Eight years since *The Orange Book*: have the Liberal Democrats 'reclaimed' liberalism?

THE ORANGE BOOK: EIGHT YEARS ON

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The Orange Book *had an important influence on Liberal Democrat thinking, particularly on economics, tax, and public service reform. Without the policy changes which the book and its authors anticipated, it is much more difficult to imagine the governing Liberal Democrat-Conservative coalition being formed and sustained. This paper examines the origins and impact of the book, and sketches out future directions for policy development.*

Keywords: choice, competition, education, health, Liberal Democrats, liberalism, public service reform, social mobility.

Introduction

It is now some eight years since the publication of *The Orange Book* – one of the better known works of political thought written by serving politicians in the last twenty years.

Of the eight Liberal Democrat MPs/MEPs who contributed essays to the book, fate has certainly bestowed a variety of experiences. One went on to become the leader of the Party and the Deputy Prime Minister. Two more are serving cabinet ministers, and two are ex cabinet ministers; one is a minister of state; two others are no longer in the House of Commons.

The book also helped lead to the establishment of a liberal think tank, CentreForum, which has generated many influential policy ideas, and has nurtured a number of individuals who have gone on to play key roles as political advisers in the present coalition government.

The Orange Book is widely perceived to have had an important influence on the direction of Liberal Democrat thought and policy, 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. I have touched on this point in the Postscript to my book on the formation of the coalition (Laws, 2010).

Eight years on, I welcome the fact that the Institute of Economic Affairs has decided to assess the contribution made by *The Orange Book*, as well as considering future directions for liberal politics. In this paper, I discuss the origins and influence of the book, and then go on to sketch out some future directions for policy development.

The Orange Book: origins

The Orange Book was the brain-child of two Liberal Democrats – Paul Marshall and me. Paul was a party supporter, who had worked as a researcher in Parliament before going on to a very successful career in the City of London. Paul and I discussed the idea of a book of essays setting out a future Lib Dem policy direction in late 2003. We believed that there were two reasons for such a volume: firstly, to showcase what we considered to be the undoubted talents of the newer generation of Lib Dem MPs and MEPs. Secondly, we both shared a frustration about the existing policy prospectus of the party in many areas. We were proud of the liberal philosophical heritage of our party. But we both felt that this philosophical grounding was in danger of being neglected in favour of no more than 'a philosophy of good intentions, bobbing about unanchored in the muddled middle of British politics' (Marshall and Laws, 2004, p. 42). We wanted to 'reclaim' our party's liberal heritage. We felt 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.

It was not only that a liberal party should, in our view, be economically liberal. It was also that we believed strongly that the party's commitment to 'social liberalism', a fairer country where every person could participate fully in society and where people's prospects were not dependent on their parents' income and occupation, was being undermined by a lack of liberalism in our social policies. We were also frustrated that the party's well meaning attitudes in a range of policy areas were leading to a 'nanny state liberalism', in which an excessive weight was being given to state interference, with too little of the traditional liberal scepticism of big government solutions. And while we are both passionate internationalists, we also worried that the Lib Dems' strong commitment to the European Union was blinding us to the need to develop a more liberal vision of Europe, in which there would be a clearer definition of the areas where international policy making could and could not be justified.

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. And we wanted to ensure that the Lib Dem's passionate internationalism was underpinned and at times tempered by a commitment to the liberal virtues of decentralisation of decision-making and suspicion of the over-mighty state. We wanted to look back at the party's past and re-connect current policies with our liberal values. We did not want, however, to turn the clock back to the 19th century, by displacing 'social liberalism' and putting in its place a dry economic liberalism. Rather, we wanted to show how we could use the power of economic liberalism to create a freer and fairer society.

We knew that many of the prospective authors shared our critique and our frustrations with the then current party policies and outlook. In particular, Vince Cable had already developed a strong critique of Labour's statist economic strategy, and Nick Clegg was, from his then Brussels perch, setting out a strikingly liberal critique of the current EU, with a constructive agenda for reform. There were other authors, such as Steve Webb, who we felt less sure shared all of our views on Lib Dem policies, but who we wished to include in the volume because of their obvious talents and their perspective on what we considered to be key issues (Steve Webb, for example, challenged the Party's laissez-faire approach to issues of 'family').

