

IEA Discussion Paper No.121

REBUILDING BRITAIN

Restoring confidence, competitiveness
and compassion

David Owen
March 2023

IEA papers are designed to promote discussion of economic issues and the role of markets in solving economic and social problems. As with all IEA publications, the views expressed are those of the author and not those of the Institute (which has no corporate view), its managing trustees, Academic Advisory Council, or other senior staff.

Contents

About the author	4
Introduction	6
Quantitative easing	9
The fiscal danger	10
The Truss debacle	13
Boosting productivity	20
Training young people	23
Covid	25
Private Finance Initiative	27
Reorganisations	32
Volunteering	35
Changing health policies	36
Decentralisation	37
No fault compensation	45
The future of the UK	47
References	53

Lord Owen sits in the House of Lords as an independent Social Democrat. He served as Navy Minister, Health Minister and Foreign Secretary in Labour Governments in the 1960s and 1970s. He was a member of the Gang of Four that broke away from Labour and established the Social Democratic Party in 1981. For four years, as leader, from 1983-7 he tried to re-establish the SDP as a distinctive new party despite being locked in an alliance with the Liberal Party. In the wake of the 1987 general election, which saw Margaret Thatcher re-elected as Prime Minister, SDP members voted to merge fully with the Liberals. David Owen remained an SDP MP but did not fight the 1992 General Election. From 1992-95 he served as EU Co-Chairman of the peace negotiations in former Yugoslavia. From 1995-2015 he was chairman of an AIMS company doing business mainly in steel in Russia. He was also chairman of Yukos International for three years and served as a non-executive director of the UK-based Coats Viyella and US companies, Abbott Laboratories in Chicago and Hyperdynamics, an oil company in Texas.

Introduction

Forty years ago I wrote a long article entitled 'Agenda for Competitiveness with Compassion' in the October edition of *Economic Affairs*. It argued for a new mix of radical policies by linking a strategy of social concern with that of market realism; that we must use the term 'market' openly and unashamedly; and that Britain could not recover its economic strength without a far stronger emphasis on winning markets and without a clearer recognition of the commercial and competitive imperatives on which our prosperity depended.

It emphasised decentralisation, not just about people having more say in the decisions that affected their lives, but was 'searching for the correct balance between decisiveness and participation'. A decentralised society places a higher priority on choice and diversity than a centralised society. It also has smaller units of decision making whether in the public or private sector.

Our message was necessarily complex. We believed there was no magic formula or single initiative that would miraculously put Britain back on the road to recovery, and that politicians who pretended otherwise were guilty of perpetuating a cruel misconception on the electorate.

Compassion embodies fellow feeling, suffering together, whereas competitiveness is a spirit of competition, endeavouring to gain what another endeavours to gain. Democratic politics unusually tries to combine the two; where it fails there is often conflict and where it succeeds there can be additional strength.

In this paper I am going to examine how our economic life has changed in fundamental ways over the last forty years in the UK.

There has been an underlying substantial increase in the size of our national debt and that has in part been deliberately masked. I believe there will be no long-term solution to the UK's economic problems until we face up to the record of the Treasury and the Bank as an overdominant force making bad decisions that have contributed to Britain's economic failures. I have been strongly influenced on this by a recent book by Aeron Davis, *Bankruptcy, Bubbles and Bailouts. The Inside History of the Treasury since 1976*, in particular by Chapter 4 on 'Pseudo-Keynesianism, debt and magic money trees: the financial fixers come to town'.

The author describes his own book as:

a rare attempt to drag the Treasury out into the light, to cast a more critical eye over its recent history. I say rare because all too often the Treasury tells its own story. It presents its highs and edits out its lows. We know of its many rescue missions of the UK economy but rather less about its contributions to failure. In my eyes, the Treasury didn't simply salvage the economy from various meltdowns and economic shocks but was often a causal factor in those same crises. That includes the lost Brexit vote, something the Treasury fought hard to prevent without understanding its own contribution to that very outcome. (Davis 2022: vii)

Criticism of the Treasury is not new. Edmund Dell, a Labour cabinet minister with whom I served under James Callaghan, in his book *The Chancellors* covering the years 1945-90, wrote:

What stands out in this history is the way this country, a rich country by most standards, has repeatedly made itself contemptible through its inability to manage its own affairs. There is the continuous depreciation of the currency. ... There is the preaching tendency, the repeated demands that the major countries of the world should act to relieve the stresses on sterling by conducting expansionist policies in accordance with a Keynesian recipe which their governments considered grossly inflationary. (Dell 1997: 551)

During my time as a Cabinet Minister, Prime Minister Callaghan involved me as Foreign Secretary in a 'seminar' mechanism he had developed for bringing together senior ministers in informal discussions with the Governor and Deputy Governor of the Bank of England. It was a device for him to have more influence on the hitherto heavily guarded relationship between the Chancellor of the Exchequer, then Denis Healey, and the Treasury and the Bank of England. It made no decisions but exchanged ideas, criticisms and pointed towards new decisions while retaining the independent integrity of the Bank. It was a clever way of ensuring that the Government, the Treasury and the Bank of England were more aligned, a template that I believe could be usefully copied in 2023 by Prime Minister Sunak.

During a long period of constraint on health spending there was little pre-pandemic expenditure. The Government was warned in the Cygnus Report in 2017, 'The UK's preparedness and response, in terms of its plans, policies and capability, is currently not sufficient to cope with the extra demands of a severe pandemic that will have a nation-wide impact across all sectors' (Public Health England 2017: 6).

In the midst of Covid, furlough was a major and costly new policy, motivated in part by compassion. The Government paid up to 80 per cent of furloughed employees' wages. It was introduced by the present Prime Minister Rishi Sunak under Prime Minister Boris Johnson and was welcomed by the Labour Party and the TUC. Other countries, including Germany and France introduced somewhat similar schemes. The Government's official title for furlough was the Coronavirus Job Retention Scheme. It ended on 30 September 2021 at a cost of £70 billion. The Institute of Fiscal Studies thought, 'In many ways it has been very successful'¹ and the Resolution Foundation described it as lessening 'the risk of economic scarring from prolonged periods of non-working'.²

1 Cribb, Jonathan & Salisbury, Adam. Employment and the end of the furlough scheme. IFS. 30 September 2021 (<https://ifs.org.uk/books/employment-and-end-furlough-scheme>)

2 Tomlinson, Daniel. Job well done. 18 months of the Coronavirus Job Retention Scheme. Resolution Foundation. 27 September 2021 (<https://www.resolutionfoundation.org/publications/job-well-done/>)

Quantitative easing

The mechanism chosen to pay for furlough was QE, first introduced in 2009 following the global financial crisis of 2008. The Bank of England established a wholly owned subsidiary, the Bank of England Asset Purchase Facility Fund Limited, commonly called the APF. In it the Treasury and the Bank are linked by a mutual indemnity. If the APF makes a profit in the gilt markets it goes to the Treasury; if the APF makes a loss it is made up by the Treasury, thereby putting a squeeze on public finances. The terms of that indemnity have been sought by the Lords Economic Affairs Committee and whilst the Bank was content for them to be released, the Treasury refused. That decision should be reversed. We need greater openness in the future on all aspects of QE.

The APF is undoubtedly an unusual structure for the Bank of England which prizes its independence. The Bank has, in effect, been financing the whole of the increasing budget deficit since Covid in a very close relationship with the Treasury. The APF has become such a dominating factor that Gordon Brown's carefully-defined statement on taking office on Bank of England independence over raising interest rates to offset the increase in the budget deficit needs revision. QE was used by many countries after 2008 and international confidence remained fairly stable. Borrowing is not intrinsically wrong. Some countries will be in surplus, some in debt. What is worrying is the nature of our UK debt and the sense internationally that we may have lost the self-discipline to repay it. That is a legitimate cause for great concern, particularly after the conduct of Liz Truss in her short-lived period as Prime Minister.

The fiscal danger

We are in a new situation that has been creeping up on us because of the nature of QE and its size. It means we must be far more vigilant and concerned about this whole area of the gilt market than in the past. Also, more honest in party political debate about the true extent of our debt.

Nassim Nicholas Taleb, who foresaw the 2008 global financial crisis, advises Mark Spitznagel, chief investment officer of Miami-based Universa Investments. He warns that debt has become 'objectively the greatest tinderbox-timebomb in financial history – greater than the late 1920s, and likely with similar market consequences'... 'The world is just too levered today, the debt construct just too big.'³

Another view about debt came from Robert Reich, in the *Guardian* on 1 February, who wrote:

America's wealthy have been financing America's exploding debt by lending the federal government money, for which the Government pays them interest.

As the federal debt continues to mount, these interest payments are ballooning – hitting a record \$475bn in the last fiscal next year (which ran through September). The Congressional Budget Office predicts that interest payments on the federal debt will reach 3.3% of the GDP by 2032 and 7.2% by 2052.

3 Matt Oliver. 'World at risk of financial crisis to rival Great Depression warns "Black Swan" hedge fund'. *The Telegraph*. 31 January 2023 (<https://www.telegraph.co.uk/business/2023/01/31/black-swan-hedge-fund-warns-financial-crisis-rival-great-depression/>).

The biggest recipients of these interest payments? Not foreigners but wealthy Americans who park their savings in treasury bonds held by mutual funds, hedge funds, pension funds, banks, insurance companies, personal trusts and estates.

Hence the giant half-century switch: the wealthy *used* to pay higher taxes to the Government. *Now* the Government pays the wealthy interest on their loans to finance a swelling debt that's been caused largely by lower taxes on the wealthy.

This means that a growing portion of *everyone else's* taxes are going to wealthy Americans in the form of interest payments, rather than paying for government services that everyone needs.⁴

The same pattern, but on a smaller scale, is developing in the UK.

It has not helped that the Government and Bank of England took so long to admit that QE was inflationary. On 7 November 2022, just ten days before the new Chancellor of the Exchequer, Jeremy Hunt, delivered his Autumn Statement, Huw Pill, the Bank of England's chief economist, admitted QE was inflationary. Hitherto, that had been repeatedly denied. His evidence to the House of Lords Economic Committee was described in the *Financial Times* next day in its section on Monetary Policy under the headline, 'BoE's stance on QE link may have added to high inflation'.⁵ The chief economist said that decisions taken by the Bank of England before he joined its Monetary Policy Committee, including repeated rounds of quantitative easing over the course of the pandemic, 'could have worsened the central bank's overshoot of its 2 per cent target' for inflation.

