

Why Free Markets Matter

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Forewords by The Rt Hon Liam Fox MP
& Senator Bill Hagerty



**CONSERVATIVE
FRIENDS OF
AMERICA**

ABOUT US

Conservative Friends of America (CFoA) is a not-for-profit organisation that actively promotes the importance of the shared values in the 'special relationship' between the United Kingdom and the United States of America. It is not affiliated to any political party in either the UK or the US.

CFoA recognises that the success of both our countries is founded on a set of first principles, including a desire for free markets, free trade, collective security and an appreciation for our shared cultural values.



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FOREWORD

THE RT HON LIAM FOX MP

CONSERVATIVE
FRIENDS OF
AMERICA

When I first became involved in politics, Mrs Thatcher was Prime Minister of the United Kingdom and Ronald Reagan was President of the United States. As a medical student, after a spell at the DuPont Institute in Wilmington, Delaware, I travelled extensively around the country. I revelled in the sense of optimism that prevailed and the view that America was, unequivocally, a force for good in the world.

On both sides of the Atlantic, Conservatives set out an agenda of sound money, free markets, free trade and strong defence. We set course for a period where we won the Cold War and took more of our fellow human beings out of abject poverty than at any time in history.

We need to champion these issues today. Too many people seem to believe that prosperity is a right, rather than something that is earned. Too many believe that defence can be bought on the cheap. Too many believe that our values are just different from, rather than better than, the alternatives.

Conservative Friends of America has been set up to encourage and support a renaissance in the conservative values that we once took for granted but of which we hear too little today. In both our nations, we want to see a new generation motivated and enthused by the ideas and values that brought so many of us into politics in the first place.

It is a great challenge where the prizes of success are staggeringly high, not just for our own peoples, but for the whole world in which we live, and which we seek to improve.



FOREWORD

SENATOR BILL HAGERTY

Do free markets matter? It's an important question—especially at a time when the economic expansion of China under the Chinese Communist Party (CCP) is forcing capitalist economies around the world to consider what it means for markets to be free.

As a lifelong businessman, I can answer unequivocally from first-hand experience: Yes, free markets, of course, are essential to promoting freedom, security, and prosperity. But much more needs to be said. That's why I applaud my good friend, Dr. Liam Fox, MP, and the Conservative Friends of America (CFOA) for asking this question and seeking thoughtful answers from an interesting range of thinkers.

When I served as U.S. Ambassador to Japan from 2017 to 2019, preserving and promoting free-market capitalism around the globe mattered greatly to then-President Donald J. Trump. So much so, in fact, that the Trump Administration worked tirelessly to restore free markets internationally by identifying and remedying cheating in trade and commerce and by pushing for trade arrangements that were free, fair, and reciprocal. While this was not always popular, challenging embedded interests rarely is.

As Ambassador to the world's third-largest economy, I worked closely with then-U.S. Trade Representative Robert Lighthizer and with then-Japanese Prime Minister Shinzo Abe to conclude what would become the U.S.-Japan Trade Agreement and U.S.-Japan Digital Trade Agreement. Through these model agreements, we delivered freer and fairer markets for the American people, just as the Japanese government delivered so for theirs.

As China under the CCP seeks to achieve global preeminence in the 21st century and impose around the world an economic model that is anything but free, fair, or reciprocal, the United States and the United Kingdom can—and must—continue to protect and expand the group of markets that remain free.

I hope this monograph—and the discussion it spurs—helps our two nations to achieve that goal.

U.S. Senator Bill Hagerty
Honorary Chairman of the Honorary Board
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SENATOR TODD YOUNG

Todd Young has served as the senior U.S. Senator for Indiana since 2017. From 2011 to 2017, he served as the Representative for Indiana's 9th Congressional District.

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‘Earn It Anew’: How Conservatives On Both Sides Of The Atlantic Can Win Majorities And Govern Effectively

It was the summer of 1996, and the Republican Revolution in Congress was underway. By happenstance, at that very time I purchased my first ever copy of *National Review* magazine.

Among the assorted essays, I noticed an advertisement for the Institute of United States Studies at the University of London. Readers were encouraged to apply to the school where they could “learn about American politics from the British perspective.”

This in itself was an interesting prospect. But what really captured my imagination was the ad’s mention of the Institute’s chairman, none other than Lady Margaret Thatcher. Just three years prior, and three years removed from her tenure at 10 Downing Street, Baroness Thatcher of Kesteven had delivered a lecture on the Falklands War to me and other midshipmen at the U.S. Naval Academy. Thenceforth I was fascinated by her intelligence, eloquence, and stubbornness, but I knew about her only broadly: a champion of liberty during the final years of the Cold War and a dear friend of Ronald Reagan.

The advert in *National Review* interested me, but as a recently commissioned officer in the Marine Corps, I was otherwise preoccupied. So I filed away the ad for future reference. When I left the Marine Corps in the summer of 2000, I applied and was accepted to the program, packed my bags, and arrived at Heathrow. Months later, as fate would have it, I was elected by classmates to “carry their concerns” to the school’s board and its chairman, Mrs. Thatcher.

Coming face to face with the Iron Lady was thrilling. I will admit, though, that at the time I didn’t really appreciate or fully understand what made her so important. But as we have struggled to make conservatism relevant on both sides of the Atlantic – to ensure it meets the needs of this generation – I have periodically thought about the fleeting moments I spent with her and why her legacy matters.

One revelation might inspire today’s conservatives: Thatcher matters because she believed in progress.

Like Reagan, Thatcher was consequential because she was so unconventional. She represented a radical break from the sleepy, comfortable consensus that oversaw the expansion of government across economies and into the lives of citizens after World War II – because that consensus was failing free people.

Her ideals were conservative, but her governing philosophy was pragmatic – she was interested in policies and approaches that worked in her time and discarded the ones that did not.

High taxes and unreasonable regulation were strangling Britain's economy in the 1970's. So she cut both. Inflation had reached 25 percent. So she controlled spending and tightened the nation's money supply. Business creation was prohibitively expensive due to state monopolies. So she privatized industry, enabled citizens to buy shares, and encouraged entrepreneurship. Overzealous trade union leaders threatened interminable strikes. So she stripped them of power and capped public sector pay. Her record was not without blemishes. But as a package, her agenda revived Britain's economy and helped the West win the Cold War.

Mrs. Thatcher often quoted a line from Faust: "That which thy fathers bequeath thee, earn it anew if thou wouldst possess it." In these words, I believe, we can see a reflection of her own pragmatic attitude towards winning majorities and governing effectively – and these can inform our own.

Victories in politics are temporary; majorities rarely endure.

The churn of world events guarantees it. How a movement responds and adapts to changes determines its durability. This is a blind spot for modern conservatives: we value traditions and are reluctant to refresh them, so we overlook the reality that improvement and change are themselves *conservative traditions*.

We rightly revere the thinkers and leaders, like Thatcher and Reagan, who have shaped our movement. But there is a difference between reverence and dependence. "What Would Reagan Do?" Republican-leaning commentators and thinkers often ask, as if the answers constitute a sort of roadmap. The answers, though, are rooted in the twilight of the Cold War and the end of the last century, not the Fourth Industrial Revolution that has upturned lives in the early decades of this one.

Our fixation on ideas that worked decades ago sometimes leaves us oblivious to the fact that some of our policy orthodoxies simply don't serve all the people we

represent. This disconnect makes overlooked citizens especially susceptible to false promises, demagogic leaders, and populist-nationalist revolts.

As Thatcher and Reagan charted a fresh path, so must this generation of conservatives.

But how can we refashion our movement to meet the current moment? A few ideas with possible application on both sides of the Atlantic:

I. Scope of government

Conservatives understand government to grow at the individual and community’s expense. We are right to insist that public expenditure must be mitigated by prudent cost-reducing deregulation, liberal trade regimes, and robust competition in the provision of goods and services. But when we think about government spending, conservatives must take care to distinguish between result-driven, constitutionally-guided government action and statist waste. Failing to do so means opposing all manner of investments in overlooked people and places – the very investments that that will shrink government by precluding the need for costlier public expenditures after neglect has taken hold.