The essays were written in the Spring of 2004, and edited by Paul and by me. Paul contributed an introductory essay, pulling together themes from the different chapters, as well as his own essay on pension reform. I contributed the first substantive chapter of the book, on 'Reclaiming Liberalism'. This set out my own critique of the current position of the Party on a range of issues, and included some signposts for future policy development. I suggested the title of this chapter as the title for the book. But Paul Marshall wanted something more striking and memorable that would draw attention to the intended importance of the book in setting what we hoped would be a new direction for party policy. He suggested 'The Orange Book', which I somewhat sceptically accepted.

I also wrote a chapter on reform of the NHS, which was to be the most controversial chapter of the book, and which sparked a considerable backlash from a number of party colleagues and activists. Many of my critics clearly had not read the chapter in question, or chose to misrepresent it grossly. To me, the response to this chapter confirmed how small 'c' conservative the Lib Dems had become on issues such as public service reform. In any case, the argument over Chapter 7 (which flared up at the Autumn 2004 Party Conference) ensured that the book received considerably more attention than might have been expected. Without this controversial chapter, *The Orange Book* would have been a far lower profile volume, but an important indicator of future directions in party thinking. With Chapter 7, the different approaches to policy shone out more starkly, and the book assumed a prominence that it would not otherwise have secured.

The Orange Book: influence

I do not intend to set out here in any detail the content of *The Orange Book*, or the individual policy prescriptions which it advocated. Readers can more conveniently refer to the essays themselves. Instead, I think it is worth considering what, if any, influence the book had in moving the policy debate forward and indeed in paving the way for the Lib Dem-Conservative coalition of 2010.

The Orange Book certainly represented a marked change of approach on economic policy, including taxation. For decades before the book, Lib Dem economic policies were surprisingly ambivalent about economic liberalism – the belief in the power of markets, choice and competition. Party policy positions seemed to lurch leftwards and then rightwards depending on the prevailing state of the wider political and economic debate. And the merger of the SDP and Liberal Party brought together different strains of economic thinking, with different attitudes to economic liberalism.

The book restated strongly the virtues of economic liberalism. It included striking proposals to scrap the Department of Trade and Industry, and to privatise the Royal Mail. On the key issues of taxation and spending, there was a marked change in approach, too. The Liberal Democrats had previously been strongly associated with calls for higher public spending, and higher taxes to fund this spending. There was indeed a strong case for some such specific interventions during and directly after the Conservative administration of 1979–1997, when some parts of the public sector and public infrastructure suffered from marked under-investment. But the Labour Government of 1997–2010 had, by 1999, moved decisively to increase public spending at a rapid rate. By 2004, therefore, the case for further 'tax and spend' was weakening fast. Yet the natural tendency of the Lib Dems seemed to be a determination to outbid every other party on taxation and spending, and this was becoming a policy and political liability.

The Party's commitment to a higher, 50%, top rate of tax was also increasingly in our view a liability – as whatever level of income it was introduced at, it risked branding the party as

a high-tax and anti-enterprise party. The issue of the 50% rate was not tackled explicitly in *The Orange Book*, as this would have been too controversial in advance of the 2005 General Election. But the book made the case for a tax system with lower tax rates and fewer tax breaks – which anticipated the later decision to drop the 50% rate in favour of tackling other parts of the tax system which gave unfair subsidies to the affluent. The book made clear that extra spending demands should be met by spending reductions in other areas, rather than tax increases. And, on taxation, it anticipated the move under Nick Clegg's leadership to raise the personal tax allowance to £10,000 per annum – with a call to take more low earners out of income tax all together.