Criticism of the Bank of England has also come from the US, particularly from a former President of the Federal Reserve Bank of Minneapolis, for the Bank's 'poor financial regulation and highly subjective crisis

4 Robert Reich. 'Republicans aren't going to tell Americans the real cause of our \$31.4tn debt'. *The Guardian*. 1 February 2023 (<https://www.theguardian.com/commentisfree/2023/feb/01/republicans-arent-going-to-tell-americans-the-real-cause-of-our-314tn-debt>).

5 Delphine Strauss and Chris Giles 'Bank of England's stance on QE may have added to high inflation, says Pill'. *The Financial Times*. 8 November (<https://www.ft.com/content/02379c68-c206-40e4-90ab-3bf7029fecb0>)

management'.⁶ Other voices in the UK have criticised 'its failure to understand, and respond to, the increasingly dangerous behaviour of a large sub-sector of Britain's pension funds, the so-called Liability Driven Investment Funds (LDIs)'.⁷ The pressure on these rickety LDI funds was not helped by the Bank of England's role in 'growing the money supply to fuel inflation; for failing to show aggressive enough rate rises to curb inflation and for an abrupt, too-soon, world-first leap into QT (Quantitative Tightening)'.⁸ It is worth noting that even the Bank of England's staff pension scheme assets lost £1.5 billion in value in six months as part of its LDI policy.⁹ It was in the midst of considerable international unease that a crisis developed over LDIs so deep that the Bank had to come up fast with £65 billion in emergency funding to prevent a debt market meltdown in the autumn of 2022.

6 Narayana Kocherlakota. 'Markets Didn't Oust Truss. The Bank of England did'. *The Washington Post*. 26 October 2022 (https://www.washingtonpost.com/business/markets-didnt-oust-truss-the-bank-of-england-did/2022/10/26/dd92c4d2-54eb-11ed-ac8b-08bbfab1c5a5_story.html).

7 Jon Moynihan. 'How the Bank broke the Government'. *The Critic*. December/January 2023 (<https://thecritic.co.uk/issues/december-january-2023/how-the-bank-broke-the-government/#>)

8 *Ibid.*

9 Alex Ralph and Patrick Hosking. 'Bank of England pension fund took £15bn hit from derivatives'. *The Times*. 24 January 2023 (<https://www.thetimes.co.uk/article/bank-of-england-pension-fund-took-1-5bn-hit-from-derivatives-cc83pcc5p>).

The Truss debacle

On 31 September 2022, Prime Minister Liz Truss and Chancellor of the Exchequer Kwasi Kwarteng chose to present to the House of Commons what was called a 'mini-budget'. It so appalled the international financial community that there was an immediate withdrawal of confidence in the financial governance of the UK Government. Conservative MPs removed Truss as their leader and Prime Minister and we witnessed the shortest tenure of any British Prime Minister in history. Truss allies in the Conservative Party, even now, seem oblivious to the grave damage that she has done to economic growth. Not so, economic journalists. 'Take away the ten days of mourning after the death of the Queen,' jibed the *Economist*, 'and she had seven days in control. That is the shelf life of a lettuce' (Cole & Heale 2022: 4).

We now know more about how Truss conducted herself in No 10 from the *Financial Times* magazine article of 9 December written by three of their respected correspondents. They reported, amongst many other horrors of judgement and behaviour, one of her cabinet ministers saying 'It was hubris she felt invincible almost regal.'¹⁰ I have written much about hubristic incompetence being responsible for bad decisions by heads of government, most recently about Trump (Owen 2020).

Truss's hubris involved 'the largest underfunded tax cuts in fifty years' and alarmed those lending to the UK.¹¹ It is also becoming one of the best examples of hubristic incompetence amongst politicians (Owen & Davidson

10 George Parker, Sebastian Payne and Laura Hughes. 'The inside story of Liz Truss's disastrous 44 days in office'. *Financial Times*. 9 December 2022 (<https://www.ft.com/content/736a695d-61f6-4e84-a567-fb92ed2a3dca>)

11 Chris Giles, George Parker and Jasmine Cameron-Chileshe. 'Liz Truss draws fire after blaming "economic establishment" for her downfall'. *Financial Times*. 5 February 2023 (<https://www.ft.com/content/88be6209-95e8-4ea1-ab39-ad5cdb678359>).

2009). Gerard Lyons, the chief economic strategist at Netwealth and adviser to Truss, writing in the *New Statesman* on 23 September 2022, warned Liz Truss publicly, as he had done also privately, that ‘The Government has to keep financial markets onside. The UK is not exempt from global trends.’¹² After a period of silence, visiting America Liz Truss wrote an exclusive 4,000 word essay for *The Telegraph* published on 5 February which was headlined ‘Liz Truss: I was brought down by the left-wing economic establishment.’¹³ The following day’s *Times* headline read, “‘Delusional’ Truss will cost votes, Tories fear.”¹⁴

At this nadir of our standing internationally, a different Prime Minister, Rishi Sunak, and a new Chancellor of the Exchequer, Jeremy Hunt, had presented the UK Government’s Autumn Statement to Parliament on 16 November 2022. It admitted that the country now faced the highest level of taxation since the Second World War and would suffer a record fall in living standards.

On 29 December 2022, the *Financial Times* had a headline: ‘Liz Truss’s “moron premium” still looms over UK economy’ with the mortgage market taking longer to fix in spite of “efforts by Rishi Sunak to reap a “dullness dividend”’. It had within the article a sub-heading: ‘Politicians should now understand that there is no magic money tree,’ explaining that homeowners are now paying the price for the Trussonomics experiment, and the Bank of England expects 4 million mortgages for owner-occupied homes to rise in price in 2023 with people on fixed-rate deals having to pay an extra £3,000 a year, on average, in interest.

Ambrose Evans-Pritchard of *The Daily Telegraph* assessed the Autumn Statement as follows:

As a matter of economic science Jeremy Hunt’s plan is less destructive than feared. He has stretched out adjustment and avoided the worst pro-cyclical insanity. Research spending is

12 Gerard Lyons. ‘The Meaning of Trussonomics: prevent a recession, then stake everything on growth’. *New Statesman*. 21 September 2022 (<https://www.newstatesman.com/comment/2022/09/trussonomics-prevent-recession-growth>).

13 Camilla Turner. ‘Liz Truss: I was brought down by the left-wing economic establishment’. *The Telegraph*. 5 February 2023 (<https://www.telegraph.co.uk/politics/2023/02/04/liz-truss-tory-conservative-party-sunak-economy/>)

14 Matt Dathan. “‘Delusional’ Truss will cost votes, Tories fear’. *The Times*. 6 February 2023 (<https://www.thetimes.co.uk/article/delusional-liz-truss-could-cost-tories-next-election-g075k0xqx>)

preserved and the target of 2.4pc of GDP remains. The capital budget for infrastructure projects will be sustained in cash terms.¹⁵

It remains the crucial economic forward plan for the UK in February 2023 and it covers exceptionally in some detail Autumn Statements for five years ahead. There were soon some signs it had restored in part international confidence while improving competitiveness. It was not devoid of compassion for those facing rising fuel costs and many other cost-of-living increases. There was, however, a new increased expenditure commitment resulting from President Putin's second invasion of Ukraine on 24 February 2022. Britain, under Boris Johnson, took the lead in Europe along with Poland, the country that has taken over 1.5 million refugees and has been hugely supportive of Ukraine's defence effort. The US under President Biden skillfully led NATO. The UK supplied hand-held missiles manufactured in Belfast which played an important role in the early stages of Russia's attempt to capture Kiev. In 2023 the UK will be providing £2.3 billion of military aid. We are not yet in a war economy and to keep this spending in proportion, defence spending in the 1950s was more than 7 per cent of GDP, when our post-World War II economic circumstances in the UK were far, far worse. Today we are only spending around 2.2 per cent of GDP on defence. Yet NATO is making history acting in a different way in helping Ukraine to defend itself while using NATO weapons on Ukraine's battlefield. However, it is not inconceivable that Putin is ready to continue to fight for many years yet and we will need to factor in much higher defence spending. That could help economic growth since much of the spending will be in high technology but it will put pressure on our capacity to reduce our debt.

Yet the Office for Budget Responsibility (OBR) said on 31 January 2023 a stronger job market had meant more high-earning people were dragged into paying the 40 per cent rate of income tax since the Autumn Budget than they had forecast. This produced an extra £12 billion revenue from higher tax bands and £23.9 billion as more people stayed in work. As a result the Treasury has had to borrow £100 billion less than expected (Office for Budget Responsibility 2023).

¹⁵ Ambrose Evans-Pritchard. 'Hunt has spared us an austerity doom loop, but the investment revolution is dead'. *The Daily Telegraph*. 17 November 2022 (<https://www.telegraph.co.uk/business/2022/11/17/hunt-has-spared-us-austerity-doom-loop-investment-revolution0/>).

Another significant development after the Autumn Statement has been the changes in the medium to long term in the regulatory area which the Prime Minister and the Chancellor announced in their so-called 'Edinburgh reforms'. This was an important and balanced deregulation package for the City of London but there are still much more radical changes that can and should be made.

Our economic position is still fragile. Hunt on taking office was warned by the OBR that he was not going to meet existing government rules during his preparation for the 2022 Autumn Statement. What did he do? He set up new more relaxed rules and that was on this occasion the right decision. Had Hunt not done this the OBR calculated 'the Government's debt would still have been rising as a share of GDP in 2027-28, the fifth and final year of the watchdog's forecast.' Yet this judgement call by Hunt is a very serious alert to every one of us in the UK that our situation over repaying some debt is still on a knife edge and there is very little freedom, as yet, emerging to justify big changes to the next Autumn Statement.

Against that reality MPs on a cross-party basis should recognise more openly that the November 2023 Autumn Statement cannot hold international confidence if there is any substantive adjustment to it in the Spring Budget of 2023, such as cutting personal taxes though I hope there will be action over reducing the rise in corporation tax. Three small but important changes are, however, highly desirable and the sooner they are announced the better, improved tax relief for the childcare costs of working mothers, action to implement the Institute for Fiscal Studies (IFS) reform of child benefit clawback and to stop hiding in the forthcoming Budget tax rises behind 'fiscal drag'.

