

“This book pulls no punches. The path is clear.  
We have to be brave enough to take it.”

Sir Terry Leahy, CEO of Tesco (1997–2011)



# BRITANNIA UNCHAINED

GLOBAL LESSONS FOR  
GROWTH AND PROSPERITY

KWASI KWARTENG MP | PRITI PATEL MP

| DOMINIC RAAB MP |

CHRIS SKIDMORE MP | ELIZABETH TRUSS MP

## Britannia Unchained



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## Global Lessons for Growth and Prosperity

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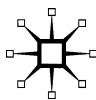
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# Introduction

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On 8 August 2011, 20-year-old Ashraf Rossli set out to cycle to a scared female friend. It was the middle of the London riots. A group of thugs got in his way. Ashraf tried to get past. He received a punch straight to the face, which broke his jaw in two places.<sup>1</sup> His attacker was 17-year-old Beau Isagba. At the age of 14, Beau had earned his first conviction for possession of a knife. At 16, he earned a second for possession of cannabis.<sup>2</sup>

Beau pulled Ashraf off his bike, and to the delight of his gang mates, threw him to the ground. Beau cycled away with his new bicycle. Ashraf sat dazed on the ground.

A few minutes later two young men approached. They asked if he was okay, and helped Ashraf to his feet. While Ashraf was still dazed, these young men took their opportunity to steal his PlayStation.

Their actions were recorded on another girl's mobile, and then placed up on YouTube for the world to see. So far, 6 million people have watched what was to become one of the iconic scenes of the London riots. Just a year before 2012's Jubilee and Olympic year, the world saw Britain at its worst.

Ashraf, an accountancy student from Malaysia, had been in Britain just one month. He was a hard working, ambitious student, who had scored a string of As in his exams at school.<sup>3</sup> He forgave his attackers. He told reporters that he was not angry,<sup>4</sup> that he still believed in Britain and that he was determined to stay.<sup>5</sup>

This episode symbolises some of the issues we wish to tackle in this book. Ashraf represents the best of a new ambitious, hard working, developing world. Sadly, Beau Isagba represents the worst of what some elements of Britain have become.

*Britannia Unchained* is a book about what Britain can learn from the rest of the world. As the world becomes more competitive, Britain will have to work harder to keep up. Britain has much to be optimistic about. The horror of the riots was an aberration, not an accurate picture of the day to day of London life. Nevertheless, if we are to prosper in future, we have to much learn from the Ashrafs of the world.

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The latest economic crisis is only the most recent manifestation of more fundamental problems. In Britain, there has been too great a tendency to attribute results to fortune or background, coupled with a general reluctance to take hard decisions on economic policy. Britain has also suffered from a diminished work ethic and a culture of excuses.

In twenty-first-century Britain, more people look to others to solve their problems. The dependency culture has grown dramatically. By February 2012, 5.7 million people of working age in Britain were collecting some kind of benefits. At over 13 per cent of the working population, this is one of the highest proportions in the OECD.

It is now clear that, unless we get a grip of these problems, the next British generation will end up with a diminished share of the world's wealth and resources. It is also likely that the new ideas which will shape the world may come from India or Brazil, rather than Britain. The current crisis should be seen as a wake-up call to all Britons. There is no inevitability about the future. We need only look at Greece and Italy, or Germany and Canada, to see the different paths taken by nations. Some decide to take control of their own destiny, while others manifestly fail to do so.

All five authors grew up in a period where Britain was improving its performance relative to the rest of the world. The 1980s, contrary to the beliefs of many on the left, were a successful decade for Britain. They were a time when, after the industrial chaos of the 1970s, business and enterprise began to flourish once more.

We want to see this spirit of innovation renewed. We know that Britain can be successful. The seeds of this revival are there. We also see pockets of inspiration around the country that, if unleashed, could propel us into the superleague rather than the also-rans. Our research capability is the best in the world. We have technological companies who work tirelessly on new products. There are many stories of people who have earned enormous success through their own efforts.

But changing Britain's fortunes needs a relentless energy and determined focus. Vitally we will need to be tougher in taking on vested interests. These occur in lots of guises, through bureaucratic inertia, and many of the perks which a generous welfare state lavished on previous generations. We have to ensure that the general climate for business is attractive. This means that we should stop indulging in irrelevant debates about sharing the pie between manufacturing

and services, the north and the south, women and men. Instead, we should focus on trying to make it easier for firms to recruit people and ensuring the tax burden is less onerous.

To achieve these goals we think it is helpful to take a step back and go on a worldwide journey, so to speak. In the long run, what goes on in Sao Paulo, Beijing and Mumbai may well affect the future of Western Europe more than partisan disputes about precisely how fast to cut public spending.

