

“This book pulls no punches. The path is clear.
We have to be brave enough to take it.”

Sir Terry Leahy, CEO of Tesco (1997–2011)



BRITANNIA UNCHAINED

GLOBAL LESSONS FOR
GROWTH AND PROSPERITY

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Britannia Unchained

Global Lessons for Growth and Prosperity

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Contents

<i>Acknowledgements</i>	vi
Introduction	1
1. The Chains	7
2. A Tale of Two Nations	12
3. Revenge of the Geeks	38
4. Work Ethic	61
5. Buccaneers	78
6. Britannia Unchained	100
Conclusion	113
<i>Notes</i>	117
<i>Bibliography</i>	133
<i>Index</i>	137

6

Britannia Unchained

Whereas countries like Japan and Germany suffer from a shrinking, aging population, Britain is experiencing a new baby boom. We should learn from the optimism of growing countries like Brazil, and be assured that our best days can still lie ahead. Rather than growing old and comfortable, Britain must be prepared to think like a young country, ready to work hard and to take risks.

For so long, Brazil was a nation brimming with potential but held back by politics, both at home and abroad. For so long, you were called a country of the future, told to wait for a better day that was always just around the corner. *Meus amigos*, that day has finally come.¹

So said President Barack Obama in his speech to 2,000 Brazilians on his tour of Latin America in March 2011. Just that morning Obama had toured the once-violent Cidade de Deus slum, made infamous by the 2002 film *City of God*. Now he stood in the crowded Theatro Municipal, an elegant theatre of gold trim and red velvet.² To rapturous applause, he concluded, ‘This is a country of the future no more. The people of Brazil should know that the future has arrived.’

Obama was hardly telling the Brazilians something they didn’t know. A poll in January 2011 showed Brazilians to be the most optimistic people in the world, with 78 per cent expecting their local economy to improve in the next six months. India came second at 61 per cent, while just 25 per cent of people were optimistic in the United States. In the United Kingdom, the figure was a mere 12 per cent. At the bottom of the list, a dismal 4 per cent of the French were optimistic about the future of their country.³

Even politicians are popular in Brazil. The last leader, President Lula, still enjoyed an 80 per cent approval rating after eight years in power,⁴ leading Obama to describe him as ‘the most popular politician on earth’.⁵

Lula was born to poor, illiterate parents in 1945 in the small city of Caetés in north-eastern Brazil. He himself didn't learn to read until the age of ten. As a child, he worked as a peanut seller and shoe-shiner. Later, he trained as a metal worker, and, after the death of his first wife in 1969, became increasingly involved in trade unionism. In 1980, he founded the Workers' Party, Brazil's first major socialist party. After three unsuccessful attempts, he finally won his election in 2002. Despite concerns that he would turn back the country's economic progress, once in power he proved more moderate than some of his radical 1980s rhetoric. On his original election in 2002, financial markets panicked, fearing debt default and a reverse of economic reform, but by his re-election in 2006, they had calmed down. During his presidency, over 20 million people were lifted out of poverty. At the end of his constitutional two terms in 2010, he stepped down.

After her first year in office, Lula's successor and Brazil's first woman president, Dilma Rousseff, enjoyed her own approval rating of 70 per cent.⁶ She also started on the left of politics. She began her adult life as a Marxist guerrilla, and in 1970 was captured and tortured for two years by the then military dictatorship.⁷

The Brazilians have much to be optimistic about. The Brazilian economy was one of the last to enter the global recession, and one of the first to exit. In December 2011, Brazil overtook the UK to become the sixth largest economy in the world. According to the Centre for Economics and Business Research, the Brazilian economy will soon overtake France and Germany as well.⁸ Recent major discoveries of oil could help turn the country into a major exporter of the fuel.⁹ After one of the steepest drops in the fertility rate ever seen, from 6.2 children per woman in 1964 to 1.8 in 2010, the country's dependants ratio has improved considerably and the population has stabilised. In the 1990s there were 90 dependants, the large majority children, to every 100 adults. The ratio is now 48 dependants to every 100 adults. This allows the country to focus more resources on improving quality rather than quantity in relation to public services.¹⁰

The next four years will see the world's attention focused on Brazil as never before. Brazil will host the Olympics in Rio de Janeiro in 2016. In 2014, the world's most successful national soccer team will bring the tournament home, staging the FIFA World Cup.