The OBR in its forecasts for the Autumn Statement already demonstrated how sensitive the overall debt interest payments were to the Bank of England's official interest rate. They reflected this in their projections. Payments between the Government and the central bank have no genuine effect on total government borrowing because they are movements of money within the public sector. The *Financial Times* of 23 November 2022 reported that the Treasury had transferred £828 million to the Bank during the third quarter and it expected these payments would continue for the foreseeable future.¹⁶ The OBR estimated that the Treasury would need

16 Chris Giles. 'Treasury bails out BoE for first losses on QE programme'. *Financial Times*. 22 November 2022 (<https://www.ft.com/content/79c6c84f-229c-486d-ac04-18f385598d7f>).

to pay the Bank of England £133 billion over the next five years to cover losses (Office for Budget Responsibility 2022: 45). This means that, as Richard Hughes, chair of the OBR, told MPs at the Treasury Select Committee, QE significantly increased the sensitivity of the government debt stock to changes in official interest rates. The OBR has estimated that 1 per cent rise in interest rates across all maturities forces the Government to increase debt interest payments by £25 billion a year. ‘Nearly half the effect of a rise in interest rates is felt within a year today, rather than only a quarter if the maturity structure of debt in 2000-01 still prevailed’ (Office for Budget Responsibility 2022: 41).

All this uncertainty has to be set against what the *Financial Times* wrote on 6 December 2022 under the headline ‘Search is on for debt investors as UK prepares “cataclysmic” bond issuance.’ It went on to state, ‘Investors are preparing for the UK Government to unleash a “cataclysmic” flood of debt sales over the next few years, leaving many asking who exactly is going to buy all the gilts – and at what price.’¹⁷

In September 2022 the UK ten-year gilt yield jumped from 3.5 per cent to 4 per cent. Borrowing is still going up though, due to spike in March 2023 to £177 billion.¹⁸ The *Financial Times* warned that the cost of ‘servicing a ballooning interest bill from past borrowing has set the stage for a half decade of bond sales that will dramatically expand – and permanently reshape – the £2tn gilt market.’¹⁹

Labour’s Shadow Chancellor of the Exchequer, Rachel Reeves, was an economist in the Bank of England. She is wisely warning shadow ministers against making forward public expenditure commitments that they may have difficulty honouring if they win the next election. She knows the complexities of bond sales and the problems that Britain has in servicing its huge current levels of debt.

17 Tommy Stubbington. “‘Who is going to buy?’ UK set to unleash historic debt deluge”. *Financial Times*. 6 December 2022 (<https://www.ft.com/content/6446220c-41e8-4937-9860-8d075d297aa8>).

18 Liam Halligan. ‘Kier Starmer’s promises mark a future of managed decline’. *The Telegraph*. 8 January 2023 (<https://www.telegraph.co.uk/business/2023/01/08/keir-starmer-promises-mask-dismal-future-managed-decline/>).

19 Tommy Stubbington. “‘Who is going to buy?’ UK set to unleash historic debt deluge”. *Financial Times*. 6 December 2022 (<https://www.ft.com/content/6446220c-41e8-4937-9860-8d075d297aa8>).

The loss of respect engendered worldwide over the political governance of the United Kingdom is serious and the world will watch very carefully the levels of indebtedness in the UK, declared and undeclared, from now on.

The IMF's recent report may prove unduly pessimistic but it underlines that the UK is still at a very vulnerable stage and we have to be seen to be finding the money we have borrowed to pay for, amongst other debts, the £70 billion furlough costs and rising defence expenditure.

The Bank and the Treasury hope for substantial profits for the APF but the essence of the scheme was high risk. The APF borrowed short-term money from the Bank and arranged for the purchase of gilts, which are long-term assets, in the expectation that falls in interest rates would provide considerable gains while accepting that rises in interest rates would create sizeable reductions in the value of gilts issued when their interest coupon was relatively low. A calculated risk and maybe an acceptable one at initial levels of investment, but this investment was allowed to more than quadruple to the extent that the structure itself became potentially a serious threat to the UK's public finances at over £875 billion.²⁰

Provided the economic circumstances are right, the Bank can offload its purchases. In January 2023, for instance, the Bank, sensing a better atmosphere, sold off all of the £19.3 billion in long-term gilts it bought to calm panic in the bond market in the aftermath of Truss's September fiscal statement and even made a profit of £3.8 billion. When the LDI pension schemes were 'hours' from going bust the Bank spent £19.3 billion over 17 days, buying £12.1 billion of conventional gilts and £7.2 billion of index-linked gilts. In November 2022 the Bank of England felt that institutional investors were sufficiently stable to start unloading its gilts back into the market and aim to do this through 2023 and beyond.

The Bank of England's chief economic adviser, Huw Pill, in a speech in New York at the start of 2023, stressed that the UK is very different from other countries. He reminded his audience that the Bank's Monetary Policy Committee had raised interest rates from 0.1 per cent in December 2021 in nine consecutive increases to 3.5 per cent and made clear he was in favour of a further rise to 4 per cent which did indeed take place on 2 February 2023. The Bank remains worried about the high UK natural gas

20 Neil Record. 'We made an appalling mistake so the Bank needs a £188bn bailout'. *The Telegraph*. 14 December 2022 (<https://www.telegraph.co.uk/business/2022/12/14/made-appalling-mistake-bank-england-needs-188bn-bailout/>).

prices, our tight labour markets, supply problems and bottlenecks. Pill clearly believes that the UK economy is distinctive and went as far as to say then that the UK could still be facing 11 per cent inflation in October 2023 with private sector wages near to 7 per cent and sharp price rises. That, according to the Bank, does not exclude Sunak's promise to the country to halve inflation by January 2024 being fulfilled. Some in the financial markets are expecting the Bank of England to end up with 4.5 per cent interest rates in the UK this summer and probably not go below 4 per cent until the spring of 2024.

This may prove too pessimistic but across many fields of activity and performance we need, as a nation, to see considerable improvement in UK results. To achieve this it would help to have greater agreement across party lines to ensure a reduction in the structural current account deficit of 4 per cent of GDP. This is not an argument for a government of national unity. It is an argument for more common purpose, common sense and common resolve on either side of the next general election.

Boosting productivity

The country now needs rallying for a great national endeavour to improve economic activity and performance. In particular the UK needs now a large increase in private investment for economic growth. There will be, for some time at least, not much public money available from government. This means pointing out from time to time that compassionate relief for poorer people in the UK must go hand in hand with praise and financial incentives for those whose investment, often risky, adds to national wealth.

The government states openly their wish to become a life sciences superpower. Yet Kate Bingham, who did so much to obtain the best drugs as quickly as possible during the Covid pandemic, writing in the *Financial Times*, has challenged the Government's decision to cut R&D tax credits for small, innovative high-tech companies and claimed that as a direct result of this some key companies were moving jobs abroad.²¹ Fortunately, the Government has said they will re-examine that decision. But Kate Bingham also raised the decision of AbbVie and Eli Lilly, the research-based US pharmaceutical companies, to pull out of the UK's pricing agreement with the NHS. I have an interest to declare as a former non-executive director and shareholder when AbbVie was still part of Abbott Laboratories. There is a real dilemma here, the NHS wants to use their purchasing power for pharmaceuticals internationally to cut costs for the NHS; yet companies selling into the NHS can find that the price the NHS pays becomes known to other countries who then start to want similar cuts in the prices they pay. Also drug makers signed a voluntary agreement with the NHS in 2019 to limit any rise in the total branded drug bill to 2 per cent a year but the combination of the Covid pandemic and increased

21 Kate Bingham. 'Britain is losing its chance to become a life sciences superpower'. *Financial Times*. 24 January 2023 (<https://www.ft.com/content/70e1733d-ecd9-4c8e-bd6a-54b31377ede3>).

use of expensive treatments meant very high clawbacks and the industry is now arguing this is contributing to lower growth in early 2023. There has to be a measure of give and take if UK patients are to continue to have access to the best drugs.

One way of dealing with this is for the NHS to trade off its strong position in conducting drug trials, but it is a competitive market and Kate Bingham has also warned GlaxoSmithKline (GSK) and AstraZeneca (AZ) are now building new factories in other countries more friendly to business than the UK. Dame Emma Walmsley, the CEO of GSK, has also warned that its new vaccine for respiratory syncytial virus is coming out in the US but it may be some years before they are able to launch the important vaccine in the UK.²²

When I was Minister of Health I travelled abroad to Brazil and Russia and met with CEOs of foreign companies to encourage foreign pharmaceutical investment and I also had an influence on NHS drug pricing. I was greatly helped in this by having a retired Chief Executive of Burroughs-Wellcome advising me in the then massive single Department of Health and Social Security. This sort of joined-up policy making is essential if the UK is to keep and build its life science expertise. Today government needs to be fleet of foot to help stimulate economic growth.

It is a good decision by the Prime Minister to create a new Department of Science, Innovation and Technology and I hope the new Secretary of State, Michelle Donelan, will have the authority to challenge the Treasury, and if need be take decisions to a full Cabinet or to the Prime Minister, however uncomfortable that might be for the Chancellor. At present the Treasury voice predominates and the cheapest option of screwing down pharmaceutical prices will ensure the UK never becomes the life science superpower we want and are close to becoming. As Emma Duncan wrote in *The Times* on 3 February, 'The Government needs to think long term and invest in technologies in which Britain excels.'²³ There is a lot of cant and humbug written about whether or not to have an industrial strategy. Without a strategy that has some inner steel to it, the UK will lose out. Companies and countries cheat

22 Alex Ralph. 'Life sciences at a tipping point, warns GSK boss Emma Walmsley'. *The Times*. 2 February 2023 (<https://www.thetimes.co.uk/article/life-sciences-sector-is-at-tipping-point-warns-gsk-boss-dame-emma-walmsley-7n6cghskm>).

23 Emma Duncan. 'It's time to power up Britain's tech potential'. *The Times*. 2 February 2023 (<https://www.thetimes.co.uk/article/it-s-time-to-power-up-britain-s-tech-potential-68z3pkvhx>).

on international trade rules and obligations and sometimes it is necessary to rigorously protect one's own interests.

Kwasi Kwarteng as Business Secretary abandoned the industrial strategy developed by Theresa May. Today, we are being regularly reminded of how the UK is being left behind by other countries' actions to stimulate their own economies. The initiative by President Biden to pump \$369 billion in subsidies and incentives into the US economy under America's Inflation Reduction Act (IRA) should be a wake-up call for every serious politician in the UK irrespective of party.