Conservatives should value a leaner government, and therefore should be the strongest advocates for: generous workforce training and retraining programs in response to the dislocation caused by international trade or automation; supply chain resiliency incentives to protect national economies from costly interruptions of cross-border commercial activity; robust funding for proven public health and wellness interventions to avoid the much greater burden of downstream human and financial costs; and national security-orientated technology investments at a time in which leading military powers are increasingly threatened by smart weaponry and asymmetric threats.

II. Opportunity

Conservatives rightly champion the rising tide of economic improvement; however, we are too dismissive of concerns related to disparities in economic opportunity – and the perpetuation of social and cultural inequalities that accompany it.

We do not begrudge a single fellow citizen’s success; our goal is to help more of our countrymen join him in reaching it. But we must stand for equal opportunity. Accordingly, we should redouble our efforts to equalize opportunity for all.

III. Identity

Conservatives must continually strive for a society where all are treated equally under the law and feel respected as equal citizens irrespective of race or ethnicity,

even as our political opponents practice a transactional and divisive form of minority coalition identity politics. Fixation on race and ethnicity enables well-placed leaders on the Left to overlook class divides, hoarding power while still feeling like the heroes of a social justice morality play. When everything is discrimination nothing is discrimination, which is why conservatives must prioritize identifying causal links between unlawful discrimination and disadvantage – and we should dedicate ourselves to rooting out these causes.

IV. Institutions

And, lastly, we conservatives tend to venerate “institutions” – the nuclear family, organized religion, free enterprise, civil society, and more. Yet we show contempt for the foundational institution of government even as we lament government’s dysfunction. It’s time for conservatives to acknowledge where government succeeds and to embrace the task of its stewardship.

Renewal requires two-way communication.

We must listen and lead. We haven’t done either very well in recent decades. Across the English-speaking world, many leaders in and out of government were slow to react as the world changed around us. A new upper class emerged – one that has become increasingly isolated spatially, economically, educationally, and culturally – and, therefore, increasingly insulated from others’ reality.

Is it any surprise, then, that recent years have seen populist revolts on the Right *and* Left, fueled not just by the consequences of vast changes, but by the civic chasm which separates citizens who have benefited from the changes from those who have not?

There are those on the American Right who regard these civic convulsions as aberrations, attached to only one politician or one election cycle. But I believe good has come from the populist agitation. Most notably, we have gained an opportunity to respond to the complaints and frustrations of “the shouters” – those who feel at the mercy of automation, globalization, and urbanization – even as their more cosmopolitan leaders embrace change.

A properly conceived nationalism, being a form of love for one’s country and countrymen regardless of color, creed, or circumstance, should prioritize addressing the challenges and aspirations of those who are being left behind. Note that, even in losing the 2020 election, former President Donald Trump built a populist-nationalist coalition that boasted record high numbers of Republican votes from Black and Latino Americans. While durable electoral majorities are not built on a foundation of envy and resentment, this much is clear: sustained political

fortune awaits conservative leaders prepared to engage in the hard work of formulating genuine solutions for disaffected constituencies.

Conclusion

The task before today’s conservatives is to hear the frustrations of citizens who feel shut out; to appeal to the better angels of their nature; to build an agenda that addresses their challenges and feelings of disempowerment; and to put forward genuine solutions that bring our longstanding principles – right-sized government, faith in our communities, and reverence for institutions – in line with fresh problem solving. As Mrs. Thatcher did before us.



GARETH DAVIES MP

Gareth Davies was elected in December of 2019 as the Conservative MP for Grantham and Stamford. Before entering politics, he worked in the investment industry.

In 2015, he took a break from work to focus on developing his public policy skills, completing a Master of Public Administration at Harvard University's John F. Kennedy School of Government.

In Defence of Free Markets

The free market, so its detractors say, has had its moment. It came into vogue with synth-pop but became outmoded with Britpop. It rose with Ronald Reagan but fell with Fannie Mae and Freddie Mac. It boomed but is now bust. We may no longer be Keynesians but, when it comes to free markets, we are now also none too keen.

The era of big government, apparently, is back from hiatus. COVID-19 only confirmed this. Staring down the barrel of the pandemic, the response of Western peoples to “I’m from the Government and I’m here to help” has been “please, sir, may I have some more?” In the UK, a Conservative Chancellor promised to do “whatever it takes.” In the US, a Republican President vowed in his State of the Union address to “take all necessary steps.” According to the Index of Economic Freedom, our two countries which once led the charge for free markets have now fallen behind, dropping by 10 percent since 2008 and now ranking below former Soviet states like Estonia.¹

Despite all this, reports of the free market’s demise are greatly exaggerated. Just because something is no longer fashionable does not mean it is no longer functioning. (Think neckties since the 1990s: no longer a statement, but no less a staple.) In truth, we have not changed the system, only some of the settings. Britain’s coronavirus loan scheme is facilitated by its private financial sector. So, too, are the United States’ several stimulus packages, to the extent they are debt-financed. We are not, by any stretch, in a command economy. On Economic Freedom indices we still are rated “mostly free.”

We have not abandoned free markets because we cannot escape market forces. No one can. Even at the height of Communism, the Reds were riddled with black markets.²

Regardless of whether we have or whether we could, it is also true that we should not reject free markets. They ought to be cultivated, I will now argue, as an economic, social, and even moral imperative. We should therefore be careful not to indulge too far the state’s recent largess and ensure that the recent growth of government is the exception and not the rule.

¹ <https://www.heritage.org/index/ranking>

² <https://www.nytimes.com/1975/09/09/archives/black-markets-bloom-in-eastern-europe-behindfacade-of-straitlaced.html>

The Economic Imperative

Free markets create economic prosperity. To paraphrase George Orwell, this statement falls within the category “ideas so obvious that only an intellectual would disbelieve them.”

Free market competition rewards efficiency, reducing costs and boosting incomes. Property and profit, equal parts premise and promise, entice innovation and encourage investment. For each engine of growth listed in an economics textbook – creative destruction, specialisation, scale – the market is the motor.

Accordingly, in the past 70 years alone, free markets and improved livelihoods have spread in tandem. In 1950, 1.8 billion people – more than 70 percent of the global population – lived in extreme poverty. By 2015, despite an exponential increase in the world’s population, the number of those in poverty fell in absolute terms to 700 million.³

Countries in the top quartile of economic freedom indices had an average per capita GDP of \$40,376 in 2016 compared to \$5,649 for countries in the bottom quartile. The average income of the poorest 10 percent in the most economically-free countries was almost twice the average per capita income in the least-free countries. Life expectancy was 79.5 years in the top quartile compared to 64.4 years in the bottom quartile.⁴

The Social Imperative

Free markets cultivate peace. After all, cooperation is intrinsic to the way markets work. Daniel Hannan put it well: “In an open market based on property rights and free contract, you become wealthy by offering an honest service to others.”⁵

The classical iteration of this idea comes from Adam Smith, who observed “it is not from the benevolence of the butcher, the brewer or the baker that we expect to eat our dinner, but from their regard to their own interest.”⁶ At the heart of free markets, then, are marriages of self-interest. This may not sound very romantic, but it is remarkable. In the context of the market, the very same tendencies that the likes of Hobbes and Rousseau saw as pulling societies apart bind us together. Free

³ <https://www.fraserinstitute.org/blogs/as-the-world-shifted-to-free-markets-poverty-rates-plummeted>

⁴ (per capita GDP = PPP constant 2011 US\$)

<https://www.fraserinstitute.org/studies/economicfreedom-of-the-world-2018-annual-report>

⁵ Hannan, ‘How we invented freedom’

⁶ Smith, ‘Wealth of Nations’

markets do not mean a wild west war of all against all, but rather have been proven to correlate with high levels of happiness.⁷

Free markets also promote peace at an international level. Global investors make decisions by calculating risk, which is determined in large part by the reliability of institutions, the level of crime, and the likelihood of conflict in a given country. In other words, markets endorse good governance and peace. Credit follows credibility.