Nowhere is the turnaround in Brazil's fortunes more obvious than in the changes in the once infamous favelas. To the outside world,

mention of the favelas summons up images of desperate poverty, ramshackle houses and lawless crime. Inside the favelas, however, the young residents are increasingly optimistic about their future.

Brazil's shantytowns date from the late nineteenth century, the first favela created in the 1890s by 20,000 veteran soldiers after the Government refused to pay them. The favelas really grew in size, however, in the mid twentieth century, as more people left the countryside to look for work in the city. While life is difficult in the favelas, their residents are still far richer than those left behind in the country. Around 9 per cent of those in Rio de Janeiro's slums live on less than a dollar a day, below the World Bank-defined poverty line. The equivalent proportion in the rural north-east is 55 per cent.¹¹

What is worse is the level of crime. Without legal title, many of the favelas lacked not only basic infrastructure, but any state authority. The police and ambulances refused to cross over into the favelas. Taxis and delivery vans would not enter them. The drug lords filled the power vacuum.

To some extent, the drug lords created their own miniature state, even able to impose their own curfews. One foreign scholar, Simone Beuchler, recalls negotiating directly with the gangs to gain access to slums for her research. The drug lords agreed, to an extent – letting her visit, but telling her that if she wasn't gone by six at night, she'd be killed.¹²

The drug lords' peace, however, was unfortunately only maintained when the gangs were not at war with each other, or the police. As many as one in five people from Rio's favelas have lost at least one family member to the drug war.¹³

In 2008 the Brazillian government began a campaign to retake control of the favelas, creating a new Police Pacification Unit (UPP). In many ways, the operations of the UPP are closer to that of an army than a traditional police operation. Armoured personnel carriers and bulletproof helicopters mount a 'shock and awe' invasion, regaining control of the streets and driving out the gangs. Once authority is restored, specially trained community policemen move in to keep order and provide basic services such as healthcare, sanitation and electricity.

By 2011, 19 favelas had been 'pacified'. In November, Rocinha, the largest of Rio's favelas, was reclaimed after an operation involving 3,000 troops in a night-time raid.¹⁴ The once-feared drugs kingpin

Antonio Francisco Bonfim Lopes (or ‘Nem’) was caught trying to escape in the boot of car.¹⁵ A further 21 UPP operations are planned by the time of the Olympics.¹⁶

Even before the pacification process, many of the residents of the slum had shown they possessed entrepreneurial instinct. Despite the hard life they have been brought up in, they are confident that with hard work and initiative they can secure a better future. Their optimism about the future of their community helps support their own personal aspirations.

Many, such as 20-year-old Mayara, are starting up their own tour companies to show tourists around the favela.¹⁷ Despite still living with her parents and two sisters, she already has plans to start her own bed and breakfast and tourism agency. She hopes that the coming attention during the Olympics will be a chance to change the world’s perspective on Brazil and the favelas.

Certainly, there are many role models Mayara could look up to, in fields from fashion to professional services.

A resident of the Barreira do Vasco favela, Silvinha Oliveira, has created her own fashion label. She uses donated scraps from clothing factories to produce a range of sandals, handbags and accessories.¹⁸ Recycled plastic bottles donated from the community are used to create the packaging.