Innovation is an imperative and twinned with that is clean energy. How is it that Europe is fast growing the number of gigafactories or EV battery plants and after the collapse of the start-up Britishvolt plant in the north east the UK has only one small-scale Chinese-owned plant? The best fit to take it over might be Tata's Jaguar Land Rover. As a nation we must build far more resilience and home-grown capacity in our strategic industries. To encourage inward investment and more entrepreneurship it would send the right signals to cancel raising corporation tax in April from 19 per cent to 25 per cent and there appears to be international support for such a move come Budget Day.

Environmentalism has achieved much. An industrial strategy has to encourage companies to invest but I am then wary of taxing excess profits. BP was singled out for criticism recently. But now we see BP investing profits in building industrial scale solar and wind parks in Mauritania and Oman to produce green hydrogen via electrolysis, to be turned into green ammonia. This can be shipped in tankers for combustion in Asian power plants or used instead of bunker fuel in the next generation of container vessels.

Training young people

It is interesting that private enterprise has recently done more for the expansion of apprenticeships than any government initiative. Encouragingly, Euan Blair's Multiverse apprentice company almost trebled its turnover in the year up to March 2022 to £27.2 million but losses increased. It grants its own degrees, training is free and they earn as apprentices as they work. In the past they have recorded that 50 per cent of the apprentices are from underrepresented ethnic backgrounds, 53 per cent are women, and a third come from the UK's most deprived postcodes. There are ways in which the Government could help increase investment in Multiverse operations in the UK and help stimulate similar companies to expand operations, but without any direct government involvement.

David Cameron's coalition Government with the Liberal Democrats were wrong to bring in a university 'student loan scheme' which is currently anticipated to tolerate very high rates of non-repayment of loans. The SDP believed a graduate tax was a better system than loans.

A House of Commons Research Briefing note (Bolton 2022) put the value of the outstanding loan balance at £182 billion which was due to reach £460 billion by the mid-2040s at 2021/22 prices after having been extended from thirty to forty years. Creating such a large and growing debt at a national level for student loans is bad enough but tolerating their non-payment is even worse. The Conservative Government has recently addressed this, claiming to have reduced the cost to the Exchequer per cohort by nearly £3 billion, representing a saving of just under 40 per cent compared to the costs of the current funding system. But anomalies remain when a nurse can be paying back more than a banker.²⁴

24 James Purnell. 'Letter: Britain needs fairer and more sustainable student funding'. *The Financial Times*. 31 January 2023 (<https://www.ft.com/content/2e58ea57-ad58-4626-ae1f-8d8aaf736848>).

Where there are national shortages or where specialised skills are needed in large numbers to contribute to economic growth the Treasury has got to be forced to change their policies. But also Universities must change theirs. The Treasury has long inhibited or stopped British Universities enrolling more British students wanting to be doctors and nurses preferring instead to boost numbers by relying on other countries who train their students who then come to the UK to join the NHS. This scandal now looks as if it will end. British students should be offered many more bursaries if they guarantee to work in the NHS for a certain number of years. Universities should also undertake another review of the medical curriculum, shortening the present qualifying period by at least a year and starting to work much earlier in hospitals.

Covid

It does appear that the UK is one of the countries in Europe that has suffered most post-Covid in terms of people not yet returning to work. According to the Office of National Statistics, the number of working-age adults who are out of the labour market (known as 'economically inactive') because of long-term sickness has been rising since 2019, reaching 2.5 million in summer 2022. This rise in long-term sickness started before the coronavirus (COVID-19) pandemic, but since the pandemic hit the UK in early 2020, the number of people out of work because of long-term sickness has risen by 363,000.²⁵ A crucial question not addressed in the Chancellor's first Autumn Statement is how to inspire more of these people to return to work, and I stress the word 'inspire'.

Many people felt gratitude and compassion for the nurses and all hospital and community care staff. We remember the clapping for what they did during Covid. Rishi Sunak in an interview with Piers Morgan on 2 February said he would love to give nurses a massive pay rise. But, correctly, he said it is about choices and faced with a 19 per cent pay claim at the end of 2022 from the Royal College of Nursing, no responsible government could have overridden the independent Pay Review Boards award mechanism and the payments fixed earlier in the summer. What any government should do is build in more genuine independence for Pay Review Boards. Understanding strike action does not mean supporting strike action. It does, however, mean recognising openly that since 2005, a period of 'seventeen years, real disposable income per head is up by

25 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/economicinactivity/articles/halfamillionmorepeopleareoutofthelabourforcebecauseoflongtermsickness/2022-11-10>

11 per cent, or barely 0.5 per cent a year compounded.²⁶ Overall disposable income fell 3.3 per cent in 2022 and is expected to fall by 3.8 per cent this year as predicted by the Resolution Foundation in December 2022.

It is far better for the long-term future of the NHS that the work of nurses, doctors and all staff in the emergency services is rewarded fairly by independent pay review systems. But the Boards must retain true independence and this has been eroded over the years. They must be free to make from time to time recommendations which governments do not like. The system of Pay Review Boards – of which there are eight – should not be lightly abandoned. The Government should be consulting on the terms of the coming review even though that review has already started.

26 David Smith. 'Growth is the problem, and there's no obvious solution'. *The Sunday Times*. 29 January 2023 (<https://www.thetimes.co.uk/article/growth-is-the-problem-and-theres-no-obvious-solution-jdf0lxl8h>).

Private Finance Initiative

Beside the industrial action, why is the NHS in the mess that it is? Just as we have examined the effect of QE, we must examine the Private Finance Initiative (PFI) which started the commercialisation of the NHS.

The Treasury under Norman Lamont in 1992 began to develop it and it continued in a small way under Kenneth Clark. It was, however, Gordon Brown and his Ministerial colleague, Geoffrey Robinson, who embraced PFI and the idea of putting expenditure, wherever possible, 'off balance sheet'. I am sure that they had no idea then of the consequential long-term damage to the NHS, particularly its direct impact on the reduction of NHS beds but it was a foolish policy. Only in the last days of January 2023 did the Sunak Government announce a specific increase in beds to deal with the present waiting list crisis. When the PFI decision was taken was there any discussion within the Treasury amongst government ministers about the consequential long-term damage to the NHS? The Treasury should as part of a normal discipline in introducing any new policy in government have spelled out the consequences of their measures in some detail. It was obvious the new independent Trust Hospitals would be tempted to manage beds as 'hotel beds' not 'hospital beds' and that is exactly what happened; a smaller number of beds and higher occupancy. The Treasury's dominance in Whitehall decision making, as shown up in the PFI policy, indicates a very serious absence of thought and knowledge of the broader implications of policy forced by the Treasury on other Departments.

Some senior Treasury officials have distanced themselves from PFI projects, and Aeron Davis (2022: 105-6) quotes one recent senior official in his book:

Things like PFI were extraordinary. I just didn't understand why the Treasury promoted PFI. George Osborne said PFI was a discredited Gordon Brown policy and then replaced it with something that was to many observers basically identical called PF2 ... because he had such strict PSND targets he wanted to find a way to keep things off balance sheet if he could. So Hinkley Point had been done off balance sheet which is why it's so extremely expensive. If we had done it on balance sheet it would have been a whole lot cheaper.

In 2014 a Centre for Health and the Public Interest (CHPI) report concluded 'that the use of "PF2" in the NHS may be profoundly damaging for the financial sustainability of local health economies and their ability to address health need' (Hellowell 2014: 5).

PFI was abandoned by Philip Hammond when he was Chancellor in 2018 because it had been reclassified as being on the balance sheet. Yet Hammond told Aeron Davis (2022):

I had already discovered, and my successor would have easily spotted, the joys of contingent liabilities in public accounting. You can offer any number of guarantees but don't use public money. Let the private sector do things and underwrite them with a guarantee that doesn't show up anywhere as a contingent liability. It only shows up if it crystallises in our public finances. We are talking about eye wateringly large sums of money being pumped into the economy. But actually doing it through the banks with sovereign guarantees underpinning, is a very neat way by the Treasury. And I predict that this will not be abandoned....That will be PFI Mark 3.

In total the National Audit Office (NAO) has calculated that across the entire public sector, there are 700 operational PFI and PF2 deals, with a capital value of around £60 billion. Each year public bodies, such as hospital trusts and local authorities, pay annual charges to PFI companies to cover the borrowing costs for building the facilities and to operate them on behalf of the public sector. For the 700 operational PFI contracts these annual payments were estimated to cost £10.3 billion in 2016-17. Assuming that no further deals are entered into – which is not guaranteed despite the Treasury issuing a moratorium on any new PFI projects in 2018 –

between now and when all the various PFI contracts come to an end in the 2040s, the future charges amount to £199 billion.

Whilst the public sector would have had to borrow the funds necessary to build this new infrastructure, they would have been able to do so at a much cheaper rate. The NAO reported that those lending to PFI projects are able to receive a return of between 2 per cent and 5 per cent above the cost of government borrowing. To give an indication of how much this additional interest cost is to the public sector, paying off a debt of £100 million over 30 years with interest of 2 per cent costs £34 million in interest; at 4 per cent this more than doubles to £73 million.²⁷

The NHS has the largest number of PFI schemes. According to the Treasury, there are currently 125 PFI contracts with private companies overseen by the Department of Health and Social Care, and the value of the assets which have been built is £12.4 billion. Over the course of the life of these contracts, the NHS will pay in the region of £80.8 billion to the PFI companies concerned.

Because the responsibility for paying the PFI contractors lies with individual NHS Trusts – rather than the Treasury – the debt burdens imposed by PFI can be crippling for some NHS hospitals and local health communities. Under the terms of these contracts, payment to the PFI companies are ringfenced, which means that the NHS hospitals must pay their PFI bills before considering any other items of expenditure.

