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A U.K. PERSPECTIVE

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C O N T E N T S

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P R O C E E D I N G S

MR. NIVOLA: Good morning, everybody. As you know, I'm Pietro Nivola and I direct the Governance Studies Program here that is going to sponsor this lecture this morning.

It's my privilege this morning to welcome the Right Honorable John Hutton MP, a Cabinet Minister in Prime Minister Tony Blair's government. John Hutton leads up Mr. Blair's far-reaching effort to modernize the entire British governmental system really from top to bottom.

As some of you know, there's an ambitious shakeup going on of the whole public sector in Britain, and this has been actually underway for several years. The reforms include attempts to devolve more responsibility from the central authorities to lower levels of administration, to introduce more market-like mechanisms of competition and choice in the delivery of key services, to develop innovative public-private partnerships for key functions. And perhaps most interestingly to me, how to start rethinking the proper role of government in managing risk, risk to individuals, to communities and to society as a whole.

This latter issue has been something that we at Brookings have been giving considerable thought to because in the face of the forthcoming demographic bulge that's going to put a lot of pressure on the welfare states of all advanced democracies, every one of them has to

begin to give serious thought and serious debate to how to restructure the welfare state in a responsible fashion.

Current social insurance arrangements are likely to be unsustainable in the decades ahead. So the question of who should be responsible for insurance, so to speak, against which sorts of risks is a monumental one that can no longer be ducked or dodged.

I would argue that a compelling case can be made that certain uncontrollable risks, for example, things like catastrophic illness, are clearly public responsibilities or at least ought to be centralized. More predictable ones like old age probably warrant a greater measure of privatization. And in my judgment, localized disasters like the tropical storms that struck the Gulf States here in the United States probably call for a less dependent role by the state and local governments, and perhaps a lesser degree of paternalism by the central government. But those are just my two cents, and I'm sure Mr. Hutton will make a lot better sense of these kinds of complicated questions than I can.

I just want to say a couple of more words about him by way of introduction. John Hutton was appointed Minister for the Cabinet Office focusing on regulatory and governmental reform following the national election in Britain last May. Prior to that he had been among many other things a Minister of State for Health. Before his election to Parliament, he was a senior lecturer on law at the University of Northumbria. He is a graduate of Magdalen College at Oxford. I noted

in his bio that one of his hobbies is football or what we here in the U.S. strangely call soccer. If that's the case, I urge you to go see the movie "Goal!" which just opened in London. It may have been the biggest selling movie of the year and it stars my son, Alessandro Nivola.

[Laughter.]

MR. NIVOLA: So with that, Mr. Hutton, the floor is yours.

[Applause.]

MR. HUTTON: Pietro, thank you very much for that very kind and generous introduction.

Can I just say how really, really pleased and honored actually I am to have been asked to speak to you this morning, I think simply because the Brookings Institute has I think a unique place in the worldwide pantheon of think tanks across the globe? The rigor of your analysis and the practical application of your thinking to contemporary social challenges is pretty formidable. So as I say, it is an honor and a privilege to be invited to come here and talk to you this morning.

I only flew in late last night from the U.K. having spent last week at the seaside in Brighton enjoying one of the rituals of British political life, annual party conferences. There are probably very few occasions that I can compare it to. I know you have your political conventions here, but the annual pilgrimage to the British seaside as autumn descends at home I think is fairly unique.

President Clinton experienced the delights of our conference season there a couple of years ago when he attended my party's conference in Blackpool. Those of you who know the U.K. know Blackpool is up on the northwest coast of England not too far from where I live. While Bill was there he sampled the local cuisine, McDonald's actually it was because McDonald's is for the most in the U.K. now part of our staple way of life, and Blackpool has never been the same since.

[Laughter.]

MR. HUTTON: This year we, I say we, the Labour Party, gathered in Brighton on England's south coast. In part we were there to celebrate our continued success, the reelection in May this year of a new Labour government led by Tony Blair to govern for a third and unprecedented consecutive term. But we were also there to debate the future of the progressive challenge in Britain and how a party that has been in power for the best part of a decade can renew itself for the challenges that lie ahead.

My view is that every political party in whatever country on whatever continent must constantly review its strategy and its direction if it wants to keep in touch with the world around it. Parties that adapt to change win. Parties that don't will always lose.

In the late-1980s and early-1990s, the Conservative Party in Britain dominated the political landscape as they had gone for much of the 20th century. Today they are about to elect their fifth leader in less

than 8 years. They barely command 30 percent support amongst the electorate. They have, I think if I can be fair, no sense of direction or even identity. They are a shadow of their former selves, and they do provide a saltatory reminder of the dangers of political hubris. For me, all of this proves one thing: in politics nothing can ever be taken for granted.

New Labour's continued success confirms one other rule in politics: the need to stay in touch with the aspirations of the people that you seek to represent. Today New Labour is a broad-based coalition of the progressive center. We draw on the traditions of social democracy, yes. We seek to apply those values to the modern age in which we live. But our mandate does not depend on the dogma or the ideology of a bygone age. It's based on a recognition that our economy and our society is constantly changing more rapidly and perhaps more profoundly than at any other time in world history. So our policy response as a party of government needs to be equally dynamic. The old solutions of protectionism, trade barriers and rigid social models simply don't work any longer.

So we need a different response, one that is informed by our political traditions but which is prepared to use new means by which those values can be put into practice; one that continues to put a high premium on social and employment standards but understands fundamentally that the best antipoverty strategy of all is to secure full

employment for everyone. We know that the world economy is changing. We must change, too.

Progressive politics today is therefore about looking to the new world in front of us, not backwards to the old world that we are all leaving behind. It is going to require new solutions. Our values of social justice, fairness and tolerance I believe remain the right ones, but the means we employ to secure and sustain those objectives will necessarily be different in this new age from those we have traditionally employed in the past. Above all, we must never confuse means with ends. When political parties do this they are bound to lose touch with reality and with the people, and so inevitably with office.

But in the search for these new solutions we should always I think be guided by our central belief that there should be a floor beneath which no person should fall and that this is the responsibility of a decent society to provide. But so too should be our view that there must be no ceiling on how far a person can rise. Social cohesion will not be advanced by penalizing aspiration, ambition or achievement, mistakes that the center left in European politics have often made. Those are the new parameters within which progressive politics should operate.