Another entrepreneur, Edivan Costa, spent his childhood in the favelas scavenging scrap paper and selling it to local recyclers to pay for his school books.¹⁹ After seeing the difficulties businesses had in keeping up with Brazil’s legendary red tape, he decided to set up his own professional services company, Sedi. If it takes on average 150 days to set up a new company in Brazil, Sedi boasts that it can speed up the process to just 30–40 days – all without paying any bribes.²⁰ In 2008, Sedi’s revenues topped \$7 million, and its clients have included Unibanco, Carrefour and C&A.²¹

Leila Velez, Ernst and Young’s Entrepreneur of the Year in 2006, is co-founder of Beleza Natural, a beauty salon dedicated to black hair.²² Growing up in a Rio favela, Velez realised that a product for frizzless hair would be hugely popular. Despite no scientific training, she managed to come up with an effective formula through repeated experiments on a generous husband. She sold a VW Beetle for \$3,000 of initial capital, and started a salon. The company soon expanded, as Velez applied the best-practice management techniques she had

observed in a teenage job at McDonald's. Every aspect of the business has been carefully tested, perfected and codified. The company tries to help its employees better themselves, having negotiated 30–50 per cent tuition discounts at local universities. Despite no outside financing, the company now has 26 salons, each serving up to a 1,000 customers a day.²³

Brazil has long had the potential to be one of the world's leading nations. In terms of land area, the country is over 35 times as large as Britain. It is roughly half of South America and includes around 60 per cent of the Amazon rainforest. Near 200 million people live in it, making it the world's fifth most populated country. Since 1950, when the country was the same size as the UK, the population has quadrupled. Most of these people are relatively young, with the median age under 30.

The twentieth century was a frustrating experience for Brazil. In the political arena, the country flitted between democracy and military dictatorship. A military coup in 1889 deposed Brazil's second (and last) Emperor, Pedro II, inaugurating 40 years of democracy. A second coup in 1930 led to rule by a military junta under Getúlio Varga until 1945, before democracy returned for a brief 21-year period. In 1965 the military once more took power, fearing that Brazil would otherwise follow Cuba's path to Communism. The military regime finally handed over control in 1985, and the first direct elections were held four years later.

Economic growth proved similarly unstable. In the years after the Second World War, the economy converged with the West, growing at an average of nearly 7 per cent a year between 1945 and 1980.²⁴ In the 1980s the model of state-led industrialisation reached its limit, after the Latin American debt crisis caused Brazil to lose access to international capital markets. In order to pay its debts, the Brazilian Government turned to printing money. The result was hyperinflation that regularly reached over 2,000 per cent a year.²⁵ This phase only ended when the Government created a new currency, the Real, pegged to the dollar, in 1994. By the beginning of the new millennium, the economy was growing strongly again, but the experience had taken its toll on convergence with the West. In 1980, Brazilian GDP per person was 28 per cent the American level. By 2011, it was only 20 per cent.²⁶

Many problems still remain in the country's economy. The country is still one of the most unequal in the world, despite the rise of a

growing middle class. A quarter of the population live on \$100 or less a month.²⁷ The gangs remain a serious problem, and the murder rate is one of the world's worst. You are nearly 20 times more likely to be murdered in Brazil than in the UK.²⁸

The so-called 'Brazil cost', discouraging international businesses from investing in the country, remains high. Infrastructure is poor, with underdeveloped roads and overcrowded ports. Excessive bureaucracy, a convoluted tax system and significant corruption create further problems. Altogether, according to the World Bank's rankings, Brazil is one of the worst countries to do business in, coming in at 127th out of 183 countries.²⁹ Brazil's education system is very poor, and the country scores badly on the international PISA rankings.³⁰ Interest rates remain high, a legacy of culture that learned in the years of hyperinflation to avoid savings. Brazilian workers are not yet as efficient or hard working as their Asian competition. Terry Gou, Chief Executive of Foxconn, the manufacturer of Apple's iPad, complains that 'Brazilians, as soon as they hear "soccer," they stop working. And there's all the dancing. It's crazy.'³¹

Even more seriously, there are worries that some of the problems of the 1980s could return. There is only so long that a country can grow through simply investing more capital, especially if it is funded by outside debt. As the Soviet Union discovered in the 1950s, and the East Asian economies in the 1990s, a country eventually has to transition to growth from increased innovation and productivity rather than mere investment.³² Between 2002 and 2008, productivity grew a rate of less than 1 per cent annually in Brazil, compared to an average 4.6 per cent in the US.³³ This will have to change if the current growth performance is to prove sustainable.

