

Speech: Chief Secretary to the Treasury Liz Truss speech to the London School of Economics

Introduction

As an economics geek, and a committed free marketer, I've always admired the London School of Economics.

Despite its left-wing reputation, it was the academic home of Hayek.

But even more than that, it produced my husband, Hugh O'Leary.

It means that whenever I want a late night discussion about supply side reform or econometrics, there's always someone on hand.

The permissive society

And why do I love this stuff?

Because I care about freedom.

I've never liked being told what to do. And I don't like to see other people being told what to do.

Britain is a country that is raucous and rowdy.

We have a younger generation of self-starters growing up, who are desperate shape their own futures. Who reject hierarchy and understand the networked world and who want to take on the establishment – and win.

That's not just a healthy attitude to have in life. I believe it's key to our economic future.

I believe that our future lies in cultivating their maverick spirit.

I want our economic model to be one where it's not about the state deciding what you do, it's about you deciding what you do.

And from the grainbelt of our agricultural heartlands, to the brainbelt bursting out around our great universities...

From the port cities to the inland empires.

With greater freedom, all of these places have the capacity to do and be more.

Truly free enterprise has huge economic benefits, driving down prices and creating growth and jobs.

It breaks down monopolies, hierarchies and outdated practices.

It destroys barriers, and erodes inequality.

It's good for business, and it's good for our nation of Airbnb-ing, Deliveroo-eating, Uber-riding freedom fighters. As the LSE's own Lionel Robbins said: "every day, thousands of people cast their votes for the hundreds of products and services on offer, and from the competition to win votes, better and better products and services arise."

We all benefit from the creativity and innovation of a free market.

New gadgets may begin in the hands of the wealthy few.

But they most often end up improving all our lives.

From the bricklayer to the banker, we all use the same smartphones.

There's no more important time to be thinking about this.

Britain has a unique opportunity to re-establish itself as the land of the free.

After surviving the financial crisis and launching the Brexit process. We can put public finances on an even keel, and drive progress through economic liberalisation.

Our Industrial Strategy will guide us towards achieving that. It sets out how we are building a Britain fit for the future – how we will strengthen our skills, bolster our industries, and build the infrastructure we need to boost productivity and the earning power of everyone throughout the UK.

We already have a strong base, with a record number of start-ups, and record levels of employment.

But if we get the next phase of our development right, if we liberate every part of our economy, we can truly turbocharge growth.

Freedom to work

I believe that liberating the economy has to start with the individual, and helping more people get into jobs.

Work isn't just about feeding your family.

It's about your sense of self and independence.

What we've done as a government, is help more people gain that independence.

Since we came to power, we have reformed employment law, making it easier for companies to take on staff.

We've widened access to professions, making it easier to train as a teacher or lawyer.

We've taken huge strides to even the playing field for women in top professions.

We've also built on a history of supply side reform in the labour market.

In the 1980s, Mrs Thatcher curbed excessive union power which created barriers to entry and meant cronyism was the key to climbing the ladder. More recently, it was the welfare state that was holding people back, and our changes released millions who were trapped in poverty into well-paid work.

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But the results prove them wrong – we now have record employment and the lowest unemployment rate since 1975 which has reduced inequality.

Meanwhile, our European neighbours with labour markets much more restrictive than ours are struggling.

France's unemployment rate is double ours, while in Spain and Italy it's even worse.

But there are still barriers stopping people getting into work in this country. Often these are barriers as thin as a sheet of paper.

Because Britain has a higher proportion of licensed workers than France, Italy or Belgium.

When well-designed, professional qualifications can ensure the public are protected from harm.

But for those without the funds or family connections to break in from outside, finding work can be frustrating.

In the 1980s, it was unions that were holding people back from getting jobs – now it's over-regulated occupations.

And for consumers, it can mean less choice, and higher prices.

So if we can reduce these barriers, everyone will benefit.

I want to liberalise unfair regulation to make it easier for people to follow their dreams and start new careers.

I want to challenge unfair rules and fees, and make sure that barriers are not being put up to important industries in the UK economy, I will explore taking forward a cross-government review of occupational licensing.

Freedom to live

For that individual following their dreams, there needs to be affordable housing wherever they want to live. If I see an opportunity I want to get a piece of the action.

I want to surf the zeitgeist to where it's all happening.

