

# Speech: Chancellor of the Duchy of Lancaster speech at the Onward Dinner: 22 November 2018

I really welcome the foundation of Onward and hearing about the work that this new think tank plans.

It seems to me when I look back on those days, growing up and going to university in the late 1970s and early 1980s, it was a time of really exciting intellectual ferment on the centre right of British politics.

I think what all supporters of a liberal free enterprise society – a responsible society that cares about the values expressed in communities – needs now is a resurgence of that intellectual energy.

In those days that was brought about through the Centre of Policy Studies, the Institute of Economic Affairs, and the Adam Smith Institute. Today Onward is contributing to that renewal of ideas.

That is important as today those of us who support free enterprise and the market economy are confronted by a paradox.

On the one hand, living standards globally are higher than they have ever been in human history. That is largely down to the success of capitalism, free markets and free trade.

Generations of people in Asia, South America and in many countries in Africa...

... men and women whose parents and grandparents lived with the real fear of food running out if the harvest failed...

... are now able to look forward to greater prosperity and security than ever before.

In 1950 three-quarters of the world were living in extreme poverty; by 2015, fewer than a tenth were in that condition, despite a massive increase in the global population in that period of time.

The global poverty rate is now lower than it has ever been in recorded history.

That progress has led to knock-on improvements:

Global illiteracy rates have fallen from a third in 1930 to less than one-fifth today.

And child mortality – measured in terms of the percentage of children dying before their fifth birthday – has fallen tenfold since 1800 to 4.3% today.

There have been real improvements in the developed world, too.

We probably all know this from talking to our own parents or grandparents, but if you look at household goods – things like fridges, freezers, washing machines, dishwashers – which in the 1950s were considered luxury products are now seen as standard.

Things that were once counted as the exceptional rewards for high living standards are now seen as a measure of the ordinary expectations.

We carry smartphones in our pockets – giving instant access to information from every part of the world – which carry in them greater computing power than that of a mainframe computer a few decades ago.

Customers are now able to get what they want, often the next day, after shopping from the comfort of their homes.

Online retailing has cut costs and delays.

One might have expected that this unprecedented rise in human prosperity should cause people to celebrate the success of free enterprise and of market economies.

Yet that is not the case.

Rather here in the United Kingdom, and in much of the developed world, what we see is a level of scepticism higher than for many years. Not just about the conduct of individual businesses or particular sectors, but about the virtues of the free enterprise system itself, on a scale that we haven't seen for about 40 years.

Citizens today are better informed than previous generations and young people today are increasingly motivated. They want and expect businesses to behave responsibly.

And as they look at the world they conclude that that is not what they are seeing.

Polling by the Legatum Institute shows that a majority of the British people now view capitalism as 'greedy' and 'selfish'.

That research actually found remarkable consistency across the generations on economic issues – and shared by Labour and Conservative voters alike.

When asked for their top three word associations with capitalism, 32% of the public said 'corrupt' and only 7% said 'for the greater good'.

And earlier this year another poll found that 61% of ordinary working people feel they don't get their fair share of the nation's wealth.

There are reasons for this scepticism.

There is no doubt that the crash of 2008 and the downturn which ensued

damaged people's confidence in the virtues of free and open markets.

Making matters worse has been the contrast between high profile examples of corporate excess or malpractice, and the reality for many families of squeezed living standards.

Effective competition in markets – something that underpins public trust in those markets – has in too many markets stalled.

Data from The Economist this week shows that over the last 20 years market concentration has risen in two-thirds of US industries; in Europe the trend is similar, with the average market share of the biggest four firms in each industry having risen since 2000.

But of course, underlying this widespread public concern and to some extent public anger lies not just the events of the last ten years...

... but the profound long-term changes in our economy and in assumptions about work and careers, changes being driven by globalisation and digital technology.

Both those phenomena present us with great opportunities.

Tens of millions of new customers around the world heading towards the kind of consumer expectations that are taken for granted in Britain or Germany or the United States.

And new jobs and firms – indeed entirely new professions and occupations – being created by digital technology.

So there is a paradox. Higher living standards around the world than ever before. A triumph of capitalism. Yet at the same time we see deep public discontent, for understandable reasons, with the very system that has made this prosperity possible.

So how do we respond to this challenge?

I want to touch on three ways we can go about doing so.

Our philosophical approach, how we think about free enterprise and capitalism...

... what government should do in its words and its actions...

... and what business itself ought to be doing in order to restore its public reputation.

In part what we need to do is to rediscover and renew the arguments that we made and won in the 1970s and 1980s about the success of a market system at meeting human needs and wishes, when compared with a model that looks instead to extensive state control.

Debates that we thought perhaps had been won conclusively, but have now been

reopened.

To do that we have to engage with a generation for whom talk about the stagflation of the 1970s, or Trade Union power or the Soviet model, is at best a matter of remote history.

For those of us who are older, we think back to the 1970s. The great impersonator of that time, Mike Yarwood, had a big show on Saturday evenings. He could take off six trade union leaders in a show and everyone would instantly know who those people were. You could not do that today.