That is why New Labour is not just an election winning phenomena, it is a new approach to politics, and Britain will need this new approach if we are to succeed in meeting the very formidable economic and political challenges that lie ahead of us. We cannot

pretend sensibly that the economic challenges from China and India aren't real and serious. They are. They require a response. But we must not make the mistake of assuming that we cannot benefit from them either because with every challenge there has to be an opportunity.

So what should be the response of progressive politicians to these unprecedented changes? I believe the right response is to ensure that the progressive state is an active, enabling state, neither a big state nor a small state, but an efficient state, one that does not imagine that the tide of change can be resisted but accepts that its function is to help equip its people with the means to meet those new challenges; to build up, not pull down the institutions that can help deliver these objectives; to sustain our high social standards but not retreat into a race to the bottom with our emerging competitors.

Investment in knowledge and skills, in active labor market policies, in science and technology, in higher education, in urban regeneration, in help for small businesses—that is modern social and economic policy, not regulation and job protection that may save some jobs for a time but only at the expense of many jobs in the future. The purpose of our social model in Britain must therefore be to help our people cope with globalization, to let them embrace its opportunities but to avoid its dangers.

European social democracy above all else is based on the assumption that the power of the state can and should be used to advance

the cause of social progress and social cohesion, that markets on their own cannot be relied to ensure everyone has a decent home to live in, or has a good education or can access the best health care, or will protect the weak and vulnerable from exploitation in the labor market, and public services are the practical expression of those values as well as the means by which they can be put into effect.

So if the challenge for progressive governments today is how to ensure our people can succeed in the new global economy, then the quality of these public services and the effectiveness of our regulatory environment are going to be crucial to success or failure. Poorly performing public services will not help people make the most of their talents and skills, and our people are our best asset we have in the new global economy. Overregulation can trap our economies into a cycle of low growth and declining competitiveness. Strong, dynamic economies in turn provide the essential platform on which to build world-class public services like schools, university and health care.

But let me one thing clear, too. We do believe in the enduring values and purpose of public service born out of the progressive liberalism of the early 20th century, stretched maybe beyond endurance through the postwar 1950s and 1960s and certainly in my country left to decay during the 1980s and early-1990s. The new Labour government that came into office in 1997 needed to fashion a new progressive consensus in which the public realm could regain its prominence in our

political debate. It could only do this is we equipped our public services with some of the modern tools they need in order to do their job properly in the modern world in which we live.

By the time we were elected in 1997, the right in British politics took the view that the welfare state had reached its high watermark and that the collective and social impulse that drove its construction appeared now somehow out of place and out of tune with the time that rewarded individualism and risk. Many of them still take that view.

For many on the center left of British politics, modernization implied a deterioration in both the scope and definition of the social contract that had been the foundation of public service growth throughout the postwar years, that new market-based approaches would somehow undermine public-sector values. So the political challenge we faced in 1997 came from both the traditional left as well as the old right. The right wanted a smaller state where more people would sink or swim. The left argued public services needed investment, but they weren't in favor of reform. We believe there was a need for investment, but we absolutely rejected the idea that that alone would drive up standards in public services.

We came into office with a challenge therefore of modernizing our public services through a reform program that was underpinned by four key elements: investment in people and in the

physical fabric of our society; a new approach to the performance management of that investment; greater diversity and contestability in the system; and finally, perhaps most difficult of all, a renewal of the contract between state and citizen.

So what did this reform program mean in practice? First, like any world-class business, it's impossible to produce a product or service unless you invest in your people and the physical fabric in which they would work. Successive U.K. governments had ducked the hard challenges about renewing public infrastructure, much of which had well outlived its asset life. By 2010 we would have build 100 new hospitals. By 2020 we will have refurbished or rebuilt every single one of the 25,000 schools across England through our batch procurement program called Building Schools for the Future. We have created more capacity in our public services, tens of thousands of more doctors, nearly hundred-thousand more nurses, twelve and a half thousand more police officers. It's been an unprecedented scale of investment.

But we also made it clear that that investment had to be in return for reform: the use, for example, of a more effective mechanism for financing public infrastructure projects such as the Private Finance Initiative, and the creation of a new performance management framework to ensure that taxpayers get value for money for the additional investment they are being asked to contribute.

The government set down a series of national standards for public services. It invested for the first time in new public services inspectorates to undertake qualitative and quantitative assessment of performance—this had never been done before in my country—because what you can measure you can manage. These new measurements helped us to take remedial action if poor performance was identified. We established a clear set of responses in health and education to address service failures, involving introducing new providers, franchise management and recovery strategies.

We needed to drive greater challenge into the system, and that couldn't be entirely reliant upon target setting and performance management from the center. It did and does involve greater contestability, the opening up of these monolithic structures to new providers from across the private, voluntary and social enterprise sectors. This has perhaps proved to be our greatest political challenge.

The expected opposition from trade unions and professional interest groups was predictable and it's happened. But 8 years on, and it is this new Labour government that has ushered in the greatest level of diversity into the delivery system. A new public services industry is emerging now and as the global market in public services develops, it's an industry that I hope can be amongst the most innovative and effective in the world.

Finally, we had to redraw the boundaries through which this New Deal was being constructed and that did mean a new contract with the people that placed equal emphasis on their personal responsibility as citizens as well as their rights as consumers of public services, the responsibility to work if a job is available; the responsibility to take an active interest in your child's education. After 8 years in office, even our sternest critics, and we've got plenty of them, will be hard-pushed to deny that services haven't improved and that the reforms we've pursued have played an important role in that process of change.

Let me touch just very briefly on three of what I consider the most important areas, education, health, and welfare.

Education has been our number-one priority and we've made real progress. Perhaps even more important, it's the one area of public policy where the public thinks we have made real progress, and that is always nice. It's the foundation of all future prosperity in our ambitions to create a more socially just society.

Have the reforms made any difference? Yes, they have. We've just had the best ever education results for 11, 14, 16 and 18-year-olds. Math scores for 10-year-old children have risen faster than any other developed country since 1995. The proportion of 16-year-olds obtaining good grades in five subjects is up from 45 percent to 61 percent. The greatest performance has been within schools serving the most deprived communities. And later this year we will set up further

reforms which will give greater powers to parents to challenge underperformance, and we'll see further expansion in the number of independent schools operating within the public sector.