When I moved to London from Leeds as a graduate in the 1990s, I came because of the opportunities on offer here.

Back then, I could afford to find somewhere to live.

And now, having benefited from that opportunity, it would be wrong of me to deny it to others.

This government has delivered more affordable homes.

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But too many people that have got themselves on the ladder have been allowed to pull it up behind them.

Which means that young people these days can struggle to get flats near their jobs.

According to the Resolution Foundation, the share of working age people moving for jobs has gone down by 25 per cent since 2001.

And this is hitting people in the pocket – they estimate the average earner would have been £2,000 better off if they were able to get on their bikes.

If we sorted this out, it could give a boost to individual workers, and to the economy.

Evidence from America would suggest so.

A recent study in America by Hsieh and Moretti showed that freeing up housing regulations in New York, San Jose and San Francisco to median levels could increase the US's GDP by 3.7 per cent.

But the most productive cities are being held back by restrictive regulations.

It's much the same story in the UK – restrictions on building are holding cities up.

Our housebuilding rate peaked in the 1830s – long before we had cranes and diggers – simply because there were fewer planning restrictions.

That's why I'm heartened by groups like London Yimby, who want to open up planning.

It's the right and fair thing to do for people.

And it would be one of the fastest ways of boosting our country's productivity.

In Japan, things are different.

In the early 2000s, they relaxed their urban development rules, giving people the freedom to change their property as they see fit.

And commercial developers are free to do as they please in designated zones.

It all means that whereas house prices doubled and quadrupled in London and San Francisco – they were much flatter in Tokyo.

It's restrictions that are causing problems, so we need to liberate.

We should densify our built environment, and look at making it easier for local neighbourhoods to raise the height of their houses.

All this affects businesses too.

They need access to the best talent, and the benefits that come with economies of scale.

So I want to see us remove the barriers to prosperity in high growth areas.

That's why we're piloting a manufacturing zone in the East Midlands, where some aspects of planning are pre-agreed – with a nod to the Japanese system – helping manufacturers get straight to work on building their factories.

And I want to work with industry to see if more Development Corporations, like the one we used to build Canary Wharf, could be a success.

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Freedom to do business

For many people, following their dreams doesn't just mean getting the job that they want...

It means starting a business of their own.

And those people should have the freedom to fight for their place in the market.

I see it as my role as Chief Secretary to the Treasury to be on the side of the insurgents – I see myself as the disruptor in chief!

Because British people love change.

From the adoption of the latest gadgets – the microwave meal, to the smartphone to being one of the most socially advanced, modern countries in the world...

This ancient rock of Northern Europe has always been at the forefront of progress.

I saw a recent IPSOS Mori poll which showed that, of 23 of the world's most advanced economies, British people were the least likely to say that the world is changing too fast.

We have some of the highest start-up rates, and fastest-adopting consumers in the world.

We've embraced new apps like Citymapper and JustEat because they have given us extra freedom, and because they have given extra work and income to people often on the fringes of society.

Most of us welcome all this change, but some have a stake in the status quo.

The blob of vested interests campaign for a thicket of regulation to surround incumbents and protect them from competition.

The government should take these vested interests on, and free the disruptors to bring life to the market and empower those on the margins.

Sometimes, traditional businesses face regulatory barriers that disruptors don't.

For example, I've heard from a guesthouse in my constituency that had to gain two licenses to let his guests listen to the radio. Airbnbers don't have to worry about the same restrictions.

And commercial TV is price capped on advertising, while their competitors on the internet – including Google – are not.

But the answer isn't to increase regulation, and keep everyone back.

I believe that the answer is to look at whether the regulations that we have are fit for purpose, to reduce barriers for everyone, so that competition is a fair fight.

Because we should reward those with the brightest ideas, rather than those with the biggest legal departments.

I've already mentioned what we could do with housing and planning in this country.

But could we reduce energy bills by simplifying regulation and enhancing competition?

Or encourage growth by cutting fees and regulations for businesses, rather than offering further subsidies that benefit incumbent firms?

I want us to do everything we can to make things fairer, simpler, and easier for businesses to compete.

Many of the rules that we have in place are important in guaranteeing public safety.

But it's hard to shake the feeling that sometimes they just get in the way of consumer's choices and lifestyles.

And government's role should not be to tell us what our tastes should be.