Moreover, in the Foreign Direct Investment Confidence Index, the United States ranks highest and free market economies dominate. This suggests that, once both are established, free markets and good governance are mutually reinforcing.⁸

The Moral Imperative

Free markets respect human dignity. For it is freedom which makes us distinctly human, which is part of what we mean when we call slavery “inhumane.” We are neither animals nor automatons; neither incarcerated by instinct nor conditioned by code.

The criticism of free market thought for caricaturing human beings as purely rationally self-interested is itself a caricature. It is actually in command economies, where bureaucrats are quickly overwhelmed by complexity, that over-simplification and reductive thinking become necessary. You need only to look at the growth of ESG (environmental, social, and governance) in our economies to see that markets account for both head and heart, body and spirit. The bottom line is that firms in a free market care about more than just their bottom line.

Free market systems are democratic in the sense that they empower people. They give expression to the myriad of complex human needs and wants, which inform the choices we all make each day. The behaviors that command economics regard as a nuisance to be suppressed are seen by the free market as an opportunity to provide a service.

Are Free Markets Conservative?

Upholding free markets is conservative. One way to see this is by returning to and expanding on the earlier point that “we cannot escape market forces,” because they are fundamental and irrepressible economic laws. Or, to put it another way, there are very real limits on human intervention. In the words of Thomas Sowell, “there are no solutions, only trade-offs.” Obstructing market-driven outcomes does not

⁷ <https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2018-annual-report>

⁸ <https://www.kearney.com/foreign-direct-investment-confidence-index>

stop market forces altogether, it only diverts them, oftentimes with unintended and disastrous consequences. For every action there is a reaction.

Starting from this perspective, there is an argument to be made for free markets which conforms with core conservative principles, answering those on the right who disown markets as liberal. After all, it was Edmund Burke himself who said in exasperation, “I cannot conceive how any man can have brought himself to that pitch of presumption, to consider his country as nothing but *carte blanche* upon which he may scribble whatever he pleases.” We might paraphrase his disdain to describe the central planner as one who sees “their economy as nothing but a blank cheque.”

For Burke, it was an act of extreme arrogance for the revolutionaries of his age to upend political institutions in defiance of natural law and received wisdom. Those in revolt against the free market, past and present, similarly deny economic law and historical experience.

This by no means endorses being lackadaisical about *laissez-faire*. *Au contraire*, it means proceeding with due diligence and seeking to work with the grain wherever possible. Such deference to free markets is not radicalism but realism, not hubris but humility.

In other words, it bears all the hallmarks of true conservatism.

¹ <https://www.heritage.org/index/ranking>

² <https://www.nytimes.com/1975/09/09/archives/black-markets-bloom-in-eastern-europe-behindfacade-of-straitlaced.html>

³ <https://www.fraserinstitute.org/blogs/as-the-world-shifted-to-free-markets-poverty-rates-plummeted>

⁴ (per capita GDP = PPP constant 2011 US\$)
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⁵ Hannan, 'How we invented freedom'

⁶ Smith, 'Wealth of Nations'

⁷ <https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2018-annual-report>

⁸ <https://www.kearney.com/foreign-direct-investment-confidence-index>



DR SAMUEL GREGG

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Burke, Conservatism, and Market Economies

It's hardly a secret that free markets have fallen out of favor among conservatives in the Anglo-American world in recent years. There are many reasons for this. One is the spread of economic nationalism, propelled by the sense that free trade has undermined entire communities' well-being. Nor did the 2008 financial crisis help the cause of free markets inasmuch as economic liberalization was perceived to be the prime culprit.

I use words like “sense” and “perceived” because what matters here is perception. The reality is often different. Unfortunately, such realities – like the extent to which the 2008 Great Recession was facilitated by factors like serious monetary policy errors and government efforts to socially engineer America's housing market – don't receive nearly the attention that they deserve.

But, I'd suggest, this turn against markets among some conservatives is principally derived from a desire for something perfectly reasonable: *stability*. The immense economic growth and poverty-reduction generated by global markets require acceptance of the constant upheaval that is part-and-parcel of free competition and economic creativity. In the long-term, the overwhelming majority of people consequently become much wealthier. The tradeoff for this dynamism is considerable instability.

This presents particular dilemmas for conservatives. After all, conservatism emphasizes the benefits of permanency: order, tradition, objective moral truths, and strong communities. Conservatives who believe that free markets are the most optimal of imperfect economic systems thus need to rethink how to make their case for free economies and limited government. Here, the man whose thought gave birth to modern conservatism has much to teach us.

Enter Burke

Though widely regarded as modern conservatism's intellectual father, Edmund Burke's economic views have received sparse attention until recently. Burke's conservatism is primarily linked to his religious orthodoxy, his defense of what he called “ancient liberties,” and his relentless criticism of the French Revolution's destruction of many of the institutions that protected freedom and order.

Fewer people know that Burke believed in free markets at home and free trade abroad and was a skeptic of government economic intervention. He once described Adam Smith's *Wealth of Nations* as being "in its ultimate results" "perhaps the most important book ever written." Burke's literary executors, French Laurence and Walker King, even claimed that Burke "was also consulted, and the greatest deference was paid to his opinions by Dr. Adam Smith, in the progress of the celebrated work on the *Wealth of Nations*." When Smith's magnum opus appeared in 1776, Burke reviewed it for the widely-read *Annual Registrar*. He sang the book's praises as a text which achieved that most difficult of goals: to "teach things that are by no means obvious."

Yet even before *The Wealth of Nations*' publication, Burke was arguing the case for greater commercial liberty. In parliamentary debates during 1772, he insisted that the best way for society's poorest segments to receive enough bread was through a market free of legislative interference. Burke also worked patiently to liberalize trade within the British Empire as well as between the Empire and other nations, especially by helping to craft the Free Ports Act of 1766. Almost thirty years later, Burke penned a carefully-worded memorandum entitled *Thoughts and Details on Scarcity* to Prime Minister William Pitt in 1795 to explain why the government generally shouldn't interfere with the market-price of goods, services, and labor.

Burke's strong belief in economic freedom and the institutions and habits that sustain it are not in doubt. The real question is *why* he held these views. It turns out that Burke's support for extensive commercial freedom wasn't chiefly based upon what we today would call "libertarian" premises. His main reasons for supporting economic liberty were classically conservative.

It's About the Long-Term

In many ways, conservatism is about the long-term. The conservative looks far back into history to recall the wisdom of the past. This is matched by a skepticism about responding to immediate concerns, real or otherwise, by acting contrary to truths knowable by natural reason and historical experience. For the conservative, such caution is simply a matter of prudence.

These concerns are found in Burke's most lengthy reflections on the importance of economic liberty, free exchange, and free prices. The context of his 1795 memorandum was one in which Pitt's government was confronted with food shortages throughout Britain after a poor harvest. Like governments everywhere during crises, Pitt's administration was under pressure to "just do something."

Some wanted the government to grant subsidies to bolster laborers' wages. Others urged Pitt to establish a monopoly in the grain market to set fixed prices for this

commodity. These schemes were accompanied by a rhetoric that emphasized growing antagonism between rich and poor. The implication was that if Pitt didn't act, Britain could witness the type of extreme social disorder that characterized France.