In health the Investment and Reform Program has seen long waiting lists which I think everyone outside of the U.K. had come to associate with the National Health Service, long waiting lists sometimes of 18 months or more for an operation, common before 1997, completely eliminated. Cancer rates are down 12 percent, heart disease rates down nearly 30 percent, after an intensive focus on early diagnosis and intervention. By 2008 the average wait from seeing your physician to having your operation will be around 9 weeks.

Independent-sector health care companies are now working alongside traditional NHS organizations. Companies from every corner of the globe are now treating and diagnosing NHS patients and providing that treatment free at the point of use, providing more chose and contestability.

In welfare, the approach that placed equal emphasis on the responsibility of the individual to seek work as well as the responsibility of the state to provide opportunities so that people can equip themselves for work has delivered real results. The introduction of a national minimum wage has benefited 1-1/2 million workers without any impact on job creation of growth. In fact, there are 2 million new jobs in the U.K. economy.

Our New Deal Program that provided a structured but compulsory program of support for long-term unemployed workers has cut the number from a quarter of a million in 1997 to virtually zero today. We now have the highest proportion of women who are economically active in the labor market of any country in the European Union. Much of the skills training that supports that agenda is now provided by private-sector organizations working to contracts negotiated by public authorities.

Clearly after 8 years we've done a lot, but there are many challenges still that remain. We are only halfway through the program of reform that we set ourselves. Maintaining the momentum of social mobility I think continues to be our biggest challenge. Upward social mobility has increased over the 20th century in my country, but those at the lower end of the income distribution curve remain less likely to move into a higher bracket, and health inequalities between rich and poor persist and in some cases have gotten worse, not better.

Public-service reform in the U.K. must therefore begin a new phase now that places the customer of those services in the driving seat of reform, puts increasing emphasis on the design and management of public-service delivery systems, and seeks a radial rethink about the skills base and the capabilities of the Civil Service to oversee those reforms.

We start by extending choice and building capacity for effective voice in our public services. We deliver services built around their personal needs and circumstances. There are those still on the left in the U.K. who argue that the relationship between citizen and state is more than just that of consumer and producer. And of course, it is a complex relationship. I accept that. And there are some who still argue that equity of provision can only be achieved through strict uniformity of services.

But I would argue that differentiation, the ability to respond to the needs of the individual in front of you, that's got to lie at the heart of any modern equitable society. Choice and personalization in my country has for far too long been the preserve only of the wealthy. Our mission as the New Labour government is to change that fundamental inequity so that all members of our society can enjoy the benefits that only a few have ever enjoyed. And although these reforms do involve a use of market-style mechanisms, I make no apology for that, this is of course not a return to the free market. That is something entirely different.

The values that underpin these reforms will continue to emphasize the traditional goals of equity, opportunity, universality and fairness, and we can learn from markets without having to copy every feature of them. However, any debate about the nature of this relationship involves the risk that we all miss the central point that

public services are predominantly there to serve law-abiding, hard-working citizens and to respond to their individual needs. The reforms we're introducing make us see the world through the eyes of the very people public services were created to serve, and none of this in my view needs to erode the values base of our public services. How can it when we are putting the public interest ahead of provider convenience?

To do this we need to collate and analyze information on what consumers of public services actually think about the current standards of service that they want in the future. I have just commissioned the development of a new tool in the U.K. that I hope will be available to us by next spring and will give us a real-time evaluation of episodic customer satisfaction transactions across the vast range of services provided by central government. It will attempt to benchmark levels of satisfaction weighted to the importance and frequency with which those transactions take place.

But in those areas of public service where more choices can be a helpful tool to improve responsiveness and convenience, we obviously will need to improve public access to information about outcomes and service performance. In the U.K., major public investment in ICT I think will help lay the foundations for this new and necessary knowledge network.

The second challenge is to design a more sustainable system of public service delivery that responds to the needs of consumers not

through command and control mechanisms, but through proper incentives that reward higher quality outcomes and greater consumer-focused services. We all know now that command and control economics don't work. That approach therefore we know too is doomed to failure in the public services as well. In education and health we are now seeing these new incentives come into operation.

This phase of reform must also recognize that we are in the business of building an effective system for tackling social and economic inequality, for raising educational performance, for improving health care, a system robust enough to manage and respond to the challenges of maintaining social cohesion in a period of rapidly changing demographics. We can help to do this by facilitating the creation of a new network of organizations, some in the public sector, some in the private sector, underpinned by a series of incentives that can sustain performance for the medium term and which are held together by a set of values that reflect our wider social policy objectives.

We have to encourage and sustain in our third term I think a much stronger social entrepreneurial force for change within the public services. Too often we constrain our public servants. We make it hard for people to change the way their organizations work. Whether it's the school principal, the welfare officer managing a job center, or the CEO of a large general hospital, the only way in which these individuals, talented people, often trapped in pretty poor systems as former Vice

President Al Gore described it, can help their organizations improve or adapt to change is to leave the front line behind them altogether to become administrators. Opening up the system to encourage new providers to operate will help to allow more creativity and problem solving and help innovators stay where they often want to be, in the classroom or in their community.

But all of these challenges I think make us think about the third test, what are the skills base of a modern Civil Service? And perhaps more fundamentally, the purpose of modern government to which those skills should be applied. The future will belong to those countries whose governance systems are flexible, adaptive and open to change and reform.

In the U.K. we've just established a new National School of Government. It will network across the world with other similar institutions. We will learn from others how they have begun to address similar challenges. And we are in the market for new ideas. You guys can help us.

Our new Sunningdale Institute is modeled on the Brookings Institute, bringing together some of the world's leading thinkers on public administration and public-sector reform, helping government make a success of the new methods of driving forward improvements in public services. So we are at a very important stage of our Public Service Improvement Program.

And there is very briefly one further area of public policy that's going to play an important role in these reforms that I want to refer to you this morning. A modern regulatory framework across the public and private sector is critical for us in the U.K. and other similar countries if we are to succeed in this fiercely competitive global economy. Our public services depend on a vibrant and successful private sector, creating wealth and opportunity. Bad regulation we all know can impede growth and stifle innovation.