Too often we're hearing about not drinking too much...

...eating too many doughnuts...

...drinking from disposable cups through plastic straws...

...or enjoying the warm glow of our wood-burning Goves...I mean stoves.

I can see their point: there's enough hot air and smoke at the Environment Department already.

A guy in my constituency, who brought in £10,000 a year to Mundford Football Club by setting up advertising hoardings around the ground, had to take them down, after one person complained to the council.

If Frances McDormand can put up three billboards outside Ebbing, Missouri, why can't we do the same in King's Lynn, Norfolk?

I've heard that the EU are debating a copyright law that could ban memes from the internet...

In my own words. That. Is. A. Disgrace.

Or take burgers. I keep being told by excellent burger producers, whether it's the Burger Shop in Hay-On-Wye or Bleecker Street in London, that there are strict restrictions against selling medium rare.

Why can't I as a consumer decide, as I would be in most parts of the USA, or France?

Regulations against my tastes in burgers may see a little trivial, but they are symptomatic of a broader malaise.

Unnecessary red tape restricts business and consumer freedom, so I believe we should cut it wherever we can.

Freedom to trade

Finally, we should extend our liberal economic outlook to the world.

Because if your business grows so big you want to expand overseas, you should have the freedom to do that.

Brexit comes with a host of opportunities, and surely one is that Britain is well placed to make the case for open and liberal trade.

Doing so will bring the same benefits as for economic liberalisation at home: broadening choice for consumers, and increasing competitive pressures on businesses.

Trade as a proportion of GDP – a traditional measure of openness – is 78 per cent of GDP in South Korea, compared to 58 per cent of GDP in the UK.

And every extra percentage point of openness increases productivity by 1.23 per cent, so if we matched South Korea in the long run, this would give a massive boost to our GDP.

The sleek state

For people and businesses to have the best opportunities, government has an invaluable role in educating our children, keeping us healthy, investing in world-class infrastructure and keeping markets fair and open.

But we should also be constantly vigilant that the state does not balloon out of control.

Because the more government spends, the higher taxes have to be.

And that means less money for businesses to spend on their own priorities, like the farm in Lincolnshire that needs a new machine to automate potato picking.

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And higher tax means less money for me to decide when to go on holiday or buy a new car.

The Spending Review taking place next year gives us an opportunity to address this.

It gives us a chance to get debt down, modernise Government and keep control of the size of the state.

Responsibility for the public finances

I have to confess it can be lonely at the Treasury.

Poring over the spreadsheets, freezing with the heating off in winter or sweltering with zero aircon in the summer.

The only excitement is helping yourself to the Chancellor's secret KitKat stash.

It can sometimes feel like there's always a party going on that you're not invited to – particularly when the Foreign Office is next door.

While everyone around is spending money or at the very least talking about it, we are the preachers of prudence.

Over the past 8 years, we have cut government waste whilst focussing on quality and value for money in our public services. Overall we've reduced government spending from a whopping 45 per cent of GDP to 39 per cent, meaning we could cut tax on the lowest paid whilst maintaining world class public services.

We have cut the deficit by three-quarters, to just over 1.9 per cent now.

We are now on course for debt to be falling as a share of the economy by this year.

It's precisely because of this prudence, that we've been able to boost funding for the NHS.

The settlement, which was done on an extraordinary basis, outside the Spending Review, because we recognised the real pressures in this service, is only possible due to the government's economic credibility.

It's only because we've kept purse strings that we have been able to do this.

And that's why we need to continue on our path.

Despite everything we've done, we've still got the highest debt for fifty years at 85 per cent of GDP.

And we need to turn this around.

Because high debt can dissuade investors. And the OBR have warned that if the UK is hit by a shock this could send debt over 110 per cent of GDP.

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Setting up the OBR and developing our fiscal rules have helped us counter this tendency, and put Britain on a path to lower debt.

Other countries have followed a similar path.

Switzerland and Chile have shown that flexible yet robust fiscal rules can be designed which balance budgets over the business cycle.

These rules are self-discipline mechanisms, which help ensure that governments do not get carried away.

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The big state is not inevitable

Some people argue that, as a country's population becomes older, the state must take an increasing share of the economy.

But there are many aging countries with advanced economies that do not have high tax and spend.

Instead, they deliver really high quality services, with less waste and at better value for money.