We have to deliver the key messages once again. You cannot distribute wealth unless it has first been created. Individuals and businesses are better at spotting opportunities and pursuing innovations than is government. A modern economy, in all its complexity and diversity, is something that no government, however good its intentions, will be able to micromanage successfully.

And putting politicians in charge of everything from railways to electricity to water supplies, as some advocate, would mean there would be nowhere else to turn when things went wrong.

We have to re-establish in the minds of today's opinion formers and today's public the principle that free enterprise, far from being incompatible with ethical values, is actually rooted in and depends upon a moral framework.

This actually is something where we can look to history for guidance.

The Harvard scholar David Landes in his book *The Wealth and Poverty of Nations* and the Cambridge historian and anthropologist Alan Macfarlane in *The Culture of Capitalism* have written about how it was the moral and cultural environment of European nations which enabled a capitalist economy to take off and to thrive.

Indeed the father of free enterprise, Adam Smith, recognised that markets were, as my colleague Jesse Norman puts it in his recent biography, "living institutions embedded in specific cultures and mediated by social norms and trust".

Political stability, a sound currency representing a reliable store of value and medium of exchange, independent courts to resolve disputes, effective mechanisms to deter and punish corruption: these all help provide the essential foundations on which a market economy can flourish and grow and command public trust.

And of course these foundations are made possible by governments and by parliaments – in other words by effective, but limited, state action. Indeed, many of the things upon which businesses rely – limited liability, patents, copyright, enforcement of contracts – are embodied in law.

Over the centuries, as trade and markets have grown, governments have been at their most successful in reforming and renewing capitalism when they drive effective competition and recognised the social dimension of free enterprise.

We saw that with the impact of the Factory Acts of the mid-nineteenth century and in the trust busting drive of Teddy Roosevelt in the United States.

Roosevelt's concern was not with big business per se – rather, he wanted to act to enforce what he termed a “rule of reason” on companies that grew through unfair practices rather than through reasonable means.

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Today we are acting with measures such as the proposed digital services tax, our work to implement the Taylor Review, our push for regulators to do more to protect vulnerable consumers, and our legislation to outlaw the practice of unscrupulous freeholders charging onerous ground rents.

I cannot emphasise hard enough: these reforms are about restoring the reputation of the free market system by demonstrating that it can and it should work for everyone.

This is not a task that government can undertake on its own.

Part of the reason why the Government is responding is that companies themselves do not always act in a way that benefits the public good or delivers for working people.

But increasingly, I sense that businesses are willing to rise to the challenge of strengthening faith in capitalism. Working with Jeremy Wright, I have introduced ways to use the Government's buying power on public procurement to drive social value and promote a more diverse market..

... and I have been heartened by the welcome that those proposals have had from many of the Government's major suppliers.

But there are habits too that need to change. The detailed information now held about consumers can be used by suppliers both for and against customers.

Consider the loyalty penalty – where consumers who stick with their suppliers find themselves placed on the highest tariffs and actually end up subsidising other consumers.

The Government has acted to stop this behaviour in the energy sector and we are willing to act in other markets too to make them work for people.

The increased shareholder activism that we have encouraged in recent years, especially around executive pay, is also a vital element in renewing the public standing of free enterprise.

Scrutiny by shareholders of the decisions of companies is making a real difference.

It was after all the vocal opposition of shareholders that persuaded Unilever to abandon its plans to make Rotterdam its HQ.

And it was condemnation, not just from politicians or even from campaigners

but ultimately also shareholders, that led to the departure of Persimmon's chief executive following the controversy over his bonus payment.

By encouraging stewardship, active and diligent shareholders can improve the reputation of capitalism and I believe have a responsibility so to do.

It is not enough to fix broken markets – we have to fix public perceptions of them too.

We have to do so in a way that recalls the Prime Minister's first speech on the steps of Downing Street – reaffirming the Government's commitment to championing responsible capitalism and asking businesses for their part to accept their share of social and moral responsibility.

So we should celebrate businesses that create wealth and provide jobs and livelihoods in communities across the country...

We should drive effective competition – removing barriers to entry, making sure our competition powers are fit for purpose to regulate digital markets, and promote innovation.

We should be clear about our expectations of businesses because public support for their licence to operate depends how they act.

I think these are the steps that will help to break this paradox of capitalism.

Business done right is a force for good.

The best businesses play a highly positive role in society, not just by reacting to social or environmental problems, but by driving innovation and delivering products or services that meet consumer needs.

The best businesses – whether that's manufacturing or finance or technology – lead the way in putting social and environmental impact at the heart of what they do.

The best businesses also lead the way on promoting diversity, tackling injustices, and encouraging talent regardless of people's background.

By taking these steps we can help raise standards, stimulate investment and drive long-term returns, and continue that improvement in living standards which has been free enterprise's greatest achievement.

Companies acting more responsibly and markets working more competitively are the twin pillars of restoring trust in those free markets.

Thank you very much.