If some of these proposals on taxation, spending and free-market economics were controversial in the party, they were not nearly as challenging as the criticisms that *The Orange Book* made of our social justice agenda and on public service reform. Both Paul Marshall and I were deeply frustrated by the Party's entrenched conservatism towards the reform of public services. Our strategy as a party on public services seemed to be to spend ever more money while wanting to rely on local government to deliver service improvements – in spite of a marked lack of evidence that the existing structures in areas such as education had been effective in the past in driving such an improvement in standards.

Party spokesmen on health and even education too often sounded like the paid advocates of the public sector unions, and the word 'choice' seemed to be regarded as a dirty, right-wing word. The left of the party not only wanted to spend more money, but quite often seemed obsessed only with making things free – abolishing prescription charges, tuition fees and care home charges – even if there was precious little evidence that this would be the best way of using scarce money to deliver a fairer and freer society. It was not that the left of the Liberal Democrats had a particularly ambitious and expensive programme for social justice. It was just that this part of the party wanted to cling to the policy comfort blankets of the past – high headline tax rates, pledges to abolish progressive user charges, and misplaced confidence in the cure-all powers of local government and state monopoly provision, in spite of strong evidence that this wasn't working for the majority of people.

The Orange Book vision was about targeting scarce resources where these would do most to challenge disadvantage, while bringing in more choice and competition to public services such as health and education, in order to deliver pressure for improved service standards. In this regard, my own chapter on health services turned out to be easily the most controversial in the book. Those Lib Dems who believed that the answer to unresponsive national services was more devolution to local government were horrified by the vision of choice, competition and consumer power.

The proposals were distorted to imply that I was arguing for private medical insurance or some kind of 'sink or swim' US healthcare system. I had made the mistake of calling my scheme a 'national health insurance scheme', which allowed people to misrepresent it as implying that people would have to purchase their own healthcare. In fact, I had been very clear that the new health system would be funded by progressive taxation, open to all, and free at the point of delivery. There was a strong party backlash against this chapter, with some people also feeling that the timing (nine months before a possible General Election) was poor. Perhaps they were right, but there is never a perfect time to tell uncomfortable truths. After the book was published, there was a major row at a meeting of our parliamentary party, at which I was roundly attacked, and in which few people rallied to my side.

The book seemed to be selling well, no doubt lifted by all the controversy. But the Party's Chief Executive, Lord Rennard, joked to me that it was he who was buying up all the available copies, to store them away safely in his garage! Controversial *The Orange Book* might have been, but there is no doubt it was also influential. By challenging the existing assumptions in the party, it created much more space for radical thinking. And it encouraged many liberals who had hitherto been frustrated and depressed by the party's policy messages. While many of the new generation of MPs had their own differing attitudes to proposals in the book, there is no doubt that the more influential MPs were moving policy in a liberal direction. On economic policy, Vince Cable, Ed Davey, Chris Huhne, Nick Clegg, Jeremy Browne, Norman Lamb, Susan Kramer and I were all strongly liberal. On public service reform, the picture was less clear cut, and the forward momentum relied upon a smaller group, which fortunately included the future leader, Nick Clegg.

The 2005 Manifesto reflected these changes only in part. The party no longer argued for an increase in the basic rate of tax, but it continued to be highly cautious on public service reform; wedded to an increase in the top rate of tax; and to the abolition of tuition fees and social care charges. After the election of Ming Campbell (in 2006) and then Nick Clegg (in 2007) to the leadership of the Party, the move on to the Orange Book agenda accelerated.

There was a more liberal approach on the European Union. The 50% tax rate was dropped, with a new focus on tackling tax avoidance and reforming allowances and reliefs. An ambitious tax cutting agenda was announced, with a target of raising the personal tax allowance to £10,000. There was a strong commitment to fund any extra spending through savings elsewhere, and the spending priorities changed to make a Pupil Premium for disadvantaged young people the priority, rather than social care charge abolition or immediate abolition of tuition fees. On public services, Norman Lamb moved policy markedly in a liberal direction on the NHS, while on schools I dropped the party's opposition to choice and to academies, while insisting on a proper combination of school freedom and accountability.