According to an analysis by Michael Goodier in the *New Statesman* in 2022, there are 10 NHS Trusts with PFI deals who are currently paying more than 10 per cent of their total income on PFI contracts, which in some cases is double their expenditure on drugs.²⁸

The profits that are made by these companies are also significant. An analysis by the CHPI in 2017 found that between 2010 and 2016, the companies that run PFI contracts to build and run NHS hospitals made pre-tax profits of £831 million and they forecast that a further £1 billion

27 <https://www.nao.org.uk/wp-content/uploads/2018/01/PFI-and-PF2.pdf>

28 Andrius Kaziliunas. 'Some hospitals are spending more on PFI debt than they are on drugs'. The New Statesman. 30 May 2022 (<https://www.newstatesman.com/spotlight/healthcare/2022/05/pfi-repayments-are-costing-some-hospitals-twice-as-much-as-drugs>)

will be made between 2017 and 2023.²⁹ These profits are on top of the interest charges which have been made by those lending to the schemes.

A number of PFI schemes are generating particularly high pre-tax profits for their operators. The company that holds the contract for the hospital at University College London has made pre-tax profits of £190 million over the past 11 years. This is out of the £527 million paid to the company by the NHS. The total value of the hospital is £292 million.

There are very few companies behind NHS PFI contracts. Although there is very little transparency over the ownership of PFI contracts and PFI debt, it has been possible, according to the Treasury database, to identify just 8 companies with equity stakes in 115, or 92 per cent, of NHS PFI deals (Semperian 24; Innisfree 19; Barclays 16; HICL 16; InfraRed Capital Partners 13; John Laing 10 Aberdeen Asset Management 9; Interserve 8).³⁰

PFI had its most damaging effects on the NHS during and post the Covid pandemic because one of its consequences was bound to be a reduction in bed numbers in the NHS. It has also been a prime mover in driving hospital managers to substantially increase bed occupancy rates to offset the huge extra cost of financing every new hospital bed. Instead of being able to borrow from the Treasury at very low rates they had to borrow at commercial rates. So under PF2 a cap was placed in 2009 on the proportion of future public expenditure that could be used. When Covid struck the NHS had been paying much more for new hospitals, under both Labour and Conservative Governments, for over 20 years than hitherto. Yet the organisations that gained were banks, service operators and equity investors who charged huge interest payments as if building a hospital were a risky investment. In fact, there are very few large building projects in the UK with less risk attached to either their building or their maintenance than hospitals.

It was not until the start of the Covid pandemic that the full consequences of PFI became dramatically apparent – the NHS had far too few beds and bed occupancy was at record levels. On 17 March 2020 Simon Stevens, then the Chief Executive of NHS England, and Amanda Pritchard, then NHS England's Chief Operating Officer, now Chief Executive, issued an eight-page emergency instruction and large annex to overcome the

29 <https://chpi.org.uk/wp-content/uploads/2017/08/CHPI-PFI-ProfitingFromInfirmaries.pdf>

30 *Ibid.*

shortage of hospital beds but with profoundly damaging consequences; so damaging that on 27 April 2022 two judges in the High Court ruled that their letter was 'irrational' because it failed to advise that asymptomatic patients should have been kept apart from other care home residents for 14 days to avoid possible transmission of the virus unless they had tested negative for Covid-19. The High Court also made the same judgement for the 2 April 2020 admissions guidance to Care Homes from the Department of Health and Social Care. The financial implications of both these rulings for the NHS have yet to emerge in court cases brought by individuals and their relatives, but given the high legal costs of NHS compensation claims they could be considerable.

Reorganisations

The NHS both pre-Covid and post-Covid has been struggling with two of the most complex and far-reaching reorganisations in its history. The first was in 1974 designed by McKinsey consultants and legislated for by Sir Keith Joseph which also – of importance for dealing with Covid – specifically damaged public health services. The second was Andrew Lansley's Health and Social Care Act 2012, which was of a totally different scale involving the biggest change in the NHS structure but also challenging the underlying philosophy since the creation of the NHS in 1948 (Timmins 2012).

I have never ceased warning all political parties of the continuing destructive nature of the Lansley proposals and the manner of their implementation by the recently enobled Lord Stevens. This Act damaged the NHS even more than the lack of investment that took place under Chancellor George Osborne from 2010-2016 and tolerated by the long serving Secretary of State for Health, Jeremy Hunt.

David Cameron has publicly accepted that his NHS reorganisation was a mistake, and in his autobiography he calls the Lansley reforms 'too much of a solution in search of a problem' (Cameron 2019: 583). At one time David Cameron appeared to accept that the Liberal Democrats in the House of Lords would help defeat the 2012 legislation. The detailed flaws in the Lansley imposition of competition are objectively summed up by Nicholas Timmins, the respected health analyst, in 'Never Again' (Timmins 2012).

The excellent think tank CHPI perceptively questioned as early as December 2013 whether the very different NHS to emerge from Lansley's ill-conceived 2012 Health & Social Care Act could cope with an influenza pandemic. Their report was entitled 'Getting behind the Curve? Is the new NHS ready for Pandemic Flu?' (Pickles & Rowland 2013). They were correct in

concluding that the Lansley-reorganised NHS was not in its new shape and form in any fit condition to deal effectively with a pandemic and it is still not capable of dealing with its aftermath.

In December 2016 the then Chief Medical Officer of Health, Sally Davies, admitted in an intervention at an international health conference that, as a result of analysing the findings from what was called the Cygnus Report, received that year, on a simulation exercise of a H2N2 influenza pandemic, ‘it became clear that we could not cope with the excess bodies’ and ‘faced the threat of inadequate ventilation’.³¹ These two observations demonstrate that the Cygnus exercise revealed to a small number of people at a very senior level in the Conservative Government that there was a real risk of a very serious influenza pandemic overwhelming the NHS. That was three years before the UK faced the very serious Covid epidemic.

It will be for the public inquiry on Covid to examine in detail the concept of ‘herd immunity’ and how it took hold amongst some public health practitioners, making huge assumptions, within a small number of experts responsible for reacting to the Cygnus Report, about what levels of deaths were acceptable. This became, for the first stage of the Covid pandemic, a rough guide, though it was publicly disowned by ministers. Nevertheless, some doctors were left to decide who to ventilate and who to let die. Fortunately, it was discovered that patient ventilation rates could be substantially reduced by the early use of an inexpensive drug, Dexamethasone.

Creating a reserve of hospital beds in NHS hospitals had historically been seen as a vital part of any pandemic strategy. An article written by the King’s Fund originally in 2017, updated in March 2020 and September 2021, provides a good analysis of the number of NHS hospital beds available at the time of the Covid pandemic. The article asserts:

Before the Covid-19 pandemic there was widespread evidence of a growing shortage of beds. In 2019/20, overnight general and acute bed occupancy averaged 90.2 per cent, and regularly

31 Harry Lambert. ‘Exclusive: Video shows key UK official in 2016 anticipating “a pandemic that killed a lot of people”’. *The New Statesman*. 9 May 2020 (<https://www.newstatesman.com/politics/uk-politics/2020/05/exclusive-video-shows-key-uk-official-2016-anticipating-pandemic-killed-lot>). Harry Lambert. ‘Government documents show no planning for ventilators in the event of a pandemic’. *The New Statesman*. 16 March 2020 (<https://www.newstatesman.com/politics/2020/03/government-documents-show-no-planning-ventilators-event-pandemic>).

exceeded 95 per cent in winter, well above the level many consider safe (Ewbank et al. 2021).

Earlier in the article there was another relevant warning: 'The number of hospital beds for general and acute care has fallen by 44 per cent since 1987/88.'

The authors also state that, 'the U.K. has fewer hospital beds per 1,000 inhabitants than many other comparable health systems.' And another study (Froud et al. 2020: 17, 18, 21-22) explains the dangers that entails. The newly established public Covid Inquiry will need to establish whether there was any general political discussion in government in 2016-20 after the initial Cygnus pandemic study on whether to revert to the historically much lower acute bed occupancy numbers in NHS hospitals and what, if any, steps were taken to put in hand the manufacture of more ventilators and why PPE in storage was not properly examined.

Health managers in NHS England had begun to boast of achieving ever higher bed occupancy. Politicians too boasted of increased commercial efficiencies coming to the NHS as far back as the Labour Government of Tony Blair. In 2002 Labour made the mistake of not just introducing Foundation Trust Hospitals but also starting to change the single or internal market of the 1980s into the commercial market as the hospitals were separated to run independently from the geographical community which they had hitherto served. That reform was opposed by Gordon Brown as Chancellor within the Government in an internal unpublished 44-page document. The proposals were also repeatedly voted against in the House of Commons by many Labour MPs. Nevertheless, it was pushed through by Alan Milburn and it had the effect of widening the division between hospital care and social care in the community. The lack of inbuilt reserves of beds for emergencies in hospitals and for care home beds outside hospitals predicted for an influenza pandemic became a reality facing a Covid pandemic. The new independent foundation hospitals failed to have provided enough beds.

The Covid Inquiry will need to suggest appropriate bed occupancy rates as part of developing a new strategy for dealing with pandemics and whether there is scope for a type of hospital held in reserve and linked to a voluntary community response.

Volunteering

When the Nightingale Hospitals were announced, an eminent surgeon told me he was ready to drop all his research and work there in any capacity. The GMC restored the licence to practice for lapsed doctors, even for myself, then over 80. The national mood was for a large voluntary effort. Who snuffed it out? None of the seven Nightingale Hospitals were ever fully utilised or kept open as a reserve. Would fewer people have been pushed out of hospitals into care homes in London if the Nightingale Hospital announced and got ready in London had ever been used?

Resilience within the UK to extreme risk cannot be left to chance after Covid with no prepared national guidance and regular risk assessment. Pandemic planning has to allow for increasing bed availability and the financing of new hospital beds. Above all, when will governments take a volunteer labour force seriously? When I was leader of the SDP, we published a White Paper in 1989 on volunteering on the theme of 'Count Us In' proposing a Royal Commission for Voluntary Community Service, which was disappointingly dismissed by Margaret Thatcher, although our present King, at that time the Prince of Wales, had earlier shown a greater interest in volunteering as an addition to our public services. We must reconsider using volunteers, supervised by professionals, in many different fields, not just health and social care but also education – particularly nursery education.

Changing health policies

The UK is struggling on a day-to-day basis with the NHS, damaged by the Lansley reforms, the legacy of PFI and the aftermath of Covid. There are huge risks in attempting to make rapid and major structural changes in the NHS in all its different forms in the period ahead in the face of economic restraint covered by the five-year Autumn Statements. But there are efficiencies that can be introduced with relatively little disruption. Policy Exchange, in their report 'Balancing the Books', has suggested, quite rightly, that there is nevertheless a strong organisational and financial case for now reversing the Lansley separation of NHS England from the Department of Health and Social Care. They recommend:

Choosing to bring NHS England back within the Department, whilst retaining a separate board and management, would enable consolidation of policy, back-office functions, and estates. This could be combined with a review of the cost of regulators within health and care, where there are 10 different service regulators and 8 different regulators of the health professions. Within five years we estimate it would save up to £1bn a year (Kelly et al. 2022: 46).