Part of Burke's advice to Pitt involved explaining the economic difficulties with the proposals under consideration. Burke repeated, for example, his 1772 argument that a free market in grain was more likely to meet the needs of the poor than other economic arrangements. State efforts to manipulate the market price of commodities, he noted, made it harder for consumers and producers to "mutually discover each other's wants." Efforts to fix such interventions' distorting impact upon the price mechanism via more interventions would, Burke contended, make it harder for people to know the real market price of any given commodity. The result would be misdirected resources and growing shortages.

Burke's memorandum also argued against demonizing the wealth disparities associated with the accumulation of capital. Capital accumulation, he claimed, mattered for the type of investment that drove the economic growth which helps those whom Burke called the "laboring people" to find work and escape poverty. In his lifetime, Burke said, he had observed how the proliferation of commercial liberties and the growth of accumulated capital helped increasing numbers of once-poor people become wealthier, to the point that they were developing their own capital-reserves.

These observations were not simply those of someone who grasped the often-counterintuitive insights of modern economics outlined by Smith. They were also conservative inasmuch as they cautioned governments against acting rashly to appease those who don't know – or don't care – about the likely negative impacts of particular policy choices upon the nation's wellbeing. To Burke's mind, it was a matter of helping political leaders and voters grasp that certain economic truths (what Burke called "laws of commerce") don't change in the face of what he described as "idle tales," "foolish good-intention," and "the malignant credulity of mankind." In such conditions, the government's first responsibility to the people "is *information*" – i.e., the truth – "to guide our judgment."

Focused But Limited Government

There is, however, another aspect of Burke's free market beliefs that is rooted firmly in his conservatism: his view of the state's role in economic life.

In his *Thoughts on Scarcity*, Burke articulated the principle that he had developed as a way of determining which particular functions were legitimately carried out by governments. As he put it:

The State ought to confine itself to what regards the State, or the creatures of the State, namely, the exterior establishment of its religion; its magistracy; its revenue; its military force by sea and land; the corporations that owe their existence to its fiat; in a word, to every thing that is *truly and properly* public, to the public peace, to the public safety, to the public order, to the public prosperity.

This was not a mindset of *a priori* antagonism towards government. What mattered for Burke was that the functions being performed by the state really were tasks which *only* governments can accomplish: national defense, the administration of justice, law and order, etc. Burke was prepared to “admit of exceptions” to this rule; but they remained *exceptions*.

Burke’s reference to “public prosperity” might seem to open the door to extensive state interference in the economy. Burke, however, made it clear that the state’s economic role was limited by three considerations.

The first was that governments should hesitate before embarking upon legislation which seeks to influence directly the exercise of legitimate property rights and the workings of private contracts. Excessive government involvement in these areas, he maintained, could substantially undermine (1) the security provided by property and (2) the freedom of individuals to negotiate agreements in ways which mutually benefit all parties to a given contract. Resolving any subsequent disagreements among the relevant parties, Burke commented, was the responsibility of the judiciary, not government ministers.

Second, Burke believed that the more governments directly involved themselves in local and provincial affairs, the more distracted they would become from carrying out their primary responsibilities. This conviction was reinforced by Burke’s third and related consideration: that certain welfare functions were better undertaken by non-state entities.

“Without all doubt,” Burke regarded assistance to the needy as “a direct and obligatory duty upon Christians.” At the time, that designation included almost everyone in Britain. Nonetheless, he added, “the manner, mode, time, choice of objects, and proportion are left to private discretion.”

Burke’s point was that London-based officials simply couldn’t know enough about the nature of poverty in Inverness or Cardiff to act effectively. By contrast, private individuals and groups close to a given problem were likely to possess deeper insights into the nature of the difficulty than governments. The latter, Burke implied, should be far more humble about their capacity to assist those in need. Nevertheless, Burke did not believe that *doux commerce* was sufficient to produce a

good society, or that life could be reduced to market exchange. He was not a radical proponent of *laissez-faire*; but, then again, neither was Adam Smith. Burke's vision was one of commercial freedom, enterprise, capital-accumulation, and a dynamic marketplace that existed *within* a culture bound together by religious norms, a belief in natural law, customs, and good manners.

All these reflections on Burke's part add up to a classic conservative case for free markets. Far from being doctrinaire, Burke's position underscored the importance of prudence, paid attention to crucial empirical insights described in Smith's *Wealth of Nations*, insisted that local communities and non-state institutions remain free to address local problems, and stressed that governments should have the modesty to know their limits. Above all, Burke believed that economies needed to be grounded in certain truths about the human condition which utopians and romanticists of all stripes are inclined to ignore.

If that doesn't amount to a distinctly conservative argument for free markets, I don't know what does.

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THE RT HON DAME ANDREA LEADSOM MP

Dame Andrea Leadsom is the Conservative MP for South Northamptonshire, being first elected in 2010. She served as the Secretary of State for Environment, Food and Rural Affairs between 2016 and 2017, Leader of the House of Commons between 2017 and 2019, and as Secretary of State for Business, Energy and Industrial Strategy between 2019 and 2020.

The Early Years and the Free Market

My passion in politics is standing up for democracy, equality, and fairness, giving every single one of our citizens the chance to fulfill his or her own aspirations and be the best that he or she can be.

A thriving economy that promotes true social justice not only at home but also around the world is an ideal that all conservatives strive to achieve. It is my desire for social justice and a transformation of our society that has driven my work, particularly in ensuring that every baby gets the best start to life.

It was Adam Smith in *The Wealth of Nations* who asserted that “the self-seeking rich” are often “led by an invisible hand...without knowing it, without intending it, [to] advance the interest of the society.” Put simply, the sharing of expertise can lead to an increase in wealth and prosperity for all.

Free trade and open markets are the foundations of conservatism. Conservatives have thrived when they governed as champions of the people, providing freedom of choice and opportunity, a strong economy, competition, and global leadership.

In order for individuals to develop their abilities to successfully and positively contribute to society, they need to have, above all, well-developed emotional capacity as human beings. In many ways, championing the human mind is something in which our American friends have led the world. And nurturing the capacity of the human mind has helped to promote and support the values of free trade, innovation, and enterprise that form the bedrock of conservative values.

The early years have a profound impact on how individuals later contribute to the world in which they live and work by being confident to learn, make friendships, hold down a job, and have a sense of self-worth. These sound very basic, but for far too many individuals, these goals are elusive.

The building blocks of good lifelong physical and emotional health are laid down during the first 1001 days of life. Babies develop at their fastest rate during this time, and the quality of their attachment to their principal caregiver(s) proves especially formative. Insecure or, even worse, disorganized attachment will profoundly impact a baby’s potential to achieve a stable and secure life.

The development of the human baby's brain has deep implications for society. At birth, humans are unique in the animal kingdom in the extent of their underdevelopment, both physical and intellectual. The brain is only partially formed at birth, with billions of undifferentiated neurons that will make connections to adapt to the environment in which the baby finds himself. Specifically, the part of the brain that deals with empathy and self-regulation (the "social" part of the brain) undergoes a large growth spurt between six and eighteen months, with this growth stimulated by the attention of a loving adult caregiver. Babies who suffer neglect or abuse in this critical period, and whose social brain is consequently underdeveloped, may struggle for their whole life with empathy for others, self-esteem, relationship-building, anger management, depression, and many other social ills. What you do with a baby from conception to the age of two is about building the social and emotional capacity of that infant; what you do after the age of two is almost all about trying to reverse damage that is already done.

There are financial impacts to underinvestment in the early years. As a society, we can spend on early intervention or, alternatively, we can spend far greater sums of money to mend the negative impact of those who have struggled at school, struggled to hold down a job, and struggled with relationships. Early financial intervention can improve the emotional health of our nation, something that is more important than ever as the United Kingdom and the United States recover following the coronavirus pandemic.

Professor James Heckman succinctly explained the economics of human potential. His influential research shows that the highest rate of economic return comes from the earliest investment pre-birth. His ground-breaking work shows that early childhood development directly influences economic, health, and social outcomes for both individuals and society. Adverse early environments create deficits in skills and abilities that drive down productivity and increase social costs, adding to financial deficits borne by the public. As a result, investing in the early years is clearly beneficial for human happiness, as well as society and the taxpayer. Put simply, prevention is not only kinder but also cheaper than the cure.

