



**A High Wire Balancing Act –  
Reshuffles, Reform, Modernization  
and Policy Making in the Coalition:  
UKIP & Cameron’s Attempt to  
Overcome the Limitations of  
Electoral Groupthink**

By

**Cllr Ged Mirfin – North West Coordinator,  
Conservative Voice**

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## **A High Wire Balancing Act – Reshuffles, Reform, Modernization and Policy Making in the Coalition: UKIP & Cameron’s Attempt to Overcome the Limitations of Electoral Groupthink**

### **Economic Cycles and the Feel Good Factor**

I have written previously that a time-lag has opened up between improved economic performance and the inculcation of a feel-good factor which is bringing about fundamental changes in the political behaviour of middle class voters in the UK such that the Conservative Party can no longer rely on them to the degree they were able to previously as the bedrock of their political support.

The issue put quite simply is that there is no longer a direct and automatic relationship between economic growth and personal prosperity. Indeed it can be argued that there never actually was. The felt impact of the improvement in economic performance has been mitigated by a whole series of deep changes in the structure of the economy. Radical and widening discontinuities are beginning to open up not only between the Public and Private Sectors but more importantly within the Private Sector between High and Low Wage Occupations. The divisions are not mutually exclusively between Skilled and UnSkilled Professions or even between those occupations where Employment Status is given a modicum of Protection by Professional and Tertiary Qualifications and those where No Protection exists. The critical disjuncture is those that are exposed to Market Forces and the potential of Outsourced Service Provision and those that aren't. The Legal Sector, Local Government, the National Health Service and increasingly large parts of the Military and the Police Services are the latest in a long-line of Services that are currently being exposed to the potential of institutional re-engineering by the likes of Capita and Serco. No-one is immune.

### **The Outsourcing Revolution**

What this ultimately means is that the conduits for the transmission of wealth following economic expansion have been increasingly diverted to the pockets of big institutional shareholders and their C-Level Executive Management Structures. Even Knowledge Workers who previously colonised the corridors of Government Departments, Agencies and QUANGOs during the biggest expansion the Public Sector has ever seen under New Labour are increasingly becoming a Sub-Contracted labour resource under the New Outsourcing Revolution. It is perhaps why there is such resentment among both the Public in general and Knowledge Workers in particular over the bonuses paid to Investment Bankers. This is perhaps the only area of the economy that is generally immune from outsourcing. You can't outsource professional institutional gamblers.

### Security of Tenure

The division that exists between Direct and Indirect Employees will be one of the most significant cleavages faced by parties at the next election. It will not be the number of jobs that are created in the economy but the security and the nature of tenure of those new jobs. Voter preferences will be determined not by whether they have a job and whether they have an income; it will be determined increasingly by the security of that income. The future orientation of the electorate is far harder to measure than their current or present orientation, particularly on circumstances when they face continued uncertainty.

### The Death of the Middle Classes

What we are effectively talking about here are Middle Class fears and anxieties, unease and insecurity writ large. The Middle Classes are feeling increasingly vulnerable. The question is: how entrenched has that feeling become? In his book "Broke: How to Survive the Middle-Class Crisis" David Boyle articulates these fears and uncertainties. For the first time ever, today's middle classes will struggle to enjoy the same privileges of security and comfort that their grandparents did. At the heart of "Broke" is an account of how the economic upheavals of recent decades have impacted upon the population, from the point of view of those in the middle income bracket. The account is one of how Britain's middle classes are under pressure and have lost many previous certainties (such as job security, professional development, ability to afford a new house and a decent pension).

### Insecurity of Tenure

There are two principal sources of this fear and uncertainty neither of which the Government currently has an answer to. The first is related to insecurity of tenure. Just because you have a job does not mean that you will keep it. Contracts of Employment are increasingly time limited (and with Zero-Hours Contracts increasingly time delimited). Voters are making judgements about their future prosperity and with it the security of their family on the promise of the political party most likely to fulfil that in the short to medium term. Turnout has fallen significantly at both local and parliamentary by-elections demonstrating in no uncertain terms that voters have yet to make up their minds which political party will best deliver their interests. The Wythenshawe ByElection typified this phenomenon. Votes for all 3 main parties fell by 19,590 Votes – with over half their Vote staying at home – even the victorious Labour Party lost over 25% of its Vote. Voters are reserving judgement about whether to support either of the main parties. It will not simply be the continuation of the rate of growth which is the decisive factor in the locus of their decision but the impact of that rate of growth and the impact in turn that it has on the money in their bank accounts and family finances and how quickly the effect of this feeds through. This will be far harder to predict.

Indeed the political picture has been complicated by continuing reductions in public expenditure and, potentially, retardation in the current rapid rate of job creation. A critical question is whether the Private Sector will have the capacity to absorb what are likely to be even larger reductions in the size of the Public Sector than have taken place already? What this entails is uncertainty amongst a different and this time potentially much larger group of Public Sector Employees than previously. The problem is that such Public Sector Employees are concentrated in geographies of managed decline in areas where older industries were more prevalent across the country, especially in the North of England.

### Electoral Groupthink

There is however, instead a more fundamental underlying issue of concern at work here and that is the electoral “group-think” that the party has become caught up in and in particular the failure to acknowledge that economic growth might not automatically translate into a feel good factor which delivers tangible electoral benefits in the short to medium term.

Groupthink occurs when decision-making groups are highly cohesive and when they are under considerable pressure to make quality decisions. When pressures for unanimity seem overwhelming, members are less motivated to realistically appraise the alternative courses of action available to them. These group pressures lead to carelessness and irrational thinking since groups experiencing groupthink fail to consider all alternatives and seek to maintain unanimity. The desire for harmony or conformity in such a group can result in sub-optimal political decisional outcomes. A group is especially vulnerable to groupthink when its members are similar in background, when the group is insulated from outside opinions. Group members have a tendency to isolate themselves from outside influences whilst often ignoring evidence of counterfactual data on emerging or fully crystallised socio-economic trends. Professional Politicians whose career ostensibly thrives on originality, hesitate to deviate too much from the conventional Party Line and Wisdom, lest they be marginalized or even ostracized.

### Irving Janis

In his classic 1972 book, “Groupthink,” Irving L. Janis, the Yale psychologist, explained how panels of experts could make colossal mistakes. People on these panels, he said, often feel that if they deviate too far from the prevailing consensus of opinion, they will be excluded from office. They self-censor personal doubts about the prevailing political consensus if they cannot express these doubts in a formal way that conforms to apparent assumptions held by the group. The pressures that people — might I say mavericks? — feel when questioning the group consensus is hugely pressurised. Indeed it is career defining and in some cases career ending.

Outgroup Members typically feel the need to use restraint. Individual creativity, uniqueness, and independent thinking are lost in the pursuit of political cohesiveness, as are the advantages of reasonable balance in choice and thought that might normally be obtained by making decisions as a group. Criticism of the prevailing policy line is done gently, with individuals feeling particularly exposed and vulnerable when it comes to expressing a dissonant policy line. Deviating too far from the existing consensus leaves one feeling potentially ostracized from the in-group, with the risk that one's membership of the group may be rapidly terminated. The problem is exacerbated by the increasing loyalty (or should that be over-loyalty) members feel to the ruling in-group. Such over-loyalty requires individuals to avoid raising controversial issues or alternative solutions with a resultant loss of creative solutions and independent radical thought. Direct pressure to conform is placed on any member who questions the group, which is often couched in terms of "disloyalty".

### The Illusion of Invulnerability

This is highly dysfunctional. Such dysfunctionality produces what is known as an "illusion of invulnerability", in other words an inflated certainty that the right decision has been made. The "ingroup" significantly overrates its own ability in decision-making and accords insufficient weight to different thinking thereby underestimating the potentiality of alternative solutions. This can create excessive optimism and encourage risk taking. The ultimate endpoint of this process can be an ignoring or marginalising of potential alternative realities or scenarios to the point at which it is too late in the decision or electoral cycle to change direction.

### Maria Miller

Irving Janis identified a series of contributory factors which worked to reinforce Groupthink, in particular the amiability and esprit de corps among members of a policy-making in-group with leaders being more concerned to protect the status of members of the in-group rather than being responsive to concerns of the wider political out-group. David Cameron's reluctance to insist on the rapid removal of Maria Miller, as Culture Secretary from the Cabinet will immediately be recognised as an impact of such behaviour

Janis designated this phenomenon decision-making under threat with key decision makers portrayed as making decisions under extreme stress thereby reinforcing the need to maintain group cohesiveness. The consequence is at worst, what he dubs policy "disasters", at best the taking of sub-optimal decisions, occurs largely through a failure to consider the expression and evaluation of contradictory views.