The recent crisis in the Eurozone has been the story of European countries' failure to adapt to international competition. Countries like Greece and Italy, which adopted the euro, found that their costs became too high and effectively priced them out of international markets. Both countries saw a marked decline in productivity. This development affected these countries as much as particular decisions their governments made relating to public spending.

The situation of Greece, Spain and Italy in 2012 should be a warning to Britons about some of the dangers ahead. The really deep austerity cuts facing Greece and Italy have been avoided, so far, in Britain. Yet many of the structural problems in the economies of the countries of Southern Europe are shared by Britain: a large, bloated public sector; increasingly large liabilities regarding pensions in the public sector; too much spending and too little growth; poor productivity.

Britain's continued use of its own currency, the pound sterling, has shielded it from the worst effects of the fiscal crisis affecting Europe. But the problems Britain faces are, like those of European countries, long-standing. Britain's own cultural history, where issues of class are particularly potent, has also made the situation more critical. Beyond the statistics and economic theories, there remains a sense in which many of Britain's problems lie in the sphere of cultural values and mindset. These are, naturally, more difficult to analyse than economic problems. They are also harder for politicians and commentators to address.

After the financial crisis of 2008, many people in the West began to question the basis of free market capitalism. 'Business' became a dirty word. The 'fat cat' bankers, who had all grown extremely rich, were castigated on all sides of the political divide. Yet, in the emerging economies of Asia, South America and Africa, economic progress continued unabated. In these countries individual initiative and free enterprise continued to drive progress. Millions of people are

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being pulled out of poverty across the world by the simple processes of capitalism. *Britannia Unchained* is unembarrassed about its support for business, the profit motive and the individual drive of the wealth creator.

The term 'globalisation' is a cliché. However, it is certain that, for the first time in centuries, the world economy is being driven by what happens outside Europe and North America. At the same time, many parts of the old world are fighting back. Germany has embarked on a programme of welfare reform. Countries in Scandinavia are pursuing labour market reform. Canada has successfully cut its deficit. It makes sense then for anybody involved in politics in Britain to engage fully with what's going on in the wider world. *Britannia Unchained* is an attempt to do just that.

Each chapter of the book looks at a particular aspect of economy and society in a particular country, or countries, and tries to draw general conclusions about the lessons that can be learned.

The first chapter, 'The Chains', sets out the central question of the book. It asks whether we are inevitably destined for national decline. Britain has often wallowed in self-pity as the glories of Empire have ebbed away. The chapter argues that Britain is once again facing the same loss of confidence last seen in the 1970s.

Chapter 2, 'A Tale of Two Nations', looks at the Canadian approach to public spending. It has been striking how effective Canada has been in meeting the challenges of the financial crisis. It is widely known that the position of Canadian banks has been much stronger than their counterparts in the United States and Europe. Chapter 2 also looks at how Canada reformed its government in the 1990s. After a decade of reckless spending Canada successfully managed to cut its spending and start upon the way to growth and more sustainable development.

Chapter 3 is about educational aspiration in Britain. This chapter, entitled 'Revenge of the Geeks', shows how education is viewed in India and other thriving new economies and contrasts these with Britain, where the ideals of celebrity culture and instant fame are prevalent. In many opinion surveys conducted in Britain it has been found that young people aspire to be fashion models or professional footballers ahead of becoming lawyers, doctors or even scientists. We argue that one advantage of the rising economies is the emphasis they place on education. Young people in India and South Korea are more

likely to work hard at school in order to enter well paid and respected professions. It is clear that a society motivated in this way will become, over a short period of time, more successful and productive. Chapter 2 gives suggestions as to what Britain can learn in this respect.

In Chapter 4, entitled 'Work Ethic', we explore the nature of the work ethic in South Korea, Singapore and Hong Kong and contrast this to that found in Britain. We ask ourselves, 'What is it about these countries that makes them so dynamic?' In this chapter we look at the way in which the state has made Britons idle. Our culture of instant gratification ignores the years of persistence that lie behind real success. Too many people in Britain, we argue, prefer a lie-in to hard work.

Chapter 5, entitled 'Buccaneers', is a wider exploration of the nature of business innovation and entrepreneurial drive. In this chapter the achievements of Israel, perhaps surprisingly to some, are celebrated in the area of science and technology. Israel has shown how venture capital can be attracted into exciting areas. This capital is particularly supportive of technological innovation and businesses which rely on what is sometimes called 'the knowledge economy'. Through the application of science and business acumen, exciting commercial opportunities often arise. Overshadowed by political concerns, Israel remains an underappreciated hub of scientific innovation. By contrast, it is a commonly observed feature of modern Britain that the state and bureaucracy have become more entrenched over the last decade. There is a feeling that initiative and individual enterprise have been stifled by an obsession with rules, regulations and 'health and safety'. This climate of excessive bureaucratic control has made Britain less competitive on the international scene.

