Zero Base Policy

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1 Rationale

As Adam Smith remarked, "There is a lot of ruin in a nation." There is indeed, and Britain has recently seen much of it. There was a belief that Britain had rescued itself from its post-World War II malaise, emerging from the ruin of the 1970s into a strong and vibrant state that would provide a cushion against subsequent governmental incompetence.

It was felt that having shown the worth of relatively benign tax policies and of pro-market and pro-trade policies, that the nation could tolerate a certain degree of temporary mismanagement, to emerge triumphantly, once again re-emphasizing the economic truths that had been established.

This is no longer the case. If there were once a belief that Britain needed a few better policies here and there, and that new personnel with a fresh approach would be enough to see it through to better times, there is no such belief now. Confidence in Parliament itself is at an all-time low, pushed there by political failure, and highlighted by the expenses scandal which implicated so many legislators.

A strong economic position and the prosperity it brought have been transformed into weakness and debt. What people thought was success achieved through prudence is now revealed as failure brought by profligacy. Britain has experienced the politics of illusion, as its people were given false information about the size of public spending, about the level of indebtedness, about the true levels of unemployment and about the true costs of welfare. Figures were shuffled between columns and new terminology devised to present the appearance of competence and control to conceal a reality of decline and decay.

The phrase 'Broken Britain' has been used to describe a non-functioning society, but it applies in a much wider context. There are, indeed, sections of society where a toxic lifestyle is the norm, but the breakdown is wider than that. The economy is broken, the nation's financial system is in free-fall, and its welfare system maintains a culture of permanent dependency. Britain's policy on drugs is incoherent and unsuccessful. In the name of anti-terror laws it has undermined the principles of liberty which defined the country and gave it its ethos.

Britain faces problems at every turn. There is hardly any area of national activity which can be thought of as successful. Its services, including health and education, are perceived in terms of their failings. Its defence forces, though never short of valour, are dogged by problems of supply, over-extension, and inadequate equipment. Britain's energy provision and environmental policy are regarded by no-one as examples of efficient foresight and planning.

Britain is broken, and is no longer in a state which can be gradually improved by a wiser and more efficient government. It will take more than that. It will take policies radically different from those which have prevailed hitherto. It will take new policies, not conceived of as extensions and variations of those used before, but of policies that take a completely different approach.

Sometimes in business there is a resort to what is called 'zero base budgeting.' It means that instead of projecting what increase or decrease there will be in each section or department's budget, there is a detailed examination instead of what needs to be done and how much it will cost. It is a way of preventing automatic increases being nodded through without thought being given to how necessary or valuable are the activities being funded.

There is no policy equivalent, but there should be. Government usually continues to do what it has previously done, even in areas where the current policy has visibly failed to succeed. Sometimes there is tinkering, with government promising "a fresh approach," but in reality offering little more than minor adjustments at the margins. There ought to be a "zero base policy," under which government would ask in each area what it was trying to achieve, what would count as success, and what policies might conceivably help to achieve that success.

With Britain's economy and society in a state of visible failure in so many areas, government should ask itself what it is that it wants to achieve. A cynical electorate sometimes suspects that the answer might in some cases be "to be re-elected" or "to stay in power." These are not the answers which the current state of Britain makes acceptable. It needs instead an examination of what is the point and purpose of taxation, of what it is that a welfare system should be doing, of why public services are needed and what they should be doing. Instead of continuing with the police policy we have pursued, we should be asking ourselves why we have a police force, and how one can be constructed to do what we require and expect of it. We should ask fundamental questions about the purpose of education, and what modern health services should be like.

In some cases there are lessons to be learned from the practices followed in other countries. But there will be areas in which other countries offer no better example, and the examination must get right down to the basics of purpose, and the reasons why we entrust tasks to government. This is not an approach which comes easily to politicians. To them the natural questions take the form “how can we improve the heath service?” or “how can we make the police force better?” The more fundamental questions of why we have a health service or a police force, and what we would like them to do, are often taken for granted.

It is by asking these basic questions that we can detach ourselves from policies which have failed and are still failing, and instead produce new and more promising ways of achieving what we think the goals should be. In so many areas of public policy Britain has not been served by tinkering at the edges of policies which simply do not work. In most areas the reforms needed will be radical ones specifically designed to break with the past and offer a chance of success to replace the certainty of continued failure.

Some political commentators tell us that the electorate will only tolerate small deviations “outside the box,” and that radically new alternatives alienate them. The answer to this is that decisive leadership at moments of crisis has succeeded before in carrying public opinion with them and remoulding it. In their different ways, Winston Churchill, Clement Atlee and Margaret Thatcher all led firmly “outside the box” and undertook radical and unorthodox changes which won over the public.

Britain is again at a crisis point, and again in need of a decisive shift from its previous policies. It is again at a point where decisive leadership can win over public opinion by the success of fundamentally new approaches to public policy.

2 Personal taxes

To construct a fair and effective system of personal taxation, it is as important to understand what its purpose is not, as well as what it is. There are many misconceptions about what taxation should try to achieve, and between them they seriously detract from both its fairness and its effectiveness.

It is important to appreciate at the outset that taxation should be done reluctantly. Unless people voluntarily contribute what they wish to the central coffers, then all personal taxes involve an element of compulsion. In plain and simple terms, people are compelled under threat of punishment and loss of liberty to contribute what others think is a suitable amount to the national treasury. In that the default presumption must be toward freedom, this is unfortunate. The fact that it may be necessary does not stop it being unfortunate, and it is important to bear this in mind.

First of all, personal taxation is not and should not be an instrument of power wielded by those who hold office over those who do not. Its purpose is not to force others to live as political leaders think they should, rather than as they would choose to live for themselves. The fact that politicians have enacted laws which permit them to do this does not make it right for them to do so, or justify it in any other way. It should be done reluctantly, and only to the degree required to serve its purpose.

The saying “no taxation without representation” suggests that a representative government has obtained the consent of its citizens to the taxation it might wish to impose. This is not so, and nor is the implication that by remaining in the country and living in society people are thereby consenting to the levels of taxation which might be imposed on them. Since people have no opportunity to withhold that consent, it is in no sense freely given. Furthermore, it might be the case that in a representative society, the people who vote the taxes might not be those required to pay them. Two foxes can outvote a chicken as to what they should eat for dinner.

It is not part of taxation's purpose to punish people for their wealth or their success. This is not what taxation is for, and it is not what governments are for. Nor is it a legitimate function of taxation to take resources from those who have plenty in order to make them more equal with those who have less. Taxation is not about equality, or about imposing some people's conception of an ideal world on those who do not share their vision.

Some people are able to command more resources than others because they are able to be of better service to others. They might be more talented, more intelligent, have more strengths of character, or even be more lucky. A person's high economic worth to others might well lead to their greater acquisition of wealth even if it does not correlate with their moral worth. It is not the purpose of taxation to replace economic worth by some preconceived moral order.

Nor is it a function of taxation to constrain behaviour. The imposition of high personal taxes on some activities rather than others also imposes the moral preferences of some to override those of others. Taxation does in fact constrain behaviour, but that is not its function. By making some activities more expensive, taxation can make them less attractive. Often this effect has been used in an attempt to curb certain activities such as, for example, drinking, smoking or gambling. It has the unintended consequence of also curbing people's wealth, especially that of those lower down the economic scale, more of whom tend to indulge in those activities.

If taxation is not to wield power over others, to punish them, or to seize their wealth to alter the balance of society, or even to constrain their behaviour, what is its essential role?

The legitimate purpose of taxation is to fund the essential activities of government, and to do so in ways that interfere as little as possible with the wealth-generating processes of the economy. Taxes are levied on people to pay for the services that are necessarily provided communally, and should be done so in ways that impact minimally on their ability to pay them.

The problem with tax policy as practised in the UK is that it has tried to do too many of the things that are not its primary purpose, and that it has done so in ways that distort behaviour and stunt the growth potential of the economy. When the tax burden is felt to be too high, it changes behaviour in unintended ways. People at both ends of the economic spectrum prefer leisure to work, finding it relatively more rewarding. Poorer people find work less attractive than welfare, while people at the top end find extra effort less worthwhile.

The starting level

After asking what the purpose of taxation should be, the second question is to ask who should pay it. The obvious answer is "those who can afford to do so." The answer is not "the rich," because there are not enough of them, and if tax levels became punitive they would leave anyway. Taxes should be paid by those who can afford to do so, and this does not include poor people.

This might seem obvious, but it has not been the policy of recent governments. The threshold at which people start to pay income tax at 20 percent is just over £6,000 per year. They are required to pay the state one fifth of what they earn above that level. This includes very large numbers of poor people and those on very low incomes.

The average wage in Britain is over £25,000 per year, yet people earning less than a quarter of that sum are required to pay income tax. The minimum wage in Britain would bring in about £12,000 for a 40 hour working week. People earning only half the minimum wage are required to pay tax. It is called a minimum wage because the state does not want people to be earn less than that, yet even so, the state reduces the income of those who earn only half that by charging them income tax.

The state recognizes the absurdity and iniquity of its policy by granting welfare to a large proportion of those on low incomes. With one hand it gives tax credits and with the other it takes income tax. A more rational approach to taxation would see it levied only on those who could afford to pay it, and in proportion to their ability to pay.

One well-known problem with the existing system, which gives with one hand as it takes away with the other, is that low-income workers can often face extremely high effective rates of marginal taxation if they receive a pay increase or choose to work more hours. Indeed, according to an analysis of the figures contained in the 2008 pre-budget report, a total of 60,000 British households face handing 90 percent of any additional money they earn in 2009 to the Treasury.[1] This is because as well as being taxed on the additional income, their tax credits and benefits are withdrawn. This analysis is backed up by the OECD, which has found that for a married couple with one earner and children, the marginal effective tax rate can be 90% – the 3rd highest in any OECD country.[2]

People on the minimum wage, or on half or less of the average wage, shouldn't be paying income tax at all. Those on low incomes find it hard enough to make ends meet as it is, without the additional burden of income tax.

The rule should be that taxes should be to pay for essential services, and should be paid by those who can afford to pay them. The starting level for income tax should be set above the minimum wage for a standard working week, or above half the average income. At current earnings this would almost double from £6,035 to at least £12,000 per year.

Such a policy would take 7 million low-paid workers out of the income tax net altogether, and would transform the lives of low earners by leaving them with more of their own money to spend. It would increase the average income of UK families by £100 a month. Millions currently dependent on welfare support would be lifted out of it to become self-supporting.[3] This remarkable figure assumes single-earner households; dual earner households would in fact show much greater savings from the reform, due to the availability of two increased personal allowances. To put it another way, the extra take–home pay from this reform would be equivalent to a pay rise of £1,730 per person — a 7 percent pay rise for an average worker, and up to 14 percent for a low–income worker.[4]

The Treasury would lose revenue, of course, but there would be offsetting effects. At current levels the revenue foregone has been put at £18.9bn, assuming the higher rate threshold is kept where it is, rather than raised in line with the personal allowance. However, cost savings and additional revenue would greatly reduce that. In the first place the change would take many people out of welfare dependency. Not only would those in work keep more of their income, avoiding the need for welfare support, but many of those on welfare support would find the balance had tipped in favour of work, motivating them to prefer work to welfare. As people step on the work ladder, their income usually rises over time, changing many who previously drew on state funds into net contributors to national revenues.

There are in addition many areas of public spending where savings could be made. There is inefficiency on such a scale that the different task forces assigned to identify possible economies all came up with figures in the tens of billions of pounds of identifiable savings. Even further to this, there are programmes which are unnecessary as well as inefficient, and which should not be done at all. To put things in perspective, the Taxpayers' Alliance has estimated the annual total of government waste at £101bn. They even found that the cost of QUANGOs to the taxpayer had risen by £41bn over the preceeding two years. In other words, undoing just one year's rise in QUANGO spending would be more than enough to cover the cost of raising the personal allowance to £12,000.[5]

As stated above, the forgone revenue figure of £18.9bn assumes that the higher-rate threshold would not be raised in line with the personal allowance. However, if the government were able to find significant cost savings, it would be well advised to raise the higher rate threshold (currently set at £40,835) in line with the personal allowance. This would cost an additional £6bn, taking the total cost of the reform to approximately £25bn. There is a very good case for such a measure: according to Treasury Figures, the number of higher-rate taxpayers in the UK has almost doubled since 1997, because the government has failed to lift the threshold in line with wage inflation.

The rate

Since the purpose of taxation is to finance the necessary expenditure of government, there is no justification for using high rates to punish certain sections of society for being "too rich." Nor is there any justification for manipulating tax rates in an attempt to make people more equal. This is not what taxation is about. The aim, as stated, is to finance government with as little harm as possible to the wealth-creating processes of the economy, and in such a way that those paying the tax are those who can afford to do so.

It helps, too, if a tax can be collected at relatively low cost compared with its yield, and simplicity is to be preferred over complexity. Small businesses, which generate most of the new jobs in Britain, are deterred by the complexity of income tax and the requirements of the Pay-As-You-Earn collection which employers are obliged to undertake.

It is unlikely that anyone starting a new tax system would wish to achieve anything as cumbersome and complicated as that which presently prevails in Britain. A plethora of regulations, requirements, exemptions, allowances and conditions has been added to over the years, making the code impenetrable, at times even to accountants.

Tolley's Yellow Tax Handbook, the standard practitioners guide to the UK tax system, provides ample evidence for this. In 1997 it was 4,988 pages long. 11 years later, in 2008, it had more than doubled in size to 10,134 pages. Indeed, were it not for a redesign of the handbook itself in 2007, it would now have reached approximately 10,900 pages. The complexity this implies is considerable. Just take Tolley's current sales pitch:

> *With the longest tax code in the world and several recent Rewrite Acts to come to terms with, interpreting the legislation is more difficult than ever, so having our reliable legislative guide to hand is imperative.*

Remarkable changes in taxation were implemented in both Britain and the United States in the 1980s, and remarkable results were achieved. In both countries taxes were simplified and the rates lowered. In both countries the result was to increase the revenue taken into the treasuries, and to result in the richest people paying a higher proportion of the total tax take. In Britain the top rate of income tax underwent reductions from the 98 percent it had stood at in 1979, down to a top rate of 40 percent. The lower rates yielded more revenue, but with an interesting corollary. The top decile of earners who had been contributing 35 percent of the total saw that proportion increase to 48 percent over the course of a decade.

The result of the lower rates was thus to see the share paid by the top 10 percent go from just over a third of the total to just under a half. Given the desirability of having government's expenses met by those who can afford to pay, this fits that requirement. As The Spectator's Fraser Nelson has written:

> *The 1988 Budget can be seen as the most redistributive taxation package in British postwar history. Then, the richest 1 per cent of households were contributing a handsome 14 per cent of all income tax collected. By 1997, this had soared to a staggering 21 per cent — given an incentive, the rich work more and declare more and 40 per cent of the extra money they generated still accrued to the government.*[6]

It seems paradoxical to some that lower rates can yield greater revenues, but there are two reasons why it happens. The tax base broadens because the lower rates make avoidance and evasion less worthwhile. It becomes easier to pay the tax than to use complicated tax shelters or risk prosecution for non-payment. Higher rates tend to have the opposite effect. For example, analysis by the Centre for Economics and Business Research recently found that the government was likely to lose £800 million in revenue as a result of its tax hikes on the rich. They expect 25,000 people to go into tax exile.[7]

The second factor which broadens the tax base is that the lower rates provide more incentive to engage in more productive effort. When Chancellor Nigel Lawson lowered the top rate from 60 percent to 40 percent, he increased the sum people could keep out of each pound from 40 pence to 60 pence, a 50 percent increase in the rewards of effort. The economy grew, and with it the revenues of government. The Laffer Curve, as this effect is called, is not just economic theory; it works in practice.