### Military Intervention in Syria

At worst this can result in the unquestioned belief in the morality of the decision-making of the group, causing members to ignore the consequences of their actions. Thankfully there was not a majority in Parliament for military intervention in Syria but elements within the Conservative Party came dangerously close to expressing an uncritical support

for what would have been wide scale decapitating air and missile strikes to degrade the Command, Control, Communication and Intelligence capability of the Syrian armed forces which was grounded on a liberal internationalist morality which bordered on the worst hubristic excesses of the Blair Government and was surprisingly expressed by figures such as Michael Gove. If there has been a benefit to being in a Coalition Government it is that we did not go to war over Syria.

### Economic Mindguards

Janis discusses how in some tightly controlled decision-making environments what are known as “Mindguards” are employed. These are members of a group who utilize a variety of strategies to control dissent and to direct the decision-making process toward a specific, limited range of possibilities. Thank goodness for the Coalition Agreement. All Government Policy is subservient to the Key Objective of Reducing the Deficit. The Chief Mindguards are the Senior Treasury Ministers the Chancellor of the Exchequer, George Osborne and the Chief Secretary to the Treasury, Danny Alexander who has worked to impose the tightest financial settlement on Government Spending Departments certainly since the end of the First World War. According to Janis, the techniques most commonly utilized by mindguards include: creating a sense that group cohesion will suffer if unanimity is lacking.

### Coalition Unanimity – the Key Measure is Effective Government

There has indeed been a remarkable degree of unanimity amongst the Coalition Partners. Despite very public spats on peripheral political issues, on the core issue of the economy the Conservatives and the Liberal Democrats are united to the extent that potentially dissentient voices on the left of both the Conservatives – Ken Clarke and the Liberal Democrats – Vince Cable are wholly united behind an all pervasive narrative of cutting the deficit. One of the most intriguing aspects of this coalition is that success of Cabinet Ministers has been benchmarked less in terms of the media savvy conduct of public relations but instead successful oversight of public policy implementation in key reform areas and more importantly within the very tight spending limits prescribed by the deficit reduction strategy. Conservative Home’s regular popularity beauty parade survey of Cabinet Ministers is in a sense a Red Herring. If that were to be repeated in terms of, if not Managerial Competency, then better policy-making, better legislation and more effective government doubtless that Cabinet Ministers such as Philip Hammond and Eric Pickles would have come out top more often. It is no surprise that the first two received promotion in the recent Cabinet reshuffle. Oversight of key reforms – whether in the DWP, in the Department of Justice, in the key “growth areas” of housing and planning – sending the message that doing a good job on policy implementation now, it is believed, will bring political rewards in a future General Election.

### The Electoral Cycle is Out-of-Phase

The central problematique raised at the beginning of this essay, however, still remains. That is that there is no longer a direct and automatic relationship between economic growth and personal prosperity which will translate into Conservative electoral success.

The electoral and political cycles are now out-of-phase with each other to the extent that, the only way of bringing them into closer alignment is to abandon the dominant deficit cutting narrative of the coalition in favour of a supply side approach which favours its own interest group clientele. That the Conservatives have not done this owes everything to coalition dynamics and the need to maintain a working majority in Parliament. As the numerically dominant partner in the coalition the Conservatives paradoxically find themselves as the weaker partner in terms of pursuing avowedly interest group beneficial tactics in favour of the target clientele of the Liberal Democrats - those at the very bottom of the wealth pyramid by raising the tax threshold taking millions of voters out of tax altogether. The result: the paradoxical situation that although the Liberal Democrats are able to advance much stronger political claims in favour of lumpen proletariat working class voters these voters have recently abandoning them in droves and realigning behind the Labour Party. The direct consequence is that the Liberal Democrats have been recording some of the lowest levels of support in Political Opinion Polls with Labour maintaining a lead of two to three percentage points which the Conservatives are finding difficult to close. Perhaps most ironical of all is that UKIP are managing to hang on to a significant group of Conservative Voters.

#### Prime Ministerial Style determined by Coalition Politics: The Norton View

Prime Minister David Cameron's Political Style has been formed in the heat of Coalition Politics. The Government was elected on a reform ticket: to reform the economy by shrinking state public spending and with it the size of the bloated public sector that is the prima-facie cause of the fiscal deficit. In a widely acknowledged paper entitled, "Prime Ministerial power", first published in the little known Journal Social Studies Review as long ago as 1987, Professor Philip, now the Lord Norton of Louth used James David Barber's famous analysis of The Presidential Character (1972) as a starting point to sketch out a model of Prime-Ministerial power based on the interrelationship of purpose, skill and circumstance, and to develop a typology of Prime ministers. Norton identifies four main types of Prime Ministers: 'innovators', 'reformers', 'egoists' and 'balancers'. The categories, as Norton makes explicitly clear, are not mutually exclusive but are designed with the purpose of identifying preponderant tendencies. Any individual may display some of the elements of each category, but with one preponderant. It would be unusual for any Prime Minister, and Cameron is certainly not excluded by any means, from examples of egocentric or hubristic behaviour. For our purposes, however, it is the typology of Reformers and Balancers that are the most useful for understanding the character and behaviour of the current Prime Minister, David Cameron.

#### Cameron as a Reformer

Reformers, Norton argues, seek power in order to achieve a particular programme of public policy. Such a programme of policy is drawn up by a political party (or in this case with the Coalition Agreement – Political Parties plural). Examples of Reformers cited by Norton include the following Prime Ministers: Sir Henry Campbell-Bannerman (1905-08), Henry Herbert Asquith (1908-16), Neville Chamberlain (1938-40) and Clement Attlee (1945-51). Campbell-Bannerman headed a Liberal Government with a Programme of Social Insurance Reform in an era of high unemployment following the Boer War. Asquith

headed a Liberal and subsequently a Coalition Government with a Programme of further Social but more importantly Political and Constitutional Reform. Chamberlain headed a Coalition Government dominated by the Conservatives with a Programme of Reform of the post World WWI Versailles Settlement and the establishment of a more effective system of Collective Security under the League of Nations. Clement Attlee headed a Labour Government with a Programme of Reform of the Welfare State and Nationalization of Key Industrial Sectors.

### The importance of the Coalition Agreement

Cameron, however, is the first Prime Minister to head a National Coalition Government with a Joint Programme in the form of a Coalition Agreement whose explicit aim is to address the issue of the Economic Crisis facing Britain in the wake of the Great Economic Recession and the Banking Crisis in which (and I quote), “The deficit reduction programme takes precedence... and the ...implementation of any measures that have a cost to the public finances will depend on decisions to be made in the Comprehensive Spending Review.” This is the first instance of a Government in which the largest senior party in a Coalition is totally dependent on the explicit support of a smaller junior party to enact a legislative reform programme. Even during the Governments of Campbell-Bannerman and that of Asquith during the Constitutional and Budget crises of 1911 could rely on the deferential support of a large body of Irish Nationalist and a smaller but growingly influential body of Labour MPs of various degrees of Socialist hue and independence.

### Cameron as a Political Balancer

David Cameron, however, has also had to act as a Balancer both within and between his Coalition Partners and also within his own party. According to Norton, in a second article which built on the Prime Ministerial Typology Thesis entitled, “Prime ministerial power: A framework for analysis” which first appeared in the Academic Journal Talking Politics in 1988, there are two types of Balancers. It is the first type, what he dubbed “Power-seeking Balancers” that we are ultimately concerned with: those that seek power in order to achieve balance within their party. Balancers by their nature tend to be Conservatives, such as Harold Macmillan. John Major would be another example in the modern era. By the same token Cameron could equally be seen as Norton’s second type of Balancer, what he categorizes as a Conscript Balancer – that is a Balancer who has had power thrust upon them as, based on the Electoral mathematics, as the Head of the largest Political Party in Parliament following the General Election of 2010, Cameron was by default the only choice available as Prime Minister. It was certainly this logic which determined Nick Clegg and the Liberal Democrats initial approach to the Conservatives as prospective coalition partners.

David Cameron’s natural instinct has been to be a balancer. This is because he has needed to preserve the Coalition intact if he is had to have any chance of returning to power as the head of a Conservative only or more Conservative dominated Government at the next General Election.

## Employing Ministers for the job they can do

For his first four years in No 10 Downing Street, David Cameron has employed people for the job they can do. Ministers have been appointed to do a specific job (and in some cases to prevent a specific job being done). He has trusted his ministers to make their own decisions. By and large ministers have been given time to learn the ropes developing their own imprimatur – imprinting their own personality on departments. This has enabled some Cabinet Ministers to become masters of their brief. It has been argued that such an approach has helped David Cameron become one of the most reforming Prime Ministers of the modern era.