In *Leviathan*, the 17th-century philosopher Thomas Hobbes argued that individuals are naturally selfish and competitive and that the ruthless few will lead others to war when they are left to their own devices. As a result, he argues that control by government, even dictatorship, is the best way to provide leadership to protect and advance society. We have seen this argument used by many dictators for centuries across the world. But it is, in reality, the human capacity and the emotional intelligence of an individual that leads her to be creative, entrepreneurial, and

ambitious and to help her family, friends, and ultimately her country grow and prosper.

The insightful report “Building Great Britons” (2015), led by the United Kingdom’s All Party Parliamentary Group on Conception to Age Two, details how insecure attachment between a baby and a parent or caregiver leads to poor social and physical development, alongside a wide range of behavioral problems. If the opportunity to build emotional intelligence and become capable of emotional regulation is not taken in the earliest years, then the baby – and, later, the child and adult – will be unlikely to reach his best capability and, in too many cases, will never take advantage of life’s opportunities. Unfortunately, this destructive cycle of deprivation repeats in the next generation of parents, who will pass on the same lack of empathy and emotional intelligence to the next generation.

Few would argue that the special relationship between the United Kingdom and the United States is the strongest on earth. We share many political, economic, social, and cultural connections, but the greatest shared value should be ensuring that every baby receives the best start for life. If we are to invest in our future and champion a society based on the conservative ideals of free trade and enterprise, then there is no better place to begin than in the earliest years.



DR RYAN STREETER

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The Right and Wrong Ways to Address Stagnation with Opportunity

When Alexis de Tocqueville visited the United States in 1836, he famously observed that Americans manage their affairs largely through civic associations rather than the state. Among the lesser-known reasons he admired American civil society was its complementarity with commerce. Americans were ambitious, he noted, and will “build a house in which to pass [their] old age and sell it before the roof is on” and “plant a garden and rent it just as the trees are coming into bearing.”

Tocqueville was actually observing a distinctively Anglo-American phenomenon, a civic commercialism in which individual liberty is paramount and expresses itself vocationally and communally. David Hume and Adam Smith were 18th-century Britain’s most prominent proponents of what we call “globalization” today. In their view, commercial trade imposed a positive, innovative pressure on British workers and shopkeepers, forcing regular people to make new and better things to meet needs and satisfy expectations. Those expectations, oriented towards ever-improving products and services, had the potential to corrupt as consumption became an endgame in itself. The buffer against corruption was the moral rootedness that came through associational life in which citizens witnessed good behavior, heard it praised, and desired to be good themselves. A peaceable and good society depended not on learning morality primarily from books but through the habit, practice, and repetition that came from associational life. Adam Smith’s *The Theory of Moral Sentiments* and *The Wealth of Nations* have never been in conflict, as some have supposed, but are rather complementary parts of a unified vision of a socioeconomic order in which moral life produces the stability and commerce on which progress depends. The “spirit of democratic capitalism,” as Michael Novak put it, consists not only of free enterprise and the limited government that enables it, but also a moral culture that supports liberty and justice.

Today, in both the United Kingdom and the United States, many conservatives have flipped this duality on its head. Cultural disorder in the form of addiction, joblessness, dysfunctional home life, and crime is regarded as the result of too much commercial dynamism, and the bottom-up entrepreneurialism long associated with dynamic societies is regarded as a thing of the past. Stability, in this view, increasingly needs to come from statist interventions in the form of expanded safety nets, public subsidies for industries employing low- to middle-

wage workers, and even penalties for the villains of the moral order – such as big tech companies – through regulatory and legal means.

The political left has long prioritized social stability over individual liberty – especially its commercial expression – but the conservative turn towards security as a top priority is new. It is not without its merits. The contrast found between stagnating wages in cities and towns beset with a host of social problems that prove stubbornly resistant to improvement and dynamic places where talent and capital have concentrated is too stark a picture of inequality not to demand a response.

However, the state-managed response that is currently in vogue in some conservative quarters not only cuts against timeworn conservative principles but also suffers from a misdiagnosis of the very problem it is trying to address. Stagnation is typically the result of too little dynamism, not an overabundance of it. When a large employer in a town, such as a factory, closes and there are no good alternatives for workers, it indicates that an underlying economic deterioration predated the closure. In dynamic places, the churn produced by job hopping as new businesses start while others close actually creates a kind of stability that a one-company town cannot replicate. Contrary to conventional wisdom, surveys show that wage earners are more satisfied with their jobs in dynamic places relative to more stagnant locales. This seems counterintuitive at first, but, upon reflection, makes sense. Most people experience upward mobility by firm hopping rather than climbing the ladder in a single firm over time. Workers in a region with multiple companies vying for talent in a given industry experience opportunity in concrete ways: they hear about new job opportunities from friends, they see a wanted ad, or they hear coworkers talking about the competition. Opportunity begins with options, which is precisely what dynamic places provide.

In the United States, much has been made of working-class angst in contributing to the conservative turn toward statism. Little attention has been paid, however, to the attitudes of actual working-class people, who show more of an interest in dynamism than they do its alternative. They are often more optimistic about the future and more confident in the ability of people to build a life for themselves than more affluent citizens. But, understandably, they do not trust elites. They are not asking for the kind of security that highly educated, affluent citizens think they need. They want the opportunity to improve their lives on their own terms.

A better approach to reinvigorating an “opportunity society” would be to recover the complementary forces of commercial and moral order, and to do so with a better diagnosis of the challenges they need to address.

The Right and Wrong Ways to Address Stagnation with Opportunity

A more accurate diagnosis would include the recognition of the geographic nature of stagnation, failures of our human capital institutions to properly equip workers for the economy of tomorrow, and cultural trends that dampen human aspiration. On the first point, there is widespread consensus that ideas and capital flow to places, usually urban areas, and the geographical concentration of those assets produces a rich array of opportunity for those fortunate enough to live and work there. Even as we debate the effects of remote work advances during the COVID-19 pandemic, we should expect that these forces of agglomeration will still exert considerable pressure for the foreseeable future.

Second, higher house prices and living costs often accompany the growth of dynamic places, making it harder for people outside of the higher-paid sectors to flourish. Compounding the problem, people with lower levels of education often have smaller information and personal networks, which results in more limited vocational options. Professional and workforce training systems are often backward-looking, training for the jobs of yesterday rather than tomorrow. The net effect of these phenomena is that a significant portion of the population is mismatched professionally or geographically with suitable opportunities.

Finally, an over-emphasis on risk aversion in our policies reduces our capacity to pursue and create opportunity. Risk aversion dampens the aspirations required to be future-oriented in everything from raising children to starting businesses to creating new scientific breakthroughs.

How do we think about the time-tested conservative values of equality of opportunity and private enterprise in the context of these challenges? Some conservatives have abandoned these principles to focus on outcomes directed by state intervention in private enterprise, a recipe that seems bound to exacerbate the very problems they intend to address. Conservatives would do better to re-apply the strategies that have worked in the past in ways suited to today's challenges, not those of the post-Reagan and Thatcher era.

There are four tiers of activity for conservatives who value the creation and preservation of an opportunity society.

The first tier is the noble but bland removal of obstacles to upward mobility. Unaffordable housing needs to be addressed not through subsidy strategies, except in limited cases concerning people with very low incomes, but by removing the hurdles to housing supply. A consensus has formed among researchers that restrictions on housing production are the chief drivers of high costs. As a result, it is now time for policymakers to find the courage to take on the land-use and zoning regimes that inflate housing prices. Other obstacles include the numerous

licenses and permits required to qualify for a profession, start a business, or both. The explosion of permits – which, as the word suggests, are a form of permission one must receive from a government to work – has had a disproportionately negative effect on low- and middle-income workers.