More recently, some Eastern European countries have introduced flat taxes, and at low rates. This means that in place of the various tax rates which people pay at different levels of earning, they opted for a single 'flat' rate which everybody pays once their earnings rise above the threshold. They all found, without exception, that the low, flat rates led to economic growth and increased revenues for their treasuries.

There were other factors, of course, in that these were small economies emerging from the straitjacket of communism, but there are other examples of counties which have made their taxes simpler and flatter, and gained similar advantages. Indeed, there are now 25 flat tax jurisdictions around the world: Albania, Bulgaria, Czech Republic, Estonia, Georgia, Guernsey, Hong Kong, Iceland, Iraq, Jamaica, Jersey, Kazakhstan, Kyrgystan, Latvia, Lithuania, Macedonia, Mauritius, Mongolia, Montenegro, Pridnestrovie, Romania, Russia, Slovakia, Slovenia, Trinidad & Tobago, and the Ukraine.

Britain should boldly reform its entire approach to income tax, and follow in these countries' footsteps. Not only should the threshold be raised to take low earners out of taxation, but the entire system should be simplified by having a single rate of taxation. Those who earn more than the minimum wage, or over half the national average, should pay income tax at 20 percent. This means that the 40 percent rate should be abolished.

With this move, the entire system of exemptions and allowances should also be removed. The government should not really be trying to direct people into certain types of activity by giving tax exemptions and allowances. At a flat 20 percent rate these will not be needed. There is some trade-off between removing the various allowances, and taxing people at a lower rate. A 20 percent rate will be seen as low enough to allow people to make their own decisions about how thy allocate their funds, instead of being steered into particular areas by the tax advantages they offer.

There are a number of ways in which this could be accomplished. One is to simply abolish the 40 percent band. The other is to raise the threshold at which the top rate clicks in. It is currently £34,800, very low by comparison with some countries, particularly the United States. The next government could announce that this threshold would rise in year 1 to £75,000, to £150,000 in year 2, to £250,000 in year 3, and to £500,000 in year 4. Only a very small number of people have annual incomes larger than that, so the effective rate for nearly everyone would be 20 percent, and the final abolition of the 40 percent band would then be a formality.

The adoption of a single income tax band of 20 percent would have a dramatic effect on economic growth. Britain would once again become an attractive low tax country in which talented high earners would wish to stay, and to which high achievers from other countries would wish to come. These are groups which generate employment and economic growth, and people whose spending power sustains many other jobs. Even civil servants at the Treasury have acknowledged the benefits a flat tax could bring (even if their analysis was later censored):

> *The combined effect of savings in compliance and yield increases should then enable a cut in average taxes and spur further reductions in tax avoidance and evasion, shrinking the grey economy, and increasing the attractiveness of the economy to foreign investors, creating a mini-economic boom.*[8]

An advance announcement of future threshold changes would give people the confidence to know that if they succeeded in business or entrepreneurial activity, they would be assured of future tax rates that were attractive compared to those imposed elsewhere. A 20 percent tax rate would make Britain a magnet for those ambitious and determined to succeed.

There would be an initial fall in revenue if income tax was standardized at 20 percent. There would also be an unparalleled spurt of economic growth which would augment the tax base. Treasury officials said as much in a paper extracted through the Freedom of Information Act. The UK Treasury follows a static model in which tax cuts have to be paid for by spending cuts. They do not follow a dynamic model which factors in the economic gains which tax cuts would bring. Their outlook is that the behavioural changes which tax changes might bring about cannot be assumed. Yet when they increase duties on alcohol and tobacco, they do assume behavioural changes will result. They assume higher prices will bring about reduced consumption, although in practice a more obvious behavioural change is that people seek tax-free sources of these commodities.

The point of the dynamic model is that tax cuts do bring about behaviour changes. They raise the rewards of work and effort, and make idleness less attractive by comparison. They make emigration of talent less likely, and they make immigration of talent a more probable consequence. They make it more likely that business activity will expand.

All of this takes time, and there is an immediate shortfall in revenues before the slack is taken up by economic growth and revenues increase accordingly. That gap can largely be bridged by spending cuts, eliminating unnecessary programmes and cutting deeply into wastage. There will also be some savings on the simplicity of the new tax regime, and the corresponding administrative savings.

3 Financing local government

The council tax has never been popular or successful. It was introduced in haste under John Major's premiership in order to put the poll tax out of the way before a general election. It was the third unpopular tax in a row to finance local government. The iniquity and unfairness of the old rates led to their replacement. The unwieldy and unfairly imposed poll tax fared no better, and now council tax ranks among the least popular taxes.

It is useful to ask the basic question, "What is the purpose of a local government tax?" The answer is to finance locally the services best performed locally and in accordance with the wishes of local electors. There are different priorities in different parts of the country, and local government represents the attempt to have priorities decided locally and democratically. It should be taxation with representation, where local people should vote for the taxes they impose on themselves through their representatives.

One problem of the old rates was that a large proportion of many local electorates did not pay them. Council house tenants did not pay, but home-owners did, and so did private tenants through their landlords. It meant that one section of the electorate could vote to impose taxes on another section.

A problem that rates shared with its successor, the poll tax, was that there was no income stream on which the tax was assessed. Rates were assessed on property, the poll tax on the person; but in neither case was it taken as a proportion of any actual income stream. Taxes on earnings or spending can be paid gradually, but the Council Tax, like its predecessors, is levied annually. Some people find difficulty in paying a lump sum, especially a large one. One problem with the poll tax was that local authority spending spiralled during its introduction, resulting in much larger bills than were anticipated when it was planned, and bills which came all at once.

Most people find it easier to pay taxes a little at a time, or gradually over the course of a year. If people had to pay the annual VAT they pay in a lump sum all at once, or the income tax they pay as they earn, many would find difficulties in managing to set such sums aside. The Council Tax encounters these problems, which is one reason why most local authorities encourage people to pay it in monthly installments by direct debit. But not everyone has a bank account, especially at the lower end of the income scale.

In fact the Council Tax does not pay for local services. It pays for about one fifth of the cost of local government, with the rest coming by way of grants from the national Treasury, or from the business rate, which, since it is set centrally, is in effect a national tax.

Not surprisingly in view of this, local authorities do not have a great deal of autonomy. A very large part of what they do is mandated by central government. They are obliged to provide the services which central government tells them to provide, whether or not the local electorates want them. Even the levels of service are often mandated by national government.

Thinking local government finance through from a zero base, the most appropriate tax would be one which was could be paid gradually over the course of a year, either as people spent money, or as they earned it. It would finance local activities that people voted for locally, and would not be spent in ways mandated by central government. It would not be a tax on property, since this is often not a good reflection of people's ability to pay. Older people often still have the family home after the children have left and they themselves are no longer earning.

Taxes on spending or on earning are more likely to reflect ability to pay, and both have one further advantage: they are collected by people outside government. Income tax is collected for government by employers under PAYE, and VAT is collected by shop assistants and business people as they charge customers for services. In both cases they act as unpaid civil servants, collecting the tax on behalf of government. The rates, the poll tax and the council tax all required a civil service to assess them, levy them and collect them.

Although some have suggested a local income tax to finance local government, the model of which there is most practical experience is that of a local sales tax. Those who have lived in or visited the United States have seen how smoothly it works there, where they have had many decades of experience. Items purchased are subject to a local sales tax which is added to the purchase price at the cash register, where it is calculated automatically. The till's records show the amount the establishment has to send on to the state government.

Typically the state taxes in the US are set at a few percent.[9] It is accepted as part of the routine of purchasing goods. Food is usually excluded from it, along with other items which might include newspapers and books. The bar code on the item or the chip tells the cash register whether to add the sales tax onto it.

The suggestion is often made that different tax levels between states might encourage people to cross state borders to shop. It does happen, but in practice the difference has to be high for people to go to the trouble. Some studies have suggested that the difference has to be 3 percent for there to be significant cross-border 'leakage.'

Britain is a smaller country, and the distances needed to cross local government boundaries would usually be less, but on the other hand people in Britain are not accustomed to travel the distances which Americans do to visit shops. It could also be argued that cross-border differentials would spur local authorities to keep the sales taxes low by keeping their operations lean and efficient.

There is an issue in Britain that we already have a sales tax on many items in the form of VAT. This currently stands at 15 percent, though scheduled to be raised within a year back up again to 17.5 percent. To add a local sales tax to this would be to add a significant amount to the purchase price, and while people have long been used to a high tax element for products such as alcohol and tobacco, there is no reason to suppose they would welcome a high tax element elsewhere.

The probability is that people would grumble at first, but then grow used to it, and might be persuaded that it was a price worth paying to get rid of the deeply unpopular Council Tax. There are alternatives ways of achieving the same result. The government collects the VAT paid by shoppers in each area, then hands large grants to local authorities to support their budgets. It would be possible to rearrange things so that some of the money went direct to the local government, cutting out the middleman of central government. One recent proposal highlighted the fact that the entire amount of VAT corresponds with what is spent on local government, and suggested that VAT receipts raised locally should go directly to the local authority, cutting the need for central government grants.

Ingenious though such proposals are, they raise complex questions. The easiest proposal to implement quickly would be to replace Council Tax with a local sales tax to be added to items at the cash register, as is done in the United States. This has the advantage that it makes visible the fact that one tax is being replaced by another.

The business rate touches on sensitive areas of democratic fairness and local autonomy. Under the Conservative governments of the 1980s there was a serious problem of the misuse of business rates by local authorities. In some areas they were putting up the business rate in order to keep down the domestic rate and win support from the more numerous domestic ratepayers. Faced with the higher rates, many businesses closed down or moved to areas where costs were less punitive. The result was to shrink the business base, reducing the revenue yielded from business. This in turn led to calls for even higher business rates and another round of the spiral, or for calls for more central government grants.

The government responded by setting the business rate nationally, thus denying local authorities the opportunity to win popularity by overtaxing business to keep domestic rates down. It also removed a large share of local autonomy. The nationally-set rate was transformed into a national tax, effectively part of the block grant awarded to local authorities by the Treasury.

Attitudes have changed much since the 1980s, and it would now be a sensible move to allow local authorities to set business rates and to collect the revenue directly. With business rates added to a local sales tax, they would be raising most of their revenue locally, rather than from Treasury grants. It is unlikely that local councils today would seek to drive businesses away, or think they could win popularity by doing so.

Furthermore, by setting business rates themselves and taking the revenue, councils would have a direct interest in promoting business activity and reaping the financial benefits. Too often today, councils reject business developments because they would see the revenue from this go to central government, leaving themselves to pick up locally the costs associated with it. The switch to a locally-set business rate would thus act to boost business development, local growth and job creation, in addition to helping give local authorities a much greater degree of autonomy.

Central versus local

The relationship between local and national government needs to be examined. The purpose of local government is not to provide central government with an instrument for carrying out its policies at local level. Yet most of the activity and spending of local government is now just that, meeting the requirements that central government imposes upon it, and implementing them in the way specified.

One reason why local government elections secure such low turn-outs is that there is little at stake. Most of the big decisions are made by national government, which is where most of the money comes from. Local government has become an administrative arm of national government.

This is not and should not be the purpose of local government. That purpose should be to represent locally the wishes of the electorate in respect of local matters. The more decisions that are taken nationally, the less are they likely to meet the wishes of local residents. Conversely, the greater the powers enjoyed by local authorities, the more influence will local voters have on their outcome.

A part of the problem arises because there is no clear boundary separating what should be a matter for local decision, and what should be decided nationally. National governments in Britain are not used to the division of powers and responsibilities which countries with federal constitutions handle routinely. People know in Germany, as in the United States, as in Australia, what issues lie within the domain of the national government, and what must be left to the states or provinces.

British governments armed with national mandates have shown little time or tolerance for local authorities representing voters who prefer to do things differently. The mantra of parliamentary sovereignty has allowed little leeway for local authorities wishing to assert their independence on local issues. Both Conservative and Labour governments have been guilty in this respect.

Rethinking the division of powers is difficult while central government controls the purse strings, but once an adequate system of local government finance is in place, it becomes possible to decide which issues are national, which local.

The first requirement is to remove the detailed directives by which national governments dictate most of the activities of local government. It will be left to local electorates to decide whether to continue to perform those activities in the ways previously required, or, indeed, whether to perform them at all.

Two special cases are constituted by education and health, where the need to depoliticize them involves transferring down to the individual schools and hospital trusts the powers presently exercised by governments both national and local. Elsewhere the quantity and quality of local services should be a matter between the electors, their representatives, and the officials who administer them.

This process could be assisted by the abolition of the regional tier of government. There are Regional Development Agencies, Strategic Health Authorities, Government Regional Offices, Learning and Skills Councils, plus others. Their role is opaque and ill-defined, and rather than contributing to the provision of local services, they establish a remoteness from local populations and a lack of ‘ownership’ of these services by communities.

The regional layer stems from a bureaucratic view of power radiating from the centre through a series of agencies right down to the people at the periphery. It is a model widespread in Europe, but somewhat alien to the British notion that power goes upward, from the people to those whom they entrust it with. A more British model would lack the neat lines and concentric circles of the top-down model, but would instead have decisions taken locally or nationally.

Prevalent among the political class and the media in Britain has been the notion that local variation is a bad thing and should be ‘corrected’ in the interests of fairness and national cohesiveness. The preferred goal has been for a smoothing of regional variations, so that uniformity prevails in place of variety. The idea that some communities might not share the priorities of others is never considered, nor is the idea that they should be able to give effect to their different scale of preferences. What has been sought is sameness, and that has to be imposed via centrally imposed standards and requirements.

The rationale behind local government has to admit that people in different areas might wish to do different things. To insist on uniform national standards conflicts with and undermines local democracy, and makes local government no more than an administrative arm of national government.

Approving the budget

So much of local activity is centrally mandated that the size of local authority budgets is largely determined by governmental requirements. If local authorities raised their finance by a sales tax within their area, and if national mandatory requirements were removed, the size of the local budget would be determined much more by the degree of services which electors were prepared to support.

One feature which serves to control spending in many US communities could usefully be imported to the UK. It is that the budget prepared by the local authority cannot take effect until it has been approved by the electorate. In addition to the candidates’ names on the ballot, there is a separate question inviting them to assent to the budget or to reject it.

This involves widespread discussion and participation. The proposed budget is published, dissected in the press, talked about at town meetings, and discussed on local TV and radio programmes. The effect is to create a better-informed electorate, much more aware of the role and activities of their local government. Councillors appear in public to defend their budget against critics, creating a wider understanding of the way in which costs and services are connected, along with discussion of the effectiveness of certain parts of the package of services.