## Cameron's frustration with "Big Bang" Technocratic Approaches

Cameron's frustration has been the failure of technocratic approaches to policy making. Such technocratic "Big Bang" approaches in the NHS and Social Security arenas have arguably ran into difficulty because they have been too big and too ambitious. At the heart of both approaches was to avoid the failure to deliver on big policy issues that had been the mark of the opening years of the first Blair Government. Cameron's watchword has been efficiency – more efficient organization of resources delivering both lean decision-structures and a more economical or should that be less wasteful and more cost-effective use of scarce economic means. It is abundantly clear however that the huge waste of public money and inefficient use of scarce resources that Cameron has encountered in the Public Sector, as a Politician who had not previously held high office, came as a profound shock.

## The Blob that Ate Michael Gove

The trenchant opposition to reforms in these key areas from vested interests and the degree to which they have been able to mobilize public support over the heads of the Government has proved doubly perplexing. Cameron, like previous Conservative Prime Ministers has come to appreciate that "The Blob that Ate Michael Gove" has absorbed a large number of Conservative Voters whose support for deep structural changes in the how the NHS operates or Child Benefit is disbursed need to be carried in order to ensure their success in the long-term. Seismic changes against the background of deep cuts in spending are as unpalatable to Conservative Voters as they are to Labour – no matter how much they say they support them in Public.

One might also make a similar case for the Department of the Environment. Owen Paterson's departure from Government owes everything to the failed overly technocratic approach of the Department of the Environment during the recent floods which wreaked havoc in large parts of the South of England of which the serious flooding in the Somerset Levels was the most visible sign. The ignoring of local advice and knowledge in favour of so called specialist advice based on technocratic modeling was a warning to Government of the dangers of ignoring familiar home-spun wisdom at the expense supposedly scientific knowledge which proved to be wholly erroneous. For Cameron, it took him out of his comfort zone to discover that he couldn't rely on the Government machine. Indeed it was hugely revealing that Ministers were so deeply imbued with the philosophy of

Green Conservatism when much of the philosophy on which it was based was proved to be “crap”. Paterson therefore went not because he was a former close ally of Ian Duncan-Smith but that Cameron wanted to replace him with someone who was far more sceptical of the direction of travel of a Department which had failed a large number of ordinary “Tory” Voters who were confused that this had happened despite the huge volume of data and specialist knowledge available to it.

### Cautious Incrementalism – the lesson of Thatcher

This is why Margaret Thatcher was always cautious both to implement controversial policy changes on an incremental basis but also to ensure that her Ministers prepared the ground adequately before this was done. It was incaution over the introduction of the Community Charge which ultimately led to her downfall. Big Bang approaches were the mark of an inexperienced Prime Minister in a hurry to deliver changes in the crisis ridden days of 2010. As a much more experienced Prime Minister than he was Cameron is now much more cautious and by implication becoming increasingly sensitive to Public Opinion as the General Election approaches.

### Balancing within the Coalition

This is what we understand by Balancing within the Coalition. During the first four years in office Ministers were selected to do a specific job of Government. That was to deliver on the vital elements of the Coalition Agreement. Ministers were therefore selected for their ability and specialist knowledge in key issue-areas. The fact that there has been no large scale reshuffle up-until now has been a testament to the success of those Cabinet Ministers in fulfilling their brief or at least sufficiently avoiding pitfalls. In the last year of the Coalition Ministers have been selected to do a different job – something completely different – to win an election! This is why accusations that Cameron has made victory at the next election his priority even at the expense of his allies seem particularly disingenuous. Being in Office is the ultimate purpose of a Prime Minister. That Cameron has adopted a more forceful leadership role at a time when he needed to do so should not come as all that surprising. Cameron does not conform to the Egoist Typology of a Prime Minister as described by Norton. According to Norton Egoists seek political power and that they do so because of their concern with enjoying the here and now of political power in office rather than with future goals. He is certainly not in the same mould as David Lloyd George, Ramsay MacDonald, Anthony Eden or Harold Wilson. Harold Wilson was a good example of an egoist, variously contending with what he saw as attempts by other ministers to oust him. It is arguable that Tony Blair also falls under that category.

### Cameron as an Egotist?

Were it the case that Cameron was a purely egotistical in the same vein his enjoyment of power for its own sake would be destined to be short-lived. He is less concerned with the political here and now and constantly has one eye on the future. His Reformer Brand is future orientated. In order to continue to enjoy power in the future therefore Cameron needs to win power afresh by winning at least the majority of seats in a new Parliament if not a majority of seats overall. Cameron is to be applauded rather than derided for

showing that he is a better, more decisive leader than his critics admit. He has clearly stamped his authority anew on his part of the Coalition Government. That this has been done with a certain element of partisanship is only natural. Cameron has exercised his patronage to promote new entrants to the Cabinet he wants to subscribe to a much more on-message approach. Ministers will be expected to be much remorselessly focused in what I suspect will be a much less confrontational and deliberately provocative way (read boring) concentrating relentlessly on compelling election winning issues related to tax and spend that matter in people's pockets. That means sticking to the key message that the economy is recovering, and that voting Labour is a risk the country cannot afford. A simple message that Labour under Ed Miliband is addicted to high tax and high spending will need to be played ad nauseum until it becomes the soundtrack of the election.

### A high motivation to maintain and perpetuate power

That does not mean to say that Cameron is not a leader with a high motivation to maintain power and that he has not created an atmosphere susceptible to groupthink. Political leaders with a high motivation to maintain power, according to Fodor and Smith frequently exhibit a "closed" leadership style—an unwillingness to respect dissenting opinion ( Fodor, Eugene M.; Smith, Terry, Jan 1982, The power motive as an influence on group decision making, Journal of Personality and Social Psychology, Vol 42 (1), 178-185). Earlier on in the body of this paper I focused on what I regard as a political blind-spot in Cameron's political leadership skills and how he has attempted to address this deficiency by rejecting big bang technocratic policy making solutions to the big issues which are a direct consequence of the deficit – the gap between income and expenditure that continues to confront Government.

### The Two Directional Shift in Voter Loyalty

Commentators by and large therefore have got it wrong about the ultimate purpose of the reshuffle. Cameron has found himself being pulled in a two directional shift in Voter Loyalties both of which work to the Electoral disadvantage of the Conservatives. The first is the rightward pull of UKIP which over the last month has been attracting on average c.14% support in the Opinion Polls, of which c.45% are said to be Conservative Voters. Cameron needs to win these back in order to get close to the 40% Vote needed to secure a Victory in the forthcoming General Election.

That would not be enough in itself. The hemorrhaging of support from the Liberal Democrats to Labour could equally deliver Victory in a General Election to Labour. This two directional pull explains the enduring lead in the Opinion Polls for Labour.

## Reshuffle Voter Loyalty Rebalancing Conundrum



### The removal of Michael Gove

This is what we understand by Balancing between the Coalition Partners. There has been a tacit acceptance that members of the Cabinet should not be radical ideologues. Gove's removal from the post of Education Secretary was an acknowledgement that he was straying into dangerously ideological territory, despite the favour that his conduct of policy and the running of his department found with the activist membership of the Conservative Party and beyond (including this author). Research carried out by the Conservatives' election guru Lynton Crosby showed that Gove was the most hated figure in the Cabinet, the hostility spreading far beyond the teaching profession. The toxicity of Gove, whose push to raise educational standards, was increasingly undermined by his unpopularity. There is certainly mileage in the claim therefore that the move was proof positive that Cameron was simply putting the best interests of the party, as a true balancer should, ahead of friendship and personal loyalty.

### Modernization – the hidden narrative

This has been a hidden (or should that be silent) narrative amongst political commentators – yet one that has been broadly acknowledged by the activist community who appear much more nuanced to the political debate. Both Ultra-modernizers and Ultra-traditionalists within both parties have been deliberately excluded from the ranks of Government. That is why figures like John Redwood have been excluded from consideration as part of the Treasury Team for the Conservatives and Menzies-Campbell from the Foreign Office Team for the Liberal Democrats. This is not a sign of weakness. It is a sign of great political strength. To be Prime Minister of Coalition Government in which there are clear lines of demarcation as well as discussion and debate has required much more potent managerial skills. The fact that Cameron has been so constrained by circumstances and yet has achieved such high levels of performance from what was by no

means a first choice ministerial team with such little experience of Public Office to draw on is quite remarkable.

