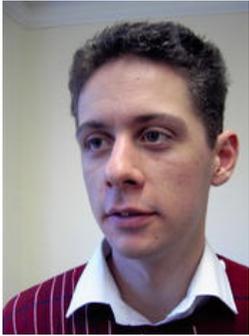


WITH Corin Taylor, Economic Analyst, Reform think tank, London



CORIN TAYLOR is an economics analyst at the influential British think tank, Reform. Reform has led the debate for change in the UK, achieving particular successes with the National Health Service, where reforms to empower patients have reduced waiting times and where there is general agreement that further change is necessary to make the NHS ideal a reality. Taylor has also co-authored a pensions reform plan with Prime Minister Tony Blair's former economics advisor and has worked with the Conservative Party on regulatory reform ideas to make life easier for small businesses. Prior to Reform, Taylor worked for the successful campaign against the introduction of the euro in Britain, a key reason why Britain has enjoyed comparative economic success in recent years. He read philosophy, politics and economics at Balliol College, Oxford University. He was interviewed June 2, 2006, following to his speech at a Breakfast on the Frontier.

**Frontier Centre:** We in the colonies have been fascinated with the performance of the Blair government, especially its embrace of market-based reforms that improve social policy. Has Blair really found the magic "third way," as he famously said in an election?

**Corin Taylor:** The "third way" actually died quite soon after its inception. Blair talked very grandly about it when he came to power, but people were quite quickly sceptical about what it meant. The talk was that politics would change and I think politics remained very similar. What Blair is trying to do is traditional for governments. You spend more money on health and education and bravely try to reform them a little bit when the spending hasn't delivered. You talk about having a competitive economy but also a generous safety net. Britain has mainly maintained a competitive economy; the main tax rates haven't gone up. Rather we've seen a slow closing up of economic arteries. You've got gradually increasing regulation and taxes in many areas, and you've had this huge spending rise on health and education. We've had belated reforms in health, four or five years after the spending increases and little to no reform in education, so we're storing up trouble for the future. In the grand sense of the "third way," things changed very little.

**FC:** But they at least seemed to be intellectually honest in their admission that increased spending didn't work, in contrast with the Canadian left, who sticks by their guns and defend those policies right to the death, even if they are riddled with flaws.

**CT:** The Labour government still says that their spending rises were worthwhile. What they have acknowledged is that those increases will have to slow, and that's supposed to be taking place from 2008 onwards. Popular and public opinion is much more accepting of the fact that they haven't delivered great value. What hasn't happened is the next step, a radical reform of these systems. They are going about reform in a very piecemeal fashion, much more in health than education,

but there are still huge problems and they are going about it much too slowly.

**FC:** Probably the most profound shock for the Canadian left was New Labour's embrace of reforms to the National Health Service (NHS). Can you describe them?

**CT:** The main one was some pilot systems of choice. One good example was that heart patients in London who'd been waiting six months or longer were allowed to go to another NHS hospital or a private hospital, paid by the NHS. That simple reform almost eliminated the waiting list in London and it happened very quickly. Another reform is that they tried to bring in extra capacity from the private sector, so we now have private-sector treatment centres which do things like cataract operations. Those centres do something like eight times as many operations per day as the NHS hospitals. They're treating patients in a much more efficient way.

These reforms unfortunately been accompanied by stringently obsessive targets which have made working within the NHS quite difficult and which have distorted clinical priorities. For example, one target said that emergency rooms should see accident victims within four hours. What some hospitals did to meet that target was leave people in the ambulance for an hour and then bring them in so they would meet the target.

What the government has been doing more recently is trying to introduce a payment-by-results system where hospitals for the first time get paid per procedure. In the past, they were paid by block grants and they would use that money as they saw fit. It's expensive to do an MRI scan, so scanners would lie unused because hospitals said they couldn't afford to use them. Paying by results is designed to sort that out. But they only introduced that for 15% of hospital activity. That's created financial problems for successful hospitals that are doing more operations, because they are not always paid fully per operation.

The next reform that the government is trying to implement by 2008 is to give patients the choice of any NHS hospital they want to go to. That supposedly will be backed up by an IT system with patient records that can be transported very quickly. In the past, if you left an area your medical records would take up to six months to follow you. It's also intended to allow electronic booking that occurs automatically at the GP's or specialist's office. The trouble with that is the costs of the IT system have exploded. Initially projected to cost six billion pounds, the system is now going to cost thirty billion pounds. The government's record with IT systems is extremely poor. There's not one large-scale government IT project without huge flaws.

