

POLITICALLY IMPOSSIBLE?



How ideas, not interests and circumstances, determine public policy

Nigel Ashford

The most significant change in public policy globally at the end of the 20th century has been the rise of the free market or neo-liberal paradigm: privatisation, budget discipline, control of the money supply, limited government, lower taxation, consumer choice, less government intervention in the economy and more market forces. Of course not all these policies have been achieved, but the climate of opinion has shifted so far that these ideas are now legitimate participants in the policy debate and have come to dominate the policy agenda in terms of new proposals. It was an international phenomenon that affected not only Australia, New Zealand, the UK and the USA, but also Asian tigers like Singapore, communist states such as China, and European countries under socialist rulers such as France under Mitterrand.

Yet 20 years ago these ideas were viewed as 'politically impossible', so far outside the mainstream of thinking that they were deemed extremist. Friedrich Hayek, one of the intellectual leaders of this liberal revival, was described by the Oxford philosopher Anthony Quinton as a 'magnificent dinosaur' (Quinton 1967). This was before dinosaurs became fashionable. Michael Foot, the leader of the British Labour Party attacked him as 'the mad professor'. Milton Friedman, the leading exponent of the Chicago School of free market economics and the founder of monetarism, was ignored in many economics textbooks of the 1960s and 1970s, or discussed simply in the context of economic history, not for his contemporary relevance. Now their ideas are the source of many of the policies of governments around the world, as well as new proposals such as a flat tax or education vouchers. How did this happen? How did this transformation occur?

First, I want to examine the arguments of Hayek and Friedman themselves on the impact of ideas; and then to suggest that the critical factors in the policy process are think tanks, the quality press, and politicians as policy champions; and finally to challenge alternative explanations based on interests and circumstances. My claim is that ideas are the most significant influence on public policy. This argument will be exemplified by the British experience, but applicable to Australia and any other country.

Ideas

The classic statement of the power of ideas is from John Maynard Keynes:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else ... soon or late, it is ideas not vested interests which are dangerous for good or ill (Barry 1984: 58).

On this he was supported by his greatest intellectual opponents, Friedrich Hayek and Milton Friedman, both Nobel Prize winners in Economics. Hayek sought to locate the explanation for the popularity of socialism in the post-war period in a misunderstanding of historical evidence. 'Past experience is the foundation on which our beliefs about the desirability of different policies and institutions are mainly based' (1954: 3). One of his works was a re-examination of the industrial revolution, *Capitalism and the Historians* (1954). He believed that it was a pessimistic interpretation of the consequences of that revolution for ordinary people that confirmed the popular perception that government intervention was necessary in order to prevent sweatshops and children going up chimneys. You can hear the echoes of this argument in response to any attempts to introduce flexibility into labour markets. Hayek believed that if you convinced intellectual opinion that in fact the Industrial Revolution was a success story for ordinary workers – the standard of living of the working class grew substantially, life span extended, fewer deaths from infant mortality – then opinion would become less susceptible to socialist nostrums.

Hayek argued for the primacy of ideas in his article 'The Intellectuals and Socialism'. The intellectuals, 'the second hand dealers in ideas', were journalists, teachers, writers of fiction and artists etc.' It is no exaggeration to

*Dr. Nigel Ashford is Principal Lecturer in Politics at the University of Staffordshire, England, and co-author of **The Kiwi Effect: What Britain Can Learn from New Zealand** (Adam Smith Institute, 1996). He gave a version of this paper to a CIS Occasional Seminar in April 1997.*

say that, once the most active part of the intellectuals have been converted to a set of beliefs, the process by which these become generally accepted is almost automatic and irresistible' (1967: 182), because they form the opinions of ordinary people, public opinion.

Similarly Milton Friedman believed that the acceptance of Keynesian interventionism was a consequence of a misunderstanding of the cause of the Great Depression, which was widely believed to be the failure of free markets. Friedman argued that the chief cause of the depression was the total mishandling by government of the money supply (Friedman and Schwartz 1963).

If ideas are ultimately what drives public policy then the changes in the 1980s and 1990s could be located in the influence of intellectuals such as Hayek and Friedman. Friedman himself argued that

major change in social and economic policy is preceded by a shift in the climate of intellectual opinion, itself generated, at least in part, by contemporaneous social, political and economic circumstances. ... After a lag, sometimes of decades,

ideas, and numerous analyses of policy ideas in welfare, education, inflation and deregulation. In 1970 it produced a short pamphlet by Friedman, *The Counter-Revolution in Monetary Theory*. It was basically a 20 page summary of his ideas on monetarism. This was the first real attempt to present monetarism to a wide British audience. Friedman then attended several conferences at the IEA, which published some of his shorter works, expanding his ideas on monetarism. The IEA also played a role in bringing Friedman together with leading politicians, such as Mrs. Thatcher before she was Prime Minister, and leading journalists at IEA lunches. The IEA effectively networked Friedman in the UK.