The final chapter, 'Britannia Unchained', returns to the question of whether Britain is an old country, fated to gradual decline. It argues that it should instead see itself as a young country with its best days still ahead. Britain's attitude is contrasted with that of Brazil, a vibrant and dynamic emerging economy. Brazil has enjoyed a decade of prosperity, and its people display a fervent patriotic spirit, underpinned by a sense of optimism. A new 'baby boom', however, is ensuring that Britain, too, is a young and growing country. There are many promising opportunities for the future if the British are prepared to work hard.

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We hope that these chapters, by identifying areas in which Britain can improve, will provoke some debate about our future as an advanced economy in the world. The world in 2012 offers exciting prospects for countries ready to seize the day. There is no reason why, following the example of other nations, Britain cannot share in this bright future.

# 1

## The Chains

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*In the wake of the financial crisis, 1970s-style pessimism that Britain is destined to decline has returned. The British have lost confidence in themselves and in their history.*

### The Return of Decline

In March 1979, on the occasion of his retirement, the British Ambassador to Paris Sir Nicholas Henderson sent out the traditional valedictory letter to the Foreign Secretary. It was gloomy in tone. 'Our economic decline has been such as to sap the foundations of our diplomacy. Conversely, I believe that, during the same period, much of our foreign policy has been such as to contribute to that decline ... today we are not only no longer a world power, but we are not in the first rank even as a European one. Income per head in Britain is now, for the first time for over 300 years, below that in France.'<sup>1</sup>

The signs of this decline were everywhere:

You only have to move about western Europe nowadays to realise how poor and unproud the British have become in relation to their neighbours. It shows in the look of our towns, in our airports, in our hospitals and in local amenities; it is painfully apparent in much of our railway system, which until a generation ago was superior to the continental one ... So far as the management of major capital projects by government is concerned our vision appears limited and our purpose changeable ... We started work on two large plans, the third London airport and the Channel tunnel, only to cancel both.<sup>2</sup>

Despite the apparent decline, some argued that there was something to be said for Britain's relative poverty. Perhaps it was the Germans and the French who worked too hard, while the Brits had discovered what really mattered: 'Others will argue that the British way of life,

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with ingenuity and application devoted to leisure rather than to work, is superior to that elsewhere and is in any case what people want.<sup>3</sup> But as Henderson warned, it was doubtful that such a way of life could continue for long, if decline was continued.

By the time Henderson wrote his letter, Britain had arguably been in relative decline for nearly a hundred years. The former 'workshop of the world' had failed to take sufficient advantage of the second stage of the Industrial Revolution. The British lagged in developing chemicals behind Germany, in cars behind France and electricity behind America. In the wake of the 1929 Wall Street Crash and the worldwide Depression that followed, Britain retreated from its Victorian liberal principles.<sup>4</sup> The days of sound money, free trade and free competition were over. After the Second World War, the Government went still further, nationalising the health, gas, coal, and railway industries.

In 1950, Britain was still richer as a nation than France or West Germany. By the time of Henderson's letter, 30 years later, Britain had fallen behind. Between 1950 and 1973, Germany grew twice as fast per hour worked.<sup>5</sup> The long decades of uncompetitive markets and entrenched labour power had finally caught up with Britain. Economic weakness at home was matched by political weakness abroad. The Empire had disappeared. The debacle at Suez was evidence of a lack of influence, the relationship with America was weakened, and de Gaulle twice vetoed Britain's entrance into the Common Market. Britain could no longer be said to be a great power.

The 1970s would be seen as the nadir of British decline. British society was falling apart, as governments of both left and right found themselves squeezed between trade union power and growing inflation. Edward Heath had to declare an official State of Emergency a record five times in less than four years.<sup>6</sup> Unemployment passed 1 million in 1975, for the first time since the 1930s. Popular companies like Rolls Royce went bust. Frequent power cuts could bring the country to a standstill. Strikes and industrial disputes were endemic. Trade union leaders like Derek 'Red Robbo' Robinson, shop steward at British Leyland, proved as powerful as leading politicians. Between 1978 and 1979 he caused over 500 walk-outs at the Longbridge plant.<sup>7</sup> In hospitals, women gave birth by candlelight, traffic lights failed across the country,<sup>8</sup> and even Prime Minister's Questions was lit by candles and paraffin lamps.<sup>9</sup> *Blue Peter* taught children how to line blankets