Good value for money in the use of public resources also depends on getting the right oversight arrangements which safeguard those resources without unnecessary cost and bureaucracy. Taken individually, each and every act of Parliament, act of Congress or piece of regulation usually makes perfect sense. Cumulatively their impact can become a drag anchor on our economies.

So we need I think a new approach to risk management, but we should be clear about one thing: our long-term social and economic objectives are not going to be served by starting a race to the bottom of the standards league. Business does not benefit from a degraded environment or a low-skilled work force. Good regulation can enhance business competitiveness, corporate governance, it can open up closed markets and ensure added value, and this doesn't have to be a zero-sum gain; on the one hand, lots of regulation and protection for the environment, consumers and workers, and on the other, less regulation

and less protection for the environment, consumers and workers. For example, within the OECD countries, the U.K. is judged to have a relatively light regulatory framework compared with other countries. Yet we also have one of the very best health and safety records in Europe.

So what can we do to modernize the regulatory systems? First we must equip ourselves with the tools to regulate effectively, and we don't always do this. It requires a robust system of measurement to assess the impact of the regulation on business or the public sector, followed-up by appropriate post-implementation review to ensure the accuracy of those original assessments. It means taking practical steps to minimize the regulatory impact or the administrative burden of that regulation.

We have ambitious plans in the U.K. to deliver a significant net reduction in the administrative burden on business throughout the life of this new Parliament by implementing a system of administrative burden reductions similar to the one pioneered in the Netherlands. We think it could add 1 percent to our gross domestic product, big bananas for business I think and for the U.K. as a whole.

We're also committed to a major overhaul of the legal framework for simplifying our regulatory environment. We're publishing a bill later this month that will make it easier for future governments to simplify or remove redundant or ineffective legislation. We will need to acquire the tools to manage risk more effectively. Across many fields of

social and economic policy, our ability to quantify and predict the impact of future risk is in fact incredibly weak.

In some instances it will mean using the tools of the market to deliver regulatory outcomes. The development in recent years of emissions trading schemes across the European Union I think is a good illustration of how the two can work together and not in conflict. Regulation has often been necessary in order to deal with the failure of markets, but we now know that market-style regulation itself can make a big contribution to solving the problems associated with those market failures.

In the public sector, accruing the right tools to prosecute a better regulation agenda may involve a much more radical approach in which we begin to regulate for public policy outcomes. Much of our regulatory framework in the public sector is still structured very heavily along departmental lines, a response to the impulses and priorities of the sponsoring government department. Too much of it is still output based at best and not enough seeks to create the framework that can incentivize agencies or governments to work together along horizontal boundaries.

If you believe in the premise that the future is partly about networked forms of government capable of tackling modern social and economic ills, then surely the corollary of that is that the regulatory framework must itself look similar. It too must begin to work across horizontal lines.

In the public sector there is a gradual movement away too from the use of qualitative inspection tools to evaluate the performance of public services, towards the use of economic regulatory instruments and consumer exit options to drive forward improved performance. This is still in its infancy in some sectors such as health care, far more mature in others such as in the regulation of our utilities. But it is likely that within a decade in the U.K. there will be a much better balance between this combination of inspection, choice and price regulation in the public sector.

Second, we just try to change the culture that says statutory regulation is always the answer. It isn't. We cannot create a risk-free environment or risk-free markets by the stroke of a legislator's pen. Life just isn't that simple. This is going to be perhaps the major challenge for governments, all governments, because governments of all color and persuasion get out of bed in the morning and regulate. Many see it as our core business. The new approach must involve legislating as a last resort, not as a first. Other avenues have got to be explored before we reach for the statute book: self-regulation, voluntary arrangements; all of these options need to be considered as equal priorities.

Building a new culture will also mean creating a stop and think approach to the something must be done calls which inevitably arise whenever a new problem comes to light. Sometimes governments have to say no. There are too many examples in the modern age where

governments of all color, including those that proclaim their desire to roll back the state, have responded to events and regulated first instead of pausing. The intensity of the new 24/7 media circus that demands instant government responses doesn't usually provoke the right response from us.

Thirdly, we must begin a new debate on where the balance of risk should lie for progressive governments. Our impulse to protect is a strong and a noble one. We should be prepared to intervene in order to help the weak and the vulnerable. For me that goes without saying. But we need, too, to be clear about the costs and benefits of doing so. That way we can make informed choices about when to intervene or not and on what terms we should do so.

Ultimately of course it's about the politics, and in any democracy there are choices to be made. It's about where for me a progressive government believes the balance of risk lies, between individual, state and business.

In recent years we have tried to recalibrate the balance between the individual and the state. We've emphasized responsibilities as well as rights. New Labour in Britain has been accused often with the, in the space of the same couple of minutes, of both leading the creation of a so-called nanny state and also failing to regulate sufficiently when a problem arises. I think it probably means that we are getting some of the big judgment calls about right.

Public-service reform and better regulation therefore are two of the most important challenges for any modern government in equipping its people with the skills to succeed in the global economy. These policies define the role of the modern enabling state in its relationship to markets. They will also be I think defining characteristics of this third term in office for New Labour.

Business of government is, to put it simply, the most complex of all businesses, and these are genuinely exciting times to be in government. New and complex challenges are coming forward and the pace of change is quickening, not slackening. My personal view is that we should welcome those challenges and not retreat in the face of them because the truth is there is no safe harbor that we can now enter. There is comfort zone that we can safely retreat into.

My party has tested by the force of change in the past and we've endured long periods on the sidelines of our nation's public life because we failed to anticipate and to adapt to those forces of change. Previous Labour governments were full of great people, talented men and women driven by the same values that drive us today, the desire to create a fair society in which everyone can make the best use of their talents and one which is able to shoulder its responsibilities in the international community. But their inability to see those forces of change, to keep in tuned with the aspirations of the people to shape the world in their own image meant inevitably that it was in fact shaped by the image of others.