At this stage, the NHS has tried reforms, and they've worked remarkably well. But the unions have been bought off by with inflexible deals and pay increases. Salaries for consultants and doctors have doubled in the last few years and are now among the highest in the world. If the private sector takes over parts of the NHS, the conditions of employment for those people are going to be exactly the same. So any scope that private providers have for more flexible contracts disappears, and you're storing up big cost problems for the future. Overall, it's going in the right direction, but very slowly not far enough. You may even have a problem of giving reform a bad name, in the sense that people think this is real reform when it actually isn't.

**FC: We've heard about the contracting out of entire specialties like orthopaedic surgery and even GP services. Has that policy had the desired effect of decreasing wait times and improving system performance?**

**CT:** In many respects, it's too soon to tell. Again, it's being done in a very piecemeal way. For many years, for example, not everyone was able to access an NHS dentist—that is an area where our healthcare is not free at the point of need—so there has been a thriving private market in dentistry. The government tried to introduce a new contract for dentists and a new tariff system for people who use NHS dentists. A lot of dentists don't accept that, and have decided to work just in the private sector. You also have massive queues to register at NHS dentists and some private dental practises are actually undercutting what the NHS will charge for different types of dental work. You've almost had contracting out by default rather than by design. Another example is haphazard contracting out for the cleaning of hospitals. The unions say that's why you've got dirty hospitals and a problem with hospital infections. The government replies that half of the worst hospitals for infections have contracted out cleaning services and the other half hasn't. So there's been very little difference. If anything, it's just added to the system's complexity.

**FC: You've talked about the differences in the approach to medical insurance and continental Europe. Is it clear to you that the marketized social insurance model is superior to the one-size-fits-all social welfare monopoly set up in Britain and Canada?**

**CT:** I think it is very clear. First of all, countries like Germany and Switzerland don't have waiting lists. Second, they have better health outcomes; cancer survival rates are greater than Britain's. By a great range of measures like that, the continental systems are superior. The reasons are quite clear. These systems are maintaining the ideals of universal health care, social health insurance is compulsory and the premiums of the poor are paid by the government so no one is going uninsured. But you have 300 insurers in Germany and 100 in Switzerland. You can go and pick the best one and the best hospital or the best doctor. That drives up standards and makes the system a much better model. If you want to reform Britain's or Canada's health system, you might not need to go fully down the social insurance route. You could just introduce a much greater amount of competition and choice in our health systems but keep them financed the way they have been. If you did that, you would have a massive improvement in health care. Ultimately it doesn't matter if the private sector or the state runs your hospitals. What matters is that they are good hospitals, that waiting lists are down or low and that the poor are not frozen out of the system.

**FC: Have you given any thought to how you could convert our social welfare-based system into a social insurance-based system?**

**CT:** That is a hard task. There are different ways you could do it. You could say, "We will give most of that tax money back and the bit we'll keep will be the premiums of the poor, but you have to buy social health insurance, go ahead and do it." The state would operate one system running in conjunction with or in competition with a load of private systems. We could also gradually introduce a lesser degree of regulation and more flexibility in premiums and coverage. But the practicalities of doing that in Britain are difficult because the current system is so complex. What you need to do, if anything, is sweep it all away and start again, so in a sense you're doing a reform to end all reforms. You would need to change greatly the structure of healthcare in Britain.

**FC: Do defenders of the National Health Service throw out the American bogeyman as they do here?**

**CT:** Yes, they do. What people genuinely believe about the American system is that, if you have a heart attack by the side of the road, you will not get treated unless you have a credit card or a paper saying you have health insurance, that you would just be left to die. So we avoid talking about America because you just come up against

a brick wall. It is much more effective to talk about European systems. Actually, I don't think the American system is you'd want to copy. It has its benefits but overall it is very cost-inefficient. With the predominant system of employer insurance, it doesn't matter whether you get a good deal from your doctor or hospital because your insurance company pays for it. There are no incentives to control costs, and you have a huge problem with litigation which explodes insurance premiums. And of course American public systems like Medicare and Medicaid have a lot of the same inefficiencies and problems as public systems in Britain and Canada.

**FC: Let's turn to public schools. Is the Blair government still committed to full school choice? Has the Labour Party rebellion in the back benches won the day?**

**CT:** Unfortunately, the Labour government was never committed to a full voucher system. What Blair did embrace was a great deal of reform to free up schools and to empower parents, but it fell short of a voucher. The original draft of the White Paper which came out last October was very radical, but it got watered down as a result of the Labour opposition. So the White Paper itself was a climb-down, then there was a further climb-down for the Bill, then the Bill was amended which has meant further climb-downs. The final Bill changed very little. We got some freedom for trust schools, but it's counteracted by a greater role for local education authorities, and an admissions code which makes it much harder for schools to select. We've gone one step forwards and one step backwards. Real school reform is not going to happen under Labour. It's pretty much dead in the water.