Yet, despite these problems, the young Brazilians remain relentlessly optimistic. They are proud of their country, and looking forward to a bright future. Brazilians are much less likely to emigrate from their country than many other nationalities. There are only about 250,000 Brazilians living in the US compared to 2 million residents from El Salvador, despite that country's population being a 30th of the size.³⁴ In 2000, just 2 per cent of Brazilians with a university education chose to leave the country to live somewhere else.³⁵

It was French President Charles de Gaulle who, perhaps apocryphally, after a state visit was said first to have said, 'Brazil is the country of the future ...' Unfortunately, he also added the snide

‘... and always will be’.³⁶ Now to the Brazilians it seem that the first half of de Gaulle’s jibe is coming true. The economy is booming, politics is settling down, and even the lawlessness of the favelas is being conquered. No wonder so many of the young are optimistic about the future, and keen to work hard to prosper. To Brazil, it seems that their best days can only lie ahead.

Young Country

In Britain when you turn 100, you receive a congratulatory letter from the Queen. In Japan, the Government sends a memorial silver sake cup. When the tradition was established in 1963, the Government sent out cups to just 153 centenarians,³⁷ but Japan has aged since. The Japanese Government now sends out 20,000 cups a year. Worst for the recipients, in order to save money, the Government had been forced to cut silver in each cup from 94g to just 63g.³⁸

The world is growing older. In both developing and developed countries, the number of children is shrinking and the number of pensioners growing. In the short term, the baby boomers are just hitting their retirement. Welfare policies everywhere created in the booming mid century are proving unsustainable. In the long term, we will all have to either work longer or save more.

In the 1950s, almost every country had a ratio of at least five workers to each retiree. China had 11.6 workers, France 5.1, Japan 10.0, the US 6.9 and the UK 5.6. By 2050, much of these differences will have been eliminated as almost every country is predicted to have a ratio of around two workers per retiree. China’s ratio is predicted to be 2.4, France 1.9, Japan 1.2, the US 2.6 and the UK 2.4.³⁹

Nowhere is aging faster than Japan. By 2060, life expectancy is predicted to be 90.93 years for women and 84.19 years for men.⁴⁰ As many as four in ten of the Japanese will be over 65.⁴¹

Neither are the Japanese having babies. Birth outside of wedlock remains rare – just 2 per cent of babies are born to single mothers – but the age of marriage has been steadily rising.⁴² A combination of Japan’s fierce work ethic and modest support for childcare leads many to put off marriage and children while they focus on their jobs.

A country’s fertility rate is measured by the expected number of children born to the average woman. For a population to remain

stable, each woman has to produce exactly one daughter each. In practice, that works out at a fertility rate of just over two. Japan's fertility rate is already just 1.39, and expected to be 1.35 by 2060.⁴³ The result is that Japan's population is expected to shrink by a third in the next 40 years.

Next door to Japan, China faces its own problems with aging. The legacy of China's one-child policy is the demographically fatal 4-2-1 family structure: four grandparents, two parents, one child. Enrolment at primary schools has already dropped from 25.3 million in 1995 to 16.7 million in 2008.⁴⁴ In the next decade, the number of people aged 20-24 will drop by a half.⁴⁵ The share of people over 60 will double in the next 20 years.⁴⁶

In Europe, Germany is likely to see its population drop from 82 million today to 65 million by 2060.⁴⁷ The Germans, too, are putting off marriage, and struggling to combine family and work, especially when many schools still close at midday. Until recently, measures by the Government to boost population were taboo, bringing back bad memories of the Third Reich's Mutterkreuz medals, awarded to women with four or more children.⁴⁸ On the other hand, Germany's benefits and regulatory system are much more family-friendly than other developed countries with higher birth rates, such as the US. Germany's problem is as much cultural as political.

Germany's birth rate is now the lowest in Europe, at 1.38 children per woman.⁴⁹ The number of Germans under 18 has declined by 2.1 million in the last decade.⁵⁰ By 2030, every retiree will be supported by just two workers.⁵¹ One expert, Harald Michel of the Institute for Applied Demography, has even gone so far as to claim that Germans are at risk of dying out.⁵² This is almost certainly not going to happen, but Germany will shrink.