If you are in the business of progressive politics, there is only one course of action open to us. It is to be active in helping to shape the new responses we need in order for our economies and societies to prosper and grow. The means that we choose to deploy to secure those goals must change, but our values shouldn't, progressive values of equity and opportunity, of fairness and tolerance that can help shape the new century if we have the courage to make the change, if we have the courage to step up to the plate and make the case for the things that we believe in. Thank you very much indeed.

[Applause.]

MR. NIVOLA: Thank you so much, Mr. Hutton, for your stimulating, comprehensive and creative account of the hard work that's going on in the U.K. to bring a progressive government into the 21st century.

We have some time for questions but I thought I would exercise my divine right of kings and pose the first one here. What struck me in listening to you from this side of the pond is the contrast between the really interesting work that's going on on your end, on the other side of the pond, to create a really coherent progressive agenda in comparison with I think pretty much the failings of the Democratic Party here in the United States in rethinking its agenda. I think it was Bill Clinton who had said that he was worried that the Democratic Party had

become brain dead, and I'm not sure that its brain has been very much resuscitated since he said that.

In some ways, the Democratic Party here in the United States has the view of stop the world, we want to get off. It is in some ways if you look at its policy agenda closer to the status model that you describe of Continental Europe than it is to the U.K. model. It is much more in defense of the status quo than looking toward a forward-thinking agenda.

I guess what fascinates me is the transformation that's gone on in the Labour Party in Britain. You really took this notion of the third way seriously and there's been a real evolution from Old Labour to New Labour. As a political scientist I'm curious how do you explain this contrast? How did you do it? How did you pull it off?

MR. HUTTON: What I definitely don't want to get into is—

MR. NIVOLA: Invidious comparisons.

MR. HUTTON: No, I don't think this is an invidious comparison. I'm not here to offer any advice really to the Democrats or the Republicans or anyone else. I really don't want to intrude into the domestic political situation.

But I think in terms of the wider argument, there are always times when you need to defend things. The agenda that I've tried to describe, yes, it's been an active agenda for change and reform, but there are things that we should hold onto in that program of change. So I don't think the analogy is simply between do nothing, defend everything, and

tear everything down. But there are some people who do take those two extremes and New Labour has been very keen to avoid getting itself trapped in any of those sort of extremities because you can't govern successfully from any extremity, you've got to find a different balance.

New Labour has not been about a triangulation between left and right either. I think that's been a mistake. I think people have assumed that simply what we've done is just split the difference between the British conservatives and the traditional left. We haven't tried to do that because I don't think that is really always a terribly helpful thing either.

What we tried to do I think is set ourselves one fundamental test: we've got to govern in the national interest and not for sectional interests, and how do we pursue the national interest in the time of unprecedented changes in the balance of trade and production around the world? Those changes will affect every nook and cranny of our society both here, in Europe and in the U.K., and we're tried to apply our values, our traditional values, and make what sense we can of them in the modern world. We haven't tried to pull the whole thing down and redesign ourselves as a political force, we've tried to say these are our values and this is the world in which we live now and how do we make a sense of the two things.

I think in politics it's a really important thing, Pietro, as I said, to consider that your principal role is not to stay still and if you

stay still, we know what happens to you, you're on the highway, you're dead. You've got to move, and I think that has really been the discipline that we've tried to apply.

Of course I would say this because I'm one of his biggest fans, you need leadership and Tony Blair has given us that leadership. He has taken the party by the scruff of the neck and there are many in the party who still don't like the reforms and want to argue against them, but he's taken the party by the scruff of the neck and said, look, you've got to look in the mirror. This is the new world and we've got to make of it the best that we can.

I think that has been one of the central things for us, we've had that leadership, and he's been providing that leadership for the last 12 years, 13 years.

MR. NIVOLA: Yes, sir.

QUESTION: [Off mike] my answer to the last question would be the Democrats lost, and because Labour won, you have the responsibility and the opportunity to try to make this model work.

One of the things that really stuck me about your excellent presentation was that I didn't hear anything dramatically new and I took that to be quite reassuring. What we're going through at the present time I think is very similar to the Progressive Movement at the end of the 19th and early 20th centuries when there was a need to confront these mammoth changes that had occurred in the previous century,

urbanization, immigration, demographic change, industrialization and so on. The answer was largely, not totally, but largely big, strong government and that a lot of time was spent making that model work.

Beginning in the 1960s, accelerating in the 1970s, coming into its own in the 1980s and the 1990s, a new model was taking shape which you so well articulated. In some ways I think what I heard you say is that Labour has really been taking seriously the question of, How do you better define this model and make it work? It's a lot of hard work. A lot of the ideas are out there. How do you put them together and really put them into practice? Could you comment on that, number one? Is that a correct perception on my part?

Secondly, what are the big differences that we have today to contend with that the Progressive Movement of the early period did not; was we have their reforms that we have to contend with the success of big, strong government? You indicted that one of the principal challenges that you confront that you might not have been as successful in is dealing with the resistance to some of these major institutional changes. Could you comment more on that?

You mentioned something about legislation that sounded like sunset legislation. How do you confront the need to deal with these old institutions?

MR. HUTTON: I agree with your analysis in the first part of your comments. I think that is a fair and accurate description of where we are and the journey that we've been on.

I think in relation to the second part of your comments about big versus small government, this is really a very, very central issue for us to address on the progressive wing of politics, and I think the way that we deal with that in part will obviously be informed by our national political sort of debate and the institutions and legacy that we have.

I'm not here clearly to lecture anyone. I'm just trying to offer one or two opinions of my own. I think the issue about regulation is a fundamental one here because in politics, perception is reality. It doesn't matter how unfair the perception is, if that's what people think you stand for, you've got a problem and you need to address it.

One of the problems that we've got on the progressive wing of politics I would suggest is that we always sound like big government, huge government, tax and spend, that's what we like to do. That's a very bad place politically for progressives to allow themselves to be pushed into because it's not where the public are. I don't think the public really are in that space at all.

There are very, very important things collectively that have to be sorted in any country, in any modern democracy, core public services, and I think the way to deal with this problem about big government is to pursue the agenda that I've been outlining. I know that

it is being pursued here and many other sort of developed democracies are pursuing similar reforms. They're not unique to the U.K., and you're quite right. But I think the role of regulation here too is going to be very important.