### The Objectives of the Re-Shuffle

The reshuffle therefore had two contradictory objectives. The first was to demonstrate to UKIP Switchers a much more clearly Euro-Skeptic orientation in the key personnel in those Government Departments concerned with the Conduct of Foreign Affairs: the Foreign Office, the Ministry of Defence and also, lest we underestimate the significance of the work done by the Governments Senior Law Officers in the sphere of International, Law as regards Treaty Obligations, the Attorney General – particularly as the Government gears up to renegotiate its EU Treaty Commitments. Philip Hammond, Michael Fallon and Jeremy Wright and now Lord Hill as Britain's proposed EU Commissioner represent the most powerful and authoritative Eurosceptic Voice in the modern Conservative era and perhaps has ever had at the Foreign Office, dare one say, certainly since the days of Lord Salisbury. The former Attorney General Dominic Grieve lost his post because of his opposition to any repatriation of powers from the European Commission, or reform of the human rights regime. Theresa May should be counted as part of this group of pale skinned ministers, less interesting for being stale but rather pale and interesting in the nature of the challenge they represent to the Establishment View. Senior Establishment Journalists seem either unaware or fail to acknowledge the rightward shift in direction of the Foreign Policy Team within the Cabinet or the genuineness of Cameron's intent to negotiate the Treaties which constitute the European Union. I wonder how much this has to do with their failure to be sufficiently aware (indeed actually understand) the nature of Cameron's modernizing Conservative Agenda. This may have a lot to do with the fact that many of the journalists that are currently writing for the right wing broadsheets are one generation removed from the modernizing policy agenda of reformism in its own right? – in the same way that many of the members who left the Cabinet during the recent reshuffle were replaced by a newer generation of politicians much more in tune with and supportive of key aspects of this agenda.

### Cameron is Not a Eurosceptic!

Cameron isn't and never has been a Eurosceptic. He certainly isn't a Europhile in the classic mode either however. Cameron has always struggled to understand why it isn't possible for one's views on Europe to be understood as part of a broader reformist agenda. Why cannot one's belief in reform of the EU be accepted in conjunction with reform of the rebalancing of the British Economy? One cannot happen without the other. Indeed there are powerful behavioural influences which act as powerful determinants on Cameron's belief system – the impact of Black Wednesday in 1992 when Cameron was Special Advisor to the then Chancellor Norman Lamont during the Government of John Major. Cameron saw at first hand the dysfunctional nature of the political economic management of the EU.

I believe therefore if one is to understand the reshuffle one needs to better appreciate that the make-up of the modern Conservative Party is better understood as the overlapping of two philosophical spectrums: a traditional/modernizing spectrum and a

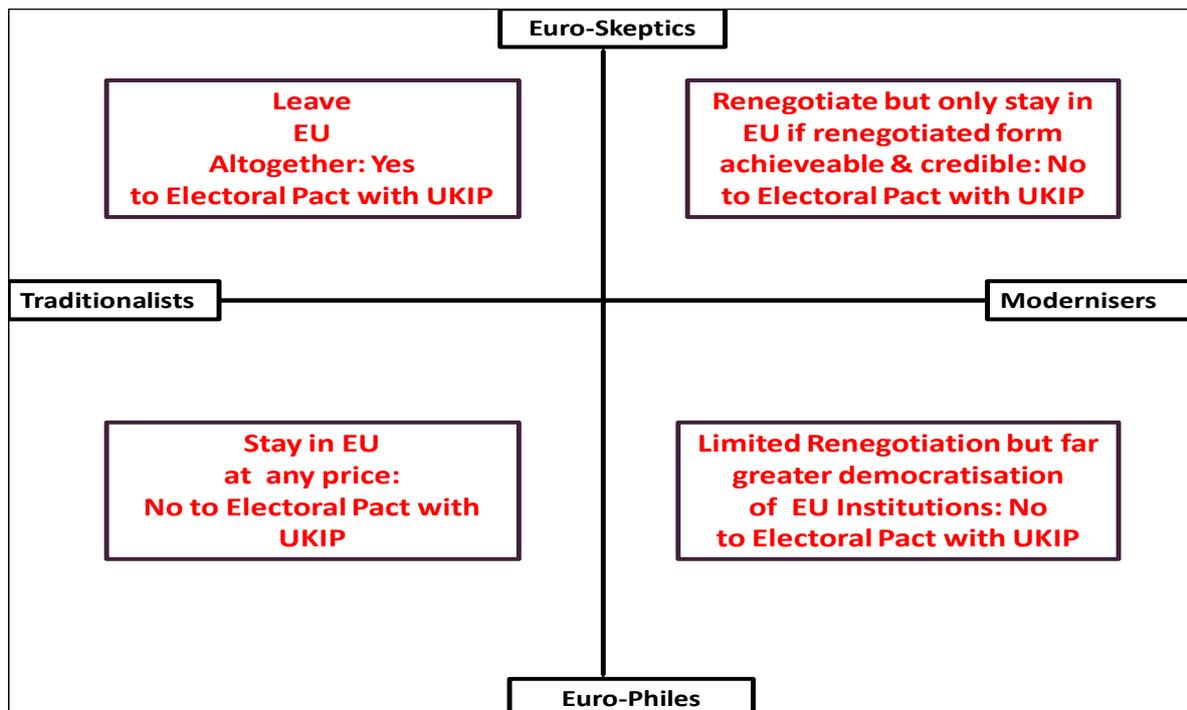
eurosceptic/europhile spectrum which criss-cross each other. This is no ruthless pragmatism. It is only so doing that one can understand both the commitment to varying intensities of negotiation of EU Treaty Obligations but more important why, with the exception of a hard core of right-wing MPs it is very highly unlikely indeed that the Conservative Party will agree to an Electoral Pact with UKIP under any circumstances. The Conservative Party is very much committed four-square to its own EU reformist agenda. Cameron is attempting, as only he knows how, to give the Conservatives a more voter-friendly image whilst at the same time pushing them in a much more eurosceptic direction. The greater euroscepticism of the new Cabinet will help to stem the drift of disillusioned Tories towards UKIP.

### Support for the modernizing policy agenda

The Second and much more cunning aspect of the re-shuffle is to utilize the appointment of MPs from the 2010 intake that are in support of a modernizing reformist policy agenda to achieve deeper blue water between the Conservatives and their Liberal Democrat coalition partners. The impact of this will create space for the Liberal Democrats to recapture political ground from Labour and restore some of their Opinion Poll support. This strategy very much has the imprimatur of Lynton Crosby. Cameron here appears as less the coalition butcher laying down his friends for his life and rather more of a skillful surgeon stripping back layers of dead or decaying flesh and replacing it with a new dermis thereby forcing the pace of accelerated growth and policy regeneration.

### Has the coalition come to an end?

A second failure on the part of journalists, and this was the most disappointing aspect of all of the recent reportage, was a failure to appreciate that the coalition had come, if not to an end, then certainly of Conservative Politics entering the next phase in a reformist evolution. It is not the case that competent ministers have been sacked and incompetent ones promoted. Substance has indeed been placed ahead of presentation. Indeed I take odds with the notion that there is no underlying Conservative philosophical understanding or approach behind this reshuffle. Far from the bonds between Cameron and the modernizers who propelled him to power being broken they have actually been strengthened by passing to a new more vociferous and committed generation of modernizers from the 2010 intake who have risen through the parliamentary ranks on the back of his leadership. The traditional right in the parliamentary party may well feel disenfranchised as a result of this but they are not in the majority. The modernizers are in the ascendant. Cameron has a far higher reservoir of support from the new intake keen to prove themselves as an older group of Ministers come to the end of their career and retire from Parliament. Far from decreasing it has very much increased Cameron's chance of remaining leader after the election. In that sense Cameron is much more secure that a headcount of dissentient voices on the traditional eurosceptic and euro-phile factions of the party reveals.



Cameron has been vaguely aware of if not the specificities of the Theory of Groupthink then certainly the impact of Groupthink in action as a direct consequence of the criticism that the social homogeneity of the make-up of the Cabinet and the fact that a large part of its membership is composed a narrow Public School Educated Oxbridge Elite. According to Janis defective decision-making is reinforced as a consequence of the homogeneity of members' social backgrounds and the ideology they share. Furthermore according to Janis one of the ways in which Groupthink can be overcome is by recourse to contributions from the presence of a wider and more socially representative decision-making group

The fundamental difference between Cameron and Thatcher as a Prime Minister is that he is far less concerned with the here and now of British politics, operating in order to maintain their occupancy of No. 10 Downing Street. Policy Making is much more future oriented. Institutions if they are not fit for purpose should be reformed but in a way in which structure ultimately triumphs to the benefit of function. He has quickly appreciated that radical innovation in the short-term has had unforeseen consequences. The debacle of the Poll Tax was another formative influence on the young Cameron and he is aware that forcing the pace of change can have damaging consequences politically in terms of his aspiration to secure a second term of office. The number of policy u-turns and reversals has been far higher than that of previous Conservative Governments exceeding even that of Edward Heath. This is not just a consequence of being in Coalition. Cameron has chosen his fights carefully and is aware when his modernizing political agenda does not have the numerical weight of support to outvote the support of a more traditional Conservative viewpoint within Parliament, he is prepared to back down and beat a tactical retreat. He realized very quickly that he was unable to pursue particular policy goals in the face of opposition from his own party. In that sense the promotion of members of the new 2010 intake has been both deliberate and ultimately the product of long-term plans inaugurated under Cameron's leadership to change the make-up of the membership of the party entering parliament. If commentators feel that the 2010 intake has delivered