When the budget is rejected, the legislators have to go back and prepare a modified version. Since a common reason is an unreadiness to accept the tax levels the budget will lead to, officials seek areas where efficiency can be improved and savings made. The effect is to keep local government lean, rather than bloated, and to prevent the accumulation and persistence of unnecessary or wasteful programmes.

It should be a requirement of the newly-empowered local authorities in the UK that they must seek electoral approval of their budgets. In the event of an electorate repeatedly refusing to endorse a local budget, the US model might again be followed, keeping the budget at the previous year's level until a new one is presented that wins the backing of the electorate.

The above changes alter the distribution of power between local and national government, reversing recent trends by examining the purpose of local government and putting in place a structure which can achieve it. In doing so, they give local government a new importance and independence which central government must accept if it wishes to see a healthy local democracy in place.

The governing principle is that people in localities should decide what type of services and at what level of provision to they wish to produce collectively. They should pay locally for those services, through business and sales taxes, and should be consulted and asked to approve the local budget before it can take effect. And it should no longer be the business of central government to override those local choices by imposing a national agenda upon local authorities.

4 Liberties

Most of the principles which anchored liberties in legal rights have been eroded or abolished in recent years. We no longer have the right of the accused to remain silent, the prohibition on detention without trial, the right to trial by jury, or the presumption of innocence. Gone, too, is the principle that people could not be punished until convicted; for assets can now be seized on suspicion. Our right to privacy has been compromised by the ability of police to take and store DNA samples from innocent people, even children.

In the interests of convicting those guilty of serious crimes such as terrorism or paedophilia, we have taken from most people the freedom to pursue their lives unmolested by police or government authorities. Laws passed to prevent serious crimes have been routinely used to prevent people from pursuing harmless, lawful activities.

A law is introduced to deal with terrorist offences, for example, and is immediately used to arrest an octogenarian heckling a government minister, and to seize a pedestrian for the offence of walking along a cycling path. Anti-terror laws were used by the Prime Minister to seize the assets of an Icelandic bank.

Despite all the reassurances given that these new terrorist laws will only be used for the serious offences designated, the fact that they are available means that they will be used. No-one supposed that a law designed to protect us from Middle East-inspired terrorists would be used to raid the offices of an opposition MP, to pore through his wife's computer, or to detain him for nine hours in a police station. The offence in question was that of embarrassing the government by making public leaked documents.

The new laws, assented to reluctantly and in good faith, are now routinely abused for lesser purposes than they were intended, and to the general distress and harassment of law-abiding citizens. Wearing a T-shirt which is rude about a former Prime Minister might be offensive, but the police now use the new laws to criminalize it.

Even former heads of MI5 and MI6 (the UK's security and secret intelligence services) worry the government has gone too far and that the police are "abusing" the law. Sir Richard Dearlove, who led MI6 from 1999 to 2004, said in June 2009 that, "I am a great believer in proportionality and as a citizen I worry about the loss of my liberties."[10] Dame Stella Rimington, the first female head of MI5, has also voiced her concerns, warning that the government risked turning Britain into a "police state".[11]

This process has gone on so steadily and cumulatively, that a major review of liberties and legal rights is needed. The first step must be the establishment of a judicial commission to undertake a year-long review of the sate of civil liberties, comparing where they stand with where they should be, and making appropriate recommendations to place them beyond the reach of authority.

We need to ask questions about the relationship between the individual and the government and its police authorities. It is not, and should not be, that of a helpless servant to be treated as those in authority see fit. It should be that of a citizen protected by the right to proceed about his or her lawful business unmolested. This right should only be impinged upon if strong evidence of good cause is produced.

The judicial commission so appointed should examine all of the cornerstones of our liberties, such as those listed above, and prepare a bill through which government can guarantee them. If the rights of accused are to be diluted, it should be clear under what circumstances and to what degree this can happen.

Above all there must be due process to be gone through before such thing can happen. Evidence must be produced, warrants obtained, judicial sanction sought. None of this must happen merely to suit the convenience of investigating officers or prosecutors.

No less important are the restrictions needed on surveillance. Britain has one quarter of the world's CCTV cameras, and they are used to check that people walking dogs scoop up any canine faeces, that people who apply for a school place for their child do indeed reside at the address they give, and that people are not putting out garbage at other than the approved times.

CCTV cameras have helped to solve important and shocking crimes, and have undoubtedly helped to prevent others. But they were not intended to watch citizens night and day for possible infringement of local bye-laws.

Similar over-use takes place of electronic surveillance powers. We want our security services to be able to monitor the telephone traffic of terrorists planning to carry out an atrocity. This includes intercepting and reading their e-mails and their on-line activity. But these powers were not intended for the uses made of them since they were granted.

Hundreds of thousands of officials can now eavesdrop on private communications simply to check that people are behaving as model citizens should. Council officials eavesdrop check to ascertain that people are recycling their waste in an approved manner, or are not over-filling their rubbish containers.

For example, the Regulation of Investigatory Powers Act (RIPA) allows public authorities to intercept phone and e-mail data and use CCTV to spy on suspected criminals. Poole Borough Council has admitted using RIPA to check the usual address of a three-year-old child applying for a primary school place. The council is unrepentant and said it will continue to use powers available to it under the Act: it used physical surveillance six times in the financial year 2007/2008. Three of these related to school applications and three to investigations by Environmental and Consumer Protection.[12] Other instances of surveillance powers being put to trivial use include the case of Cumbrian bus driver Gareth Corkhill, who was fined £210 and given a criminal record because his wheelie bin was 'too full' (it was open by a few inches),[13] and reports that Lancashire Council bin police have been seen rummaging through people's wheelie bins at dawn, at a cost of £60,000 a year to the taxpayer.[14]

Perhaps more worringly, figures from the Ministry of Justice show that stop and searches under the section 44 of the counter-terror legislation soared from 37,197 in 2006-07 to 117,278 in 2007-08.[15] Police have been criticized for abusing their powers, since just one percent of those 'suspects' targeted were subsequently arrested. Of those, only a fraction were for terrorist offences.[16]

The way to stop this abuse effectively and completely is to ask what was the legitimate purpose of the legislation which empowered the surveillance, and to limit it to those purposes only.

The anti-terror legislation should be restricted by law to cases of suspected terrorism. This was the intent of the laws, and the reason why they were agreed to. All other attempted application of the anti-terror laws should be itself illegal and treated as a sufficient abuse of powers to justify criminal prosecution.

The use of surveillance by CCTV cameras and electronic monitoring should be restricted by law to the police and security services, and denied to all other officials.

This does not include security surveillance by people to protect their own premises, but does include that done by officials monitoring compliance with local regulations and by-laws.

By itself this will not stop abuse by police and security services, but it will at least prevent surveillance by the army of petty officials in pursuit of trivial behaviour offences. In addition to this, action needs to be taken to prevent the routine assumption by the police of a "right to snoop." In many areas police now routinely demand CCTV surveillance be installed in restaurants and bars as a precondition of granting or renewing a licence. The argument "this might enable a crime to be solved" is unacceptable, since it could be applied to justify night and day surveillance of everybody. If surveillance is to be undertaken, it must be by police and security services only, and they must show 'good cause' before it can be undertaken.

It was the intention of allowing CCTV cameras that they be used to detect and deter crime. Laws which permit interception and monitoring of communication were passed to combat serious crimes such as terrorism. By restricting the use of surveillance to police and security services, those aims will be met. At the same time the widespread invasion of privacy which other uses have led to will be curbed.

There must be recognition that new technology makes possible invasions of privacy never before imaginable, and a legislative framework to restrict its use to the cases where we agree it is justified must be put in place.

5 Drugs

If the aim of Britain's policy on narcotic drugs were to reduce the incidence of addiction and use, and to minimize the damage they inflict on lives, it must rank as one of the most spectacular failures in history. Dozens of initiatives spread over many decades have left Britain with more addiction, more drug use, more drug-related crime, and more drug-induced health problems.

Dealing with drugs takes a huge amount of public resources. Home Office figures tell us that up to 80 percent of crime is drug-related. Apart from the criminal activity of drug dealing, with the turf wars and gang violence which accompanies it, there is the crime committed to finance drug habits, including burglary, theft, and violent robbery.

Estimates on the financial cost of drug abuse vary, but they all paint a similar picture. According to the Department of Health, the economic and social cost of class A drug use in England and Wales exceeds £15bn a year. That amounts to nearly £45,000 per problematic drug user.[17] Around 90 percent of this figure relates to drug-related crime – the rest to health service costs (drug treatment services now cost in excess of £500m per annum).[18]

Similarly, a Number 10 Strategy Unit review in 2004 estimated the costs of drug use in the UK to be £20 billion a year. Home office research in 2000 estimated £17.4bn. Interestingly, they said that 99 percent of this total was the result of 'problematic use', as opposed to recreational use. The Home Office also calculated that 88 percent of this total related to the costs of drug-related crime. Though several years old, this research graphically illustrates the way in which the costs of drug use in general are eclipsed by the far greater costs of criminal activity – which is largely a creation of prohibition.

Successive governments have sought to crack down with harsher sentences and mandatory penalties. Ministers and police officers have taken tough public stances with phrases like “zero tolerance,” “clamping down on the kingpins,” or “going after the drug lords.” The reality has been of no reduction in drug crime; rather that of a steady increase. As the Transform Drug Policy Foundation points out: drugs in the UK are cheaper and more available than they have ever been. Even high security prisons are awash with illegal narcotics.[19]

To a large extent this misguided policy has been media driven. Many newspapers have taken a tough editorial stance in support of the victims of drug addiction. They highlight the grieving mother whose daughter has died, and urge the authorities to go after “the evil men who did this.” “I want the swine who did this to my son” is a story that almost writes itself, as readers are invited to share the indignation and fury of those whose lives have been blighted.

Politicians need to be elected, and prefer to fall on the right side of popular issues. It would take a very brave one to point out that the press is loudly urging them to do more of a policy that is known not to work. When a policy fails, or achieves the opposite of what was intended, it is unlikely that more of it is needed. The results suggest that a different approach is needed. Tougher policing, harsher sentences and the like have not reduced drug addiction or drug crime. Indeed, even as overall crime figures have fallen in recent years, the number of drug offences has continued to rise at double-digit rates.[20]

Of course, police initiatives can succeed, briefly and temporarily, in reducing the available quantity of some drugs on the streets. But the only effect that has is to raise their price, inciting criminal elements to move in and bring more onto the market, while increasing the crime required by some users to sustain their now more expensive drug habits.

In the case of some widely-used recreational drugs such as Ecstasy, cocaine and cannabis, the illegality of these drugs makes criminals of users, and puts into an antagonistic relationship with the police people who might be law-abiding in other respects.

The sheer numbers of people who use prohibited drugs is instructive. It is estimated, for example, that there are 502,000 ecstasy users, 776,000 cocaine users, and 2,655,000 cannabis users in England and Wales. In total, there are some 3,329,000 illegal drug users in the UK. Just over a million of those are Class A drug users, while the rest use Class B and C narcotics.[21]

The purpose of drug policy is not to make journalists feel good, or to make politicians popular. Nor is it to allow innocent victims of drug use to feel the satisfaction that revenge will be exacted on their behalf on those involved in the trade. It is to minimize the damage drugs wreak on the lives of non-users. It is to prevent people falling victim to the crimes perpetrated by drug users, or to have people's children drawn into a web of dependence, criminality, and suffering.

Many of the adverse consequences of drugs are caused by their illegality. This is what makes them expensive, and what brings criminal gangs into the supply chain. Yet given the damage that drugs do, politicians balk at the possibility that they might become even more widespread if they were made legal, further spreading the cycle of addiction, dependence and suffering. The evidence, however, suggests that politicians fears are misplaced. In 2001, Portugal became the only EU-member state to decriminalize all drugs. None of the nightmare scenarios touted by the opponents of decriminalization – from rampant increases in drug use among the young to the transformation of Lisbon into a haven for 'drug tourists' – has actually occurred.[22]

Britain should start by start by recognizing that addicts are people needing medical help rather than criminals who need to be punished. Many of those who could be helped medically are deterred from seeking it because their drug-taking is illegal, to be concealed from those in authority. Events in Portugal since drugs were decriminalized certainly support this: by freeing users from the fear of prosecution and imprisonment, the country has dramatically improved its ability to encourage drug addicts to avail themselves of treatment.[23]

Drug addiction should be viewed as a medical problem susceptible to medical solutions. It should be put in the hands of doctors and nurses, rather than those of the police. There should be High Street clinics, staffed by medical personnel, where addicts can go to receive supplies to be consumed on the premises. They would have to agree to medical examination and counseling, but would receive a free supply to use within the building.

Decades ago when free supplies could be prescribed to registered addicts, there was a problem caused by drug users seeking to be over-prescribed so they could sell the surplus on the streets to non-registered addicts. Consumption within the premises should eliminate that.

The drugs themselves cost very little, literally pennies. It is the illegality and the risk suppliers face of prosecution and imprisonment which boost the prices to levels which attract organized crime and criminal violence. Indeed, it is estimated that more than 90 percent of the street price of drugs represents their 'illegality premium'. Supplied under medically supervised conditions, the costs would be tiny. Furthermore, the ever-present risk with street purchases of adulterated and possibly dangerous supplies is eliminated if drugs are supplied by trained medical personnel.

The medical examination required as a condition of supply would enable monitoring of the health of addicts, and the counselling supplied could help dependent users to better control the adverse physical effects of drug use.

The effect of such a policy would be to eliminate most if not all of the crime associated with many of the hard narcotics, such as heroin. Users who currently feed their habit on the proceeds of criminal behaviour would have no need to, since the supply would be free.

While this would work for some of the Class A narcotics, it would not be effective for more recreational drugs. Addicts might be prepared to take their fix of heroin in a clinic before returning to the streets, but social users of recreational drugs would not. Few people would want to enter a High Street clinic to take an Ecstasy tablet – this is something users tend to do in nightclubs or at parties. Similarly, few people would want to snort a line of cocaine in clinical and antiseptic conditions.

It is possible, though doubtful, that people would want to smoke cannabis in a clinic. Again, the circumstances under which its users partake of it are too far removed from the medical circumstances envisaged for supervised use. The cafés in the Netherlands in which cannabis use is tolerated are rather more social and relaxed than medical clinics would be.

The policy that stands most chance of success would be to medicalize hard narcotics as described above, and to legalize the production and sale of recreational drugs like ecstasy, cocaine and cannabis. They would not be totally without controls, any more than alcohol and tobacco are without controls, but it would no longer be criminal for adults to use them. Obviously governments would wish to restrict their sale to approved outlets and under monitored conditions.

The street price would collapse without the criminal risk and the need for illegal supply. Quality could be controlled and subject to regulation and labelling. It would be easier for advice to be given on packages warning of the dangers associated, and alerting users to the early signs of adverse health effects. There is little doubt that government would impose a tax on their sale, as they do on alcohol and tobacco.