The Orange Book and the coalition

The Orange Book was not written in order to make a Lib Dem-Conservative coalition possible, but without the policy changes which the book and its authors anticipated, it is much more difficult to imagine the present coalition being formed and sustained. In May 2010, the Lib Dems negotiated on the basis of the following policy positions:

- Delivering tax cuts for those on low and middle incomes, rather than focusing on higher taxes

- Making a strong commitment to deficit reduction, primarily through public spending cuts and control – including abolishing the Child Trust Fund, and scaling back tax credits.
- Identifying the Pupil Premium as our education priority, rather than the immediate abolition of tuition fees – indeed, this was made the clear priority in our Manifesto. It would have been impossible to reach agreement with the Conservatives on the basis of tuition fees abolition.
- Promoting a pro choice and pro devolution of powers policy on schools, including support for new Sponsor Managed Schools.
- Abandoning free personal care for the elderly as a key policy pledge. (Retaining this would have made the gulf between the two parties much larger.)

As I concluded in *22 Days in May*:

> 'This policy realignment was hugely important in making a coalition with the Conservatives possible, though it was not inspired by this aspiration. If we had fought the 2010 General Election on the 2005 Manifesto, it would have been much tougher to reach policy agreements with the Conservatives, given our previous policies on free personal care for the elderly, immediate abolition of tuition fees, higher taxes and opposition to most reforms in health and education' (Laws, 2010, p. 271).

In fairness, it also should also be added that it would not have been easy for us to reach agreement with the Labour Party either, on the basis of our 2005 Manifesto!

Where next for the *Orange Book* agenda?

Now that a good deal of *The Orange Book* agenda is being delivered in government, what are the right directions for the future?

Firstly, we must keep the faith with economic liberalism, notwithstanding the problems in the global economy since 2007. Free market capitalism, including competition, consumer power and private sector innovation offer the best prospect for increasing wealth and reducing poverty and poor living conditions – including in the developing world. Democracy was once described by Winston Churchill as the 'worst system of government in the world – except for the rest'. The same is true of competitive market capitalism, in relation to wealth creation. Government's role should remain focused on creating the right conditions for growth – economic stability, good infrastructure, low inflation, competitive taxes and efficient markets.

Marginal tax rates remain high in the UK, even at low levels of income. For example, graduates experience marginal effective withdrawal rates of around 50% at income levels of just over £21,000, taking into account income tax, national insurance, graduate contributions and pension contributions. And that is before paying for rent or a mortgage. And low earners continue to pay tax on incomes that are well below the minimum wage. Future UK governments should consider a further substantial real rise in the personal tax allowance, along with lower marginal rates of tax at all income levels. This can be paid for over time by continuing to reduce the share of public spending in GDP, and by reforming and simplifying the tax system to reduce avoidance opportunities and to scale back allowances and reliefs which often give excess benefits to those on higher income levels. Corporate tax rates also need to be competitive, while bearing down on avoidance.

The state's direct role in the economy should continue to decline, with the transfer of assets such as Royal Mail into the private sector, and with further action to restrain public expenditure. But at some stage, the real cuts in public spending will need to come to an end, as public sector pay pressures rise, and as we ensure that there is proper funding for services such as health and education, as well as to meet emerging demographic pressures.

But even 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 implication of the state spending 40% of national income is that there is likely to be too much resource misallocation and too much waste and inefficiency. The liberal ambition should be for long-term total public spending growth to be restrained at below the trend rate of growth of the economy – this probably means decent real growth of health, education and pensions spending, offset by most other areas of public spending shrinking over time as a share of GDP. This objective will be made easier to deliver if we can create the conditions for faster economic growth and for lower levels of worklessness amongst the population of working age.

If economic liberalism has proved itself over time as the best guarantor of wealth creation, it has proved rather less successful in delivering the society of opportunity that many liberals would like to see. Too often, free market capitalism has been associated with gross inequalities of wealth, income and opportunity. No liberal can be content to live in a society where life chances are determined more by family background and parental income than by natural ability.