The legislation that I referred to is not strictly going to be sunsetting legislation. What it is going to try and do is just give ministers, the government, power to basically go back and look at the statute book and pull out of it the things that really have passed their sell by date or are too obscure or too complicated to be understood.

You mentioned, Pietro, I was at Oxford, and I was and I loved it and I had a fantastic time there. I'm not going to talk to you about all that. It's too dangerous for my career. But when I was there I came across one extraordinary piece of—I won't say bad regulation, the students loved it—every year the students could dress up in Lincoln green and walk down to High Street and fire their arrows at vehicles and cows and things. It was perfectly okay to do that. Of course, being students, one year a group of students dressed up in Lincoln green, off they went down to High Street, arrows, everyone was petrified. The police tried to arrest these guys as you'd expect, and the students, because there are a lot of law students, many of them my friends, said, the Statute of 1258, we've definitely got a right to do it and there it was.

[Laughter.]

MR. HUTTON: The Chief Inspector is a very, very astute young officer and went back to the police station and checked his statutes and there was this Statute of 1258. There was one thing that they tripped up on, they weren't wearing swords and they were all arrested.

[Laughter.]

MR. HUTTON: I won't say that that's typical of the regulatory state in the U.K., but it's not entirely a million miles away from where we are.

Again, if you're on the progressive side of politics, I think one way you can win this argument about big versus small state, because we know that's code for something quite different, we understand all that. It is much more about the laissez faire approach to social and economic models and so on which I guess we don't share a view of. But if you want to get yourself out of the corner of being the big government guys, I think the canny to do it, the way that really is a real left field solution, is to really get into this regulation debate. It's a territory in the political sphere, I don't know whether this is true here, but certainly back home, it's a sphere that only the right or the center right politicians occupy, and it comes back to what Pietro was saying earlier about trying to defend everything. I think this is a big problem for progressive politicians, that's basically where our instinct is.

I think we can apply a uniquely progressive approach to this better regulation agenda or this deregulation agenda, whatever you like to

call it, that can help confound our political opponents and open up some very interesting new space for progressive politicians to operate in.

It does require a mind set change and this is probably our biggest challenge, and I've tried to say that in my remarks because we do think our mission is to regulate because we come from a tradition that says, yes, we should intervene to help the weak and the exploited and the abused and it's right to do that. But the discipline now is different, go on as we are and we are going to destroy our economies I think and our platform for growth. I don't think we should do that. I really don't. So we've got a really big challenge, a big wake-up call, I think.

On the legislation that I referred to, not sunsetting, but it's a really quite radical redesign of the statutory architecture here that will allow us to get rid of centuries in some cases of legislation that no guys understand anymore. And business like here I'm sure and in the U.K., they want to comply with the law. They're really anxious to make sure they don't fall afoul of the law—my profession it's three cherries—for us. Fantastic. We love it. As I said, we're not here for the lawyers, we're here for the—

QUESTION: I'm Pete Schoettle from Brookings and my question is about the public mood in the U.K., specifically, when Maggie Thatcher was dominating your politics and Reagan was dominating ours, he introduced this or made much of the idea that government is the problem, it's not the solution. Parallel to that thinking, public opinion

polls in the U.S. have steadily shown a declining trust in government, so of if you ask the public do you trust the government to do the right thing, the numbers have steadily shrunk since that time of Reagan.

My question to you is, what's the situation in the U.K.? Is that one of the legacies of Maggie Thatcher or does your public have a higher trust in government than here?

MR. HUTTON: I think there's a similar pattern right across the developed world and you see it in every democracy, every modern industrial society, growing cynicism, yes, and I think part of that is fueled by concern about the future. People are aware of the huge changes that are taking place. Everyone wants security. They want the peace of mind, the comfort of knowing their home is secure, their mortgage is going to be paid, and their jobs are safe.

Yes, they do look to government to deliver that, and have governments done that? No, they haven't been able to do that. Maybe because our solutions have been inappropriate, maybe the force of change has been too powerful for us to overcome on our own, and that's probably true.

I think in the U.K. the debate has been heavily influenced by all of that agenda, yes. It is as I said code for something different in politics. It's not big versus small, it's like should government be involved in trying to sort these problems out, or should we just leave it to the markets to resolve, and I definitely don't think we should do the

latter, I really don't. I think markets are hugely important, of course they are. Effective markets, we must have them. But we know absolutely that governments can help solve some of these problems if they get the right solutions. They can screw up big time if we jump in with our big boots on and get it wrong, of course, and I think there have been lots of occasions where governments right across the world have done the latter and not the former.

The challenge for politicians I think is, yes, to take that argument head on. What are we in business for? We are in business, literally, whatever side of the political spectrum you're on, to help societies and help our economies. We've got to argue for the role of proper effective government in the new age. As I said, that's not big versus small, it's efficient versus inefficient and that's how I would put it.

What's the public mood in Britain? It's as I said, I think we are a country where we have a unique sort of national characteristic. We don't think we're very good at anything. The truth is we are brilliant at quite a lot of things, and that's a problem for us back home.

I think people are anxious and that affects, yes, their view of government. I don't think it's a profound sense that all governments suck, it doesn't matter what you do, you're just hopeless. I don't think it's quite like that. We have one thing you don't have here which is a national press that really is remorseless in fueling this agenda of

hopelessness and defeatism, and that is a major political challenge, absolutely it is.

I don't have a magic wand I can wave over that problem. My view in politics is very simply that you've just got to make your case the best way that you can. It comes through a filter, the media, print media, broadcast media, whatever, it does come through a filter and you've got to try and allow for that. But the only job of politicians is just to try and be clear and simple, set out the case, argue for what they want.

In Britain the politics are quite lively. We're not becoming depoliticized, we're not becoming apoliticized; there's a very sharp political debate, and I think there's a cycle around these things as well. We've had strong dominance for the last 10 to 12 years. I think the conservatives need to reassess their position and they are in the process of doing that. Politics benefits when the choice and the options are stronger between the two parties. I think that's a good thing, not a bad thing. It means that we all have to get our act together and keep it together for as long as we can.