An important question asks if such controlled liberalization would lead to a sudden and permanent growth in the use of narcotics. The supposition must be that some who had previously been deterred by the law would now sample drugs out of sheer curiosity. Would many people decide to become regular consumers?

There are other factors than the threat of prosecution which come into play. Many people choose to become non-smokers even though it is legal to smoke. They rate the costs and health hazards of smoking cigarettes more highly than they appreciate any pleasure which it brings. Similarly, most people are moderate drinkers, even though binge drinking is legal.

The key difference is that drugs today are out of control. Disregard for the laws that prohibit them is widespread. Drugs such as Ecstasy and cannabis are available everywhere, with young people in many environments routinely exposed to their use. The main difference it would make if use of such recreational drugs were no longer criminal is that the entire criminal culture which sustains their supply would disappear. The question to ask is whether the present situation is better or worse than that which would result if hard drugs were available medically, and recreational drugs were no longer prohibited.

Overwhelmingly the answer must be that the situation would be improved. The criminal violence made necessary by illegality has more innocent victims. People already die from drug abuse, and many more have their lives blighted by its use, including many non-users such as victims of crime.

The USA went through a similar thought process when it repealed prohibition of alcohol. It had to consider whether consumption would rise, along with misuse, adverse health consequences and ruined lives. In the end they decided that even with the risk of such things, the situation they were in, terrorized by organized crime, was far worse than anything which might come out of repeal. In Britain we are in a similar position. What might come out of medicalization and decriminalization is highly unlikely to be worse than the present situation.

Several decades of drug policy have failed to improve things. Although sections of the media loudly demand more of what is proven to fail, it is time for different policies to be introduced, ones which stand a high chance of succeeding.

6 National Insurance

There was a time when National Insurance was a form of insurance, but it has long ceased to be so. Introduced in 1908 and greatly expanded in 1948, it is supposed to provide benefits when needed in return for contributions made while working. Originally it was not means-tested, with benefits depending strictly upon one's contribution record.

It was popularly thought that National Insurance contributions were somehow saved for a rainy day, and that people's own future needs would be met out of the 'National Insurance fund.' The terminology is used, and the 'fund' nominally assigned for its designated purposes, but in reality NI is a pay-as-you-go scheme in which the monies paid in by today's contributors are paid out to today's recipients. There is no fund which secures future out-payments, only the promise that future taxpayers will continue to pay in so that others can draw out.

National Insurance is, in effect, another income tax. Indeed, it raised £97.5bn in 2007-8 (a 104 percent rise from 1997-8), which makes it the second largest source of government revenue after the income tax.[24] National Insurance is not subject to the same rules, but since thresholds began to be harmonized, and the upper earnings level removed for high earners, it is a tax on income in all but name. It is used to finance part of the government's programme, nominally assigned to welfare, but in reality is available to pay towards capital projects, the National Health Service (22 percent of NI revenues are allocated to the NHS, according to the Institute for Fiscal Studies) and other government activities.

The mechanics of National Insurance are as follows. Employees pay 11 percent of weekly earnings between £94 and £630. Since April 2003, employees have also paid a further 1 percent of weekly earnings over £630. Meanwhile, employers pay an additional 12.8 percent on all earnings over £94. This employer contribution has no upper limit.

There is a great deal of misunderstanding surrounding this ‘Employer Contribution.’ It is popularly supposed that employees pay their contribution out of their own wages, and that employers pay a further 12.8 percent on top of that on behalf of employees. But in reality the employer contribution is part of the wage costs of hiring and paying an employee, and the NI contribution is part of the ‘wage pool.’ If it were not required in NI contribution it would be available for wages paid direct to the employee. Thus despite the terminology, the employee pays his or her own ‘primary’ contribution, and the employer’s ‘secondary’ contribution comes out of money that would have gone to the employee otherwise.

Another problem with National Insurance concerns the administrative costs it imposes on businesses – a burden which falls particularly heavily on small enterprises. The Bath Report, for instance, found that the smallest 30 percent of businesses (measured by PAYE and NICs collected) bore 75 percent of the compliance costs. In 1995-6 compliance costs per employee were estimated to be £288 per annum for employers in the 1-4 employee size band, but only £5 per annum for those with more than 5000 employees. Given the increased complexity of the UK tax code since then, there is little reason to imagine that this situation will have improved.[25]

No-one would have deliberately designed so complex and cumbersome a system. It has grown so as modifications have been added and rules changed over the years. It is by no means transparent or easy to understand, and requires national insurance accountants and lawyers in both the private sector and in government to operate it at all.

It breaks most of the rules of taxation. It is inefficient, since it requires a parallel bureaucracy to go through the same motions as that which collects income tax. It has complicated thresholds which change every year. Unlike income tax, people stop paying it when they reach age 65. It is more regressive than income tax because part of the payment made by higher earners is capped, and part uncapped.

No zero based policy would invent or introduce it. In 2007 it raised 17 percent of total government revenues, so its contribution to the Treasury is substantial. The easiest method of removing its complexities and anomalies is to integrate it with income tax, so that so separate collection or procedures are required.

Politicians do not like to be seen to raise taxes, which is why Gordon Brown resorted so widely to stealth taxes. If National Insurance contributions were absorbed into income tax, it would make the headline tax rate so large that most politicians would blanch at it. There have been proposals considered by major parties and put forward by think tanks to do this, but no major party has yet endorsed the idea.

If government preferred not to inflate the headline rate of income tax by incorporating National Insurance within it, it could publish the employee national insurance element separately, describing it as an "insurance surcharge" on income tax, kept as a separate figure, but collected at the same time, in the same way, and by the same rules. This would eliminate most of the anachronisms which National Insurance contains and perpetuates.

National Insurance is presently a tax on employment. It raises the costs of employment by adding to the costs an employer has to meet, and (crucially) by adding to the workload an employer has to undertake. This is especially significant for the small firms which create most of Britain's new jobs, and which could create many more if they were not deterred by the complex paperwork required when they do so. The abolition of separate National Insurance would reduce at least some of the costs it imposes on employment.

7 Personal pensions

The UK actually had the best private pensions in Europe until 1997. Its pension funds were more than those of all of its EU partners added together, and increasing numbers could look forward to a comfortable retirement income. Only a minority of those reaching retirement age were dependent on the basic state pension as their sole means of support. In 1998, the value of unfunded liabilities in the UK was only 24% of GDP as compared with 60% for Italy, 102% for France and 150% for Sweden. The situation has declined markedly since then.

Gordon Brown sowed the seeds of ruin in his first budget, abolishing the Advance Corporation Tax concession enjoyed by pension funds so he could skim £5bn a year from them to fund his increased public sector spending. Prior to 1997, a pension fund could, for example, be paid £80 in dividends and get £20 in cash back from the Treasury in tax relief. Mr Brown axed this tax relief, and a pension deficit soon developed, roughly equal to the amount he had clawed from them over several years. A revision of the rules which governed them meant they had to sell some equities, further depressing the value of their remaining holding.

A report by actuary Terry Arthur suggested Brown's pensions raid had cost Britain's pension savers at least £100bn. This is equal to the entire annual economic output of Ireland, or 50 years of Tesco's annual profits at £2bn a year. However, Arthur has warned that even his dire estimate may be overly cautious. Others have put the figure at £150bn, or even £175bn. It is therefore possible to say that this one Labour policy has cost Britons as much as the financial crisis – a sobering thought.

UK pensions are now in a mess. The number of active members of private sector occupational schemes has fallen by 41percent in the last 12 years, from 6.1 million in 1995 to 3.6 million last year. Measure hidden in the small print of Alistair Darling's Budget will make things even worse: the government now plans to tax anyone earning more than £150,000 on payments their employer makes into their company pension. As well as allowing the tax authorities to take an additional £2.9bn a year away from private pensions, this measure sets a worrying precedent – particularly in light of the fiscal crisis the Treasury now faces.

Meanwhile, the basic state pension is down 20 percent or more from its 1950 level relative to earnings, with British pensioners getting less, and later, than their continental counterparts.[26] Of course, life is OK for the 17,000 retired public sector employees with retirement benefits worth £1m or more, but with unfunded public sector pension liabilities now exceeding £1trn – more than 70 percent of GDP – such largesse can surely not continue forever.[27]

Private pensions will probably recover some of the lost ground, but it will take years. In the meantime the 'quantitative easing' (or printing money) done by the Bank of England has been used to buy government bonds and pushed up their price, lowering the return they offer to pension funds. Most private pensions will be smaller because of this. If the Bank had bought corporate paper, at least the asset base of companies would have increased, raising their credit-worthiness and borrowing power, along with their asset value.

Asking the zero base policy question about the purpose of pensions policy, the answer is that it is to enable people to set aside resources during their working lives to afford them a decent standard of living in retirement. It is not to make retired people dependent on taxpayers for their livelihood.

Government policy, of both present and previous governments, has contained several perverse incentives. Those who have made no provision for their retirement are supported anyway, whereas those who did put funds aside see their state benefit reduced. The aim now should be to encourage everyone to save enough in a private pension fund to meet their own retirement needs.

When people are asked how much they think they need to save, they tend to underestimate the amount. There are financial pressures on them to spend, rather than save, and young people in particular see their retirement as something in the far distant future which they can think about later. In fact people need to begin the habit of retirement saving early in their working lives if they are to build up a fund large enough to meet their future needs.

The ideal pensions system is one under which people save a set proportion of their salary, are given incentives to do so, and may choose a provider to invest that fund on their behalf. The fund grows over the years as they pay more into it, and as the investments yield dividends and capital appreciation. This is the so-called 'Fortune Account,' and versions of this policy have been tried successfully in Chile, Singapore, and more recently, Sweden.

The Chilean system was created at the beginning of the 1980s as the successor to the old state-run system, which went bankrupt. Workers are obliged to deposit a minimum of 10 per cent of his gross salary (up to the equivalent of an annual income of $20,000) each month. 97% of civilian salaried workers are officially in the private system. The scheme has had clear benefits: as of October 2007 the system had accumulated USD $100 billion, an amount equivalent to 70% of the GNP of Chile.

There is an issue concerning the degree of compulsion in such a system. While theoretically it would be possible to let people spend everything as they earn it and then face destitution in retirement, the reality is that the state (funded by the taxpayer) would then be obliged to provide them with an acceptable standard of living. This makes nonsense of the sacrifices made by the prudent, and suggests that everyone be required to make minimum contributions toward their own future needs.

There is, of course, compulsion within the present system, in that National Insurance contributions by employer and employee are not voluntary. There would be no additional compulsion in allowing people to transfer their employee National Insurance contributions into private pension schemes, paying as a minimum what they presently contribute to the state in National Insurance.

As in Sweden and Chile, a number of private providers would be authorized to handle these savings, meeting regulatory requirements about the mix of investments and the degree of risk tolerated. In Sweden people were encouraged to choose between a limited number of competing providers. If they failed to exercise a choice, they were placed in one set up as the default model, with a rather more conservative investment policy than the others. It placed a higher proportion of its funds in safer, but lower yielding bonds, rather than in the somewhat riskier, but higher returns equities. People could choose the type of fund they preferred, with the safest one as the default if they failed to exercise a choice.

This is the model most appropriate to the UK pension circumstances. A few approved providers could set forward their investment policies, which must meet the safety standards set by regulators. People would choose, and pay into them a percentage of their earnings, equivalent to the employee portion of National Insurance. The employer contribution would continue to go to the state to help fund non-pension entitlements. Funds would be built up over their working lives to provide for their retirement needs without recourse to the goodwill, and the ability to pay, of future taxpayers. As in Sweden, anyone who failed to make a choice by the qualifying date would be enrolled in the one chosen by industry advisors as the default model, most likely to suit the needs of the majority of then population.

While people would be able to switch between providers, the Chilean experience suggests that this ability might be limited to perhaps two times a year, with the associated costs borne by those who switch, rather than by the members who stay in. As was found in Chile, there are costs involved in constant switching of providers, and they can limit the growth of funds belonging to those who stay with their provider. An additional point is that the aim is to encourage people to take a long-term view, recognizing that over a working lifetime there will be periods of faster growth than others.

It is questionable whether 11 or 12 percent of earnings, saved from day one of employment, would accumulate large enough funds to provide a sufficiently high pension. However, it is one thing to have a pension one can live on, and quite another to have a comfortable standard of living that bears some relation to that achieved during the working life. Accountants tell us that 11 or 12 percent would be enough to achieve the former, but suggest a further two or three percent would be required to achieve that. This is where incentives come in. Government could offer matching funds for contributions over the minimum, and up to a set limit. Within that range, for each pound put in above the minimum mandatory percentage, government could match it, giving a strong incentive to save.

The government contribution could take the form of a bond redeemable on retirement, rather than cash up front out of Treasury coffers. The bonds would be tradable, though, and could be invested by the providers, contributing to the growth of the member's fund.

The starting age for the new 'Fortune Accounts' would be with first employment. For older people there would not be sufficient time to build up adequate funds before they retired, so above a set age people would have the option to remain with the state system. But as they retired and died over the years, the private pension funds would gradually take over, eventually becoming universal.

The funds they accumulated over a lifetime of contributions and growth would constitute an unprecedented capital pool able to boost the nation's wealth creating process, and helping to secure its future prosperity. While for individuals, the security of their own fund would lift them clear of any resistance by future taxpayers, or of the need to depend on future political pressure to secure and maintain a decent standard of living from the state. There would be no concern that adverse demographics might increase the numbers of retired dependents, while reducing the proportion of younger people in work to support them. Each person would pay for themselves while young to support themselves when retired. And their income in retirement would partly depend on how much they had been prepared to save out of their earnings.

8 Time limit unemployment benefits

The rather wry saying among economists is that you get the unemployment you pay for. Those countries which provide long-term unemployment pay without a time limit have persistent long term unemployment. Those that offer unemployment benefits only for a temporary transitional period only, do not.

Unemployment benefit (currently jobseeker's allowance) was intended to provide a temporary bridge to those who lost their jobs, and its purpose was to tide them over until they found work, and to help them to do so. It was never supposed that dependence would become a way of life, or that support would be available to those who simply preferred to stay at home doing nothing rather than take such jobs as were available.

There are housing estates in Britain where virtually no-one is in work, and which therefore lack the informal network of knowledge about job opportunities and availability which is present when people at work hear about other jobs going and pass on the knowledge. Figures from the Office of National Statistics show that one in five British households (and as many as 23.9 percent in London) rely solely on state handouts.[28] That figure excludes pensioners and students. Research from the Centre for Social Justice shows how much worse this problem has got in recent decades: As recently as the 1970s the proportion of no-earner households in council housing was just 11 percent. Now, 70 percent of incoming social-rented households have no one in work. Among those in social housing, more than half the heads of household aged 25-64 do not do any paid work. [29]

There are households where children have no working role model in three generations of adults, and who regard a life on welfare as the norm. Yet there are jobs going, even in times of unemployment. It seems remarkable that the number of teenagers unable to find work in Britain remained at 250,000 over the two years in which close on a million Poles came over and virtually all went into employment. Many of the Poles were prepared to take jobs that British people sniffed at because they paid not much more than was available in unemployment benefit, and involved spending the day taking orders and doing hard work.