The second tier is reforming our public programs for equipping people for vocations – a human capital strategy for the current century, if you will, rather than the backward-looking systems we rely on today. Advances in information technology make it possible for people to have a better grasp on the most dynamic sectors of the economy. At present, numerous companies, training service providers, and schools have the ability to equip workers for those sectors but are not yet a formal part of our clunky educational and workforce systems. This entire field is ripe for reform, a rich opportunity for policy entrepreneurs.

The third tier involves new approaches to regional economic development. Most place-based revitalization efforts have a dismal track record. There are, however, glimmers of hope in new efforts that focus on regions. No public policy effort will be able to reverse the elements of dynamism that lead to geographic inequalities, so it is best to work with reality rather than against it. Tying outlying areas to their nearest centers of economic vitality changes those areas from competitors for new inward investment into partners in creating economic ecosystems. There has been some recent experimentation in the United States with this concept at the state and federal level, and its lessons should be applied more broadly as we learn from them.

The fourth and final tier is to promote a culture of adventurism where it is lacking. This is, admittedly, difficult to achieve through policy and is, instead, more related to reinforcing a set of cultural values. For instance, revisiting Cold War-era exchange programs for students could successfully expose people at a young age to the values of difference and variety, which are important for a culture of enterprise to flourish. Public service programs, internships for young people from lower-income areas, and similar efforts can recover the spirit of aspiration that has been in decline over the past generation.

Much of the measured unhappiness and anxiety that policymakers on the left and right see as a justification for an expanded state apparatus stems from the stagnation and declining sense of opportunity. In practice, enhanced social security measures alone will likely only prolong or possibly make worse this malaise. Conservatives know something about the roots of opportunity and the adaptability of conservative principles, such as individual liberty and effort, enabling but limited government support, and commercial activity. These vehicles for societal

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improvement can once again play a leading role in the imaginations of tomorrow's policymakers.

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Rejuvenating the Anglo-American Economic Model

On both sides of the Atlantic, recent months and years have been the focus of much introspection about our history. We have spent considerable time and energy agonising about the unpalatable aspects of British and American history, including colonialism, racism, and the slave trade. Alongside a healthy debate about the elements of our past that we may wish to disavow, it would be beneficial to reflect on the ingredients that have made the United States and the United Kingdom prosperous and successful countries.

The centerpiece of the US and UK's success has been our broad embrace of the free market, an enterprise system of voluntary exchange in which the role of the state remains limited. Individuals are allowed – indeed, encouraged – to make their own choices about how they marshal and deploy their economic resources. They are additionally urged to decide the prices they are willing to bear, make their own tradeoffs between different goods and services, and determine the extent to which they wish to spend their own money or save it.

As a result, both the United Kingdom and the United States remain two of the most desirable countries in the world in which to live. The sheer number of individuals who wish to depart their homelands to build a new life in either Britain or America offers testament to this. Despite this, those of us who believe that the simple recipe of free enterprise has been the underpinning of human flourishing urgently need to restate the case for the free market system and persuade our fellow citizens to limit the reach of the state into their personal lives.

Although it would be incorrect to suggest that the UK and US are always in political lockstep, it would be fair to say that since the start of the millennium – and certainly since the global financial crisis – there has been a growing tendency on both sides of the Atlantic to drift into the lazy assumption that the default solution to any human affliction is the launch of a new government programme or the drafting of a new law. Increasingly, there is no longer a substantial difference between the Anglosphere and the social democratic economies of continental Europe in terms of the tax burden, the quantum of government spending, and the extent of state regulations.

We therefore need to pay serious attention to how we restate and redevelop the case for market capitalism.

First, we need to move away from the tired, textbook definition of a competitive market economy. The neo-classical approach to markets – typically taught as an introduction to the topic in our schools and colleges – outlines the circumstances in which competition provides the best results for consumers. We are asked to imagine a scenario in which for any given good or service there are an infinite number of suppliers and no differences in the quality of the product being provided. Furthermore, perfect information about pricing is automatically communicated to all potential customers at no cost and there is no cost associated with switching from one provider to another. In effect, all retail outlets are imagined to be exactly the same distance from every customer with zero difficulty in a customer turning his back on his present supplier and settling on a new one.

At an abstract level, one can see how such a system might demonstrate the benefits of competition to customers. A local store cannot possibly increase the price of their chocolate bars because – immediately and automatically – a consumer of their confectionary will switch her patronage to an alternative supplier. In a stylized model of a free market, there is, therefore, no room for companies to make abnormal profits, and chocolate-lovers can secure their fix of cocoa at a low equilibrium price.

Even if the concept of perfect competition might be conceptually attractive, it does not, of course, describe the world in which we actually live. Competition in the economy is generally desirable but is much, much messier than the textbooks imply. In reality, companies are able to make substantial profits – but this needn't be a problem if it serves as a signal for other providers to enter the fray. In the real world, we don't ever get to a universal "equilibrium price," but we are engaged in an endless discovery process, always striving to provide "better for cheaper" and always learning from how others are doing it. These benefits of competition are of enormous value in enriching our lives, even if they cannot easily be displayed as a graph in a textbook.

A healthy dose of scepticism about abstract, perfect competition would also enable us to adopt a wiser view of what we mean by "market failure." Some companies will get prices "wrong," some will adjust, some will grow, some will merge, and some will go bust – but these are no more market failures than falling out of a tree is a gravitational failure. To the contrary, these are the very things markets are designed to do. They are features, not bugs.

Second, alongside restating a practical case for the benefits of markets, we need to become far more proficient at persuading the public to be highly sceptical of state action. This does not mean that we need to claim that government action is always ill-intentioned – although, when it is, it needs to be called out. Even if we assume that politicians, bureaucrats and state employees are always enlightened, benevolent, and highly intelligent, strong reasons remain to dramatically limit their impact on our economy and our lives.

As Friedrich Hayek, the great economist and philosopher, explained, knowledge is dispersed throughout society. Central planning by government authorities cannot be as well-informed as allowing millions upon millions of different transactions to be voluntarily agreed upon every minute of every day. State programmes cannot realistically strive to have the same efficient and instantaneous feedback mechanisms that we witness in a competitive market economy. Though citizens cast votes in polling stations on occasion, businesses are reacting to customer demand on an hour-to-hour basis and recalibrating their behaviour accordingly.

Too often, political debate seems to hinge on how much more we should allocate to specific state programmes. Politicians boast about how much money they are spending, whereas businesses boast about how much money they are earning. Free markets do not solve every human problem instantaneously, but they do operate under the core principle that people should spend their own money on their own choices. This tends to encourage a keen interest in both cost and quality control. Governments, however, are generally in the process of spending people's money on other people – and this tends to accompany a correspondingly inattentive approach to both price and quality standards.

Third, we need to be aware that whilst the case for a free market economy is overwhelming – with both theory and evidence showing it is the best path to prosperity – it is also, in many ways, counterintuitive. Though the argument for free exchange and free trade hinges on the existence of a multitude of win-win situations, the starting point for many people is viewing economics as a zero-sum game. If X and Y undertake a trade that leads to X being \$5 better off, most people's basic human instinct indicates that Y must be \$5 worse off. In fact, of course, if the trade was voluntary, we can assume this was because both parties gained from it. I may be \$5 better off as your barman, but you have the benefit of me having served you a nice, chilled beer. Both of us are happier than we would have been if the five-dollar bill had stayed in your pocket and the beer had stayed in the barrel.

As such, the case for free markets requires both persistence and patience, since it is about expanding the overall amount of human prosperity and flourishing, the

metaphorical “pie” of social and economic welfare. The siren song of the pro-government lobby for a particular new state action is about how to slice up the pie. This is not a strategy for meaningful economic growth that expands the pie – but many people find the trade-offs involved easy to grasp. So, a restated case for competitive capitalism requires us not just to be honest about what markets really achieve and not merely to accept that government plans might be well-intentioned (even if they are likely to go awry), but also to have patience in explaining our argument.