And yet, surprisingly, the UK is predicted to grow.

In common with the world as a whole, the fertility rate in the UK began to fall sharply in the mid 1960s. As women moved into the workplace, the contraceptive pill became more widespread, and education and wealth increased, birth rates dropped everywhere. By the mid 1970s, the trend levelled off, at a fertility rate of around 1.8 – a rate at which it stayed for much of the rest of the century.

And then at the beginning of the millennium something strange happened: UK fertility rates began to rise again.

In 2010, there were 723,165 new babies in England and Wales, 2.4 per cent more than in 2009, and a massive 22 per cent increase from the 594,634 births in 2001.⁵³ Fertility rates have risen every year for a decade, until they are now at the crucial 2.0 level – for the first time since 1973.⁵⁴ In 2011, Tesco reported a 31 per cent increase in sales of pregnancy tests.⁵⁵

While the number of pupils in Germany is going down, in England the Government expects that they'll need an extra 450,000 places by 2015.⁵⁶ Some schools in London are already so busy that they are looking at a shift system: one set of pupils attending from 8am to 2pm, and the other set from 2pm to 7pm.⁵⁷ Manchester is predicted to experience a rise from 37,000 primary school pupils now to 46,000 by 2015.⁵⁸

Nobody is quite sure exactly why Britain is experiencing a new baby boom. The ONS suggests that improved support for childcare and migrant mothers both helped.⁵⁹ Mothers are now also happier having their babies older. Many are now catching up with earlier decisions to put off childbirth. While the number of teenage mothers or those in their twenties has fallen, the number of babies born to the over-40s has tripled in the past 30 years.⁶⁰ In the last ten years alone, the number of births to the over-30s has gone up by 22 per cent.⁶¹

As the whole world ages, Britain will remain a relatively young country. Past experience suggests that this can only be healthy. More young people means more minds to create new ideas and generate wealth, more opportunities and creativity, and more help to look after the old. Much of the growth of the mid twentieth century across the world came from a 'demographic dividend', as the population surge from the baby boomers reached the workplace and helped drive the rest of the economy.

Imagine the experience of someone born and growing up in the internet age. They are at ease in a globalised world, as used to discussing last night's TV with friends from Hong Kong as Hereford. Twitter doesn't care what country you come from, or 'Call of Duty' where your fellow 'soldiers' are really located. They are used to a digital world of near infinite choice, greater transparency, and careful personalisation, where gatekeepers and intermediaries everywhere are fast going out of business. They are used to a world in which the West can no longer lazily assume its own superiority, but instead has to work harder to compete with a developing world that is fast catching

up. At the same time, hang-ups over issues like Empire or national decline can seem little more than ancient history.

The new generation of Britons are proud of their country. In survey data, they are only marginally less likely to claim pride in British citizenship than the wartime generations of the retired – and they are much more optimistic about its future: 54.6 per cent of the over-65s believe ‘Britain’s best days are behind her’, while two-thirds of those aged 18–24 disagree.⁶²

They are more liberal as well, and less statist. According to British Social Attitudes survey data, support by the young for greater tax and spend peaked in 1991. It has been in the decline ever since. While the majority believe that the state is about the right size, a growing minority think it should shrink. In 1987, just 2 per cent of the 18–24s believed taxes and spending should be cut. By 2010, it was 10 per cent. In 1987, 49 per cent believed that the Government should redistribute income compared to 31 per cent who disagreed. By 2010, opinion was exactly divided on the question, with 35 per cent agreeing and 35 per cent opposed. Support for greater welfare benefits halved between 1997 and 2010, from 52 per cent down to 26 per cent – the likely reason being that the young increasingly believed that benefits prevented the poor from learning independence. In 1987 just 23 per cent agreed that ‘if welfare benefits weren’t so generous, people would learn to stand on their own two feet’. By 2010, 54 per cent agreed.