**hugely then they should watch monitor the enormous potential of the Class of 2015 that will enter the House of Commons following the General Election.**

**Cameron has become increasingly aware that he may be suffering from Policy Groupthink and that freshening up the Cabinet Team in order to provide more deliverable policy propositions was not simply a case of deliverability but also, as outlined by Irving Janis: a recognition of the need for a wider variety of policy perspectives; more information about possible alternatives and in the case of Michael Gove - a dampening of biases. Also, according to Janis, GroupThink can be overcome by recourse to Political Leaders being encouraged to adopt more critical evaluation of alternative policy options with Senior Political Figures being assigned the role of "critical evaluator". This is a political theorists way of saying that what Prime Ministers like Cameron should do is to transfer responsibility for the management of policy making from one minister to another. There are a number of reasons why this has been done, according to Janis, none of which are necessarily mutually exclusive including: a more complete survey of policy alternatives; a more complete survey of policy objectives; examination of the risk of adopting more radical policy objectives; the re-evaluation of previously rejected policy objectives; improved policy research; improved access to wider sources of information and finally the detailed consideration of contingency plans should initial policy proposals prove to be judged ineffective. In other words to consider and work up fully fleshed out policy alternatives beyond the agreed Coalition Agreement that will represent significant policy demarcation between the Coalition Partners.**

#### **The policy making process: outside the Cabinet**

**Cameron has been aware for some time that he is able to go much further in widening the purview of the policy making process. Cameron's appointment of John Hayes MP to the post of Cabinet Office Minister to range across a range of policy issue-areas and to liaise with Conservative Backbenchers in Westminster has been one of the ways of doing this. Hayes also sits or has sat on the Supervisory Board of not one, but two, prominent Conservative leaning Policy Think Tanks: Policy Exchange and Res Publica thereby assuring that radical policy ideas are transmitted right into the very heart of Government. Janis identifies a number of strategies designed to ameliorate the impact of Groupthink. The invitation of outside experts to participate in or give a fresh perspective on policy issues is one way of doing this. Cameron has not merely strengthened the ties with the Think Tank Community but he has established his own Think Tank attached to the Cabinet in the form of the Nudge Unit or to give it its full title: The Behavioural Insights Team whose job is to apply insights from academic research in behavioural economics and psychology to public policy and services. It is widely acknowledged that Policy Exchange is the Prime Minister's favourite Think Tank. Indeed three prominent Government Ministers are former Directors of the aforementioned Think Tank. Two are currently in Cabinet: Michael Gove as Chief Whip and Matthew Hancock attending Cabinet as Minister of State at the Department for Business, Innovation and Skills a role he combines with that of Minister of State at the Department of Energy and Climate Change. Outside Cabinet and also at the Department for Business, Innovation and Skills is Nick Boles who has become Minister for Skills and Apprenticeships. It is to be noted that all occupy positions supporting Business and thus Economic Growth thereby acting as a counterweight to the inertia represented by Vince**

**Cable. Cameron has significantly extended the number of Ministers attending Cabinet without actually increasing the size of the Cabinet itself improving the links between the Cabinet, Government Departments and Backbench MPs. Another notable aspect of the 2010 intake is the large number of MPs who have been part of Policy Think Tanks or Special Advisers and thus have brought a degree of experience of Policy Development and Implementation into Parliament and the lower rungs of Government. What this has done is to substitute scholarship and policy lobbying for the inexperience of Government that was so characteristic of and one of the main failings of the early Blair years as Ministers struggled to get to grips with both Policy Agendas and the Government machine.**

**Although this does not necessarily mean that all effective alternatives are examined in detail what this does mean is that Policy Ideas that emerge within Cabinet are able to be discussed with trusted people outside Cabinet. Where there has been a failing, and the moving of Michael Gove to a position where he can proffer advice on a much wider range of issues than previously is indicative of this, is that Cameron has been unable to play the role of devil's advocate to the degree that he would have liked. Again he has been constrained by the dynamics of Coalition. He has literally had to trust to the judgement of his Ministerial Team perhaps to the point where he has been unable to be sufficiently critical. The overly supportive attitude that he has shown colleagues is symptomatic of this. A Policy is generally only changed when a critical impasse has been reached, when a policy has failed or is about to fail. In a Cabinet where he is less constrained by Coalition dynamics he will be able to allow Ministers to share their viewpoints more openly amongst each other and discuss alternative solutions where a consensus is not present. Within the current Cabinet he has been unable to do this because of the fine detail of the Coalition Agreement and some of the red lines that exist over policy. For some journalists this has created the impression that Cameron is cold hearted or not being overly socially effusive to a number of members of the Cabinet including on his own side. Let me remind those journalists that Cameron is Prime Minister of a Coalition Cabinet and Government. To do that requires him to maintain a certain distance and aloofness. It is a marriage of convenience not a cosy cohabitation. Showing too much favouritism to his own side would go way beyond the acceptable limits of political bias necessary to sustain a Coalition Government. Cameron is all too aware that he is Prime Minister of a Coalition Government as well as being the Leader of the Largest Party in the Coalition. The more troublesome political dynamics of the situation have to do with Cameron's relationship with his own side, particularly his own MPs in Parliament. Prime Ministers of all Coalitions in the modern political era have, with the perhaps the exception of Stanley Baldwin, found this a difficult line to tread. Unlike Baldwin, however, Cameron does not have the luxury of the overwhelming majority of MPs in Parliament. Indeed the circumstances that Cameron faces as Leader of a Coalition are both unique in terms of the balance of political forces and certainly unique as the Leader of the Conservative Party. After over four years it is surprising that leading journalists have failed to understand the scenario that Cameron faces or lack sufficient historical perspective to appreciate that Cameron is the only Conservative Leader in the Modern Political Era to be heading a Minority Conservative Administration handcuffed by a constitutionally formalised confidence and supply arrangement. Indeed it is testament to their deep appreciation of the situation confronting the Conservative Party in terms of its position within the Coalition that so many Big Political Beasts: Kenneth Clarke; George Young; David Willetts; William Hague**

have decided to either step down or step aside to allow a younger generation of modernisers to enter the Cabinet. The success of the reshuffle is benchmarked by how little real genuine bitterness there has been from those that have were either sacked or moved sideways.

Cameron is aware moreover that the cohesiveness the Conservative group of Ministers in Cabinet have had to maintain has probably impaired their ability to generate the highest quality or optimal policy decisions. The process of decision making within a Coalition may have decreased Conservative Cabinet members' ability to think critically. The appointment of a raft of New Conservative Cabinet appointees will, it is hoped, inaugurate a new more critical (if not sceptical phase) in policy implementation and management just in time for the General Election in areas of high controversy like Education, Social Security, Health, Defence and on the Environment.

### Managing relationships around the Cabinet Table

What Cameron will now have to decide how to manage policy making and relationships around the Cabinet Table in the run-up to the General Election and indeed beyond the General Election. The key determinant will be whether he is leading a Minority Government or one with an overall Majority. A wafer thin majority may well force the Conservatives into another coalition, although this time, with politically like-minded partners like the Democratic Unionist Party. It is only with a working or large majority that a Party Leader can be a truly critical evaluator of key aspects of party policy or policy areas that they show a particular interest in. Even then as Mrs Thatcher's experience clearly demonstrated Prime Ministers should be highly selective when and in which areas they choose to do this. On some key issues, not least over continued membership of the European Union, Cameron has been careful to avoid stating what his true preferences and ultimate expectations are. Janis would commend Cameron highly for his cautious avoidance of the band waggoning effects of Groupthink. As I have stated at various points in this paper the modernisation journey is far from complete. At the beginning of the next Parliament the modernisation process will advance a further step forward as a new younger generation of Conservative MPs enter Parliament. In that sense the Conservative Party is still a Coalition of various shades of traditional and modernising opinion although the fault lines are certainly not as severe as they were during the end days of John Major's Government.