The IEA also published a series of pamphlets by Hayek highly critical of trade unions, stating that they raised wages by restricting the entry of workers to the labour market, thus creating unemployment. He claimed that the chief source of trade union power was their unique legal status exempting them from prosecution for damages, which led the Thatcher government to gradually rescind (but not eliminate) their legal privileges. The

THE IEA'S EDITORIAL DIRECTOR ARTHUR SELDON WAS FAMOUS FOR TELLING HIS AUTHORS TO IGNORE POLITICAL REALITIES IN THEIR FRAMING OF POLICY PROPOSALS AND TO CONSIDER THE POLITICALLY IMPOSSIBLE.

an intellectual tide taken at its flood will spread at first gradually, then more rapidly, to the public at large and through the public's pressures on government will effect the course of economic and social and political policy (M. and R. Friedman 1988: 455).

A characteristic of these tides is that they are gradual, global and affect policy after a long delay. Friedman identified three tides: the Adam Smith tide, which saw the rise of laissez-faire; the Fabian tide, which saw the rise of the welfare state and (modestly) the Hayek tide, which saw the resurgence of free markets.

Each tide lasts between 50 and 100 years. How did this tide arise in the UK?

Think Tanks

A crucial role was that of think tanks which presented free market ideas in a form that was accessible to the educated reader and student. The Institute of Economic Affairs (IEA) produced short pamphlets of Hayek and Friedman's

IEA also published his most radical proposal, *Denationalisation of Money* (1990) in favour of competing currencies, which has been taken up by younger scholars such as Kevin Dowd. This was an influence behind the UK government's proposal for a hard ecu, which would be a parallel currency that would run in conjunction with national currencies, instead of a single European currency.

Yet there was no attempt to influence public policy in the short term. Indeed the IEA's editorial director Arthur Seldon was famous for telling his authors to ignore political realities in their framing of policy proposals and to consider the politically impossible. Well formulated and articulated ideas can change what is politically possible

The Adam Smith Institute (ASI), created in 1981, was more concerned with specific policy proposals for current policy-makers, although they published a few more theoretical pamphlets by and on Hayek.

The ASI is most famous for privatisation. It must not be forgotten that when the Thatcher government came to power in 1979 it barely mentioned privatisation. The ASI identified forty different means by which privatisation

could be achieved (Pirie 1988). It also developed a political strategy for overcoming opposition, discussed later. It has been an advocate of the internal market in the welfare state by separating the provider and the producer, for example in the National Health Service. It promoted Citizen's Charters before the idea was adopted by the Major government, and capital accounts to encourage private secondary pensions, now Conservative policy in 'Basic Pensions Plus'.

Think tank leaders are policy entrepreneurs, who seek to network the intellectuals and the policymakers. One of the motivations for Ed Feulner to create the Heritage Foundation in Washington D.C. was his frustration as a staff adviser on Capitol Hill that academic studies that demonstrated the weaknesses of interventionism reached the policymakers too late, after a bill had been passed. Thus his emphasis is on the presentation of ideas in a format and size that policymakers and their advisers can read and understand and the timeliness of receiving them, 'the briefcase test'.

Richard Cockett has charted the impact of think tanks

He produced a popular book and television series, *Free to Choose*, shown in 1980. He wrote a regular column in *Newsweek* from 1966. His role as a promoter of free market ideas there is now taken by Robert Samuelson.

The IEA introduced Friedman's ideas to economic journalists in Britain. The economic editors of the quality newspapers in Britain all met Friedman through the IEA, became convinced and converted by his ideas and gave exposure to them, frequently mentioning his name in their articles and columns. The most significant was Samuel Brittan of *The Financial Times*, who has made his own interesting theoretical contributions to monetarism as well as to liberal thought in general.

The second most significant was Peter Jay, economics editor of *The Times* (now BBC economics correspondent) and the son-in-law of 1970s Labour Prime Minister, James Callaghan. Third was Frances Cairncross, economics editor of the left wing *Guardian*. None of the three were supporters of the Conservative Party, but all appreciated the need to control inflation and rejected the conventional wisdom of the day in favour of an incomes policy.

A THIRD SIGNIFICANT FACTOR IS THE ENDORSEMENT OF IDEAS BY POLITICIANS ACTING AS POLICY CHAMPIONS.

on the Thatcher and Major administrations in *Thinking the Unthinkable* (1994). Think tanks are at last getting the academic recognition they deserve (Stone 1996). Imitation is the sincerest form of flattery. The 1990s have seen the creation of number of think tanks on the Right – the Social Market Foundation, Politica and Conservative 2000 – and on the Left – the Institute for Public Policy Research, Demos, Nexus, and the revival of the formerly defunct Fabian Society. Their creation is testimony to the view that ideas and think tanks matter and were a significant factor in the success of market ideas in the 1980s and 1990s.