There are no final victories in the battle of ideas. That is why the price of freedom truly is eternal vigilance. Though the case for competitive capitalism is an extraordinarily powerful one, there is a pressing need to restate it in an elegant and informative fashion. That is an enormous long-term challenge, but one we need to rise to if we want to see liberty and prosperity spread across the world – and down the generations – rather than wither on the vine.



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A Conservative Appreciation for Culture and Institutions

Real income per capita in many societies has dramatically increased over the last two centuries and global poverty has fallen.¹ One of the central questions in economics is why material conditions have improved in some places and not in others.² There is substantial evidence that culture and institutional arrangements are an important part of the answer. These include public attitudes towards progress and property rights as well as access to financial markets and universal education.³ This should not be surprising to conservatives who have a deep appreciation for the importance of both culture and institutions.

Recent scholarship suggests that cultural attitudes are critical to explaining the start of the Industrial Revolution and the economic development that followed. Beginning in Western Europe between the 1500s and 1700s, attitudes shifted towards a greater public appreciation for shopkeepers, money changers, traders, lenders, and other entrepreneurs. This new appreciation overturned traditional hierarchies fostering a “new liberty and dignity for commoners” based on the free exchange of goods and ideas, as the preeminent economist Dierdre McCloskey has eloquently explained.⁴ This shift in attitudes coincided with the scientific revolution and another revolutionary idea embedded in culture that humans can harness the environment to improve their own condition.⁵

Institutions are also important to explain why conditions have improved. Democracy has dramatically expanded and, at present, in the United States and the United Kingdom, universal suffrage is such a normal part of our political systems

¹ For data and other information on economic growth over both the short- and long-run see: Max Roser, “Economic Growth,” OurWorldInData.org, <https://ourworldindata.org/economic-growth>. For a discussion of economic growth over the very long-run see: Gregory Clark, *A Farwell to Alms*, Princeton, NJ: Princeton University Press, 2007.

² There have been many books written on this topic. A recent one that explores this topic through the lens of economic history is: Mark Koyama and Jared Rubin, *How the World Became Rich: The Historical Origins of Economic Growth*, Cambridge, UK: Polity, 2022.

³ Joel Mokyr, *A Culture of Growth: The Origins of the Modern Economy*, Princeton, NJ: Princeton University Press, 2018; Peter Lindert, *Growing Public: Social Spending and Economic Growth since the 18th Century*, New York, NY: Cambridge University Press, 2004.

⁴ Deirdre N. McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce*, Chicago IL: University of Chicago Press, 2006.

⁵ Mokyr (2018).

that some might take it for granted.⁶ There is also a reinforcing relationship between democracies and market economies. Douglas North, a Nobel laureate in economics, and his colleagues have found compelling evidence that societies where economic and political outcomes are regulated by robust and competitive markets experience higher levels of economic development and lower levels of violence compared to societies that use political control to manage the economy and enforce domestic cooperation between diverse groups.⁷

Public intolerance of corruption is another important part of the shared culture in the US and UK. This intolerance is revealed in the tabloids when a politician or business leader acts scandalously. However, an intolerance of corruption is also reflected by policy. This includes systemic shifts in our political economy that have made it easier to do business, reducing the likelihood that corruption will hold back entrepreneurs.

Politicians in both countries once had much more control over who could form a corporation or company. They used this ability to apportion monopolies (and other legal protections) to those in their political coalitions in exchange for help amassing power.⁸ In this system, the power of well-connected politicians increased, and their friends got rich in a corrupt exchange that reduced economic and political competition. North calls this the “natural state” of political systems, which is still dominant in most societies today. By the middle of the nineteenth century, however, this system had been replaced with the freedom to contract and a streamlined process of incorporating businesses. In the United States, these reform efforts were led by the states.⁹ In both the US and UK, they were motivated by earlier expansions in suffrage.

What ties all these institutions together is an “open access” culture where people are generally free to enter the economic or political marketplace. This type of open access culture has been called many things: the free market, laissez faire policies, democratic capitalism, or private enterprise. But it is really a society in which normal people without political connections can more easily create things that improve their lives and the lives of many others in the process. William Nordhaus, another Nobel laureate in economics, has estimated that about 2 percent of the

⁶ For a discussion of the rise in democratic institutions, see: David Stasavage, *The Decline and Rise of Democracy: A Global History from Antiquity to Today*, Princeton, NJ: Princeton University Press, 2020.

⁷ Douglas C. North, John Joseph Wallis, and Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*, New York, NY: Cambridge University Press, 2009.

⁸ John Joseph Wallis, 2006, “The Concept of Systemic Corruption in American History,” E.L. Glaeser and C. Goldin, *Corruption and Reform: Lessons from America’s Economic History*, Chicago, IL: University of Chicago Press, pp. 23-60

⁹ Naomi R. Lamoreaux and John Joseph Wallis, 2021, “Economic Crises, General Laws, and the Mid-Nineteenth Century Transformation of American Political Economy,” *Journal of the Early Republic*, vol. 41(3), pp. 403-433.

A Conservative Appreciation for Culture and Institutions

social benefits of innovations are kept by the innovators.¹⁰ That means that the rest of us benefit from the ingenuity of entrepreneurs to the tune of 98 percent of all the value that is created by their innovations without taking on the same level of risk. That makes a pretty strong case for fostering progress based on conservative foundations.

It has also recently been in vogue for some conservatives to abandon support of open markets in favor of protectionism. In an appeal to rising populist sentiment, they claim that industrial development is the direct result government involvement that, in the past, included various forms of protectionism. The market must be held subject to the national interest, which they define as including direct support of a robust manufacturing base. But these claims are not supported by history. When protectionism drove trade policy in the US during the late-nineteenth and early-twentieth centuries, the growth in industry was driven by higher levels of capital and technology.¹¹

The increase in capital was related to higher savings rates, which were driven by innovations in banking and financial markets that helped stabilize the financial system. As for the technological progress behind industrialization in the nineteenth century, the most significant gains in productivity were in areas relatively unaffected by trade policy. These included innovations that reduced transportation and communications costs. Even in areas where protectionism may have helped nascent industries – such as in steel and tin production – the welfare effects of trade barriers were small, and they hardly increased the rate of production.¹²

Illiberals at both ends of the ideological spectrum have realized that economic change can produce cultural change, which is undoubtedly true. They have seen how too much economic change creates uncertainty and too little change fosters resentment. The Illiberals believe that they can harness the political pressures created by these factors to reorder culture and institutions in their own vision through the powers of government. In other words, they want to revert to some form of a “natural state” from an “open access” system after having declared the latter a utopian dream that has fallen far short of delivering on its promises.

The Illiberals might be successful in using politics to change both culture and institutions. But in doing so they will be abandoning the core attributes that have made the United States and the United Kingdom prosper. This will damage the

¹⁰ William D. Nordhaus, 2004, “Schumpeterian Profits in the American Economy: Theory and Measurement,” NBER Working Papers 10433.

¹¹ Douglas A. Irwin, *Clashing Over Commerce: A History of US Trade Policy*, Chicago, IL: University of Chicago Press, 2017.

¹² Irwin (2017); Douglas A. Irwin, 2019, “U.S. Trade Policy in Historical Perspective,” NBER Working Papers 26256.

ability of both countries to meet whatever challenges tomorrow might bring. And for illiberal conservatives, this shift will require abandoning key principles that have made the conservative position resilient.