### MPs as Policy Wonks

One thing is apparent and that, given the huge volume of books and papers on various aspects of public policy authored by a large number of MPs various groups of MPs are routinely discussing and deliberating key policy issues preventing Cabinet Members from insulated from wider debates going on in both the Parliamentary Party and in the Party in the country more widely. In that sense if there is a Groupthink at work it is a particular form of Cabinet Groupthink. It is to be recognised that the Cabinet has been accorded an

enhanced role within the Coalition. It is the fulcrum on which Coalition Politics turn. As a consequence a far higher degree of unanimity is required by Cabinet Ministers from both political parties. A single party Government would represent a wholly new paradigm after five years of Coalition Government. It will be interesting to see the degree to which Cameron will tolerate open dissent from within the party. With a larger base of modernisers it is likely that dissent will not be about the direction of reform but the rate and scale of that reform. The promotion of talented Backbenchers who have made an impact through their contribution to either Select or Backbench Committees is significant. Cameron appreciates this is where the real challenge for change is coming from and has amply rewarded it. The question of who are going to constitute the next generation of backroom boys (and girls) – the articulate and knowledgeable members who will be given the role of devil's advocate (to question assumptions and plans) is a moot one. With the departure of David Willetts the Conservative part of the Government has lost a key figure. Maybe it is intended that Michael Gove will fill this role in a much more prominent way at a much more senior level. The presence of figures like John Hayes and Matthew Hancock also gives great confidence that a Conservative Government will be able to draw on a raft of new policy initiatives as the General Election approaches. The presence of old stagers like Francis Maude and Oliver Letwin are also reassuring understanding how to circumvent opposition within the Civil Service machine to the implementation of new modernising policies. Cameron's job as Leader will be to ensure that sufficient time and exposure is given to consideration of new policy proposals as the new group of modernising MPs which he continues to bring into Parliament have the impact he desires.

#### Will economic growth necessarily and automatically deliver a Conservative victory?

The Big Question – the central problematique - stated at the outset of this paper remains however and that economic growth will necessarily and automatically deliver a Conservative victory in the forthcoming General Election. Is it the case that the Conservative Government Ministers have become caught up in Groupthink becoming convinced there is still a direct and automatic relationship between economic growth and personal prosperity and the delivering of tangible electoral benefits in the short to medium term.? Or is it the case that the Coalition Agreement and the precedence given to tackling the deficit has meant that the policy of deliberately increasing the personal allowance for income tax to help lower and income earners has pressurised Conservative Cabinet Ministers into taking political decisions which are antithetical to the neutral interest group constituency of the Conservative Party – the middle classes? It is clear that the middle classes have born the brunt of the process of economic rebalancing. The question is has Cameron become caught up in the logic of Coalition? I call this phenomenon locked-in economics.

#### We are all in it together – the Middle Classes more so than others

Has the pressure for unanimity triumphed over a more realistic appraisal of alternative economic courses of action, including deep cuts in the rate of income tax for middle

income groups? Effectively what we are talking about here is short-term reflation of the economy at a critical point in the economic cycle, not only to make the middle classes feel more prosperous but also, critically, to shorten the time-lag between the beginning of recovery and the beginning of a feel good factor. The mantra that we are all in it together has particular implications for the middle classes in Britain. The middle class refers to those who do not consider themselves poor or rich, and who can imagine their fortunes turning either way. It is in effect the broad base of the country. Definitions aside it is the strata in British society on which the burden of taxation falls the most heavily. It is also the section of society which benefits most from the provision of Government services. Coincidentally, it is also the group in society which loses most by the withdrawal of those services. The middle classes also make up the bulk of floating voters in this country. Hit them in the pocket and they are the first to protest. The poll tax which led to the abandonment of the Conservatives should tell us all we need to know about how this voter demographic is likely to behave. Loss of disposable income on the scale and rate at which it has occurred has been bad enough but couple that with the threat of large scale housing development and an increase in immigration into the country further threatening job losses in middle management in both the public and private sector then you have a heady brew to contend with. As the Conservatives discovered to their cost after 1997 when they lost a significant base of their electoral support which didn't simply realign under New Labour – it stayed at home.

### UKIP and the impact of Globalization

The attraction of UKIP as a political base of support for this reservoir of protest vote is directly correlated to the appeal of the so called people's army as an outlet for protest. The key question for the Conservatives is the degree to which UKIP is able to retain the support of protest voters. The rise in support for UKIP has taken place against the background of increased globalization. In his groundbreaking study "Turbo Capitalism: Winners and Losers in the Global Economy" and the book which preceded it, "The Endangered American Dream: How to Stop the United States from Becoming a Third-World Country and How to Win the Geo-Economic Struggle for Industrial Supremacy" Edward Luttawak argues that the whole world is inevitably moving in a turbo-capitalist direction. "Turbo-Capitalism" is defined as the worldwide trend toward unregulated markets, free flow of capital and the pervasive impact of information technology which he argues has been a net destroyer of jobs in those areas of the economy and professional services that used to be dominated by White Collar Employees. He argues that via University Education, Professional Qualifications and Technical Training the Middle Classes had achieved a margin of Economic Affluence in terms of their occupancy of positions on the managerial hierarchy but also critically in terms of lifestyle based on the trappings associated with holding down well paid jobs. The pervasive impact of neo-liberal economics and information technology has kicked that out from under them.

Privatization of formerly nationalized industries and de-regulation are now the driving forces, bringing rapid change, dislocation of labor, uncertainty of employment and anxiety about economic security. Turbo-Capitalism, Luttwak argues, breaks up families; discourages investment; generates structural unemployment; and the simultaneous retraction of state social welfare provision established as part of the post-war consensus.

For Luttwak these changes represent a permanent fixture of life for members of the Middle Classes. Life is becoming more uncertain, jobs being eliminated, families and societies being torn apart, and "job security" becoming a thing of the past. According to Luttwak today's capitalism with its managing for the short time, profits the happy few, but is a disaster for the many: abrupt mass firings, disruption of individual lives, of families, of communities and even of entire regions – represents permanent insecurity for the middle classes. Turbo capitalism, he demonstrates utilising a range of statistical evidence, has accelerated and accentuated class divides, reducing the influence and size of the middle class. Rebalancing the Economy and achieving a modicum of Economic Growth through reductions in Public Expenditure and the Reduction of the Fiscal Deficit has been possible albeit accompanied by a great of socio-economic dislocation. In that sense there is a very real prospect of the economic lifestyles of the middle-classes improving in the medium term. Reversing the process of globalization however is impossible. In this sense the economic lives of the middle classes will continue to be subject to continued and likely more rapid dislocation following ongoing continuous changes in the structure of western industrial and business economies. There is likelihood therefore of continued support for UKIP or a party which looks like UKIP which will continue to receive substantial support at Elections for the foreseeable future. In the words of one Cameron ally: "People vote for Ukip for emotional reasons, and that cannot be overcome by argument alone."

### The Cult of the Middle Manager

The core of UKIP support may well be Blue Collar Working Class Voters but the Core of the expansion in their support from Protest Voters come from Middle Class Voters. From a Political Economy perspective the core of this Middle Class Protest Vote is largely constituted of what I have termed White Collar Middle Managers. Middle management is the intermediate management of a hierarchical organization in either the Private or Public Sectors, that is those employees who are subordinate to the senior management team but are responsible for managing lower levels of operational staff. Middle management has typically been reduced in both Private and Public Sector Organizations as the result of the downsizing, layering and as identified earlier, outsourcing, that has followed as a consequence of the economic downturn. Effectively what has happened is that a layer of management has been got rid of in order to reduce costs - middle management costing more than junior staff. Managerial theories making the claim in favour of flat or matrix organizational structures or lean management structures designed to flatten an organization or worse still empower employees within the organizational structure to make the organization more innovative and flexible are seen by White Collar Middle Managers for what it actually is to them when it occurs – redundancy.

### The Death of the Intermediary Economy

There is an additional downside to this phenomenon and that is the impact of the loss of Middle Managers on the Performance of Businesses. Elsewhere I have called this phenomenon the Death of the Intermediary Economy. It has two aspects. The first is the loss of collective memory and tactical decision making input from Middle & Senior Managers who would have been responsible for the Management of Purchasing and the Direction of Projects in Large and Medium Sized Enterprises. A lot of this is based on

personal business relationships and know-how which has evaporated as jobs have been shed and cost control and tighter de-stocking regimes deployed. The second is the disappearance of a layer of Intermediary Businesses which sit between Suppliers and Purchasers of Services. The Direct Line Model holds sway not just in the Consumer Insurance Market. During an Economic Recession Businesses have moved away from working with Agents, Brokers and Consultants and going to direct to supplier who themselves have become much more e-commerce platform savvy. Businesses have also become less prepared to invest in speculative long-term projects with an expensive consultancy price tag attached to it. Even established City Centre Business & Professional & Service Community Businesses have recently seen a slowing in revenue growth and/or a contraction in staffing requirements. The impact of the shrinkage in the intermediary economy is a key trend which is also insufficiently understood. The shrinkage in the intermediary economy however maybe to the ultimate benefit of large outsourcing businesses which are beginning to absorb and sub-contract work to an army of consultants whilst squeezing their revenue base.