Unfortunately, the new generation is often being held by the baby boomer Establishment. Despite their often cynicism about Britain, the ‘Ben Elton’ generation has done very well out of the postwar years. It is the young that are now paying for the legacy of their parents’ overregulation and overspending. The ladders that allowed their parents to succeed – rigorous education, a liberalised economy, a housing boom – have been pulled away, or moved out of reach. Some of the boomers not only don’t recognise their good luck, but seem actively hostile to helping the next generation – you might call them the ‘baby busters’.

Perhaps the best recent example of the baby buster mindset is an article by Joan Bakewell. Bakewell, once memorably described as the ‘thinking man’s crumpet’, has had a long London-based career as journalist, television presenter and Labour Party peer. Born in 1933, Bakewell is technically one generation older than the height of the boomers, but she shared many of their advantages. ‘Some 48 years

ago, as young marrieds, we scoured London for rundown properties which had potential', she recalls. 'I favoured tall ceilings, big windows. I didn't need a garden but I did want trees and a view of grass. We ended up paying £12,000 for a house in a decrepit London square, painted the front door olive and started a trend. Over the decades and with no effort on our part, the area has been transformed and so have the prices. Houses in the Primrose Hill area fetch well over a million these days and are snapped up by pop stars, TV chefs and hedge fund managers.'⁶³

Despite Bakewell's self-admitted belief that she bears little responsibility for the increase in value of her home and her claim that 'I am all for taxing the rich more', she is unsurprisingly against any attempt to share any of this windfall through the tax system. The aging baby busters are all for increased taxes on the successful and hard working to keep generous pension systems afloat; they are against any increased burden on their own wealth or house values.

If he were bright and hard working, a child born just after the Second World War could enjoy education at a rigorous grammar school, followed by university paid for by the taxpayer. Favourable demographics will allow him to do well from the welfare state – over his lifetime the generation will take out approximately 118 per cent of what they put into the welfare state.⁶⁴ He would emerge from free education into a booming economy, where good jobs were easy to find. He would likely be able to afford a house of his own, and the inflation of the 1970s would help erode the value of the mortgage. In 1968, 425,000 new houses were being built a year. Restrictive planning regulation ensured that that number dropped until, by 2010, despite a larger population and smaller families, just 100,000 houses were added.⁶⁵ The shortage in supply led to a decades-long boom in property prices, adding to our baby boomer's wealth. The value of many houses rose by over 100 per cent in real terms.⁶⁶ Our baby boomer can look forward to a long retirement, based on estimates of life expectancy nearly a century out of date. Most of his universal benefits remain ringfenced by the government, while his defined benefit pension is unlikely to ever be experienced by his children.

While most baby boomers continue to thrive, many of the young are struggling to find work. For the first time, the living standards of those in their twenties have slipped below those in their sixties. Britain has the fastest rise in the OECD in older people's income compared

to the young. More than 80 per cent of Britain's £6.7 trillion wealth is held by those born between 1946 and 1964.⁶⁷ Between 1995 and 2005, those aged between 25 and 34 saw their wealth fall, while those between 55 and 66 saw it tripled.⁶⁸ One in five boomers owns a second home.⁶⁹ By contrast, just 15 per cent of owner-occupied housing is owned by those under 44.⁷⁰

That is not to say that quality of life is irretrievably in decline, or that, as some such as former Chancellor Alistair Darling say, 'You can't honestly say to younger people any longer, you'll do better than your father or mother's generation.'⁷¹

As we will see, there are real advantages to a relatively young, dynamic population – and Britain has a huge opportunity for the future.

Country of the Future

The Brazilians are so optimistic because they think their best days are ahead of them. The British are often so pessimistic because they believe that their best days are behind.

But they need not be.

Even the most daunting of obstacles, changing a whole culture, can be achieved with enough political determination. Meiji Japan moved from isolated feudalism to a modern economy in two generations. Under the leadership of Mustafa Kemal Atatürk, the remnants of the Ottoman Empire transformed into the nation of Turkey. Those countries imported the best of Western technology, education and culture and succeeded in turning their future path around.