Media

A second factor is the media, which plays a crucial role in bringing ideas to the attentive public. Most of the public pay little attention to politics and policies, but there are significant number of people who do. The free market was fortunate to have a spokesman like Friedman, who loved publicity, going on television, and had a combative style that gained media attention. There were no problems for him being interviewed in *Playboy* magazine, for instance.

By contrast, no major newspaper embraced supply side economics and a strong emphasis on tax cuts until *The Sunday Times* under Andrew Neil in 1986. The newspaper also, in cooperation with the IEA, brought to the UK Charles Murray who applied his critique of US welfare policy to the UK and altered the nature of the debate (Murray 1990).

Policy Champions

A third significant factor is the endorsement of ideas by politicians acting as policy champions. The key person for monetarism was Sir Keith Joseph. He had been a minister in the Heath government of 1970, whose disastrous incomes policy led to the first miners strike and loss of power in 1974. The government was widely perceived as a total disaster. Joseph asked himself the question: why? He went away on a summer holiday with a suitcase of books and pamphlets by Friedman and Hayek, read them on the holiday in Scotland (poor wife), and then said: this is the answer – these are the ideas which explain why we made a mistake and what we need to do.

Through the auspices of his own think tank, the

Centre for Policy Studies, he then made a series of speeches, over 100 in three years, explaining monetarism in simple terms that people could understand. These speeches obtained considerable media coverage, in part because he was attacking the government of which he had been a member. Some of the speeches were printed as CPS pamphlets. It was Joseph who popularised the word 'monetarism'. At that time Thatcher was Joseph's lieutenant, his number two, if anyone can imagine Mrs. Thatcher being number two to anyone. At that time Joseph was seen as a possible leader of the Conservative Party. Thatcher learnt these ideas from Joseph and then did her own extensive reading. What she did was to integrate the free market within a broader framework of values such as thrift and hard work, what Shirley Robin Letwin described as 'the vigorous virtues' (1992). The free market was about much more than economic efficiency. Thatcher as Party leader and as Prime Minister was able to bring the attention of the British, and eventually the world's, public to these ideas.

interests, they would be overwhelmed when it came to particular policy decisions by the concentrated interests of the beneficiaries of government in that particular case, what economists call 'rent-seeking'. However this approach has the danger of fatalism, of underestimating the capacity to change policy, and of downplaying the role of ideas in changing interests.

First, what determines interests? Interests depend on perceptions on what is in one's interests, which are based on ideas. For example, the belief that the free market was hostile to the interests of 'working people' was severely undermined when the market was expressed in terms of owning your own home (the sale of council houses), owning shares (through privatisation) and even setting up your own business, resulting in the enormous expansion of small and medium sized businesses.

Second, the form that policies take, though based on ideas, can be influenced by a reflection on the interests involved. The Adam Smith Institute specialised in shaping the language and content of policy initiatives in order

INTERESTS ARE CERTAINLY POWERFUL IN THE POLICY PROCESS, BUT THEY ARE TO
A GREAT EXTENT A REFLECTION OF IDEAS AND ARE NOT FIXED IN STONE.

However we must be careful not to exaggerate the role of politicians. I have argued elsewhere that 'the shape, style and pace of change has been strongly influenced by Mrs. Thatcher, but not the direction' (Ashford 1987: 25). The evidence for this is the earlier change of direction under the previous Labour government under Callaghan and the move to free markets in countries without leaders who shared Thatcher's convictions.

Interests

The traditional and most popular explanation among political scientists for policy determination is the role of interest groups, whether in pluralist or corporatist or public choice theories. James Buchanan, another Nobel Prize winner in Economics and co-founder of the Public Choice or Virginia school, explained political behaviour in terms of the self-interest of political actors, such as politicians seeking election, bureaucrats seeking size maximisation (or empire building) or interest groups seeking to use the power of government to further their own interests.

The Public Choice school identified the problem of 'concentrated benefits and dispersed costs.' Even if voters came to perceive that less government was in their

to identify interests that could be mobilised to support new policies or to defuse opposition. The Thatcher government had initially opposed extensive privatisation, because it feared opposition from the management and trade unions of the nationalised industries, the possibility of the disruption of public services, and could identify no apparent support for it amongst the public. Public choice analysis suggests that this would be so, but it also indicates that the solution is to create interests in favour of change, encouraging management buy-outs, cheap or free shares to employees and widespread share ownership among the public (Pirie 1988).