The Poles were prepared to take them because they paid better than was available back home, and because they knew that a foot on the job ladder can lead upwards. It is easier to move from a low level job to a better one than it is to move from no job into a job. Those who have chosen dependency lose the habits of work, the self-discipline of getting to work on time and of doing what employers are paying them to do.

The US state of Wisconsin pioneered a programme under which people receiving welfare were required to work for it. They managed to cut their welfare rolls dramatically, and put so many people back into employment that it became the model adopted by many other states. In some states private firms are hired to administer and operate such programmes, and are paid according to how many people they succeed in going off welfare and staying off it. In 2000, 13 years into the Wisconsin reforms, that state's cash assistance caseload had fallen by over 80 percent.[30]

And yet in Britain today, people who choose to stay at home are not necessarily making a foolish choice. From their point of view it is sensible not to give up their time doing hard work when they can get almost the same by doing nothing. The choice architecture has to be altered so this is no longer an available option.

The policy should be that unemployment benefit is available for the first six months of unemployment, then it will cease. This will motivate unemployed people to put in real effort to find work, and as the time limit draws near, to be less fussy about the type of job they are prepared to accept. When the six months are over, the unemployment benefit should cease.

Many of the long term dependents will find work if the payment-for-leisure option is withdrawn. They may not be the kind of jobs they would have preferred, but they will be paid work, and a base from which they can climb. We have to jettison the notion that people are entitled to take only the jobs they prefer. Unemployed people might have to take what is going, and move up from there into better jobs.

The ones who, at the end of the six months, still have no job should be given a state job created for the purpose. There is a great deal of work which could usefully be done tidying up the environment, attending to public spaces, planting trees, and improving the appearance of our towns and villages. Those who have found no other jobs should be given such work and paid for it, instead of receiving the money for nothing as they do at present. The administering of such jobs could readily be done by charities who would welcome the extra manpower, and by retired people, some of whom would leap at the chance to take a useful role in society.

If anyone refuses to do work of this nature, they will have the right to do so, but will not be paid for doing so. The culture of something for nothing has to be changed into one of something for something. This is what Labour's New Deal promised in words but failed to deliver in deeds.

An even more radical option would be to copy the reform's Chile implemented in 2002, essentially privatizing unemployment insurance. Under the new system, workers pay 0.6 percent of their wages into individual unemployment accounts, while employers pay 1.6 percent of wages into these individual accounts, along with a further 0.8 percent into 'joint accounts'. These accounts are conservatively invested and administered by the same funds that handle Chilean retirement accounts.

When people become unemployed they are able to draw between 30 and 50 percent of their previous wages for up to five months. Should they exhaust their individual accounts before that period ends, then benefits are paid from the 'joint account' funds. Importantly, if Chileans do not draw on their unemployment accounts, then the money in it is rolled into their social security accounts at retirement. Thus as well as minimizing the collective costs of unemployment and fostering a savings culture, the Chilean system gives the unemployed a strong incentive to move back into work as speedily as possible.[31]

Disability

Both Conservative and Labour governments have connived at making it easy for people to claim incapacity benefit. They did this in order to massage the unemployment figures for political advantage. During three decades of general improvement in health, when people were living healthier and longer lives, there has been a steep climb in the number of those recorded as unable to work through disabilities – often outweighing the falls in 'unemployment' that occurred in the same period. Indeed, in 2007 it was reported that 2.4 million people were claiming incapacity benefit. More than half of them had been off work for more than five years.[32]

Allegations have been made that this was not all genuine. Busy doctors had only to sign notes after a brief interview with the patient for them to register for disability benefits. People in their 50s who found it difficult to re-enter employment after losing their job found it easier to claim that disabilities made them unable to work.

The advantage to government was that it kept the real unemployment figures lower than they might have been. It has been claimed that individuals seek the easiest benefit to attain, and that helpful advisors steer them towards those most readily available.

Politicians or economists who question the degree or genuineness of some of the disabilities which qualify people for incapacity benefit are castigated as hard-hearted and uncaring. Even fairly modest measures, such as requiring re-examination, or assessment to see what types of work they might be capable of, meet with a hostile reaction. Commentators seem to prefer a situation in which people are treated as unable to work and given incapacity benefit if they say this is so, and with nothing required in the way of more rigorous evidence.

It is not good for the economy, for society, and perhaps ultimately for the individuals themselves to be subsidized for unproductive lives spent in idleness, and this applies both to people who make no real effort to find work, and to those who are in fact capable of work, but who prefer to be registered an incapable and supported accordingly.

People on incapacity benefit should be subject to regular review by independent panels set up independent of government. These panels should feature qualified medical practitioners, and should also include many people who are themselves disabled. They will know better than most the kind of questions to ask, and the kind of work that people might be capable of. They will also be better able than most to distinguish between feigned disabilities and the real thing.

Those claiming incapacity benefit should be required to appear regularly before these panels to be assessed. This should be a condition of incapacity benefit. By making the panels independent of government, they can act in a more impartial way, having no interest in the matter. Their decisions, moreover, will not reflect on politicians, neither will they be as susceptible to pressure and campaigns as politicians are.

Their decisions will also command more respect, particularly since they will feature numbers of genuinely disabled people among their members. The effect will be to de-politicize the whole issue of disability benefits, and make it instead a matter for independent judgement.

To their credit, the government has already made some steps in this direction. October 2008 marked an end to new claimants of incapacity benefit, replacing it with the Employment and Support Allowance (ESA). Eligibility for the ESA assessed over a thirteen-week period, and is intended to prevent people simply pretending to be incapacitated. Moreover, doctors are required to assess what work a given individual would be capable of, rather than simply ascertaining whether their ailment is genuine and then signing them off work. Existing Incapacity Benefit claimants will be moved into the ESA system by 2013.

For those who develop serious, long-term disabilities, Chile once again provides a model for reform. There, disabled workers are guaranteed a defined benefit of 70 percent of their average wage (if they become completely disabled) or 50 percent (if they are only partially disabled). Where possible this is funded by using the capital accumulated in their retirement accounts (see above) to purchase an annuity for the appropriate amount. However, Chileans also pay a 'disability and survivors fee' amounting to 1 percent of wages, which is used by pension funds to purchase insurance against their members dying prematurely or becoming incapacitated. Should their retirement funds prove insufficiently large to provide these disability annuities, the insurance is used to make up the difference.

There are two clear advantages to this system. Firstly, pension funds have a clear commercial interest in ensuring that all claims are genuine. Secondly, recipients of this funding still have a clear incentive to do whatever work they are able to undertake – once they meet defined criteria, they get the defined benefit, even if they subsequently mange to do some paid work.

9 Schools

The failure of much of Britain's state school system is well documented. Government talks of inputs such as how much money is spent or how many classrooms have been renovated, but what concerns parents and citizens is the outputs which measure the degree to which children are being educated. By most objective measures a high proportion of children leave school without the qualifications and skills needed to make their way in society. Shockingly, more than 40 percent of boys and almost 30 percent of girls currently leave primary school unable to read and write to minimum standards.[33] Moreover, Britain has fallen down the PISA rankings, which compare secondary school educational standards in reading, mathematics and science across 57 countries. In reading, the UK's fifteen-year-olds fell from 7th place in 2000, to 17th place in 2006 – below Estonia. In science, the drop was from 4th to 14th – putting UK students below the national average. PISA's also said that the advantage of being educated at a private school was greater in the UK than in almost any other country.[34]

Public sector education will always have the problem that it will be open to capture by producer interest or by ideologically-motivated groups. It was captured postwar by the 'progressives,' who saw the classroom as a unique opportunity to turn out model and equal citizens. Instead of stressing merit and achievement, they emphasized equality. Instead of using competition to promote excellence, they ought to promote co-operation, even if it left brighter students unchallenged and unmotivated.

The claim was that education was under-resourced, but record increases in spending have not redressed the problem. The fault lies in the structure and the system, not in the resources. When education is produced and funded though government, it serves the objectives of the producers rather than those of the parents. Attempts to give a greater role to parental choice is met by great resistance from the teaching unions, as well as by the Department for Children, Schools and Families.

They recognize that parental choice will re-orient education toward meeting the needs and wishes of its consumers, rather than those of its producers.

And yet it clear that the present government's preferred approach – to simply increase public spending on education – has been a manifest failure. Total education spending in England rose from £29bn in 1997 to £60bn in 2007. A further 10 percent real terms rise is planned between now and 2010 (although whether any government will be able to deliver on that pledge is questionable, given the dire state of the public finances). That would take annual per pupil spending to £6,600, having stood at just £2,500 in 1997. But as noted above, this spending does not seem to have increased standards. On the contrary, independent evidence suggests that the quality of British schooling has declined, despite the tens of billions lavished on it.[35]

The Baker Education Reform Act of 1989 was, along with Forster and Butler, one of the three great educational reforms. Left to develop, it would have gone a long way towards solving the problem, but the Labour government intervened to undermine some of its key features, notably to reinforce local authority control of schools.

If we ask the basic purpose of a school system, it must surely be to develop the potential in each child so they have access to all that education can offer. It is not to turn out qualified people to work in industries or business. It is not to engender in children attitudes and opinions favoured by those in authority. It must certainly achieve the minimum of literacy and numeracy, but that is its starting point, not its goal. An educated life is a richer one, and one fulfilling to the individual who receives. Education is about what it does for children not what it does for the economy, or for society.

Zero base education would move on from acknowledgement of its basic purpose to devising the systems and structures that could best deliver it. It would recognize that children do not come standardized, any more than parents do. There are different talents and aspirations, and they cannot be catered for by a standard model, but by building variety and choice into the system itself.

At present wealthy people have a choice. They can elect to withdraw their child from the state system by choosing to pay the fees at a private school. There is no doubt that they receive a better education, but it is at a price beyond the reach of most people. Articulate middle class people have a choice. They can buy a house within the catchment area of a good state school, and have their child benefit accordingly. Indeed, they have proved so successful at this that their children dominate the places at good state schools. Some local authorities have reacted against this by introducing lotteries to allocate school places.

Awarding places by lot is not the answer. All it does is ration a scarce resource by chance, instead of allowing wealth, ingenuity and determination to command it. The answer is to create many more good school places so there will not be a great surplus of demand for them over supply. To allocate the limited supply of precious places 'fairly' is not the point; the point is to multiply the precious places so that most people can have access to them.

This necessarily means allowing poor schools to close, so their niche can be refilled by good ones. It means allowing schools to compete by offering different things, and it means allowing parents to choose the ones most suitable for their children.

Fortunately there is a model of opening up parental choice to bring educational improvement, and it is a model which has proved itself in practice over nearly two decades. It is the system of open access introduced in Sweden in 1991, a system which now commands such huge levels of parental and popular support, that no political party there opposes it or wants to repeal it.

The basis of the Swedish reform is that the public money allocated for the education of a child there can follow the child to the school chosen by the parents, even if that school is in a different educational district, and even if it is a private school. There are two caveats. To receive the funding allocated on behalf of the child, the chosen school must take students on a first-come-first served basis, rather than practising a selection policy. Secondly, the school cannot charge top-up fees; the state funding must cover the whole cost of educating the child at that school.

Parental satisfaction with this system is very high, with 90 percent of parents now in favour of having a choice over which school their child attends. This happened rapidly, too. The Swedish Social Democrats, who had pledged to repeal the changes when they won power, reversed this policy within two years when they saw its popularity. Another result has been the rapid growth of new private schools. Within 15 years the number of these 'compulsory private schools' has increased seven-fold to represent 12 percent of Swedish schools. At the upper school level they now educate approximately a third of Swedish children. The lack of standardized achievement data in Sweden makes quantification of the impact on standards hard, but studies have found mathematics grades in government-operated schools have improved fastest in areas where there has been greater entry of independent schools into the state sector – which demonstrates beneficial impact of competition, even on existing schools.[36]

A version of this reform should be enacted in Britain. Parents should be allowed to send their child to any school, state or private, which meets the required conditions, and which will accept them, and with the state funding following their choice. State schools should be taken out of local education authority control to become independent, self-administered institutions, run either as academies or as co-operatives owned and run by parents and teachers.

The regulations governing the start-up of new schools must be relaxed to make this as quick and easy to do as it was in Sweden. Any group wishing to start up a new school that meets the conditions should have the presumption in favour of permission. There must be no talk of new schools being denied permission because of unfilled places at existing local schools. This was always as absurd as banning a new good restaurant from setting up on the grounds that there were empty tables at nearby bad ones.

Although most parents might prefer to send their child to a local school, it is important that they be allowed to choose a school further away if they wish, and still have the state funding follow their child to that school. Critics of voucher schemes have often pointed out that the vouchers would be used to assist parents to buy expensive private education for their children at top independent schools. This criticism cannot be levied at the open access proposal because of the requirement that there must be no top-up fees. The condition means that the state funding cannot follow the child to high-cost institutions such as Eton and Harrow because it would not cover the whole cost of schooling there.

It is vital, nonetheless, that parents can choose a school outside their area if they wish. There might not yet be any local school of acceptable quality, or it may be that they seek a school with specializations not found in local schools. If local schools can no longer rely on captive demand from local parents, they will have to change their policies and their standards in order to attract them. If they fail to do that, they will close and be replaced by schools which do reach the quality standards that parents seek.

The enactment of this reform would very rapidly change the face of schooling in Britain, as it did in Sweden, and with probably similar levels of parental support. It would replace the largely top-down system which allocates places and leaves many parents unable to secure a place at the school of their choice, establishing instead a bottom-up system in which the choices of parents direct the state funding for their children to their chosen schools. The new independence for schools, and the new ease with which start-up schools could be established, would allow for a variety that made choice meaningful.

Since parents would be empowered with choices, there would be a need for information about schools to be published which helped them to make those choices. But there would be no need for the targets which consume so much of the time and effort of schools and teachers. Schools would reach whatever standard they could attain, and parents would choose whether to send their children there. The presence of effective competition makes targets an unnecessary and inappropriate burden. Choice is a better guarantor of standards than regulation and targets.

One benefit of the Swedish system which British parents would find particularly refreshing is that the expansion of the private-education sector in Sweden has meant that schools very rarely have to invoke a first-come-first-served rule – in general, children find places in their first choice schools. However, if this is to be achieved in Britain, it is essential that reform of the schools system is accompanied by a relaxation of our highly-restrictive land-use planning laws. In Sweden, many schools have started small, taking space in office blocks, for example. If British councils are permitted to block such schools on planning grounds, and insist that all new schools have purpose-designed building and recreational spaces, the impact of any supply-side reforms will be considerably dampened.