THEO CLARKE MP

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How Global Britain Can Help Countries Trade Out of Poverty

Introduction

Following our departure from the European Union, the UK Government produced the Integrated Review on Security, Defence, Development and Foreign Policy which positions the UK as a global champion of free and fair trade. As co-chair of the APPG for the United Nation's Sustainable Development Goals (SDGs), I am delighted that this APPG submitted a report as part of the call for evidence for this landmark review. Given our strong relationships with developing countries in the Commonwealth, Africa, Asia, the Caribbean and the Pacific, Global Britain has a huge opportunity to help millions of people out of poverty through expanding trade and investment.

As a statement of initial intent, the Integrated Review says that the Foreign, Commonwealth and Development Office (FCDO) will spend £491 million in 2021/2022 to support new trade relationships with developing country partners to complement its wider multilateral and capital investments and to build the trade and investment partners of the future. Rightly, there is a special focus on Africa, with a dedicated new HM Trade Commissioner for Africa being appointed this year and the latest in the series of UK-Africa Investment Conferences, hosted by the Prime Minister, which I attended in London this year.

A new generation of trade agreements with developing countries

As of 1st January 2021, EU trade agreements no longer apply to the UK. As such, the UK sought new trade agreements and to date has agreements in effect with three Andean countries, the CARIFORUM trade bloc, six Central American countries, three countries in the Eastern and Southern Africa trade bloc, six countries in the Southern Africa Customs Union and Mozambique (SACUM) trade bloc, four Pacific states, as well as individual countries like Kenya, Ghana, Cameroon and Cote d'Ivoire.

In addition to the UK's Free Trade Agreements with developing countries, from 1st January 2021 the UK has also offered a generous trade preference scheme for imports from developing countries and the least developed countries. In the summer of 2021, the Government also launched a consultation process on how to improve this scheme, with the ambition of moving beyond the legacy of the EU scheme, to one which is the best-of-breed for any G7 country.

Boosting trade and connectivity in The Commonwealth

The Commonwealth is uniquely placed as an association of 54 countries, with both advanced economies and developing economies, and a total population of 2.5 billion people spanning the globe. Trade is a critical aspect of the Commonwealth and has been championed by the UK through the Commonwealth Connectivity Agenda which I saw launched when I attended the CHOGM London Summit in April 2018. This Agenda aims to increase intra-Commonwealth trade to US\$2 trillion by 2030. One key focus area of this is to develop the digital economy across small states in the Commonwealth, through investments in digital skills, e-commerce, and e-government services.

Further catalysing this is the She Trades Commonwealth project which the UK launched in 2018. This aims to facilitate the participation of women-owned businesses by supporting thousands of women entrepreneurs across the Commonwealth, helping them to export for the first time. She Trades has provided training to 3,000 women entrepreneurs across four Commonwealth countries (Bangladesh, Ghana, Kenya and Nigeria) and has generated £30 million of sales and supported the creation of over 3,000 jobs. She Trades is led by the International Trade Centre, and I was delighted to meet with the Executive Director, Pamela Coke-Hamilton, when I was in Geneva last Autumn. In this meeting we discussed the positive impact this programme has achieved with UK support and its plans to scale-up and empower thousands more women in the Commonwealth through trade.

A key role for UK Development Finance in leveraging private investment

Having visited numerous UK funded programmes in developing countries, I welcome that the Foreign Secretary, the Rt Hon Liz Truss MP, has launched British Investment International (BII), formerly the CDC Group, as the UK's flagship development finance agency. BII's new strategy 2022-2026, is underpinned by three strategic development objectives to invest in Productivity, Sustainability, and Inclusivity. BII aims to prioritise sustainable infrastructure investment in order to provide clean, honest and reliable financing and avoid low-and-middle income countries being left with burdensome debt. As a member of the International Development Select Committee, I recently visited BII's headquarters and heard how they plan to invest to meet global opportunities and address challenges, including the need for jobs as well as tackling both climate change and natural resource depletion.

Having recently attended COP26 and co-authored a report on how we can use the SDGs as a framework to tackle climate change, I am pleased that the BII will help deliver the UK's Clean Green Initiative with an increased focus on climate finance

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and green infrastructure, supporting projects that drive solar power, sustainable transport, disaster-resilient infrastructure, and more over the next five years. BII will help to deliver £8 billion a year in UK-backed financing by 2025. BII will implement the Global Britain Agenda as the UK strives to be a trusted partner to some of the least developed economies in the world that want to create sustainable and prosperous futures for their citizens.

Global Britain in Action: a case study on Kenya

A great way to see the potential and shape of Global Britain in action is the case study of Kenya. Following our exit from the European Union, I was delighted to meet with in person with the Kenyan Cabinet Secretary for Trade to mark the Economic Partnership Agreement (EPA) which the UK successfully ratified with Kenya on 24th March 2021. Kenya is a key trading partner for the UK. UK-Kenya trade is worth approximately £1.5 billion a year. Kenya's top three exports to the UK in 2020 were tea (38%), vegetables (24%), and cut flowers (16%). British supermarkets take over 40% of Kenya's annual production of vegetable exports, as well as tea, coffee, fruits, and spices. The UK's top four exports to Kenya in 2020 were motor vehicles (26%), mechanical machinery (13%), electrical equipment (10%) and pharmaceuticals (7%). The UK is the largest foreign investor in Kenya, with a portfolio estimated at £2.7 billion.

As I have seen for myself when visiting Kenya, TradeMark East Africa (TMEA) - one of UK's key implementing partners in the region – has been helping Kenya and other countries in the region to harvest the benefits from the new EPA, through upgrading trade infrastructure, slashing customs and border red tape, and trade digitalisation. Most notably, TMEA's work to digitise customs procedures and make them paperless has reduced the time to clear a container from four days to three hours in Kenya. I have seen first-hand how TMEA's digital cargo tracking systems have helped reduce the time of moving cargo from the Port of Mombasa along the Northern Corridor to Kampala in Uganda from an average of twenty days to six days. This facilitates the work of traders in both the UK and Kenya and reduces the costs of international trade for UK businesses such as Unilever, JCB, and Diageo that operate in East African markets and provides jobs for my Stafford constituents here in the UK.

In July 2021, I attended the launch of the Trade Information Logistics Pipeline (TLIP) project with the Kenyan High Commissioner H.E Manoah Esipisu at the Kenya High Commission in July 2021. TLIP is a project designed by the Institute of Export and International Trade (IOE&IT) to digitise and streamline key trade processes between the UK and Kenya. The projects will digitise core trading using a distributed ledger platform. It will ensure strong security, transparency with enhanced information sharing between the UK and Kenya that will help to boost

trade and reduce trade costs by 20%, reduce export and import times by 30% to 40% relatively, and reduce processes by 50%. This demonstrates how modern technology can be harnessed to make trade more effective.

Looking ahead

A future opportunity will be the successful implementation of the new Developing Countries Trading Scheme (DCTS) - due to take effect in 2022 and what the implications of the change will be for developing countries. The Government will need to continue to explore the potential impact on developing countries of the UK's trade agreements with developed countries, such as Australia and New Zealand, as well as the role of the WTO and other multilateral forums in relation to trade with the developing world.

Another opportunity is for the UK to strengthen its support and engagement with the African Continental Free Trade Area (AfCFTA) as a leading trade and development partner. From chairing a parliamentary roundtable last year with the AfCFTA Secretary General, US Congressmen and International Trade Minister, Ranil Jayawardena MP, it is clear to me that working with AfCFTA is key in order to unlock trade opportunities in Africa. In order to deliver Global Britain the UK government must continue to seize these opportunities. An important platform for engaging with African leaders will be the CHOGM Kigali Summit in Rwanda, which I am hoping to attend later this year. Britain's new status as an independent trading nation means that now is the perfect time for Global Britain to lead in helping developing countries to trade out of poverty.



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An aerial view of a city skyline at sunset. The sky is a warm, hazy orange. In the foreground, a group of men in suits are gathered, some looking towards the camera. The city buildings are visible in the background, with a prominent skyscraper on the right.

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