Rather than transform its entire culture, Britain must only regain respect for its own traditions and confidence in its future. Rather than growing old and comfortable as its institutions stagnate, it must be prepared to think like a young country, ready to work hard again.

The British lack confidence in who they are, but arguably no other country has given so much to the world. The British have overspent badly in recent years, but the examples of Australia and Canada show that it is possible to keep finances under control. The British education system has stagnated, but still contains some of the best universities and schools in the world to build on. The British are working less hard than they used to, but pockets of work ethic still exist among

the industrious taxi drivers or in the culture of the City of London. The British no longer lead the world in innovation, but the start-ups of Silicon Roundabout show the spirit of entrepreneurship still lives on. Britain will never be as big as China or Brazil, but we can look forward to a new generation, ready to get to work.

If we are to take advantage of these opportunities, we must get on the side of the responsible, the hard working and the brave. We must stop bailing out the reckless, avoiding all risk, and rewarding laziness.

Compare the actual state of the depressed British to the Brazilians. Yes, Brazil just passed Britain in total wealth, but that is because its population remains three times as big. Britain remains a much safer country, a much richer country and a much more equal country. Britain remains perfectly positioned to take advantage of a future economy where value lies in intellectual capital and being the originators of ideas rather than industrial specialisation. It retains close ties with countries all over the world. London is already the hub of the globalised world. The world speaks its language. For its size, no other nation is more culturally influential in music or literature. It retains enough independence from Europe to not get dragged down by a broken single currency, or an out-of-date social democratic model. Its political system is famously flexible, allowing it to reverse course and correct mistakes far faster than the gridlock of the US Congress. Its democratic culture remains non-corrupt. A ferocious free press ensures one of the largest selection of daily newspapers in the world. Its private schools and leading universities are among the world's best, while its state schools are being reformed rapidly. Unlike Japan or Germany, its demographics are relatively favourable. It remains a young nation. By 2050, it is projected to be the largest country in Europe.

British incomes have doubled in real terms in the last 40 years, but if we work hard there is no reason they could not double again in the next 40. Yes, Britain currently faces very real problems, but they could be overcome. There is much to be optimistic about.

Conclusion

In November 2011 the population of the world reached 7 billion for the first time in human history. In 1950, the population had been little more than 2.5 billion. These bald statistics disguise the immense transformation which has taken place in the world in the last 60 years. New giant economies, like China, India and Brazil, have emerged to rival the traditional dominance of countries in the Western world.

The success of these economies in emerging to prominence contrasts sharply with the economic performance of Britain in the last few years. Britain faced a double-dip recession for the first time since 1975 in the beginning of 2012. It seemed that Europe and Britain in particular were missing out on the growth seen in other parts of the world. Yet the nature of the global economy and competition should offer Europe and Britain opportunities, unparalleled in recent history. It was clear, as 2012 progressed, that Britain should look beyond the confines of Europe to learn how to exploit those opportunities.

Smaller economies like Singapore, Hong Kong and South Korea have shown themselves adept at exploiting the opportunities proffered by global economic growth. In these countries, a combination of private enterprise and effective government policy has enabled economic growth rates which we can only dream about in the West. In China itself, although the political system remains in the grip of the Communist Party, a spirit of enterprise has been prominent in driving economic growth to levels which are scarcely equalled in world history.

Many of these facts are extremely well known, and much comment has been made about them. As British politicians, we feel that it is particularly helpful to learn from the successes of China and other emerging countries. China's march to prominence has been accompanied by rigorous educational standards and an intense spirit of competition. We recognise that in modern Western societies it is impossible to replicate the conditions which have spurred China's growth. We are conscious, however, that some lessons can be learnt

and that, indeed, many of those lessons were familiar to us at an earlier stage of our economic development.

Yet, in the aftermath of the financial crisis, and particularly in the wake of the Eurozone crisis, it is only in Western Europe, and partially in the United States, that the voices of pessimism are most loudly heard. *Britannia Unchained* has attempted to confront this phenomenon of increased pessimism. It has been a consistent assumption of the book that many lessons can be learnt from these rising economies.