10 Sunset regulations

Since the incoming Labour government expanded the remit of Britain's regulators in the late nineties, to include social and environmental objectives as well as economic ones, regulation has been a huge growth area of government. Parliament has passed new regulations. It has empowered ministers and departments to impose new regulations, and it has enacted into UK law the thousands of regulations which emerge each year from the European Union (some 9,415 EU legislative instruments have found their way onto the UK's statue books since 1998).[37] In total, more than 23,000 new regulations were passed between 1997 and 2003 alone – which works out at an average of almost 15 per working day.[38]

This has all come at considerable economic cost. An independent study conducted in 2005 found that the UK's annual 'paperwork burden' had risen to more than £20bn, and that annual savings of £10bn would be possible if unnecessary red-tape was systematically eliminated.[39] More dramatically, the government-sponsored 'Better Regulation Task Force' estimated that the annual cost of regulation to the UK economy was an astonishing 10-12 percent of GDP. That adds up to around £150bn, roughly equivalent to the burden imposed by income tax – the exchequer's largest source of revenue.[40] As the Financial Times' Martin Wolf has put it, "Regulation is the invisible way to strangle an economy. Each regulation always seems reasonable. But each imposes a cost. That cost is felt in wasted time and in the economically inefficient decisions that result."

Because regulation has its compliance costs on business and on many other activities, governments have sought to control the mounting tide of detailed regulation which accumulates each year. Special units have been established to do this, including the "Deregulation Unit," the "Better Regulation Commission" and similarly named bodies. They all have it in common that they ceased operations with more regulations in place than there had been when they started.

Out of a laudable desire to protect people, regulations are put in place to deal with specific problems, but often in a way that shows little understanding or sympathy with the body being regulated. The attempt is made to write detailed regulation to cover every conceivable case, and to prescribe to the letter the steps to be taken to prevent abuse.

It is also true that the politics of regulation are one-sided. Ministers claim the praise for each regulation that "deals with a problem," but accept none of the blame for the damaging side-effects the new law might have, such as the costs it imposes. Similarly, any minister who deregulates will gain little praise for doing so, but runs the risk of blame should any incident result which the regulation might have prevented.

The problem is that each law has its coterie of interested parties to lobby for it, whereas the general public which suffers the overall burden, and which bears the cost of them, is not as organized or as politically active. The solution is to make the deregulation process automatic unless specific action is taken to prevent it. In cases where a regulation is introduced for a temporary period, and with an expiry date which will terminate it, the term "sunset regulation" is used. The reasoning is that many of the problems addressed by regulation cease to exist because events and technology overtake them. But the laws are left in place and the burden accumulates.

Sunset legislation is temporary. The new law is enacted for a specific period, whereupon it ceases. The inertia which favours the status quo is dealt with at the outset, in that the status quo will be the expiry of the law unless specific action is taken to make it otherwise. It is for those who wish to continue the legislation to make the case for sustaining and renewing it.

The first step is to ensure that all new regulations, including those that emanate from the EU, are passed for only a three year period, to expire after that time unless specifically renewed. The requirement that the law be considered again gives the opportunity to review its consequences, and to assess whether it has achieved in practice what was intended. It also provides the chance to ascertain whether any benefits it has brought have been outweighed by any harmful consequences it might have had.

Even if it is decided that a regulation be renewed, the requirement for re-enactment provides the opportunity to amend it in the light of experience. Those who advocated it originally might well be prepared to accept amendments which ameliorate its unintended consequences, or which make it easier for the industry or activity concerned to operate within it.

The second step is to rely more on case law than prescriptive law to establish the kind of regulations that are thought sensible and reasonable, and which work in practice. This involves refraining from the attempt to spell out in advance every detail of how a rule is to operate, but allowing instead for a body of interpretation to be built up by tribunals, magistrates and juries. The one approach might go into fine detail as to the toilet facilities which must be provided by businesses of specific sizes. The other might require “adequate and reasonable” toilet facilities, allowing precedents to establish by case law what those terms involve in practice.

The advantage of the second approach is that it allows people to make common-sense decisions to fill in the details according to how the intentions of the law are to be interpreted. It also allows it to change over time, as economic conditions change and technology advances. Under this approach the rule will set out what its intent is, and perhaps even give rough outlines, leaving the practical operation to be determined by cases brought before tribunals, or by the decisions of magistrates and juries in specific cases. This is how the bulk of the common laws of England emerged, by case law rather than by statute.

The case law approach to regulation uses the common sense of those who sit in judgement, rather than the fine print of the remote bureaucrat, to set the limits of the law and to determine how it will operate in practice.

While the above steps will help to stem the ever-flowing tide of new regulations, they do not deal directly with the accumulated weight of existing regulation. What would solve the problem are steps to apply ‘sunset’ termination of renewal dates to existing regulations. This could be phased in a series of stages, with batches of selected regulations chosen every year to expire in three years time unless specifically renewed. A list needs to be made of all the regulations for which this treatment is appropriate, and divided into groups which can be given the ‘sunset’ treatment in annual batches.

Finally, the UK has to take a more robust approach to the torrent of regulations which pour forth each year from the EU, many of which are ill-thought through, inappropriate, and damaging in their consequences. Many are frankly silly. The practice has been to have them rubber-stamped by the UK Parliament and then enforced with a zeal little seen elsewhere among our EU partners. A new approach should see the UK much more ready to assert the ‘national interest’ which the EU permits, and to interpret the proposed regulations in ways more appropriate to our own laws and to our way of doing things. We should be prepared to pass versions of EU laws which aim to achieve the intent of the original directive, albeit in a manner more appropriate to our own approach to regulation.

As for enforcement, since we do not have unlimited resources or manpower, we should prioritize regulations in terms of their importance. Those which affect life and limb are clearly more important than those which specify the measures in which food or drinks can be sold. The UK should undertake a review of all regulations so they can be graded in order of seriousness. It then makes obvious sense to concentrate enforcement on the regulations which matter, rather than treating them as if they were all of equal importance.

11 Accurate government accounting

It is very important that accurate economic and statistical information is available if policies are to be formulated successfully. If the size, or even the existence, of problems is not accurately represented, it is highly unlikely that appropriate measures will be taken to redress them. For example, we need an accurate figure for the number of persons wishing to work but unable to find work. We need to know how many able-bodied people are drawing welfare benefits. We need reliable measures of the level of national indebtedness or the scale of public borrowing. All of these figures crucially influence the policies needed to address problems, but there are conflicting versions put forward, leading to uncertainties about what are the real figures.

A large part of the problem is spin, the gloss put upon events by a government determined to secure the most favourable coverage for itself and its actions. Gordon Brown as Chancellor of the Exchequer famously introduced 'stealth' taxes, preferring invisible taxes whose burden would not be laid at the door of government. Because they were collected by such organizations as insurance companies, pension funds, and airlines, the public did not immediately realize that they were imposed by the Chancellor. Another example of stealth taxation, has been the government's surreptitious use of 'fiscal drag' to boost its revenues – tax thresholds have not risen in line with inflation or average earnings, and so more and more people have been pushed into higher tax brackets.

This kind of deception is nothing new – as Jean-Baptist Colbert put it, "The art of taxation consists in so plucking the goose as to obtain the largest numbers of feathers with the least possible amount of hissing" – but that does not make it any less dishonest. Stealth taxation has enabled the government to claim that taxes had been reduced, when in fact they had been increased. While independent institutes, including the Adam Smith Institute, published the accurate figure for total tax levels, there was no official national body to publish definitive figures to correct the misleading ones given by the Chancellor, or the untrue claims he made in Parliament.

No less serious, and many would say more serious, has been the concealment of government debt by the omission of areas which form part of government liability. Prime Minister Gordon Brown has repeatedly said that debt "has been reduced," whereas in fact it has increased substantially. He did not include the liabilities incurred by the public purse under private-public partnerships, nor those of Network Rail. He did not include the decommissioning of nuclear power stations, or the present value of the future liabilities of unfunded public sector pensions. More recently he did not include any of the sums pledged to Northern Rock or the other banks. Yet all of these form part of government indebtedness; not only has it increased, it has increased massively.

According to the Office of National Statistics, the UK government recorded a government deficit of £78bn in 2008, equivalent to 5.4 percent of GDP. By the end of that year, total government debt has risen to £750bn, equivalent to 52 percent of GDP.[41] As a result, Standard & Poor's has revised the UK's credit rating downwards, from AAA with a stable outlook to AA with a negative outlook – and yet still the government refuses to accept the scale of the problem.[42] More worryingly, even the Office of National Statistics' figure excludes many of the things mentioned above which private organizations would have to regard as balance-sheet debt. The true level of debt is many times higher.

Similarly, the claim by the Prime Minister that the UK was "best placed of any country" to weather the global economic storm was contradicted by the IMF, who reported that the UK was in fact worst placed. This could be attributed to a difference of opinion, but it would have helped had there been a body in Britain commanding professional respect to examine the two claims on the basis of the accurate statistical position.

A similar position exists in other areas. Claims are made by government concerning educational attainment by Britain's schools, claims which run counter to more objective assessment made outside government, and in some cases by international bodies. The government points to increased and better exam passes as evidence of its success, whereas others point to falling standards and grade inflation as the only reason for the higher pass rate. Critics point to the numbers leaving school with insufficient effective abilities in literacy or numeracy, whereas supporters point to the increased number going on to university. There is no objective body to judge which is correct.

Figures allegedly pointing to reduced crime rates conflict with more objective assessment. The media report more cases of teenage murders on the streets, and many more cases of knife assaults, whereas those supporting the government figures dismiss these reports as simply the product of such crimes receiving more attention. Ministers can cite figures which seem to go counter to what is experienced and reported, and some critics point to redefinitions and changed recording methods leading to apparent reductions. In one case a minister was publicly rebuked for misleading and premature use of statistics which had not yet been properly processed.

The use of bogus or selective statistics hides the problems. Are UK education standards falling? Have there been dramatic rises in certain categories of serious crime? People do not know because the true facts are hidden by the spin placed on numbers of dubious validity.

The problem highlights the need for an official and respected body outside of government to issue definitive figures arrived at by financial experts and carrying the weight of independent and impartial assessment. There are official bodies such as the Office of National Statistics, but it lacks the independence and authority to publicly correct the Prime Minister, to rebuke him for quoting incorrect statistics, or to require him to use their correct ones.

Spin will continue, whatever the complexion of future governments, since it is an effective part of the control they seek to exercise and the image they seek to present. It is important, therefore, to create an independent and respected body with powers to correct and reprove any future minister for fraudulent use of false statistics.

As part of the process of putting Britain right, we need to establish such a body. It should command sufficient authority to be the definitive voice on what the statistics in any area actually are, and what they denote. There should be consultation with such bodies as the Royal Statistical Society, the Institute of Actuaries, and bodies representing professional and business economists. It should be constituted so that the participating organizations shall recommend personnel to serve on it for a fixed number of years. The body will be charged with oversight on the correct interpretation and presentation of national statistics, including those concerning economics, but also including areas such as education, crime, and health. It should have powers to publicly rebuke ministers and government departments which play fast and loose with figures, and to correct them publicly.

It would be as well to give this body the power to summon ministers to appear before it to answer to it in the event of an apparent misuse of statistics, to issue statements where they dispute published figures, and to produce annual reports listing the abuses they have corrected.

The purpose is to put an end to the confusion and spin in which government ministers claim one set of figures while opposition figures claim another, and expert professional commentators probably dispute both of them. Given one overall authoritative and widely respected body, it should be possible to arrive at generally agreed and accurate figures. Knowing the scale of the problems faced, it should be easier to produce more appropriate policies to address them.

12 Cutting corporation tax

Britain's attitude to Corporation Tax dates from an earlier economic era, an era when it seemed like an easy way for governments to milk some of the profits generated by business activity. It was instituted as a straight tax on profits, although it became more complicated over time. Since it was profits that were due to be taxed, expenses could be deducted from gross revenues, and hundreds of pages of rules were added as to what could count as legitimate expenses.

Later governments trying to help economic expansion and job-creation allowed investment in plant and machinery to be off-set, with more definitions about what could or could not be counted. Existing plant could be written down over a period of years, with each year's write-down counting as an expense to be deducted from the gross liable to be taxed. More pages followed about what could and could not be written down, and over how many years different items might be written down.

The result over the years has been to make Corporation Tax complicated, and to cause business to spend much time and energy allocating resources in ways that lower their exposure to the tax, rather than concentrating on their primary purpose of expanding business and capturing market share. They do this because the tax is high by comparison with some rates elsewhere, notably the Republic of Ireland. Currently the main rate in the UK has just been set at 28 percent, down from 30 percent, with the rate for small businesses at 21 percent, deferring for a year a rise to 22 percent.

This compares with a rate of 12.5 percent in Ireland, an English-speaking country within the EU, and with easy access to world markets. Ireland's low Corporation Tax policy was a resounding success, bringing extra business into the country, and helping to fuel a spectacular period of economic growth.

In Ireland the rate was 32 percent prior to 1998, after which it was brought down by 4 percentage points each year until it reached 16 percent in 2002, since when it has been 12.5 percent. Resident companies pay it on their worldwide income, and non-resident ones doing business there pay it only on their Irish-sourced income. It is very popular in Ireland, and is widely regarded there as the main motor behind Ireland's economic advance.

Recently several UK companies have announced that they are relocating to Ireland (and elsewhere) because of the burden of UK business taxation. This highlights the economic changes that have occurred since the tax was first introduced. Both capital and labour are far more mobile than they were when the UK economy was dominated by manufacturing and heavy industry. Companies only rarely had the option to move factories overseas with their labour force. Some did shut down production in Britain to open in lower-cost countries with more benign tax laws, but most stayed put because they had no other choice.

The move to a different type of economy has meant that it is now much easier to relocate overseas. With much business done globally, in some cases this can amount to little more than opening a head office in another country and registering it as the main address of the business. Similarly, the skilled labour force can now be relocated in the new country if necessary, especially if its personal taxes are more benign, along with its corporate taxes. In some cases the workforce is already international, and accustomed to doing business stints in other countries.

The result of this increased mobility means that governments now have to take account of tax competition, and of the presence in global markets of countries with more attractive tax regimes. The recent emphasis by the EU on "tax havens" arises from their recognition that companies have the option to relocate to countries with more benign tax policies. The response of countries like Germany and France, aided by the UK, is to try to close such "havens" by forcing other countries to raise corporate and personal taxes to their own high levels.

Given the presence of countries outside of their sphere of control or influence, the closing of some of these "tax havens" closer to home will probably lead firms to seek more amenable surroundings further afield, locating perhaps to some of the emerging economies keen to attract business and capital.

A policy more likely to succeed would be to make their own tax regimes sufficiently attractive to keep firms happy to stay, and perhaps even to attract other firms from abroad. This is the route which Ireland followed with such striking success. It does involve downward competition in tax rates, but not necessarily in tax yields, given the growth in business activity and the general economic expansion such competition would generate.

The UK should take a firm position by following Ireland's lead. The policy should be to bring the main rate of Corporation tax down in successive stages by 4 percent a year so that it is down to 16 percent after 3 years. Then the government should look at the effect it has achieved on economic expansion, and see whether a further reduction to 12 percent can be achieved.

This policy would undoubtedly stem the exit of firms from UK jurisdiction. Indeed, it would reverse it by attracting international firms seeking a benign corporate tax location. It would be entirely appropriate to accompany these big reductions in rates by a massive simplification of the way the rules governing this tax operate in practice. Plainly the intent is a tax on profits, the surplus which a firm makes every year by the amount its income exceeds its expenditure. This is what the tax should be about.