### Post-Traumatic Debt Stress

It is arguable that when the economy is fully restored to health that health will be measured by the restoration of the intermediary economy and with it the employment and financial prospects of White Collar Middle Managers. If it is the case that many key financial milestones once assumed to be the benchmarks of Middle Class life are now felt to be beyond the reach of all but the rich then the Conservatives are in trouble. It is why after years of economic turmoil, most families now believe their most valuable — and elusive possession is economic security. Elsewhere I have argued that the squeezed Middle Classes in the UK are suffering from what I have called Post Traumatic Debt Stress. A sense of powerlessness exists with an increasingly traumatized population watching from the sidelines which in turn has fostered pessimistic expectations as to what is achievable in the short to medium term. As a population we have been conditioned to believe that things are going to get better and that Governments will be able to deliver during the period of an electoral cycle and in some cases - like Former Public Sector Employees - that we can simply turn back the clock. The current recession has elongated the political business cycle. Governments for the foreseeable future will be faced with managing expectations over a much longer economic horizon. The polls already suggest that debt fatigue has already set in. The problem is that certain parts of the electorate are struggling to see the light at the end of the tunnel. After an artificially overextended credit fuelled period of growth the electorate is struggling to come to terms with the prospect of an equally long period of economic rebuilding. It is akin to some form of post-traumatic economic stress.

The consequence is that there is a danger for the foreseeable future of single parliament governments or a willingness to turn to political alternatives offering simple reflationary solutions or more extreme political solutions like withdrawal from the EU. Neither are they likely to deliver a permanent feel good factor or one sufficiently long lasting to sustain a government in office for the long-term. This is the enduring paradox that the current economic recession has bequeathed to Britain.

Their main concern is falling out of the Middle Class altogether because they see what is happening to others around them. Their mood is very bleak at present despite the overcurrents of optimism that abound in certain parts of the right wing press. A substantial number are concerned about maintaining their current standard of living. They feel they are standing still rather than moving forward and have been working longer and harder in order to make no progress. Upward mobility has effectively been postponed. There is a very real danger however that potential for advancement and greater prosperity rooted in merit and hard work, rather than in the circumstances of one's birth is being stymied. It breeds resentment and clearly has done amongst a core of Conservative Voters now voting for UKIP.

### The persistence of price inflation in a low growth economy

The problem has been caused by two directly inter-related economic factors. The first is the persistence of cost-push price inflation in a low growth economy. Thus although the rate of inflation has been much reduced in absolute terms in comparison to previous eras, the rate of growth of inflation continues to massively outstrip the rate of growth of wage inflation, particularly for low and middle income earners and more importantly in the price of commodities and utilities, especially. The result is that the effect of inflation is actually felt far more than when it was at double-digit levels, because wages were rising much faster to compensate for this. It is taking far longer for the feel good factor to be felt in voter's pockets, particularly amongst current or former public sector employees who have been subjected to a pay freeze for the last three years. The micro-economic impact of price inflation on living standards (or should that be the cost of living) in a deregulated economy suffering from multiple instances of economic market failure was little understood. The impact of an old fashioned 1970s income policy with wage restraints imposed across the public sector was both expected and has followed a familiar pattern. The fact that it has only recently been accompanied by voluntary price restraint amongst energy retailers in particular suggests that the Government may have missed a trick in understanding the key contributory sources of inflation. It is hardly surprising therefore that there has been relentless public criticism of the behavior of Big Business in the Energy and Banking Sector. A structural feature of the British Economy which is a greater cause of imbalance than any other is the lack of sufficient competition in key functional areas of the Economy as a consequence of Concentration of Monopoly Buying Power – the Big Six (Energy Companies); the Big Five (High Street Banks) and the Big Four (Supermarkets). What we lack in the UK in comparison to the US according to Edward Luttwak is effective Anti-Trust legislation to force the break-up of Private Sector Monopolies and literally force greater competition into key areas of the Economy to the greater benefit of Middle Class consumers. The success of Frances Maude in both renegotiating contracts and negotiating costs down from large suppliers to the public sector shows what is possible. There is a way but is there a will? One of the weapons in the arsenal of geo-economic strategy is licensing. It is surprising that there is such a lack of willingness to use leverage against monopoly suppliers.

### A revitalised President of the Board of Trade?

The role of a revitalised President of the Board of Trade needs to be massively enhanced. I am not suggesting that we all become interventionists now but there is clearly a case for the strongest holder of that role in recent times – Lord Heseltine to produce a Report outlining how as we enter further into an age of geo-economic realities the Cabinet Role of Secretary of State at BIS – a Ministry increasingly unfit for purpose - should be strengthened. For Edward Luttwak the model is MITI in Japan - the Ministry of International Trade and Industry – arguably the most powerful agency of the Government of Japan. The fact that the current occupant of the role is a Liberal Democrat: Vince Cable - tells its own story! Cameron is all too aware of the realities of geo-economics: the economic and commercial strategy pursued by states to protect their national economies or certain well-identified sectors of it by helping national enterprises acquire technology or to capture certain segments of global markets enhancing the international influence of said national enterprises whilst reinforcing the economic power and potential of the state. The fact that Trade Missions to India and China have been led by the Prime Minister and the Chancellor, George Osborne, rather than Vince Cable is quite deliberate. It is a pity that Liam Fox did not take up the opportunity to take up the geo-economic cudgels such a role would have offered. Where there has been a recognition of the external realities of geo-economics the same can be said of internal geo-economics. It is one of the peculiar features of British Government that such an artificial dividing line is maintained between Government and Big Business.

### Big Business in Government – A Two Way Street

Why was it that the Soviet Union succeeded in putting the first astronaut into Space? And yet, at the time, the United States was the most powerful economy on the Globe! An economy which was larger than that of all the other economies across the Globe put together. More important the vast majority of the largest Corporations in the World had their main manufacturing facilities located in and were headquartered in the United States. With the creation of NASA however, within a 5 year period, not only had the United States put a man on the moon but had also developed an unassailable lead in both the Space Race as well as the Strategic Arms Race. The lesson was that in the most deregulated and liberal market economy in the world it took action on behalf of the Federal Government to establish a coordinative institutional machinery for Private Sector Corporations to co-operate and achieve progress on a strategic agenda at a National level.

Part of the reason for the current under-capacity in the economy or should that be economic performance may have as much to do with lacking the requisite institutional machinery in order, like NASA in the United States all those years ago, to address the problem of institutionally managing Big National Infrastructure Projects.

Is it time, I ask, to create a National Enterprise Council made up wholly of Representatives from the Private Sector, Big Business especially in order to drive forward the kind of Big Infrastructure Projects that will revitalize the Economy and bridge the performance gap? NEDC failed during the 1970s because it was a Corporatist Tri-partite decision making body designed to manage Industrial Relations and Wage Negotiations between Employers

and the Trade Unions. In no uncertain terms am I proposing a return to anything approaching such a failed State-led version of Corporatism. Instead what I am proposing is a Business Led Model of Corporatism. This will entail very high levels of close knit co-operation cooperation between manufacturers, suppliers, distributors, banks and local government with active acquiescence of trade unions and employer engagement and participation. Education and Training will become much more Business Focused. There will be a much greater focus on identifying and backing winners and Business Led National Infrastructure Projects with the Public Sector encouraged to Get Out of the Way as far as is possible. Such an approach will also force much greater responsiveness from Civil Servants. It will also encourage a greater responsibility on behalf of Big Business particularly the Utilities. Participation in a National Industrial Strategy, because that is ultimately what we are talking about, will encourage them to take a longer term view of the costs that key consumer groups will be able to bear.

### Fiscal Drag

The second economic factor is the impact of fiscal drag (or should that be fiscal drag back or drag down). This is where inflation and rising incomes pushes more tax payers into higher tax brackets so that their real incomes fall. Fiscal drag is a result of holding income tax thresholds steady while both prices and earnings are increasing. This is also known by the term Bracket Creep. Fiscal drag has the effect of raising government tax revenue without raising tax rates. Rising earnings means a higher percentage of the working population paying income tax at a higher rate. Almost four million people now pay income tax on their earnings at forty per cent compared to just over two million when Gordon Brown became Chancellor. Hundreds of thousands of middle-income taxpayers are now paying some of their income at the top rate because income tax allowances have not risen as fast as wages over the last decade. The downside of this phenomenon is that it acts as a restraint on the expansion of the economy Fiscal Drag can be overcome by indexing tax bands to earnings or inflation.

### The privileging of interest groups at the expense of the middle classes

The question is: Has increasing the personal allowance for income tax as stated in the Coalition Agreement to help lower and middle income earners by progressively increasing the personal allowance to £10,000 privileged one class over another? Has the price for reaching an Agreement over Coalition resulted in marginal tax rates both disadvantaging and disincentivising middle income groups?

Figures from the Office for Budget Responsibility suggest that up to one in three tax payers within the next two decades will ultimately end up paying higher rate tax as the 40p band becomes the “norm” for millions of the middle class. They estimate that more than 10 million people will be dragged over the higher rate threshold by 2033 - twice as many as present. There are likely to include growing numbers of teachers, senior nurses and others who would not traditionally be regarded as high earners.