Japan has an old population with a median age of 47, compared to Britain's 40.

But their spending as a share of GDP is slightly lower than the UK's.

Japanese colleagues told me that they recently raised VAT to 8 per cent – and that was causing consternation!

South Korea, meanwhile, has a comparable median age to Britain, but a very

small state.

Their government expenditure is only 32 per cent of GDP.

All these countries are facing similar problems, but are finding solutions.

We shouldn't necessarily seek to emulate everything these countries do: Japan has debt levels of 200 per cent GDP, while South Korea's economy is driven by a small number of conglomerates.

But the point remains: an aging country does not ipso facto mean a country with high tax and spend.

Even countries that we sometimes think of as having big states are realising that governments should seek to do less, better.

Canada, after the misconceived expansionist years in the 1960s, when they raised taxes and nationalised businesses...rescued their economy in the 90s by cutting spending and balancing the budget.

Sweden had a similar story. In the two decades since their banking crisis in the early 90s, they kept a tight hand on their budget and overhauled their sprawling welfare state.

As a result, their economy has been transformed in the two decades since their banking crisis.

All across the world, countries are addressing their problems not simply by raising tax and spend, but by reshaping and reinventing themselves.

It's not macho to demand more money

That means creating a sleek, effective, sharp and focused public sector.

Yes, we all want well-funded, high-quality public services.

But government has a responsibility to live within means, ruthlessly pursue efficiencies, eliminate waste, and constantly re-examine the scope of government in a world of constant technological change.

As a Government we are spending £800bn, the equivalent of £29,000 per household.

We spend more than Germany or Japan on schools per student and our spending on health, currently at the Western European average, will match France's by 2024.

We spend a higher proportion on welfare and pensions than most of our European neighbours, too.

But often government budgets are simply rolled over from the year before, rather than being rigorously reappraised based on their merits.

We need to look at budgets with fresh eyes, and think more as a start-up

would.

Those familiar with the 1984 film Gremlins – will recall how the cute Gizmo, when fed after midnight, turned into a slime-soaked baddie Stripe.

In much the same way, there's a tendency for governments and bureaucracy to multiply and exert further control. And before you know it gremlins are everywhere.

There is a temptation to feed these creatures after midnight.

But more widely we have to recognise that it's not macho just to demand more money. It's much tougher to demand better value and challenge the blob of vested interests within your department.

Some of my colleagues are not being clear about the tax implications of their proposed higher spending.

That's why, in next year's Spending Review, I want to take a zero-based, zero-tolerance approach to wasteful spend.

We need to take a look at ourselves and think "what is the best way to use the money entrusted to us?"

We have to make every pound pull its weight. We have to make every pound pull its weight.

The digital state

As well as re-examining what the state does, we should also look at how it does what it does.

David Cameron spoke about the post-bureaucratic age and an information revolution but we're still wading through paper.

The box that I take home every night groans and creaks with documents.

It feels less like the post-bureaucratic age and more like the most-bureaucratic.

So it's my ambition that we transition to a digital, no-paper state within a generation.

And according to a report from Reform and Deloitte, if we fully rolled out artificial intelligence in Government – we could save £17bn.

Fiscal discipline and economic liberalisation are two parts of the same story: the desire to give people power over their own money and their own lives.

Many people voted for Brexit because they wanted to take control of their own lives. And the public will find it unforgivable and a betrayal of Brexit if just as we embark on a bright future outside the EU – we impose higher and

higher taxes on them taking away the control they have over their own money.

This is a complete contradiction of the Brexit vote.

If that's not enough to convince anyone, then a look at the alternatives should.

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Living in a stagnating country that was utterly boring, with the government controlling more of our lives.

Or there's the option pursued by some other Western nations – carry out some regulatory and tax reforms – and see an economic boost.

But also let fiscal responsibility slide and allow the deficit to balloon.

We've been there before. It leads to boom and bust.

Or there's the worst of both worlds advocated by Jeremy Corbyn – a combination of policies he has admitted will lead to a run on the banks.

More spending, more state control, and runaway debt. This would lead straight to penury.

As Paul Ryan said, it would lead to a world where everything is free – except us.

Economies and societies are stronger when individuals, families and businesses have the freedom to decide for themselves

By giving them all more power – we have the ability give our country the huge economic boost it needs.