The rate reduction would bring the opportunity for doing away with most of the complex allowances, write-downs and exceptions. Governments have sought to steer corporation policy by remote control through such devices, but this should really fall within the purview of the firm itself. If it fails to invest adequately and make provision for its own future, it will go under and be replaced by another one. It is hardly government's job to hold its hand.

With the abolition of the complex accounting by which firms seek to lower their exposure to the tax will go the need for expensive and time-consuming tax minimizing activities, and their ability to concentrate on building up their business and generating profits. Not only will the simplification cut down tax avoiding activity, the low rates will themselves act as a disincentive to it. At the lower rate it often works out to cheaper to pay the tax than to undergo convoluted behaviour to avoid it.

These factors will act to augment the tax base, just as the firms brought into the country by the favourable tax regime will also do so. The policy will make Britain an attractive place for both UK and foreign firms to do business, and help re-establish Britain as a place sympathetic and friendly to business activity.

In 2007, having been commissioned by the Taxpayers' Alliance, the Centre for Economic and Business Research modeled the impact of reducing UK corporation tax to 12.5 percent by 2016. By 2021 (the end of the model's 15-year simulation period) this reform was forecast to have raised GDP by 8.7 percent, total fixed investment by 60.9 percent, employment by 8.7 percent, wages and salaries by 13.5 percent, disposable incomes by 9 percent, consumer spending by 2.3 percent, and the savings ratio by 13.1 percent. While corporation tax receipts were not forecast to return to current levels, higher earnings and consumption would boost income and indirect tax receipts, and actually lead to higher revenue (and therefore reduced borrowing) overall.[43] Politicians should ensure that Britain does not miss the chance to realize these benefits.

13 Reforming capital taxes

Bearing in mind that, whatever the Treasury might officially say, taxation does change people's behaviour, it is a good policy to tax as little as possible the things that people should be doing. This is not "should" with any moral loading which implies encouraging people to behave virtuously, but "should" in the sense that they are things which will bring benefits to society and bring opportunities for advancement to others.

Capital formation is one such activity. It brings benefits by way of creating and sustaining jobs, and it increases the wealth available to individuals and the country as a whole. Furthermore, it looks to the future, bringing its benefits to subsequent generations as well as the current one. The capital stock in a nation should be available for productive employment in wealth-creating activity. Yet the government's approach to capital seems to have been directed by the view that capital is simply available wealth they can carve themselves a part of. They seem to see it as a goose to be plundered of its golden eggs.

When one asks the question, "What is the purpose of taxes on capital?" their answer seems to be, "to raise as much money from it as possible, and to make it look as though it is coming from rich people." In fact a more sensible answer might suggest that taxes on capital should be designed so as to maximize the degree to which capital can be put to productive use, generating income streams which will yield continuous tax revenues. Taxation on capital needs to be done with a light touch, one which does not impede its ability to generate the incomes, profits, and sales, which can all yield tax revenues into the future. Taxing capital takes it away once; leaving it in place allows it to generate activity which can be taxed continually.

Capital Gains Tax

Capital Gains Tax is an area in which the government has made positive moves in one direction, but negative moves in another. The top, or main, rate has just been brought down to 18 percent, giving a single rate. The taper relief enjoyed by those who built up small businesses allowed them to pay only 10 percent tax on their capital gains after a number of years, but has now been abolished, putting those, too, on the 18 percent rate. It might not sound a big increase from 10 to 18 percent, but it means that after their years of effort and risk, they now pay 80 percent more tax on their gains than they did before. This is not the way to encourage "serial entrepreneurs," those who enjoy the challenge of building up a series of successful businesses.

There is a strong case for not taxing capital gains at all, in recognition of the role which capital accumulation plays in generating future revenue streams. As a first step the government should take the rate of Capital Gains Tax down to 15 percent in the first year, and 12 percent in the second year. It should then take a year to assess whether the economic benefits have been sufficient to merit further reductions in the CGT rate.

As with Corporation Tax, governments have to consider capital mobility when setting Capital Gains Tax levels. They proposed reductions will serve to keep in Britain the build-up of businesses which might otherwise have moved overseas, and might encourage foreign entrepreneurs to consider the UK as a favourable location for their activities.

One argument advanced by some Treasury officials in the past is that people will take their rewards in capital gains instead of income if they can thereby escape with lower tax rates. The first answer to this is that capital gains should be taxed at a lower rate than income because building up capital is of more service to the nation than earning income. The second answer is that building up a business is an activity with a risk of failure. If people work and worry for ten years and are then taxed just as much as they would have been on secure salaries, many might decide to go for the safe option and not risk starting up in business.

It is also not true that most people have the option of switching to take their rewards in capital gains rather than in income. The overwhelming majority of people work for wages and salaries and simply do not have that option. A few might, it is true, but it is doubtful there would be enough of them to matter. A lower rate for Capital Gains Tax than for income tax would encourage some people to look to entrepreneurial activity instead of remaining in safe employment. Furthermore, a government undertaking such a reform need not fear a substantial loss of revenue. Adam Smith

Institute research has shown that the revenue-maximizing rate for Capital Gains Tax is no higher than 15 percent, and may in fact be as low as 10 percent. The case for a significant reduction in Capital Gains Tax is overwhelming.

Inheritance Tax

As Benjamin Franklin put it, “Nothing in this life be certain save death and taxes”. However, he never said the two had to go hand-in-hand, which may go some way to explaining why the Death Tax is one of the most unpopular taxes in Britain. People think it wrong that the state should step between them and their children when they die. People want to make provision for their children – it is a biological imperative – and the thought that when they are about to perform a final service for them, the state will intervene to thwart them, is a notion people find distressing and distasteful.

People work and pay taxes on what they earn. Many of them buy a house out of taxed income. Many of them build up savings out of taxed income. They find it unacceptable that the state will come along when they die and tax them again on money they have already paid tax on. This is double taxation, and at a very high rate of 40 percent, too. The threshold is low, even after its recent rise to £325,000. By today’s standards, considering the value of housing, this is a sum that would include large numbers of middle class people. IHT is not just a tax on the rich; it scoops in ordinary people who work and save. If anything, the latter are more exposed to it; it is the rich who can afford the accountants and the moves to protect their estates from the tax.

Opinion polls show its unpopularity, but there is more dramatic evidence of that. When George Osborne announced in October 2008 that the Conservatives would raise the threshold on Inheritance Tax to £1m, the wave of popular support for the move is reckoned by many to have been a crucial factor in Gordon Brown’s decision to postpone the snap election which the Labour party had planned.

The tax has harmful economic effects, in addition to the unfairness of double taxation. It leads people to take measures to shelter their estates from its impact. In some cases this means putting money into trusts; in some cases it means moving it to offshore locations. People resort to behaviour directed to avoiding the tax, rather than putting the money to productive use. It would aid the economy if people invested it in business, providing the capital for expansion and development. But their successors would lose 40 percent of it to the taxman if they did, so instead they resort to putting it out of the Treasury’s reach, rather than to more productive use.

What people do instead is to effect cross-generational transfers during their lifetime, handing the ownership to children and grandchildren. Provided they live for another seven years, which the Treasury requires to prevent deathbed gifts, the tax is not levied on the estate.

When the tax is levied, it tends to break up some of the capital pools which typically provide seed capital to fund new businesses. And it is also true that the Treasury's use of their 40 percent will be far less efficient and beneficial than the use to which its intended recipients might have put it.

People tend to die in their 70s and 80s, by which time their children are established in life, and have usually bought a home. The inheritance from a parent provides the opportunity for people to try business ventures or to embark on new investments. The Death Tax denies them much of the money which they could have used to good effect. It is unlikely, to say the least, that the Treasury's use of it will benefit or boost business activity.

The Adam Smith Institute published a research survey by its economic team which examined in detail the economic effects of the distorting behaviour which the tax elicits. The paper "Will to Succeed" showed that the tax and its predecessors had achieved a negative effect on balance for every single year of it operations. That is, the yield to the Treasury each year was outweighed by the economic losses which the tax brought about.

If we ask what is the purpose of Inheritance Tax, there are several possible answers. It might be done to make society more equal by stripping rich families of some of their wealth when they try to pass it on to the next generation. In that it largely affects middle ranking people, while the rich can afford to plan well enough to escape it, it cannot be called successful in promoting equality.

It could be that the purpose is simply to raise money efficiently for the Treasury. If so, it must be called a failure in this respect, too, since its operation causes activities which ultimately cost the Treasury more than the tax gains them.

Some suggest that the tax is largely symbolic, to show that a Labour government is conducting class war against "the toffs," by plundering their estates in order to feed the envy of some of their activist supporters. Even in this respect it has not succeeded. Recent figures show that income disparities have increased over the years of the recent Labour governments, accompanied by a narrowing of social mobility.

The conclusion remains that this is a bad tax, and one that breaks most of the rules of efficient taxation. It is a tax on capital, rather than on income generated from capital. It is not a tax on the consumption or production or the sale of goods and services, and there is no revenue stream it can tap from what it taxes. Added to the fact that it taxes what has already been taxed, and the arguments against it overwhelm it.

Inheritance Tax should be done away with completely. It has never in its 115 years of history achieved what was intended of it. While it has yielded, and still yields, funds to the treasury (just over £3bn in 2007-8), these are disproportionate to the dislocation and damage the tax causes. It should be ended as an early priority of an incoming government.

Stamp Duty

Stamp Duty is a transaction tax on the transfer of sales and property. It is a tax on the movement of capital. There is no attempt to use the tax to direct behaviour – its sole purpose is to raise tax revenue for the Treasury. The basis seems to be that wherever people are doing things that cost money, the Treasury seeks a cut for allowing them to do such things on its turf. On share transactions it currently levies 0.5 percent (or rounded up to the nearest £5 if a standard stock transfer form is used).

The duty on properties is a little more complicated. Those of value below £175,000 are currently exempt, though this threshold will fall back to £150,000 in September. The range of values between £175,000 and £250,000 attracts 1 percent, £250K – £500K attracts 3 percent, and properties valued above £500K face a Stamp Duty of 4 percent.

Though these rates have not changed all that much in recent years, stamp duty is today a far more burdensome tax than it was a decade ago. When Labour came to power in 1997, the average house price was £68,777. The stamp duty bill on the average home was £688, and in total the tax raised by the stamp duty around £3.5 billion a year. Now the average house price is £224,064, the average stamp duty bill is £2,240, and total stamp duty revenue is over £14bn – a rise of 314 percent.[44] The land tax element of stamp duty alone has increased at five times the rate of UK salaries from 1997 to 2007.[45]

Moreover, the tax does affect behaviour, whether intentionally or not. It makes transactions more expensive, and therefore discourages them. On shares it is a factor making it more costly to keep buying and selling shares, and less costly to keep them or longer periods. The velocity of capital transfer from the less to the more efficient is thus retarded. Other things being equal, that which raises the cost of transactions will result in fewer transactions. In this case the price of Stamp Duty on shares is a market and an economy a little more sluggish than it would be without it.

There is a similar effect on property transfers. The Stamp Duty raises the cost of buying and selling houses above its threshold, making the housing market more sluggish than it would otherwise be. There are boundary factors, too, with people seeking to keep to a lower band of Stamp Duty is they can, so pricing properties to keep them subject to the lower rates of transfer tax. There are reports of artificially low prices for houses at the margin, accompanied by inflated prices for 'contents,' thereby keeping below the higher duty thresholds.

By raising the cost of moving, the Stamp Duty encourages some people to remain in property longer than they otherwise might. The couple whose family have grown up and left home might think about moving to a smaller home, releasing the bigger one to a family which needs more space. A vibrant housing market is continually reallocating properties to meet the varied and changing needs of the population; it distributes properties to those who can efficiently use them.

It is a valid question to ask whether the Treasury should be doing things that makes the markets in shares and properties more sluggish than they would otherwise be, especially in the current economic climate. It is better for the economy to have more transactions rather than fewer, and if the Treasury intervenes at all, it should be in the other direction, to speed up the transfer of capital so it can be allocated more efficiently. If shares and properties could be transferred freely without losing value to the tax collected, they would tend to go where the demand was, and to where the capital was used more efficiently.

Stamp Duty is unpopular because it brings a third party, the Treasury, into what should be a transaction agreed between two – buyer and seller. It should be ended, leaving the market in shares and properties to be determined by the needs and preferences of its participants. The effect of its abolition would be to free up and speed up the process of transfer of capital, and to bring the economic boost that would accompany this.

14 Make government leaner

Some of the proposals advanced in this book will involve an initial shortfall in Treasury revenues. For most of them this will rapidly be made up by a booming economy and the tax revenues it generates from the expanded level of business activity, the extra jobs, and the additional spending that accompany it. But the assumption throughout is that there will be a short-term drop in revenue, and that this will have to be made up for by government savings.

For years the government has equated reduced government spending with reductions in essential services and in closures to hospitals and schools. This has always been a bogus equation. Government has spent vast extra sums on key services without any commensurate improvement in services. It could just as easily reduce spending without any deterioration in services.

Government waste and inefficiency have been identified as candidates for saving public money, and several research reports have identified sums which could be saved, ranging from £30bn to over £100bn. Undoubtedly there are ways to do this. Scrapping the government's proposed 'super database', which will track every Briton's emails, texts, internet usage and other communications data at a cost of £6bn, is just one small example.[46] Scaling back the government's advertising budget, which reached nearly £160m in 2007-8, is another.[47]

In addition to promoting efficiency within government services, however, there are savings to be made in eliminating several government departments. Some government departments have survived changes which have made their work redundant. Others were started with good intentions, but have plainly failed to achieve what was hoped of them. Yet more are anomalous activities for governments to be engaged in, and could have their functions better performed outside of government altogether.

There are several departments which come under one of the above descriptions, yet which are maintained in costly buildings that are manned by scores of highly-paid civil servants with expensive pension schemes. Plainly there are significant savings to be made by dispensing altogether with some of the departments which no longer perform an essential role within government.

The Department for Business, Innovation and Skills, successor to the old Department for Trade and Industry, has gone through several transformations in the attempt to find itself a new role. Its problem is that the old DTI made sense when the government ran large swathes of British industry. The privatization waves of the 1980s took those industries into the private sector and shrank the responsibilities of the Department to a fraction of what they had been.

It is useful for there to be someone in government batting for business, especially as government generally seems relatively ignorant of the needs and views of the business community, but this does not necessitate an entire department of state. The task of promoting Britain's business interests abroad is already part of the brief of the Foreign Office, and is a job they do well. For domestic representation of business, a Minister of State with responsibility for Business Affairs could operate within the Treasury, bringing much-needed expertise and understanding to the Chancellor's department.

Similarly the other activities of the Department for Business, Innovation and Skills could be carried out at a junior level within other departments, or in some cases outside of government altogether.

The Communities Department, which also deals with local government, will become anomalous and unnecessary if local authorities are given the financial and political independence proposed in this report. Local government and communities do not need to be managed and directed centrally. If a spirit of genuine localism is to be fostered, an important step will be the cutting of the reins which direct local affairs from Whitehall. This is a ministry whose powers should be devolved downwards to local areas.