But I think the mood probably back home is not dissimilar from any other European country at the moment, and it is I think a challenge for all of our democracies to respond to. If we don't respond, then the parties of even more extreme views tend to sort of get a foothold in the European context. That means parties of the far right, and I mean

really the far right, the Neo-Nazis and the far left, we should never let those guys back in.

QUESTION: [Off mike] I'm a Britain working here in Washington from Kensington. I was very struck by your differentiation between education and other areas of reform. Education seemed to be the one area where reform had not only happened, but it seemed to be happening. I'm wondering why that is. Is there something inherent about those activities, education versus health and crime and welfare? Is there something about the metrics that you chose? Why has it worked on education, why not the others, and what can be done to change that?

MR. HUTTON: If you look at the various sort of chunks of the public service reform agenda, we started early with education. We were out of the traps I think quite quickly.

In 2000 we were in government for 3 years before we really sort of put together I think the core elements of our health reform program when we published the NSH Plan in July 2000. My colleague Alan Milburn was the author of that, and that set the NHS on a program of very substantial reform which in fact the MacKenzies I think have been involved in in one way or another. They're involved in pretty well everything.

I think part of it is a sort of chronological thing. We started early in schools. We've completed some very important higher education reforms in terms of universities only last year in terms of the financing of

those. I think that will be important. And they're the right reforms, they're difficult reforms for us in the U.K., but the right forms, putting university funding on a proper secured basis and changing the parameters of the debate so that if you can afford to make a contribution to your higher education, you actually do. If you can't, you're not asked to make a contribution, but we share the load cost of financing higher education much more progressively and it's loaded towards the wealthier, the wealthier you are, the more you contribute. For me that's a good progressive principle, not a bad one. So I think part of it is chronology.

But broadly the reforms share a similar set of assumptions about the kinds of levers that we need to be tugging on and we're in the business of pulling on those levers now as hard as we can. The core elements are those I tried to set out. They are involving putting the consumer of those public services absolutely in the driving seat. That's never happened in the U.K. It's never been the case. If you track the origin of our welfare state, when we won the Second World War, when we all won the Second World War, in the U.K. that left I think a political legacy that said if the state can organize itself to beat the Nazis and win the war, the state can organize everything else, and we did put our trust in the state. The—government that was elected created the broad structures that we still have in the U.K.

Going back to the question about mood, people have moved on from that. They really genuinely do not think that the government is

going to solve every problem for it. It needs to create the right framework, but the challenge for progressive governments is to allow people to help themselves to make progress on their own terms and using their own skills and aptitudes, not expecting that it's going to be done for them because you can't build sustainable progress, you can't build social cohesion, on that basis.

I think it was Kennedy's view back in the 1960s that that was so, we don't ask what the country can do for you, what can I do for my country? That's a fabulous analysis I think of the progressive cause. That's what really underpins it. It's been driven forward by those levers, their markets, our mechanisms, absolutely. We're not going to apologize for that because we know they work. We've seen them work in schools. We're seeing them work now in hospitals. In our law and order and in our correctional services they're working effectively, too. There are very big, important parts of the public sector now that are benefiting from these reforms based on the consumer being in the driving seat, supporting choice wherever we can where that's appropriate, having new providers into the marketplace, proper incentives and rewards.

But I think the key thing that makes the system coherent is the values that underpin it. That's been the key for us, and it's been the hardest debate to have because in the U.K. the word market does mean free market. We have no differentiation between markets and managed markets. It's not something that's easy to describe. On the left from my

party, the attack is but markets mean free markets and this means people paying, it means privatization, it means a different set of values, and I think that's a problem. On the left there's a limited vocabulary to describe reform in public services. When we say modernization, many people hear privatization and that's the same thing, and we've got to be really clear about that. It's not the same thing. It can involve elements of private providers coming in, of course. We're not hiding from that. But we have a process on the center left of politics in the U.K. which we've really got to engage in which is a modern dialogue which actually requires people to look at the world as it is and now how they sometimes like it to be or how they imagine it to be, and in politics those are the hardest arguments to have.

The toughest arguments are always with your own guys. They're not with the guys on the other side of the aisle because even though you can deal with those, the argument, the hardest ones, are from the guys who are behind you, and we have those arguments still and there is still a debate in the U.K. about it.

But I think the explanation for the variable geometry is partly chronology, it's partly about the actual differences between various parts of the public sector. They're not all monolithic. It's not all the same. You need to pull on some levers here and different levers elsewhere.

MR. NIVOLA: We have time for one or possibly two more questions.

QUESTION: My name is—and I just want to add one question and then I wanted to make a comment.

Why did you say that the very poor—from your program you'd failed the very poor, you'd helped with social mobility, you said you generally helped most people but the very poor you didn't.

I just wanted to make a comment. I was a Republican institute at a conference last week and they were talking about building up social institutions that helped the people in the periphery, the poorer people or the people that are not really included in society and I said I don't know—

[End Side A, Begin Side B.]

QUESTION: [In progress] —and they were saying why do we need government. They had people from New Zealand and Britain as well there, and Australia actually. It seemed that in our country, the African Americans, the American Indians and the poor were best benefited when the government took a stand on those three issues, when the government actually sent the Army down to the South to make sure that there could be integration, when the Supreme Court did the *Brown v. Board of Education* in separate is not equal, and the legislation did in legislating the civil rights laws, so government does have a place when it does take a stand. That's my comment and my question.

MR. HUTTON: Very, very briefly, in relation to my point about social mobility, in the 1950s and 1960s in the U.K. there was a lot of progress. In the 1980s and 1990s I think it's come to a halt, and I think it's come to a halt because we haven't really been able to progress strong enough and sufficiently enough. Participation rates, for example, in higher education, they are not good, they've plateaued and we need to get them back up particularly for low-income groups. That's partly what the reforms in higher education funding have been designed to achieve.

In health we know that the NHS has made a very positive contribution to health of people in Britain, life expectancy has increased very significantly, but it's accelerating the gap between the very rich and the very poor and that's not good. If you're a baby boy born, for example, in the center of inner-city Manchester today, you're going to live about 7 or 8 years less than a baby boy born on the same date in let's say Dorset or somewhere in the southwest of England, comfortable, well-off, middle-class areas. That isn't acceptable. It's just not acceptable to us that that differentiation is still there in the system and we've got to tackle it.

