Lib Dems have arguably made the greatest impact.

This progress has not been painless; it has at times seemed as though the leadership has had to drag the party with it. And it is not clear that even *Orange Book* authors are in full agreement. The extent of pluralism, and specifically the role of for-profit providers within that plurality, is a deeply contentious one. Marshall correctly identifies this as 'The next frontier in structural school reform' and observes that

'privately operated schools can play a vital part in ensuring that there is a sufficient capacity of good school providers to complete the vision of a genuinely pluralist and diversified education system, responsive to the very different needs around the country. This will be particularly important in the provision of education services to the most disadvantaged communities. For while there seems to be no shortage of new "free school" providers in middle class communities, it is not clear that there is the same capacity of school provision for the less advantaged.'

This is a crucial point: only for-profit provision creates the incentives necessary to expand non-state provision (and thus competition and innovation – the essential drivers of quality) beyond a few small pockets where self-motivated

parents and philanthropically-minded providers have set up free schools. As Marshall observes, ‘the number of new school providers from the charitable sector is [already] slowing to a trickle’.

Yet even the Orange Bookers seem reluctant to take this natural and necessary final step. While Marshall is generally supportive, in his chapter of *The Orange Book* ‘Cable supported the use of vouchers for further and vocational education [but] rejected its extension to mainstream schooling because of pragmatic issues around the available capacity of “quality” schools.’ Clegg has gone further, ruling out for profit provision altogether (Observer, 2011), while Laws has argued that, while ‘we would be unwise to rule out the possibility of it ever happening . . . I don’t think it should happen over the next few years’ (Smith, 2012).

The collection begins with an article by Stephen Davies on ‘Classical Liberalism in the Liberal Party since 1886’. This sets *The Orange Book* in its historical context, which consists of what appears to be a recurrent cycle of emergent and receding liberalism.

‘Two things have repeatedly happened in British Liberal politics. The first is the redefinition of liberalism as a collectivist rather than an individualist system of thought, with a corresponding shift of policy towards a position that assigns an active role to government . . . The second has been not just resistance to this by those who adhere to the older vision of an individualist version of liberalism . . . but a succession of departures by such resisters.’

Thus the Liberal Party, founded on classically liberal lines in 1859, was by 1886 already in the first throws of a crisis that saw the departure of both Whigs and Radicals in response to interventionist legislation. This was followed by the rise in importance of the New Liberals and the adoption of a more collectivist interpretation of liberalism – one that has since acquired dogmatic status in the party.

It is remarkable that the mainstream of the Liberal Democrats in the early 21st century views the platform set out in the last decade of the 19th and first decade of the 20th centuries as the epitome of true liberalism, while the policies and ideologies prominent just one generation earlier are viewed with scepticism, and those who espouse them are treated with suspicion. It is ironic that classical liberals are frequently distrusted and accused of being closet Conservatives, when those classical liberals that did defect to the Conservative Party (and, as Davies notes, by no means all who left the Liberals found a home amongst the Conservatives) probably felt that it was the Liberal Party, rather than they, that had shifted.

The periodic cycles would continue. The death of Henry Campbell-Bannerman enabled the collectivists around Asquith to come to the fore (and so ignore the more individualist Majority Report of the Royal Commission on the Poor Laws). In response, the likes of Francis Hirst, Lettice Ilbert, E. S. P.

Haynes and Elliot Dodds sought a restoration of what Davies calls ‘the old religion of free trade, economic liberalism, limited government, and individualism’. The departure of the classical liberals was exemplified by Ernest Benn (whose nephew would become one of the most radical collectivists ever to hold public office in Britain). In the 1940s, Liberals such as Juliet Rhys-Williams proposed an individualist alternative to Beveridge’s welfare state (and Beveridge, it must be remembered, expressed concern that his proposals should not undermine self-help and voluntary collectivisation). In the 1950s and 1960s the classical liberals founded the Unservile State Group and helped found the Institute of Economic Affairs, and Arthur Seldon, the first Editorial Director of the IEA, remained convinced that the home of classical liberalism was the Liberal, rather than the Conservative, Party.

The question that Davies’ article raises is which tradition the Orange Bookers will follow. Members of Parliament can be expected to remain in the party, championing the ‘old religion’ from within, but four of the *Orange Book* authors are not MPs, and three of those that are MPs also contributed to *Reinventing the State*. Neither can Cable or Kennedy really be seen as ‘Orange Bookers’. Only David Laws and Ed Davey are both classical-liberal modernisers and MPs. The majority of the *Orange Book* tendency – those Liberal Democrats who believe in the efficacy and morality of markets – are non-elected, grassroots members and activists. Some of these have already left the Party; others remain inside, continuing to make the case for individual liberty in the face of entrenched collectivism.

Perhaps the ultimate question is whether *The Orange Book* signals a real and major realignment of politics within the Liberal Democrats, or whether it will become just another chapter in the ongoing cycle of liberal resurgence and disillusion.

1. The papers in this symposium acknowledge a seamless continuum between The Liberal Party, which was founded in 1859, the Social & Liberal Democrats, which The Liberals and the Social Democratic Party chose to form through merger in 1988, and the Liberal Democrats, which resulted from a name change the following year.

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