**FC: Is one of the essential elements of the Blair reforms, an emphasis on school-based management, still there?**

**CT:** Trust schools will certainly have some additional freedoms, but they're rather limited. But they won't have the freedom to select pupils or depart from the national curriculum. Blair has been given rather a bloody nose by this Bill and so probably isn't going to try anything else. Would a successor to Blair have any more luck? I doubt it. Gordon Brown, the favourite to take over from Blair, is not committed to school reform anywhere near as much as Tony Blair was. And the Conservative Party has abandoned its previous policy of school vouchers.

**FC: Can you describe the voucher systems that are working now in the Netherlands and Sweden?**

**CT:** Dutch vouchers have been in place for 80 years, so they've stood the test of time. Every school is given an amount per pupil equivalent to the cost of educating a child in the state sector. It is constantly fluid, because a group of 50 parents can set up a new school. They can go to the bank for a loan to build one, and use the

voucher money as collateral. So the system is rather straightforward.

The Swedish system is a good example in that it is recent, so we can compare. In 1992, reforms gave schools, whether state or independent, the amount of money equal to the cost of educating the child in the state sector. There are some safeguards, in that independent schools cannot select pupils or charge any additional fees, so poor parents are not frozen out. That triggered a great rise in the number of independent schools since 1992, from just over 100 to just under 600, although 90% of students still attend state schools. Academic research shows the policy has improved standards in both state and independent schools. That suggests that opening up a small segment for competition in the system does wonders. The Swedish reforms have been very successful.

**FC: As with health, the financial commitment to public schools by Blair and his colleagues has been impressive. But did it turn out to be good money chasing bad?**

**CT:** Unfortunately yes, because there were few real reforms. In the first attempt, the Conservative Party introduced grant-maintained schools—which looked very much like Labour's trust schools—but they were abolished by the Blair government. The reform went backwards. The money sort of flew in, and a lot of it was ring-fencing, in that a lot of it had to be spent on refurbishing or rebuilding schools. It also had to be spent on IT. Another example is that the government has spent over a billion pounds on anti-truancy programs, but rates of truancy are exactly the same as before. They boast that exams results have improved, but exam standards, according to independent researchers, have gone down. It's a long-standing process started before Labour. What was a B grade in 1987 is worth an A now. A B grade now in Math is worth something like a D grade back then. Beyond surface improvements, nothing's really changed. Schools are now brighter-looking but the quality of education in those new classrooms is not any better. I would say the money in education has been very badly spent.

**FC: Are the Thatcher reforms to the British pension system, specifically the option of private accounts, still in bad odour?**

**CT:** Yes. The government is currently thinking about pension reform, and they are going to introduce a White Paper on it very soon. They've also had a pension commission to look at how to change it. The idea of private individual retirement accounts, where you funnel some of your tax money into funds that you own and manage, is not going to happen. That is completely off the cards. We already have to a limited extent a system of individual retirement accounts.

## **FC: Where did the Thatcher reforms go wrong?**

**CT:** The terms and conditions were continually changed, so the system was quite unstable. I don't think that contracted-out rebates have been a total failure. Overall, returns seemed to be low on these but they haven't been an absolute crisis and you haven't had contracted-out private accounts closing. We've had a problem in some occupational pension schemes, which were not a Thatcher reform; they've been running for decades. Because people are living longer, all the calculations made to try to make these pensions plans affordable are off.

In the private sector, you used to have final-salary or defined-benefits schemes, where the pension would be a percentage of your final salary, depending on how many years you had worked for the company. Now they've by and large been changed into contribution schemes, where you pay a part of your salary and it gets invested, and the return determines how much your pension is going to be. You've had some private-sector schemes going downhill fast and people are losing their pensions. If there has been a crisis, that's where it's been. It's going to be very expensive to provide decent government pensions for all these people. The government's approach has been to target assistance on the poorest through means testing, which is cheaper. But then why bother saving? If you save money and you lose it, but get it anyway from the government, you build in negative incentives.

The largest problem is public-sector pensions, 90% of which are still final-salary pensions. The public-sector retirement age except for new workers is still 60 while the private-sector retirement age is still 65. The unfunded liabilities of these public-sector occupational pension schemes run to about 800 billion pounds about 70% of Britain's GDP. It is a massive debt problem for the future. All the pension reform plans that anyone is talking about are totally ignoring this problem.