Third, successful pressure groups require legitimacy for the achievement and maintenance of power. They must have public confidence that their role is a positive one. For example, trade unions had legitimacy in the UK in the 1950s and 1960s under governments of both parties, but lost it when they appeared to operate against the public interest, undermined by academic studies which showed that they benefited union members at the expense of non-members, dramatically illustrated in the winter of discontent of 1979. Industrial disruption by itself will not undermine legitimacy, as demonstrated in

France where strikes and direct action are supported by the majority of the French public. Delegitimation requires an intellectual critique.

Fourth, the power of interest groups depends on the nature of the policies pursued. In the 1970s British governments of both parties believed that the only solution to the problem of inflation was an incomes policy, which required the support or at least acquiescence of the trade unions in a corporatist style of decision making. The governments were then forced into a dependency relationship with the unions. The pursuit of an anti-inflation strategy that depended on the money supply, which was within the control of the government, reduced that dependency relationship and thus the power of the unions (and also business leaders).

Thus interests are certainly powerful in the policy process, but they are to a great extent a reflection of ideas and are not fixed in stone.

The attraction of Tony Blair to Lady Thatcher is not to his policies but to his willingness to challenge interests, in contrast to Major's reluctance to do so.

Circumstances

Another popular argument amongst those wishing to dismiss the power of ideas is that it is circumstance or events that determine policy, that the free market was the inevitable response to the problems of the period. Yet this was not what intellectuals said at the time in the 1970s and early 1980s. In the UK, incomes policy, higher taxation, state ownership of utilities and a bigger welfare state were seen as necessary and inevitable. Friedman, in his quotation above, also places a significant emphasis on circumstances, which he suggests, created the change in intellectual opinion.

What are 'circumstances'? John Kingdon (1984) has preferred to talk of 'problems' requiring solutions, which then require the attention of intellectuals. In other words, intellectuals respond to the conditions around them, and do not create them. What this ignores is the source of problems; they are the result of policies or decisions taken by previous governments or other actors. What motivates these actions by them is ideas about their own interests and preferences. Circumstances and problems are themselves the consequences of past or changing ideas. The interest in Friedman's theory of monetarism was a response to the inflation and unemployment ('stagflation') that was a consequence of Keynesianism in the past. The power of the trade unions was a consequence of interventionism which required the consent of the unions, in the form of an incomes policy or corporatism. This faith in corporatism is still a major problem in the reform of labour markets in Australia and continental Europe.

Politically Impossible?

I have thus argued that ideas are the most important explanation for policy change and identified the process by which they come to exercise influence through think tanks, media and politicians as policy champions, and attacked explanations based on interests and circumstances as independent variables. However, the process of how ideas come to influence policy is still not clearly understood.

Those engaged in the formulation and articulation of ideas will continue to feel the frustration of never knowing how and which, if any, of their ideas will come to affect public policy. One can however be confident that ideas do matter, dominate the policy agenda and the identification of problems, and thus determine the future of history.

Policy

References

- Ashford, N. 1987, 'Thatcherism without Thatcher?' *Economic Affairs* 8(7):24-26.
- Barry, N. 1984, 'Ideas and Interests' in A. Gamble et al., *Ideas, Interests and Consequences*, IEA, London.
- Cockett, R. 1994, *Thinking the Unthinkable*, Fontana, London.
- Friedman, M. 1970, *The Counter-Revolution in Monetary Theory*, IEA, London.
- Friedman, M. and R. 1980, *Free To Choose*, Penguin, Harmondsworth.
- _____. 1988, 'The Tide in the Affairs of Men' in A. Anderson and D. Bark (eds), *Thinking About America*, Hoover Institution Press, Stanford, California.
- Friedman, M. and A. Schwartz 1963, *A Monetary History of the United States, 1867-1960*, Princeton University Press, Princeton.
- Hayek, F. 1954, *Capitalism and the Historians*, University of Chicago Press, Chicago.
- _____. 1967, *Studies in Philosophy, Politics and Economics*, Routledge, London.
- _____. 1990, *Denationalisation of Money*, IEA, London.
- Kingdon, J. 1984, *Agendas, Alternatives and Public Policies*, Little Brown & Co, Boston.
- Letwin, S.R. 1992, *The Anatomy of Thatcherism*, Fontana, London.
- Murray, C. 1990, *The Emerging British Underclass*, IEA, London.
- Pirie, M. 1988, *Privatization*, Gower, Aldershot.
- Quinton, A. 1967, *Political Philosophy*, Oxford University Press, Oxford.
- Stone, D. 1996, *Capturing the Political Imagination: Think Tanks and the Policy Process*, Cass, London.