

More markets and less government should be at the heart of Cameron's economic agenda

From housing policy to welfare, the Tories should promote and manage markets to guarantee massive contributions to our prosperity and wellbeing



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What should the economic agenda be for the new government? Like her or loathe her, you have to admit that Baroness Thatcher's three governments made radical changes that have left a lasting imprint. But the really radical reforms did not come right at the beginning.

Admittedly, the first Thatcher government significantly restructured the tax system, including a major cut in the top rate of tax from 83pc to 60pc and it abolished exchange controls. But the government was obsessed with achieving financial stability and bringing inflation under control.

The leitmotif was control of the "money supply".

As the government painfully discovered, there were umpteen different definitions of this concept. In the process of wandering its way towards wisdom, it presided over a macro-economic disaster which saw interest rates rise to 17pc and the pound soar to ludicrously overvalued levels. The result was the destruction of a large part of our industrial base and a huge increase in unemployment.

So many of the things that we now remember the Thatcher governments for occurred in the succeeding years, in particular the wave of privatisations, the confrontation with the trade unions, culminating in the miners' strike, and major changes in tax rates.

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Like Lady Thatcher, David Cameron's first administration was dominated by an overarching macro objective, **[the need to stabilise the public finances](#)**.

Of course, there is much more work still to be done on this. But the debt ratio will soon peak. I know, it will still be too high. But all the markets require is confidence that it will be coming down. They will have it. Whisper it quietly only among friends, but the fiscal crisis is over.

Yet man cannot live by fiscal stability alone – and neither can governments. The second administration, while carrying on the work of fiscal stabilisation, should have at its heart something different. It should be about markets: allowing them greater rein where they work well, introducing them where they don't currently exist and, yes, intervening to reform them where they work badly.

What's more, there should be a moral tone to this objective. One of the most galling aspects of Labour's election campaign was its assumption of moral superiority. The implication was that business was tainted because it was selfish, while state spending, regulation and interference were "caring" and altruistic. Labour is yet to

appreciate that markets have a better record of delivering the goods for ordinary people.

The Conservative Party knows this – but it still has a long way to travel. The areas where markets need to be helped to work better are headed by the labour market.

The previous government made huge strides, but there is more to be done.

Reducing the cap on welfare payments and increasing the tax-free allowance will continue to tip the balance of incentives in favour of work.

Tightening up the requirements for trade unions to gain support before calling strikes, and enabling employers to employ temporary replacement labour, will tilt the balance against damaging strike action which penalises the many to promote the interests of the few.

In addition, there needs to be major action on tax structures as well as levels.

Reducing the top rate may bring few plaudits but it is necessary to reverse Gordon Brown's cynical and destructive rise, and to make plain the commitment to keeping talented people in this country. This, too, has a moral aspect. Except in times of national emergency, the government has no right to take virtually half of a person's income in tax. Concede this point to the Left and the overall battle will be lost.

• **Welfare spending: How will the Conservatives handle it?**

The housing market has been blighted by misguided government intervention. The new government, while presumably having to honour its various pledges to boost demand for houses, should now tackle the fundamental problem of the housing market, which is a lack of supply, caused by excessive restriction of sites.

Of course, there is a limit to what one administration can do, and a limit to what political reality will allow. But there are three other major areas where more markets and less government would make massive contributions to prosperity and wellbeing: education, health and transport. I am not holding my breath.

There are also two quite different, related, areas where the market works extremely badly and where this Conservative government needs to act, namely the processes governing the decisions on executive pay and the determination of real investment by companies. In short, there is a huge problem with the way the modern corporation works, with its legal structures, the mix of rights and responsibilities for shareholders, and the incentives to take the long view.

It is not enough for a government that favours markets to concentrate on reforming welfare and the laws governing trade unions. Companies are the main institutions of the market economy. In so many ways, they are in need of radical reform. If we experience another five years of egregiously excessive executive pay, ludicrously warped incentives and behaviour in the financial system, combined with pathetic levels of business investment, then it will be more difficult to argue that the market economy delivers for everyone.



Tories should not accept an over-valued pound as Baroness Thatcher did in 1979-1982

And there is a macro-economic failure of markets that needs addressing, too – the exchange rate. Here, this government risks presiding over a similar big mistake to the one that dogged Lady Thatcher's first administration, namely the acceptance of a seriously overvalued pound. Yes, the exchange rate emerges in a free market, but as the result of distorted incentives, structures and policies.

In setting out this agenda for government, I have also laid out an agenda for these columns.

Some time ago, I shocked readers by saying that after several years of gloom and doom, I believed that we had turned the corner and the economy was going to exceed (almost) everyone's expectations.

This government will have its many slips and failings, yet I am more than optimistic that it will make substantial progress in pursuing the reform agenda. It will be by its promotion – and management – of markets that it will be judged.