## **FC: What's the outlook in Britain for reforms in social welfare, provisions made for people who don't or can't work?**

**CT:** Again, it has been approached in a very piecemeal fashion. Most areas of welfare have been left untouched. Some reforms to the unemployment benefit, making it conditional on trying to find work and so on, started under the Conservative government. The government also introduced a new deal to try and eliminate youth unemployment. What it means is if you have been unemployed for six months or more and you're under 25—and they have similar schemes for people over 50 and for disabled people—you qualify for training. When you come off, it's hoped you find a job. What happens actually happens is that people are recycled through the system. If you are not working but training under the new

deal, you are not counted as being unemployed. The government has managed to make it statistically impossible to be young and long-term unemployed. It's just a cosmetic change in reporting.

One area where reforms are starting to be talked about is incapacity benefit. Britain has one of the highest rates in the OECD of people of working age who are unable to work due to illness or disability, and for men and women age twenty-five to forty-nine, it's the highest. Britain has about 2.5 million people on incapacity benefits. The system is very, with totally the wrong incentives. If you are on it for twelve months or more, you get more. It is worth more than ordinary unemployment benefits and it was expanded greatly in the 1980s when so many people were unemployed. The government wanted to put people on sickness benefit because it cut down the unemployment figures down. You have the impression of relatively low unemployment but huge numbers of people on sickness benefit who aren't counted as unemployed.

The government is trying to introduce some sort of conditionality to this, in the sense that if you are really ill, you won't have to look for work, but if you are not so ill, you have got to try. If you don't, you'll get your amount of benefit reduced a little bit. So far, they have only got as far as a White Paper. It is a step in the right direction. They want to take about a million people off incapacity benefit in the next ten years. About 900 thousand of those people are going to retire off it anyway by 2018, which is the target date, so the government are virtually going to meet that target by default.

## **FC: You take the position that effective social policy is the best antipoverty program. We've talked about those three main systems, about health, schools, and social welfare systems. Can you please explain how reforms are going to help the people that stuck at the bottom?**

**CT:** At the moment, if you are poor you are effectively trapped. If you live in a poor area, you go to the worst schools, you have the worst health care, you have the highest crime, and you have a welfare system that gives you poor incentives to get out there and improve your lot. Because you lose so much money if you try and work harder, you are hardly better off.

Reforms could help people change that. To start, if you reform education you give poor parents a chance to send their kids to a decent school for the first time. Suddenly you've got a child who is doing better at school, who is seeing the benefits of staying in the system and not dropping out, who is seeing the value of learning. That child then has the opportunity to do something better to actually improve his lot and then to provide for his family as he grows up and to break the cycle of families where all generations are living in this same welfare trap. The same applies to health reform, in the sense that allowing

poor people access to better health care than they had before gives them better life chances. The same applies if you include reforming welfare—again, no one wants to take help from people who are genuinely down on their luck—to encourage people to take more control of their own lives.

That kind of package of reforms together would make people see the benefits of their actions more and start believing in themselves more. I think that is really what we are trying to achieve. If we can do that, and it's not easy, you give people greater hope. They now want to do the right thing, not the wrong thing. That's the best way of people bettering their lot and getting out of poverty in the long run.

**FC: The stereotype on the right about a European superstate is that surrendering to dictates from unaccountable bureaucrats in Brussels will inevitably lead to less effective governing systems. What is your take on that?**

**CT:** I agree with every word of it. The European Union is very undemocratic. The European Parliament is elected but has very little power; it is effectively a rubber stamp for the European Commission, which is composed of unelected appointees from the various governments. European Union legislation gets proposed in the Commission and then goes to the Parliament, where it passes.

The Commission mostly produces regulation for the sake of regulation. There are, for example, European Union-wide regulations on coffin sizes. One might ask why there is a need for regulation in that area. The European Union's government is very ineffectual. The common agriculture policy is a great example; farm support has led to higher food prices in Europe, has not really benefited small farmers and has made it very difficult for African countries to export their foods to Europe. So it has impoverished everyone. It is costing tax money, too, because the common agriculture policy takes up about half the EU budget. You lose with higher food prices and with higher taxes.

**FC: But aren't there benefits? The free trade agreement in North America has certainly confirmed the theory of comparative advantage, specialization and increasing wealth levels on all sides. Hasn't all of Europe, including Britain, benefited from falling trade barriers?**

**CT:** Free trade and the free movement of people within the European Union is a great thing. What one doesn't need is the huge amount of regulation and bureaucracy

that goes along with it. Has Britain benefited from the free-trade aspect of the European Union? Yes. But to join the European Union it had to give up free trade with the Commonwealth, and so it lost out. I don't know whether the gains were outweighed by the losses or not, but we did lose a lot when we joined the European Union, and still do. Britain can't trade freely with North America, for example. If Britain were not in the European Union, we might have free trade with Europe and with North America. There would be no reason why we couldn't join NAFTA. Countries like Norway and Iceland have free trade with the European Union even though they are not member states. A lot of the benefits of being associated with the EU could be realized even while outside it.