That is both an urgent, sensible, and not too disruptive reorganisation that should be done now in advance of the Covid Inquiry. In truth it has already happened to a large extent. More widespread reforms will have to wait and will need very careful weighing before implementation given their additional costs and the low morale that exists already amongst NHS staff over yet another legislative reform.

Politicians and political strategists have got to learn that an organisation as large as NHS England should not be changed without careful prior study and preferably trialing changes to see how they settle before implementation on a wider scale.

Decentralisation

Forty years ago in my IEA article I identified 'decentralisation', with smaller units of decision making, as one of the keys to future change. It is worth recalling how much of UK health care has been decentralised. Scotland has its own health service answerable to its own Parliament and they can raise money to pay for aspects of it by Scottish taxes. Wales is pretty similar as is Northern Ireland. In England we can look back with satisfaction at the widespread broadly successful introduction of Mayors, a policy on which the SDP was a vanguard. Mayors of London, for example, as diverse as Ken Livingstone and Boris Johnson, have shown that they can oversee complicated organisations, not least in the field of London transport where broadly speaking the underground, the Docklands Light Railway and the bus services have been successful. Where there has been a great failure is the London commuter overground train services. There needs to be an assessment of whether London Transport, which reports to the Mayor, should have new powers within at least the Oyster card area.

A new area that can be decentralised effectively, under Mayors, is integrated health and social care. There is no more urgent need at the start of 2023 than to act decisively over 'bed blockers'. Professor Sir Stephen Powis was reported as saying on 30 December 2022 that despite making every effort to get patients home for Christmas still 93 per cent of NHS beds were occupied and 12,000 beds were occupied by patients medically fit for discharge. This itself was the lowest figure since August.³²

Greater Manchester has been developing a model of how to integrate hospitals, general practitioner services and local authority and privately supplied social care for some years. Manchester should now be given the

³² Smitha Mundasad. 'Flu rise warning from NHS in England'. BBC News. 30 December 2022 (<https://www.bbc.com/news/health-64126654>.amp).

go ahead with an extra financial input by the central government for an experimental period of five years, renewable to ten years, under the overall leadership of the Mayor of Manchester, to implement such a scheme. At present Andy Burnham, a former Secretary of State for Health, is Mayor and he has long championed such an initiative. Within the model Greater Manchester planners do appear to have reached a sufficient consensus, involving many smaller local authorities, hospitals and care homes, so that a strategic area of decision making for nearly three million people can oversee an integrated and delivery service at district level.

A forthright letter in *The Telegraph* came from an NHS cardiac surgeon who claimed that he 'was performing up to 350 major cases a year in the 1990s, but by the time [he] retired 10 years ago that number was around 120.'³³ This claim should be the entry portal for one qualified person appointed by the Secretary of State for Health to urgently establish the factual evidence and implement changes to improve doctor-patient interactions. We have had far too many years of general inquiries involving widespread disruption and costs in the NHS. That procedure, in the future, must be rare. What the NHS needs are quick and decisive enquiries leading to general application.

As for the UK's General Practitioner or GP service it needs to be urgently re-examined since post-Covid it is a shadow of its former self. It does appear that prioritising of GP services as the first and necessary reform is likely whichever political party wins the next general election. It is interesting that Labour are already looking at creating the sort of GP service that Bevan and the Labour Government had in mind of full-time practitioners employed by the NHS and integrated into the NHS structure. The GP as an independent contractor with their own surgeries divorced from the hospital service was forced on the Labour Government by the British Medical Association prior to 1948. That divorce grew under Prime Minister Blair's commercialised Trust Hospitals isolated from any community they had in the past served. My own father was a much-loved GP who saw the day he stopped charging patients as a 'day of freedom'. He deplored the health system he worked within through the 1930s. A greater knowledge of that dreadful period might give pause for thought. Also Labour should not forget that an NHS was agreed upon during Churchill's coalition Government. None of us has a monopoly on wisdom in the present crisis.

33 Edward Smith. How the NHS Blob has been keeping doctors away from their patients. Letters, *The Telegraph*, 31 August 2022 (<https://www.telegraph.co.uk/opinion/2022/08/31/letters-how-nhs-blob-has-keeping-doctors-away-patients>).

I have seen huge merit in the GP services and their many strengths over the years, especially in rural areas. But in cities and towns its functioning is patchy at best and completely broken in some places and not just by Covid. GPs' performance in some areas of the UK must improve in relation to their interface with hospital-based services and community services. Interaction and integration across the social care community divide and hospitals has been proven to work but has not been applied widely enough. There is, therefore, room for discussing the preservation of national health care without focusing on the word 'system'. There are many different health systems operating in the UK. Also different charging systems exist across the UK.

One of the many achievements of the 1948 NHS was the way, under the democratic leadership of a minister of health, a close working relationship was established between civil servants and medical doctors under what was called the 'dual hierarchy' for managing the day-to-day rationing inevitable in any comprehensive health service. I started to use the word 'rationing' when I was Minister of Health because it is a reality. Demand can never be fully met. There needs to be far greater recognition of this fact. Also, it should be discussed what using private medicine and surgery means in relation to overall health care. The patient who decides to go for a private consultation and private treatment, whether or not fully insured, does not lose their full rights as an NHS user. Ever since 1948 it has been accepted by successive governments that any individual can use the NHS for free while supplementing that right if they wish by paying for private care. We have a national blood transfusion service available to anyone in the country whether being treated in the NHS, a private hospital or a clinic. The NHS is already an insurance system for everyone. Following a road accident or any other accident, the rich receive exactly the same emergency treatment from an NHS hospital irrespective of whether they use private medicine or surgical interventions. That wise decision of universal availability was taken by Aneurin Bevan and has been maintained ever since.

When health demand is virtually unlimited, supply is inevitably rationed because the NHS offers and should go on offering comprehensive cover. There are a few limitations, such as some forms of plastic surgery, but they are minimal. Yet when demand varies there are times when patients have to wait to be seen under comprehensive health care. That rationing is best managed locally. But democratic accountability means that when waiting lists are too long extra resources are needed. That choice is made

nationally and locally everywhere except in England where the day to day democratic responsibility of the Secretary of State for Health is circumscribed by the Lansley legislation and NHS England is the largest QUANGO in the world. Even during Covid that distinction was broadly maintained.

Properly managed waiting lists sort the urgent cases out and ensure priority admission while expecting some to get better while waiting. All too often, however, during the last decade and more some waiting lists have not been well managed. Yet 7.1 million individuals on waiting lists today is not remotely defensible.³⁴ Fortunately, private hospitals and consulting rooms are being used to help out and being reimbursed by the NHS.

There are many articles and discussions in the media about extending the private sector, much of it superficial with so-called solutions that have frequently been rejected over the years and for very good reasons.

I faced a different argument on paying doctors, mainly surgeons, on an 'item by service' earlier in the so-called Owen Working Party when I was Minister of Health in the mid-1970s. The case for charging was put forth by a surgeon called Grabham, a name that helped sabotage his case. Other doctors, particularly a very well-regarded surgeon who was a professor at Guy's Hospital, now a Conservative Peer, Lord McColl argued that payment per item of service was not the wise way to pay consultants and that salaried service was far preferable. I am glad that item by service payment has sunk without trace.

The 1979 Royal Commission on the National Health Service chaired by Sir Alec Merrison brought some clarity to the language being used in the debate on charging.³⁵

'What is its purpose: to raise revenue, or discourage the frivolous use of the service, or both?'

'We do not have a free health service, we have a service to which all taxpayers, employees and employers contribute.'

34 Allison Pearson. 'Health bosses are fiddling while the NHS burns'. *The Telegraph*. 24 November 2022 (<https://www.telegraph.co.uk/news/2022/11/24/health-bosses-fiddling-nhs-burns/>).

35 Royal Commission on the NHS (Merrison Commission), Cmnd 7615, July 1979, pp. 11 and 377.

'It is worth remembering that about 60 per cent of the total expenditure of the NHS goes on children, the old, the disabled, the mentally ill and the mentally handicapped.'

In the Report's conclusion it stated,

We were not convinced that the claimed advantages of insurance finance or substantial increases in revenue from charges would outweigh their undoubted disadvantages in terms of equity and administrative costs.

I cannot see any need to add to or extract from these wise words. I remain a firm supporter of the basic structure of the NHS financed through taxation, whether national, regional or local, broadly free at the point of delivery. I use the word broadly because though there are already charges for prescriptions, for example, prescription charges do not apply in Scotland or Wales. In England 89 per cent of prescriptions are dispensed without charge. About 40 per cent of the population is eligible to pay. The very large exemptions include those in full-time education; those over 60; those who have a specified medical condition covered by an exemption certificate; or those who qualify under income support or universal credit.

Paying for meals taken in hospitals has been often thought to be one of the easiest charges to collect. But even these charges using the hospital administration already in place would need to be expanded to collect and assess. In the past such payments have been thought too costly to administer.

It is often forgotten in the debate about whether the UK should adopt the American health care system that total health spending in the US – private and public – is much greater than in the UK. The total cost of health care, private and public, approaches over 20 per cent of GDP. In the UK total NHS and private health care costs are only 12 per cent of GDP.

What explains this large difference in total health costs between the US and UK? Nigel Lawson's autobiography reveals how he persuaded Margaret Thatcher that when considering expanding private provision, 'supply is the essential issue'. He explains why overall total health costs, both private and public, are the key figure to consider by any government trying to balance total expenditures, in addition to health, education, policing, fire services, housing, transport, energy provision and other services. Lawson (1992: 617) writes:

If we simply boost demand, for example by tax concessions to the private sector, without improving supply, the result would not be so much a growth in private health care, but higher prices. The key is the supply side, as we have recognised in most other areas of policy. Moreover, of course, increasing demand in the private sector pushes up prices and therefore pay. That would inevitably spread across all staff costs in the NHS, and we would end up getting less value for money.