Britain's recent past has seen different cycles of optimism and pessimism. The immediate postwar years, known as a period of austerity, gave way in the 1950s to an era of rising prosperity. In 1959, Harold Macmillan famously said 'You have never had it so good.' The growing consumerism of that era, however, masked greater uncertainties – decolonisation, the retreat of Empire, happened very quickly. Harold Macmillan, in another of his widely quoted phrases, spoke of 'the winds of change' blowing across the African continent.

The 1960s, especially in London, have been viewed as an era of excitement and innovation. Reducing the voting age from 21 to 18 in 1968, the Beatles, and colour television – all marked an era in which popular culture rose to a dominant place in national life. There was a wider permissiveness in society, and a lot of people, especially younger voters, looked to the future with optimism. The Prime Minister, Harold Wilson, spoke, without any irony, about the 'white heat of technology'. Fashion icons like Twiggy, Jean Shrimpton and Mary Quant became prominent national figures.

By contrast, the 1970s were an era of industrial strife and conflict. The three-day week, miners' strikes and the 'Winter of Discontent' seemed to characterise that era. All through the decade there were rumblings that Britain had become 'ungovernable'. Edward Heath, the Conservative Prime Minister, actually called a general election and framed the question 'Who governs Britain?' He discovered, to his cost, that he and his Government did not. Public spending and inflation continued to run out of control. In 1976 Britain had the humiliation of having to go to the International Monetary Fund. James Callaghan, the increasingly beleaguered Prime Minister, looked out of his depth. Despite his personal popularity, Callaghan lost to the Conservative leader, Margaret Thatcher, in the 1979 general election.

The 1980s saw Margaret Thatcher in her pomp. She openly prided herself on reversing national decline, yet the miners' strike from 1983

to 1984, and the poll tax riots in 1990, perhaps showed how little had changed. The early 1990s saw a recession, and it was only in the middle of that decade that optimism returned to Britain. After leaving the Exchange Rate Mechanism, the British economy expanded and the Labour Party was brought to power under a charismatic leader, Tony Blair. ‘Cool Britannia’, pop music and open emotionalism were in. More traditional British virtues like restraint and understatement were out.

It was in these Labour years that public spending grew increasingly lavish. The City of London was booming, property prices soared and an over-confident Chancellor of the Exchequer told the nation that there would be no more ‘boom and bust’. It seemed like the good years would never end. Personal borrowing increased even more spectacularly than Government spending. Britain’s prosperity seemed to be an ever-lasting phenomenon.

The boom of celebrity culture, reality TV, and binge drinking marked an era of indulgence and hedonism. Peter Mandelson openly said that he didn’t mind if people became ‘filthy rich’. The excesses of that era were unmatched by any in recent British history. Yet it was in this decade that Britain began to slip educationally. Academic attainments, as measured by the PISA tables, began to decline. The vital subjects like science, mathematics and computing that were leading the rest of the world to technological breakthrough were declining in British schools. Despite better grades achieved in schools, there was always the suspicion that standards were falling, and that ‘grade inflation’ had undermined the value of academic qualifications. The increased wealth of the country masked some worrying trends.

Of course, this prosperity was shown to be based on fickle foundations. By contrast, the emerging economies, like Brazil, India and China, achieved real productivity gains. Their wealth was more securely based on rising exports and a higher degree of academic performance. Their gains were real, while many of ours were illusory. Today, Britons face an unprecedented degree of public and private debt. Once more the question of national decline is being considered. While pessimism is still uncommon, there is a wide degree of uncertainty.

We don’t believe that ‘decline’ is inevitable. The reduction of global poverty and the emergence of new middle classes with commensurate spending power, across Asia and Africa, is a development much to be

welcomed. We believe that such a world expanding in so dramatic a fashion offers considerable opportunities for Britain. If Britain is to exploit these opportunities it has to abandon the quick fix and instead put in the fundamental graft, risk and effort that bring long-term rewards.