Milton Friedman claimed in his famous book *Capitalism and Freedom* (1962) that capitalist societies would be meritocracies, in which social mobility would be high and in which everyone would enjoy opportunity. While it is true that most liberal societies are increasingly meritocracies where people are judged on their personal worth and not on their race, class, creed, sex or sexuality, the sad fact is that the chances of acquiring merit are grossly unequal. If you are born to the wrong parent in the wrong community, your life chances are hugely damaged. And cycles of deprivation and disadvantage have become embedded in many communities in countries such as the UK and USA. At the same time, while those on high incomes can buy or move their way out of poor quality state monopoly provision, this cannot be said for those on low incomes, who often have to attend poor quality schools or wait too long for medical treatments.

Liberal societies should act to tackle such inequalities of opportunity, by ensuring that people have the right skills to get good quality employment, and by delivering real choice and accountability in public services. There are still too many low quality schools that are failing generations of pupils. Britain should be a country in which 90% of children leave education with high quality minimum qualifications, instead

of around 50%, as it is now. The reform programme in education must continue, with better and more challenging identification of failing schools, and with a range of interventions to drive up standards including: more choice through free schools; better leadership through new school sponsors or school-to-school improvement; more good teachers; and more effective use of school resources. And autonomy and competition need to be complemented by strong accountability and intervention systems if school reform is to deliver its full potential.

On the NHS, there are clearly challenges from trying to deliver reform during a period of significant budget consolidation. And there is a need to ensure that reform empowers the patient and not simply the provider. But it is essential that there should be further consideration of the scope for improving services through competition, devolution of decision making and effective accountability. Too many who are dissatisfied with the NHS service on offer still struggle to find effective ways to get the service that is needed in a timely way. It should not be necessary to go to see an MP or a local councillor to get this now well-funded service to be responsive.

Finally, on public service reform, there is further progress needed to make a reality of the 'welfare to work' mantra of successive governments and to devise a pensions system which is affordable, provides strong incentives to save, and which will deliver a good income for most people in retirement.

Reform of education, welfare (including pensions) and the NHS are the principal policy challenges beyond the economic/public finances challenges. Part of the agenda on public service reform should be to empower people, and not politicians. The pre-Orange-Book Lib Dem critique of central government public service delivery was all about decentralising power from the national to the local level. Of course, that is highly desirable, and there are some responsibilities in relation to delivering public services which cannot be delivered by the market or individual alone. Planning for school transport or school places provision might be two examples. But, as a general rule, a liberal should want to empower the individual, rather than government, whether local or national. Individuals are generally better judges of their own interests than politicians. In the nineteenth and twentieth centuries, governments in industrialising countries took more powers to deliver key services such as education, health, housing and pensions, in order to deal with market failures and the inequalities of access to these key services. While market failures and access challenges still clearly exist, the 21st century challenge is to pass more power to the citizen and not to the state.

Meanwhile political reform is now designed to devolve power (UK localism and EU reform) and to control excessive power (fixed-term parliaments, Lords reform, party funding reform). Much of this traditional liberal agenda of political reform ought to have been completed by the end of the current Parliament.

On the agenda of personal liberty, there is no cause for complacency. The 'meddling state' has been on the forward march in Britain, and there is still much to do to free citizens from well-intentioned but often unnecessary or counter-productive interferences in individual liberty. The present government is seeking to pursue this de-regulation agenda, and it should do so while ensuring that individuals are still protected from arbitrary abuses of power.

In other respects, people are clearly much freer from repression and prejudice than was the case just a few decades ago. But there are difficult and controversial areas in need of reform, such as the debate over 'assisted dying', where public opinion is considerably in advance of that in the political parties. In a liberal society, the test is not, of course, whether a 'national consensus' in such areas can be secured, but whether the state is entitled to interfere with individual powers of determination and expression, and what safeguards need to be in place.

This brief discussion of future challenges should make clear that there is still a lot of work for Lib Dems and indeed for liberals in all parties and none. The agenda of *The Orange Book* has been advanced considerably inside and outside the Lib Dems since 2004, but there is still much to do, and – who knows – perhaps the need for a renewed prospectus?

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