He is correct in his conclusion, and Margaret Thatcher accepted, albeit with some reluctance and a minor relief, his argumentation.

Yet it cannot be ignored that satisfaction with the NHS, as judged by the British Social Attitudes survey, has now fallen to a 25-year low. The reason is not surprising when set against the facts revealed by a recent Health Foundation Research report in the *Financial Times* that the NHS spends not only much less than the US but a fifth less per capita than in similar European countries.³⁶ We can all quote different figures but those who believe charging is the saving grace for the NHS are wrong.

The facts are clear. We considerably underspend on health and social care. Pre-pandemic the average day-to-day health spending in the UK between 2010 and 2019 was £3,005 per person – 18 per cent below the EU14 average of £3,655. During those same years the UK also had a lower level of capital investment in health compared with the EU14 countries for which data is available (Rebolledo & Charlesworth 2022).

There are two reforms that could make sense to many people wanting NHS reform. Introduce a decentralised structure in England for managing and in part financing hospital and social care services. The present separation does not and will not work. Introduce a UK-wide hypothecated Health Tax earmarked for spending on hospitals, GP services and community care and payable also by pensioners who are reasonably well off as well as everyone earning over the age of 18. All governments have financially overshielded pensioners from NHS costs. Many pensioners know this and worry about the extent to which young people are paying far too much of the nation's current tax bill. Most pensioners, subject to exemptions for the poorest, would, I believe, pay their share if it were

36 Sarah Neville. 'UK health spending over past decade lags behind Europe by £40bn a year'. *Financial Times*. 17 November 2022 (<https://www.ft.com/content/f752a1ad-4a23-408f-a549-4909974c6a2c>).

properly explained that it would go only for health provision nationwide. As the IFS point out ‘...over the last decade or so there have been significant cuts to the working-age benefit system, while pensioner benefits were largely protected or increased.’³⁷ The state pension triple lock will see pensions increase by 10.1 per cent this April and it is unlikely any government will change that mechanism announced in last year’s Autumn Statement for the foreseeable future.

Preventive health is an area all too often ignored or given a low financial priority. Obesity is being tackled by successive governments; it is both dangerous to health as was the largescale smoking of cigarettes in the 1950s, and costly to the NHS, primarily because of its link to diabetes. Current estimates of its cost to the NHS are more than £6 billion and rising. Just as public health smoking campaigns worked, so can obesity campaigns but their implementation will depend on a scrupulous interpretation of the scientific evidence, for only then will it be acceptable to public opinion to use the legitimate powers of the state to bear on the food industry as was done to the manufacturing of cigarettes. In addition, measures to promote physical exercise, involving weight loss as well as general wellbeing are vital and in the process national health care will predominate over a purely sickness service.

The subject of charging may well form part of any re-examination of the GP service, particularly for attending a one-on-one consultation with one’s General Practitioner. Personally, it is not something I would endorse believing early diagnosis outweigh the few advantages. Nevertheless, in theory, charging to see your GP would reduce the amount going to the NHS from general taxation. The problem is that the present UK GP structures would not be able to cope with anything like the charging system that operates in France without very considerable reforms and adjustments of attitudes. GP charges subject to the same exemptions as for prescriptions are at least a decade away from implementation. In France the financial transactions for medical investigation and hospital admission predominantly take place at their equivalent of our GP level. It appears to work and some of the total treatment cost is repaid to the patient. But the French healthcare system post-Covid is also facing considerable problems especially at the GP level. The German health care model is also facing considerable difficulties. ‘The European social insurance model sounds like an enhanced

37 Szu Ping Chan. ‘Pension triple lock “unsustainable” and must be scaled back, says IFS’. *The Telegraph*. 1 February 2023 (<https://www.telegraph.co.uk/business/2023/02/01/pension-triple-lock-unsustainable-must-scaled-back-says-ifs/>).

version of the NHS – but the devil is in the detail.’ Germany too has ‘Doom-laden predictions of imminent health system collapse.’³⁸

38 Alexander Menden. ‘How not to save the NHS’. *Prospect*. 8 December 2022 (<https://www.prospectmagazine.co.uk/politics/how-not-to-save-the-nhs>).

No fault compensation

The current level of litigation costs in the NHS in 2021/22 was £2.5 billion, equivalent to the annual running costs of the biggest hospital Trust in England or four average-sized hospitals. This sum is set to double over the next decade to £4.6 billion, and around a quarter of such costs go not to families but to lawyers. The English NHS spends 2 per cent of its total income on clinical negligence compared to half that level in New Zealand. On top of the amount actually paid out, the NHS is incurring around four times that amount in future liabilities – £8.3 billion in 2021/22 alone. The rate at which such liabilities are being incurred adds huge urgency to the need for reform in this area (Health and Social Care Committee 2020).

My suggestion is for an urgent examination that could build on an earlier unpublished study conducted by the Cabinet Office under David Cameron's Government of the New Zealand system of no-fault compensation.

Finally, from all I have written it will be clear that I do not believe the national financial resources are available for a massive reorganisation of the payment system for health care, nor do I believe so soon after Covid, post-Covid effects and before the findings of the Covid Inquiry is a good time to contemplate embarking on a major reorganisation of the NHS.

The Times has established a very interesting group of people to help their columnist, Rachel Sylvester, write a report for what they call a Health Commission to report in January 2024. That will, no doubt, feed in ideas for reform for whoever becomes the Government after the next general election.

One thing is sure: No reforms can work without the willingness of those who have to implement them and work with them – and that is all the staff in the NHS, not just the doctors and nurses, but the many specialists,

administrators, technicians and people such as porters who regularly interface with patients as they move them around to diagnostic centres and wards. The morale in the NHS at the moment is at rock bottom. That is the highest priority for the Government. Find the necessary compromises to prevent damaging disputes and strikes, lift the morale of all those committed in the NHS to provide us with as good a service as soon as they can, then we will have the right environment on which to build changes based on the evidence of trials and experience.

The future of the UK

The UK is financially in for a very difficult period of adjustment for at least the next four years whichever party is in government after the next election. Even if inflation overall eases it is not yet under control. We must also examine urgently why we have such poor productivity. There are no gimmicks to improving productivity. Personally, I feel there is enormous scope for productivity improvement arising from investment-enhancing deregulation. Also harder work, better training, tax incentives, constant innovation and use of artificial intelligence will all be needed. Environmental concerns need no longer inhibit growth as was once believed. Environmental facts are increasingly scientifically based. For example, fusion is no longer merely a theoretical possibility since recent advances have shown that it could be the power source for eventually ending all coal-powered stations worldwide and gas and conventional nuclear power stations could all be replaced. Elements of such serious debate on vital issues for the UK do take place in committees in the House of Commons and House of Lords. But once the debate arrives on the floor of the House of Commons it becomes routinely polarised into party political point scoring. People glibly say MPs have always done this. I do not believe this is true. The Commons has moderated party political conflict in times past, not just of war. In particular at times of great economic pressure, such as devaluation, and we need to redevelop that spirit now.

What is most needed in the UK today is a functioning, coherent House of Commons that can begin to win back the respect of voters after its appalling behaviour since 2016.

This is not the place to describe every twist and turn of the shambolic parliamentary delaying process following the Brexit referendum and its implementation. (For those who might be interested, the record of my

detailed correspondence as a convinced Brexiteer with Prime Minister Theresa May is available on my website detailing many workable compromises both for the short and long term with the EU that might have won acceptance in a House of Commons readier to accept the referendum result as well as in the EU.³⁹) Some of these as in Northern Ireland are now being introduced as a result of a much improved negotiating climate with the EU. It was inevitable that the EU would be resistant to compromise in the initial negotiations. It was just as inevitable that the Brexit negotiators would as a result settle for a hard Brexit. Now a point is near in the negotiations that favour solutions, always possible in theory, based on mutual interest, which is what trade negotiations are about.

It is, however, inconceivable that the chaos in the House of Commons that lasted for nearly three years would have occurred if David Cameron had kept to his word, openly stated during the referendum campaign, to stay on initially; at the very least until a constitutional procedure had been adopted, which is what Harold Wilson promised in the 1975 European Community referendum. We never discussed the exact form that Brexit would take in the all-party Vote Leave campaign, and, as I understand, neither did the Remain all-party campaign discuss such detail. That was for David Cameron's Cabinet. Once he suddenly resigned, the Conservative Party and Parliament as a whole became increasingly dysfunctional.

Theresa May after a good start as Prime Minister on the basis of positive opinion polls abandoned her words about not having a 'snap election' and called one in April for June. The result of that was a disaster for her personally, a huge rebuff for the Conservative Party. For European Union negotiators the case for adopting a hard line was overwhelming and any hope of a successful trade negotiation with the EU based on mutual interest was shattered. Labour, under Corbyn, had surprised everyone including themselves. They had fought on a manifesto shorn of almost all Corbyn's far left views even promising to continue with the UK nuclear deterrent.

The election ended up with a Conservative Government with no outright majority, dependent on 10 Democratic Ulster Unionists ensuring that Northern Ireland would dominate the negotiations with the EU. The

39 <https://www.lorddavidowen.co.uk/lord-owen-re-issues-correspondence-with-pm-on-britains-efda-option-outside-the-eu/>; <https://www.lorddavidowen.co.uk/wp-content/uploads/2019/03/LordOwenAndPmPt1.pdf>; <https://www.lorddavidowen.co.uk/wp-content/uploads/2019/03/LordOwenAndPm-Pt2.pdf>

Conservatives lost 13 MPs, Labour gained 30 MPs, the SNP lost 21 with the Liberal Democrats gaining only 4.

The Parliament that had voted with over 500 MPs for the legislation to conduct a referendum was now a very different one: though composed of most of the same people. Theresa May would never be able to control this Parliament and Speaker Bercow was in a position to exercise an influence that no Speaker had ever possessed before. Only when Boris Johnson was elected leader of the Conservative Party and Prime Minister was some form of discipline and coherence restored in the governing party and in the ongoing EU negotiations. A general election consolidated Johnson's leadership and the EU negotiations were brought to a conclusion.

Now in March 2023 there is thankfully a new mood in Parliament. Also outside Parliament in the UK as a whole and in relations with the EU. The leaders of the two largest parties, Sunak as Prime Minister and Starmer as Leader of the Opposition, have accepted there will be no reopening of the 2016 UK referendum decision to leave the EU, whether in terms of trade or of freedom of movement.