The fact that the burden of taxation during the course of the coalition has fallen increasingly on the middle classes appear to have occurred by accident rather than by

deliberate design. A Tax Regime which works so disproportionality to the disadvantage of the middle classes could potentially inaugurate long-term changes to the political system in the UK of which the garnering of a large amount of voter support for UKIP is only the most visible sign, which could work against the Conservative Party. It is surprising that a parliamentary investigation has not been carried out on the impact of the tax burden on the middle classes – increasingly the forgotten group of British Politics whose circumstances seem to increasingly unacknowledged.

### Call for a Treasury Select Committee Investigation

For that reason I am calling on the Treasury Select Committee to carry out a detailed investigation on the impact of fiscal drag and to come up with a set of proposals to remedy the situation. The relationship between tax and spending behaviour – the true motor force of economic growth and long-term prosperity is insufficiently understood. What used to be known as the multiplier effect has been replaced by talk of multipliers – or economic triggers. We need to understand these much better if we are to understand what lies in store in the future for and what will determine the ultimate fate of the middle classes. Lord Lamont of Lerwick, the Conservative chancellor under Sir John Major, said: “For the next parliament, raising the higher rate threshold should be a top objective for a Conservative government. “It makes no sense that a rate that Nigel Lawson intended to be for the richest people in the country is now being paid by secretaries and middle management.” At present, 4.6 million people pay the 40p higher rate and 300,000 pay the 45p additional rate for those earning more than £150,000. By 2033 the OBR forecasts 9.2 million people will pay the 40p rate and 1.7 million the 45p rate, roughly a third of the workforce. The OBR calculated that if the threshold were to rise in line with earnings instead, 4.6 million fewer people would be dragged into the higher rate.

### Middle Manager discontent is what will deliver electoral success for UKIP

Cameron faces an additional dilemma because of the concentration of middle class discontents in a number of key constituencies across the country. It is the presence of large number of these, what I have called Middle managers, in key industry or public sector locations that has explained the greater success of UKIP in particular seats across the country. The difference between their comparative successes in seats like Eastleigh where there has been a contraction in supply chain manufacturing industries linked to the rail industry is revealing. Polls in Eastleigh reveal that at 15% Unemployment is the 2<sup>nd</sup> biggest concern behind immigration (29%) in what is a reasonably affluent area. This is very telling. In Rotherham meanwhile there has been an above amount of job shedding in the Public Sector. At the end of 2012 the unemployment rate in the constituency stood at 7% (with 9.6% male unemployment) of the population claiming jobseekers allowance, compared to the regional average of 4.7%. This was considerably higher also than the constituencies that share the Borough with Rotherham. Both of these are Constituencies where UKIP has pooled its highest amount of votes in parliamentary by-elections.

According to Peter Kellner, in his recent article for YouGov “So Who Are The Real UKIP Supporters?”, “The real impact of UKIP’s vote next year will be its effect on support for the other parties, even if UKIP wins no seats itself. Disgruntled Tories may not be the only

source of UKIP support, but they are by far the biggest source. If UKIP win 10% of the national vote or more next year, then the loss of Conservative votes in key marginal seats will help Labour and the Lib Dems and probably cost David Cameron the election.”

**Addressing the concerns of the squeezed middle –cutting marginal tax rates**

Kellner however has also recently identified there is a very real opportunity to tailor individual policies to the concerns of squeezed middle class voters who are thinking of about their living standards. It is not a trade off between measures that put more money into people’s pockets and keeps down prices, it is ultimately about allowing people to keep more of their own money that they work so hard to earn. As Mrs Thatcher rightly identified it is not the Governments money which it spends it is our own.

*Q. If the Government were to decide to put more money into people’s pockets, which two or three of these would you most like to see?*

<b>Top choices for easing people's finances</b>	<b>"Squeezed middle"</b>
	<b>%</b>
Freezing home energy prices	43
Lower income tax	42
Lower VAT	42
Lower council tax	36
Lower fuel duty	35
Lower bus / train / tube fares	26

I have argued previously that the Conservative Party is missing a trick in pushing immediately for deep cuts in the Rate of Income Tax for Middle Income Groups not only to make them feel more prosperous at precisely the time when the Economy is beginning to demonstrate real sustained growth but also critically to shorten the time-lag between the beginning of recovery and the beginning of a feel good factor. It is the shortest route to bringing White Collar Working Class voters back onside and kickstarting genuinely sustainable consumer led growth.

**Supply Side State –led Policy Reform**

Rather than recourse to an approach which focuses simply on cutting marginal tax rates thereby increasing after tax earnings, more complex means deploying a range of supply side measures can also be utilised. Reform Conservatives have been arguing for some time that we should move away from an obsession with small Government to address the everyday challenges that confront voters. We should not be dismissive of collectivist approaches if they promote gretaer individual responsibility on behalf of the citizen. This still involves a crucial and active role for Government but a far less intrusive and managerial one than we are used to certainly under Labour. This will ultimately involve the modernization of our antiquated, lumbering, bureaucratic, mid-twentieth century governing institutions that enables a leaner and more responsive twenty-first-century

government. It will also involve us as Conservatives advancing a concrete public-policy vision and agenda rather than simply a critique of the left's vision of a progressively all encompassing state. It is not hard to understand why some Conservatives have been reluctant to do that: The Conservatives however under Cameron must develop some technical policy expertise precisely to combat the technocratic impulse, that so much concerns him, advancing an anti-technocratic vision of Government.

### Employment Policies

So what do supply side reforms look like? One approach suggested is to allow workers interested in moving in search of employment to receive relocation assistance from areas of high unemployment to areas of high employment in place of continued unemployment benefits. Another is to remove those taking up positions in hard to source skilled occupations in expensive locations from tax for the first several months of employment. Yet another is to provide wage subsidies to cover travel and accommodation costs for skilled workers who have to move to much more expensive locations. You will note that all these are initiatives designed to encourage and support greater labour and social mobility in an increasingly globalised economy. Becoming the party of labour market mobility would do much to help the Tories overcome their negative association with unemployment and de-industrialisation, which persists from the Eighties – and which started the exodus of northern voters from the party.

### Extending Voucher Schemes – Restoring Child Benefit

Yet one further but much more controversial proposal is both to restore Child Benefit to more highly paid middle income groups and indeed to go much further by providing tax breaks for meeting the costs of sending children to university. There should also be a huge extension of the use of Voucher Schemes deducted from PAYE at source, currently used for Pre and Wrap-Around School Care, to Social Costs like School Uniform, Home to School Transport and possibly the Cost of Teaching and Learning Materials for both children at School and University. The idea would be to lower the Income Tax bill of Parents with the aim of bringing a group of parents who are meeting the costs of bringing up children out of the higher and back into the lower tax bracket. This would be the ultimate demonstration of fiscal responsibility on behalf of the state towards hard working parents.

### Progressive Conservatism

There is a sense that at the current point in the economic cycle the Conservatives do not offer some part of the Middle Classes, Middle Mangers in particular a genuine shot at success and security. For that to change as conservatives need to understand constituents' concerns, speak to those aspirations and worries, and help people see how applying Conservative principles and deploying Conservative policies could help make their lives better. High Marginal Tax Rates obviously undermine the incentive to work, save, and invest. Large tax-rate cuts would encourage more economic activity and greater prosperity. Cutting marginal tax rates has been the Holy Grail of Conservative efforts to reform the tax code for the past generation. Building a thriving job market must also be at

the heart of the effort to improve the UK's economic prospects and critically to strengthen the middle class.

### Accolades for David Cameron

By taking on the responsibility for austerity however the Prime Minister, David Cameron is more astute than we might think. With the reshuffle he has made decisions which are the product of a long-term plan both to reform the economy and modernise the Conservative Party. Given the constraints of coalition that he is operating within it is grounded far more on a moral compass of progress than it is of egotistical self-interest. This is off putting for voters who don't know where they stand with him. In retrospect Cameron was lucky with the result of the 2010 election, having to form a coalition government with Nick Clegg's Liberal Democrats. The coalition partnership has allowed him to shoulder the burden of blame for austerity but more importantly it has provided him with a genuine excuse for not pursuing an explicitly right wing Conservative agenda. Up-until now that is. With the reshuffle the dynamic of coalition politics has changed significantly. The Conservative Party however has grown moody of late. It resents Cameron for being a necessary balancer, for making the Coalition work to a surprising extent, and for much else besides. Now that the coalition has come to an end we will see some of the true Cameron – the reformer and moderniser that we have always wanted. If he wins the General Election in 2015 we may see a very different kind of Prime Minister unconstrained by coalition. If not, once again the limitations of coalition will continue to act on his or another Prime Ministers behaviour. To coin an overused phrase: We live in interesting times!

Cllr Ged Mirfin

North-West Coordinator, Conservative Voice

[ged@mirfin5064.freemove.co.uk](mailto:ged@mirfin5064.freemove.co.uk)

07841 729 146

@NorthernTory

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