Curiously I think for us on the Labour side of the argument, that in itself provides the justification for the reforms because if the NHS was working in the way that it should be working, you wouldn't see that gap widening, you'd see it getting closer together. It's not working, and this is the hardest thing in many respects for people on the center left of

politics in Britain to really engage with. There's a sense that we're making these reforms because we've got happy-clappy weird stuff from you guys about markets. Every time, I kid you not, we try and do these reforms, people say, why are you trying to make it like the U.S. where you've got health insurance? Why are you making us do that? Because we're not doing that at all. So I come back to my point about limited vocabulary. It's a very hard debate to have when people just approach these debates from a different, sometimes a very unexpected position. So that's the point about social mobility, we're not securing the progress that we should be seeing.

The argument about whether we should have government at all, that's really quite ridiculous. We need government. You can't make progress in the modern world without a proper set of public policy goals and someone there to oversee them and make sure that they're happening on the ground. So find from the European point of view that that argument is just really so off the page, it's very difficult to get into it in any great detail. I personally think that what you said is entirely right about where you see really significant social progress, it happens not by default, it happens because there's a policy and someone's job is to oversee the policy and that's government.

MR. NIVOLA: John, do you have time for one more?

MR. HUTTON: Yes.

QUESTION: I'm with the American Legislative Exchange Council.

I still read the British press quite often and I was very happy to see Blair's message at the party conference last week. I think he was being very bold. I think he's bolder than he's been ever before, and I think successive election victories will do that for you.

My only problem with the Labour Party is that I feel that Blair and people like yourself, the Blairites as you're called, are held back too often by your party and ultimately it comes back to this whole tax and spend philosophy which hasn't been successful. If we look at the New Deal, employment is higher than it's been before in England, but we've got the lowest growth we've had in 12 years.

I would like to see government trusting people more. I think government should enable people. It should be about individual liberty. If we look at the tax credit scheme, Gordon Brown has come under terrific pressure for it because there have been a number of problems with it. Why don't we just give tax back to the people instead of having this Byzantine, complex system of credits and debits and that sort of thing?

I have a big problem with banning things. I think this government has too often fallen into the whole E.U. thinking of banning smoking, banning handguns, banning fox hunting. Why don't we just trust people to get on with doing things and make their own decisions?

That comes to my final point about regulation. I think regulation is very important. I think the E.U. too often has driven over regulation. The cost benefit analysis associated with E.U. regulation has been pretty poor and not really up to the standards that we expect in England. If you look at the CBI or the Institute of Directors, they've been pretty damning about it.

MR. HUTTON: That feels like a national row we've going to have.

[Laughter.]

MR. HUTTON: I agree with you about Europe when it comes to regulation and I think the difficulty is all the member states of the European Union have their own domestic better regulation agendas. They're all doing impact assessments; they're all looking at minimizing red tape costs and so on.

At the European Union level that's never been done. We've legislated significantly but often without any cost benefit analysis or any competitiveness testing being done at all, and it's not surprising that many parts or a large part of the European business community feels that it's time for a very significant shakeup of the system.

I think President Borroso and the Commission are probably the most reform-minded commission that the European Union has sadly needed, that's for sure, and I think they're showing early signs really of getting on with that agenda. In the U.K. government we have the

Presidency of the European Union at the moment and are very strongly supporting President Borroso and Vice President Verheugen who are leading on this agenda to really make progress with it, and I think we will make progress.

We need to make progress both politically and economically. We talked earlier about the distance between the citizen and the state. It's massive at the European Union level. I think one of the ways that we can close it down is by getting on top of this knee-jerk let's legislate first and think about the costs afterwards. We just can't go on doing that. It'll drag the European economy down for sure, and that's recognized in the Lisbon Strategy and everything else so we've really got to focus on that. I think it's important economically, too, for those reasons. So I agree with you on that.

I think the wider argument about should we ban fox hunting and handguns and so on, I know that might be a difficult sort of idea to get support out here for, but it's a different debate back home. I think in all of those areas, I agree with you, wherever possible you should try and get to a voluntary position and understanding. We tried very hard with fox hunting and we just couldn't do it. People weren't prepared to think about licensing or voluntary arrangements. They just weren't, so we had to make a decision on that one.

And I think really generally, although the argument now is all one way from those who like to hunt and so on, I think substantially

the noise has gone from that debate in the U.K. because people have looked at the legislation and said if we want to get on our horses and follow dogs around the countryside to flush out foxes, we can actually do that. The legislation doesn't stop you from doing it. What the legislation stops you doing is seeing that the fox is torn to pieces by the dogs. I don't think we should do that, frankly. In my own view I just don't think that's right, and I think in any society the argument is it should be between people who have those different views. I say you shouldn't do that to foxes, and basically I do. I don't want to see foxes running around the countryside eating lambs because many of my friends are farmers and I don't like that. They're a pest and they need to be managed, but it's really the way of how you do it.

Smoking is a different issue. Smoking raises all sorts of different concerns. Many of the smoking bans have originated here in the U.S. It's one of the ironies of life isn't it? We're regarded as a Big Brother state, but try and light up a cigarette in New York in a restaurant and it's a problem.

I'll tell you I was in New York a few months ago and it was the classic sort of example. I was in Greenwich Village at a lovely restaurant. It was beautiful. A very nice guy and his girlfriend were sitting there outside and there was an awning down and it was lovely, beautiful. He took his cigarettes out and started to light and this waitress rushed out and said, Sir, you can't smoke in the restaurant. It was

outside. I'm sorry. So he moved a yard further forward and he sat on the edge of the curbstone and lit his cigarette and it was fine because he's technically on the highway. His rear end was in the restaurant, but obviously that's permitted by the legislation. I'd love to see the definition of a rear end, by the way.

[Laughter.]

MR. NIVOLA: But probably even he didn't carry a sword.

MR. HUTTON: Yes, it would have been a different argument if he had I suspect.

MR. NIVOLA: Thank you very much for taking the time to talk to us this morning. This has been incredibly informative and interesting, and I wish you well on the rest of your journey here in the States.

MR. HUTTON: Thank you.

[Applause.]

[END OF TAPED RECORDING.]

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