Let that cross-party consensus start now, not wait until the general election. Anti-Brexit feeling is extremely debilitating and is beginning to inhibit the development of a serious strategy for economic growth, involving all who live in the UK.

There are signs, as we work together with EU member states in NATO over Ukraine that the President and some in the Commission now want to establish better working relations with the UK. We have lost too much time since the referendum. Let us hope we will not lose the 18-22 months that probably face us before the next general election.

In my view the next Parliament should eschew any major constitutional reform and wait until the economy is recovering and economic growth has been established. The Scottish referendum was always a once-in-a-generation referendum, not a rolling referendum driven by Scottish nationalists in their Parliament acting like those MPs in Westminster who could not accept the EU referendum result.

Further devolution for the UK needs time to settle and a genuine consensus to be built over a few more years on what form a more federal UK might take. I believe in a federal UK and that in addition to the directly-elected

House of Commons we need an indirectly-elected constitutional body replacing the House of Lords, modelled on the German Bundesrat, which consists of an indirectly-elected legislative body formed from the sixteen Länder (states). Representation would come from the three nations: Scotland, Wales and Northern Ireland, the big cities with the mayors of London, Manchester, Birmingham and others as well as representatives from local English government bodies. The German Bundesrat is a proven system that brings together bodies of very different sizes with varying representation depending on the issues being discussed at any particular time in the Bundesrat.

As for proportional representation, the Conservative/Liberal Democrat coalition Government held a referendum on whether to replace the first-past-the-post system of voting with the Alternative Vote (AV). Why the Liberal Democrats chose the AV system instead of proportional representation, previously agreed to with the SDP, has never been explained. AV was overwhelmingly rejected. In my view the Liberal Democrats' extraordinary decision to change from supporting a true proportional system to AV, which can produce a disproportional result, was a huge mistake. I see no enthusiasm now in the body politic for making any changes to the voting system or holding any more referendums of any kind any time soon.

Boris Johnson as Prime Minister eventually brought the Brexit negotiations with the European Commission to a conclusion on the basis of a theoretical trade boundary between the UK and the EU in the North Sea to cover the unique problem of Northern Ireland where no marked border existed any longer as a result of the Good Friday peace negotiations between politicians in Northern Ireland. Johnson relied, not unreasonably, on flexibility from the Commission and in Northern Ireland. That is now materialising under Boris Johnson's successor, Rishi Sunak. Hopefully, now, before 12 April 2023, the 25th anniversary of the Good Friday Agreement, Sunak will have implemented the Windsor Framework over Northern Ireland with the European Commission. Rishi Sunak has been right to negotiate directly with Ursula von der Leyen, the President of the EU, over new trading arrangements for Northern Ireland. It is clear their talks will lead on to cover science research and many more areas of mutual interest between the EU and the UK.

Despite the events of recent years nothing has made me regret my decision to vote to leave the EU. I was, as a new Labour MP in the 1960s, enthusiastic

about the Common Market and a committed European. Yet I heeded Hugh Gaitskell's warnings, as Leader of the Labour Party in 1962, that membership, because of the Treaty language of the then Common Market, could eventually become a federal union and challenge our ability to remain a self-governing nation. In a paper I presented as Foreign Secretary to an all-day Cabinet called by James Callaghan in July 1977 it was agreed that our strategy within the EEC should be to argue for a confederation with no commitment to a federal union. The flaws within the EU were revealed by the eurozone crisis showing monetary union cannot work well without political union which then exposes Europe's democratic deficit. Over the years there has been a steady but incessant drift away from member states retaining intergovernmental powers to supranational powers held by the European Commission and European Parliament, who hold authority over trade, economic, industrial, social, justice, environmental, agricultural and fishing policies and extend to a common foreign and defence policy. Once defence becomes a substantive issue, EU countries will need to absorb the logic that faced the founding fathers of the USA where the key influence in creating the Constitution was the ability to defend itself.⁴⁰

In 2012 I wrote a book on the restructuring of Europe which would enable Britain to remain a part of a renewed single market without submitting to the demand to be a part of an inevitable single government. It suggested a two-tier structure involving an inner core of eurozone members that adhere to financial disciplines and want deeper integration and an outer tier comprised of a larger number of single-market countries (Owen 2012).

In 2016 David Cameron's efforts to negotiate some concessions for the UK outside further integration were rejected by Angela Merkel who refused any compromise position. That drove me to vote to leave the EU in the 2016 referendum. Plymouth, the city in which I was born and represented for 26 years as an MP, voted 60:40 to leave the EU.

The Russian war against Ukraine, which started in 2014 and with the second invasion in 2022, has shown how the UK within NATO can play a meaningful role with the US and Canada and soon to be all EU countries and Turkey. The British Government has contributed much to Ukraine in the very early stages on this issue. It has shown admirable military

40 Hamilton, Alexander, Jay, John, Madison, James (1888) *The Federalist: A Commentary on The Constitution of the United States* Edited by Henry Cabot Lodge (G. P. Putnam's Sons)

decisiveness and generosity in taking in Ukrainians, surpassed only by Poland. NATO itself has risen to the challenge and as a result relations between EU members and the US have substantially improved. I am confident this will continue and the UK will be all the better for respecting and ensuring its continuation as a self-governing nation state.

There is one important long-term constitutional question that should be examined on a cross-party basis by an appropriate Select Committee of the Commons first and then their findings debated in the chamber of the House of Commons about prime ministers coming to power outside winning a general election, which is a respected, democratic and legitimate decision-making process involving millions of voters.

Parliament, after recently watching the Truss saga, has seen a flawed system elect a flawed prime minister. It should consider legislating on a cross-party basis to ensure that a prime minister can only come to power outside of a general election, in a statutory five-year period of a Parliament, when MPs from their party vote for their successor, not also party members. In the early 1980s I used to believe that party members should be involved in the choice. I am now convinced by events of the strong constitutional and legitimacy argument for reverting to the old system of only MPs voting outside of a general election. It is not possible to govern well if a prime minister does not have majority support amongst their party's MPs. Labour MPs also vividly remember their experience with Jeremy Corbyn when not having majority support of Labour MPs.

I am now 84 and I only speak rarely in the House of Lords, usually on international affairs or health care. I cannot vote at general elections because of a long-standing ban on Peers doing so. I have one single wish for the British Parliament, to recover its former reputation for probity, democratic debate and prompt decision making that was once admired around the world.

References

- Bolton, Paul. Student Loan Statistics. House of Commons Library Briefing No: CBP01079, 2 December 2022 (<https://researchbriefings.files.parliament.uk/documents/SN01079/SN01079.pdf>).
- Cameron, David (2019) *For the Record*. William Collins.
- Cole, Harry & Heale, James (2022) *Out of the Blue. The Inside Story of the unexpected rise and fall of Liz Truss*. Harper Collins.
- Davis, Aeron (2022) *Bankruptcy, Bubbles and Bailouts. The Inside history of the Treasury since 1976*. Manchester University Press.
- Dell, Edmund (1997) *The Chancellors: A History of the Chancellors of the Exchequer, 1945-90*. Harper Collins.
- Ewbank, Leo, et al. NHS hospital bed numbers: past, present, future. The King's Fund, 5 November 2021 (<https://www.kingsfund.org.uk/publications/nhs-hospital-bed-numbers>).
- Froud, Julie et al. When Systems Fail. UK acute hospitals and public health after Covid-19. Foundational Economy Research Report June 2020 (<https://foundationaleconomycom.files.wordpress.com/2020/08/when-systems-fail-uk-acute-hospitals-and-public-health-after-covid-19.pdf>).
- Health and Social Care Committee. NHS litigation reform, Thirteenth Report. House of Commons, 20 April 2022 (<https://committees.parliament.uk/publications/22039/documents/163739/default/>).

Hellowell, Mark Dr. The return of PFI – will the NHS pay a higher price for new hospitals? CHPI report, November 2014 (<https://chpi.org.uk/wp-content/uploads/2015/02/CHPI-PFI-Return-Nov14-2.pdf>).

Kelly, Ruth Rt Hon, Mansfield, Iain & MacDonald, Connor. Balancing the Books: Charting a credible path to fiscal responsibility. Policy Exchange, 26 October 2022 (<https://policyexchange.org.uk/wp-content/uploads/2022/10/Balancing-the-Books.pdf>).

Lawson, Nigel (1992) *The View from No 11. Memories of a Tory Radical*. Transworld.

Office for Budget Responsibility. Economic and Fiscal Outlook (EFO), 17 November 2022 (<https://obr.uk/efo/economic-and-fiscal-outlook-november-2022/>).

Office for Budget Responsibility. Forecast Evaluation Report, 31 January 2023 (<https://obr.uk/forecast-evaluation-reports/>).

Owen, David & Davidson, Jonathan (2009) Hubris Syndrome: An Acquired Personality Disorder? A Study of US Presidents and UK Prime Ministers over the last 100 years. *Brain*, vol 132: 1396-1406.

Owen, David (2012) *Europe Reconstructed? The Eurozone Crisis and its Aftermath*. Methuen.

Owen, David (2020) *Hubris. The Road to Donald Trump. Power, Populism, Narcissism*. Methuen.

Pickles, Hilary Dr & Rowland, David. Getting behind the Curve? Is the new NHS ready for Pandemic Flu? CHPI, December 2013 (<https://chpi.org.uk/wp-content/uploads/2014/01/CHPI-report-GettingBehindCurve-Dec-2013.pdf>).

Public Health England. 2017 Exercise Cygnus Report. Tier One Command Post Exercise Pandemic Influenza 18 to 20 October 2016 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927770/exercise-cygnus-report.pdf).

Rebolledo, Icaro & Charlesworth, Anita. How does UK health spending compare across Europe over the past decade? The Health Foundation,

16 November 2022 (<https://www.health.org.uk/news-and-comment/charts-and-infographics/how-does-uk-health-spending-compare-across-europe-over-the-past-decade>).

Timmins, Nicholas. Never Again? The story of the Health and Social Care Act 2012. The King's Fund, 12 July 2012 (https://www.kingsfund.org.uk/sites/default/files/field/field_publication_file/never-again-story-health-social-care-nicholas-timmins-jul12.pdf)

The Institute of Economic Affairs
2 Lord North Street
London SW1P 3LB
Tel 020 7799 8900
email iea@iea.org.uk

 **iea**
Institute of
Economic Affairs