The retention of cabinet offices for Scotland, Wales and Northern Ireland is no longer necessary, given the working devolution now in place. The logic of devolving powers to national assemblies in these countries is that there is no need for ministries to direct them from the centre. The financial arrangements between central government and the various parliaments can be arranged more appropriately by liaison between the Treasury and the parliaments themselves. A Scottish, Welsh and Northern Ireland office are legacies from the time before devolved assemblies were introduced, and could disappear without the loss of any important functions.

The Department of Culture, Media and Sport does not merit a ministry either. The various assorted functions could be split between other departments of performed by joint committees. The big thing to be decided is the management of the Olympic Games, but this task will cease after 2012. Even before then, it is probably better handled by a dedicated body representing the various interested parties, rather than from a single ministry.

The abolition of these government departments will cut the size of cabinet to a more efficient operating level, and save the large sums involved in staffing and servicing independent ministries at cabinet level.

The regional tier

There are many opportunities to make government leaner and less costly at the regional level. Government does not really seem to have thought through a coherent strategy for operating at the regional level. Many of its regional agencies seem, to replicate the work done by lower bodies. Indeed, some of them see to have no useful function at all.

Some of them are the product of little more than a fad for making things look as though government moves smoothly through various layers from the top to the bottom, with the regional level ostensibly serving in a 'co-ordination' role for activities that do not need to be co-ordinated.

It is doubtful that regional development – which cost the taxpayer £15.3bn between 1999 and 2007 – agencies have any useful role. There are individual places that can benefit from activities designed to promote development, but this applies to towns rather than to regions. The regions are too large and too varied to benefit from this approach. The Regional Development Agencies can be wound up without any loss of function.

Strategic Health Authorities similarly do not appear to do anything that is not done better and more appropriately at a national or local level. Individual health trusts need strategic planning, and there are health issues that need to be co-ordinated nationally. But the strategic health authorities are redundant and should be closed down, saving the £220m they spend each year purely on their own administration.[48]

Government Regional Offices are in a similar position. They stem from a now-discredited notion that regions had a vital role to play in the layers of government. Planners and bureaucrats, especially at the European level, saw regional assemblies ass one tier in the chain of government which ascended from parish councils to the

European Parliament and Commission. Unfortunately for the strategic planners, voters in the English regions took no interest in proposals for regional assemblies, and rejected them at every opportunity.

The Government Regional Offices are a legacy of that deeply unpopular and quintessentially bureaucratic outlook that took little account of the organic nature of local government history and the loyalties that it engendered. They could be abolished without any loss of democratic accountability or management.

The same is true of the Learning and Skills Councils, which spent £11bn in 2006-7. There is a case for some national policies, though not ones meriting a ministry of their own, and there is a case for local activity to promote these things. There is no case for bodies to promote and co-ordinate these at a regional level. Again, they could be abolished without any loss of function or activity.

Britain does not divide naturally into regions. There are counties of very different sizes, and strong county loyalties in areas such as cricket, and county sentiment that varies quite widely from county to county. The attempt to squeeze this into a uniform system of administration never caught on precisely because it was imposed for bureaucratic convenience, rather than following the contours of local tradition. If we really do wish to see localism flourish, it will be by following those local contours, with due respect for history and tradition, rather than by imposing a uniform model such as was attempted with regional bodies, and which never took root.

However convenient it might have been for officials in Whitehall and Brussels to see neat layers of government and administration, this is not part of the British tradition of government. The regional bodies represent an artificial imposition inserted into a tradition that has been essentially organic. There was never established a clear need for them, or a clear delineation of their role. Almost without exception they could be swept away with considerable savings in public expenditure, yet with no discernible loss of function. Their work, such as it is, could be one more appropriately and efficiently elsewhere.

15 Deregulate small businesses

Some of the small businesses of today will be the big businesses of tomorrow, creating the growth and employment opportunities of the future. Many firms which are now household names struggled from early beginnings to grow and prosper, bringing the innovation and flexibility which so often characterizes the small business sector.

The call for selective deregulation of small businesses stems from an appreciation that the rules intended to cover the behaviour of large corporations not only impose excessive costs on small firms, but are in many cases simply inappropriate. While large firms can absorb the costs of regulatory compliance, for small firms this is a disproportionate burden, diverting energy and attention away from the task of generating orders and profits, and towards complying with the minutiae of detailed regulation they are required to attend to.

It is highly unlikely, if not impossible, that firms such as Apple or Google coyuld have successfully started up in the UK. Running a business from a garage is rarely an option in Britain, given the planning rules and the health and safety regulations which would have to be complied with. It is reckoned for a firm starting up in the UK that the rules to be attended to, the certificates and licences to be obtained, and the inspections undergone, constitute a stack of papers feet thick from the floor.

Although deregulation is needed on a national scale for industry as a whole, the selective deregulation of small firms is more urgent, and easier to implement. In many ways the model was Italy of the 1980s, which recognized a “small artisan” sector of the economy that was not subjected to the same rules governing suitability of work premises or terms of employment. The rules applying to the larger Italian firms did not apply to small artisan companies.

The result was an unprecedented boom in Italian small business, with areas boasting one business formed for every two families. It led to an explosion of business activity that boosted Italy up the international league table to such an extent that it briefly overtook Britain in its GDP. There was a stark contrast in Italy between the vibrant deregulated small artisan sector and the sluggish and sclerotic firms which characterized its major industries.

This is the policy needed to unleash the growth potential of small firms in Britain, and particularly their potential for generating new jobs. The suggestion is not that small businesses be completely unregulated, only that they qualify for a "small business sector" of much lighter regulation, a regimen that allows for commonsense interpretation and some flexibility.

Businesses of less than 5 employees, which include most of the start-up companies, should be subject to the least regulation. They should be allowed to operate from domestic premises, subject to there being no nuisance caused thereby. Importantly, the employer should be exempted from the paperwork required for employees, including PAYE and NICs. Employees of such small firms should be treated as self-employed. No less importantly, the various employee entitlements and benefits should not click in for these small businesses.

The second level of small businesses should be those of between 5 and 25 employees, and these should be subjected to a regulatory regime much lighter than that which falls upon larger firms. In place of any detailed requirements for compliance should be the obligation to provide acceptably safe and comfortable working conditions. The assumption is that health and well-being are generally best promoted by a paying job, rather than by a mass of detailed regulations which prevent one being created.

The presumption should be when regulations are passed or renewed, that they will not apply to the small business sector of firms below 25 employees unless it specifically says in the regulation that they will apply. The default condition is for small firms to be exempt.

Domestic employment

There is one further area with huge job-creating potential, and that is in the area of domestic employment. Successful and busy people could often use help with their everyday lives, and might be quite prepared to pay for it. Their employment of nannies, chauffeurs, gardeners, handy-men and personal assistants is held back by the sheer hassle of paperwork and regulatory compliance. The prospect of form-filling is enough to deter many busy people from employing this kind of everyday help.

Domestic employment should be deregulated, with no requirement for those employing help to register for national insurance or PAYE or any other form of regulatory compliance. This kind of work should be between employer and employee, with the latter treated as self-employed, and with the former released from any obligation to comply with the state's rules.

Such deregulation will be productive in two ways. Firstly it will provide employment opportunities to those who might otherwise be on welfare instead of working within the productive economy. In some cases the jobs created will be starter jobs, in which employees can acquire the basic skills of time-keeping and responsibility, and can gain references that lead into better jobs.

Secondly, it will free up time for achievers to concentrate more on their productive work by releasing them from some of the time-consuming chores of their everyday life. Its potential to create flexible employment opportunities for people who wish to work part-time is also immense.

16 Restoring health

Before they won the election of 1997, the Labour case was that there was nothing wrong with Britain's National Health Service except lack of funding. In fact there never had been any cuts, just the occasional slowdown in the rate of increase. The previous government had introduced the rudiments of an internal market within the NHS, keeping it state-funded and free, but allowing general practitioners to become budget-holders and spend the NHS allocation on behalf of their patients. Alternatively, some health authorities could act as budget holders, again, obtaining treatments on behalf of their patients as and when needed.

Both of these reforms had introduced elements into the NHS which promoted comparisons, choices and efficiencies. They were achieving many of the intended effects, with GPs in particular obtaining better health services for their patients, and better value for the NHS budget. Waiting times were cut, though they could still be unacceptably long for some treatments in some areas.

The Labour government started by reversing these reforms, pleading that comparisons, competition and choices were inappropriate in what ought to be a high quality national service giving equal care to everyone. Gordon Brown as Chancellor massively increased spending on the NHS in order to improve its standard of care and reduce its waiting times. In the words of some economic commentators, he "tested to destruction" the theory that NHS problems arose from lack of resources. NHS funding, which was £437m when the health service was founded in 1948 (roughly £9bn in today's money), now stands at more than £90bn.

Most of the extra cash pumped into the health service since 2002 went on wage inflation. In 2007 Sir Derek Wanless, whose 2002 Wanless Report had paved the way for record spending rises, said that almost half the extra £45bn that had been spent in the previous five years had gone pay and price inflation.[49] That is no surprise, given the generous deals negotiated by NHS workers' unions: doctors' rose 15 percent faster than pay in the economy as a whole between 2002 and 2007. All in all, around 60 percent of the NHS' budget goes on wages.

Only small improvements were recorded, out of all proportion to the wave of money which swept over the NHS. Parallel to these very modest gains were deteriorations, notably in the prevalence of hospital acquired infections and in the availability and quality of out-of-hours care.

The government's response was belatedly to reintroduce some of the reforms they had reversed, in spirit at least, but under different names. They also introduced reforms under which hospital trusts and GPs were to be driven by targets. The aim was to have some cognizance of what various parts of the NHS were achieving, and to push the under-achievers to emulate what the more successful elements were managing to attain.

One immediate problem was that the targets themselves became treated as goals rather than as measures of achievement. Health care suffered under an obsession to attain the target levels. Patients were reportedly kept in ambulances in hospital car parks, for example, in order that the Accident and Emergency Department could manage to see them within the required target time following their admission. This was not the intent of the targets, but it was one unanticipated result. The other, more diffuse, criticism was that targets produced a culture in which patients became items to be processed and checked off lists, rather than as individuals whose needs were to be attended to.

Fundamentally the NHS is too big to manage. It is well above the size at which most major corporations operate and is, in fact, the fourth largest employer in the world, after Walmart, Indian Railways, and the Chinese Red Army. It size diffuses and dilutes its chain of command, leading to a series of crises, each of which has to be tackled by another new initiative. The NHS's disastrous 'super-computer' project is a case in point: originally intended to cost £2.5billion, the cost has now spiraled to £20bn. The system is already four years overdue and, as yet, there appears to be no end in sight.

The previous Conservative governments had recognized the diseconomies of scale that bedeviled the health service, and tried to re-organize the NHS into a collection of autonomous units, each operating on a scale at which they could control the quality of the service they were trying to provide.

This is the first and most important change which the NHS needs. It has to be rearranged into units which its personnel will feel loyalty towards, and will take care and pride in delivering the health services they are tasked with. All state hospitals, clinics and doctors' surgeries should become autonomous within the NHS, so that they make choices and decisions concerning health care, rather than responding to a managerial and target culture imposed from the centre.

They should receive state funding based on the treatments they perform, so they have an incentive to maximize the patient care they provide. The effect of such an arrangement will be to keep most of the funding for the NHS within the state sector, so that patient care is available without charge to those who need it. But the units providing that care, and the people within them, will be independent rather than employees of the state. They will in effect be under contract to the state as independent entities and individuals, rather than as its employees and servants.

This is not only a healthier arrangement in that it allows people at all levels in health care to exercise independent judgement instead of simply following the state's orders, but it will also be a more efficient arrangement, with those who can perform procedures expertly and efficiently able to concentrate to a greater extent on what they do well.

It will replace the whole culture of managers and targets with one in which dedicated health professionals make decisions about what they can best offer, and with doctors and patients choosing the services considered most appropriate, and performed by people working for patient care rather than ticking boxes on a target checklist.

The health providers already operating independently in the private sector will be able to perform procedures on NHS patients to a much greater extent than present, as doctors and hospitals include them among the providers from whom they seek health care for their patients. This means that many more private sector resources will be available, and that many more patients will receive their NHS care from private providers.

All of this can only be good for the NHS, improving its standards, its quality and its efficiency in ways directed towards what patients seek from it. What people do seek is quality health care available when they need it, and preferably where they want it. The arrangement by which that is delivered, and the ratio of public to private providers is not of consequence to them; what matters is the quality and the immediacy. The reorganization of a centralized NHS into autonomous units of hospitals, doctors and clinics directed by those who work in them will produce a health service which is not too big to manage, but one consisting of motivated and manageable units able to concentrate on the health care they want to provide.

17 English Parliament

The devolution afforded Scotland, Wales and restored to Northern Ireland has created constitutional anomalies within the UK. The problems they have caused have been thus far a source of irritation, but circumstances could easily arise in which a crisis could be precipitated by events.

The anomalous position is that of the four nations within the UK, only England lacks its own parliament. This means that the UK parliament governs England, even though its members include those from Wales, Scotland and Northern Ireland. The West Lothian question is the most famous, but there are other difficulties. Why should Scottish MPs vote on English health policy, for example, when they do not represent English people who will be it beneficiaries, and cannot even vote to determine health care in Scotland? It is a valid question which needs to be addressed.

The Barnett formula, which determines the level of funding per head from the UK Treasury for Scotland, ensures that the Scots receive more funding per head than the English. Part of its original justification was that Scotland's population is more spread out, making service provision more expensive. Now there is a Scottish parliament, however, deciding to have free university education for its students and free retirement care for its elderly, the English are somewhat aggrieved that they have to pay for luxuries in Scotland that they do not themselves receive in England.

The government originally foresaw regional assemblies in England exercising similar powers to those in Scotland and Wales, but the idea found insufficient support among voters. People are more ready to consider themselves as English than as Northeasterners or West Midlanders.

The solution which might seem the most logical – to establish an English parliament like the Scottish and Welsh ones – attracts some hostility. People suppose, correctly, that it would add yet another layer of representation and bureaucracy, when the widespread perception is that there are already too many. English people have long regarded the Palace of Westminster as their parliament, and were until recent years been somewhat careless over the use of “English’ when they meant ‘British.’

The notion that English voters should elect English representatives to determine their policy on matters such as health, education and policing does not find favour, largely because English voters are conscious that their Westminster MPs already do that. There is a feeling that the quality of personnel would go down, as many think it has in Scotland. And the notion that such a body might be elected by a form of voting that eliminates the close relationship between MPs asnd constituencies does not find favour, either.

There is also the well-founded supposition that such a body as an English Parliament would be immensely expensive, supporting hundreds of new representatives with their offices and expenses. The Scottish Parliament building proved vastly more expensive than anyone had thought possible, and the same might well be true of an English Parliament building.

The simplest, least expensive, and least dislocating way of resolving the constitutional anomalies would be to constitute an English parliament within Westminster, consisting of the MPs elected for English constituencies. They would become the English parliament without the need for extra elections, additional representatives, or a new building. Time in Westminster could be divided between the English body and the UK parliament, with one meeting perhaps in the mornings and the other in the afternoons.

The English parliament would meet without the MPs from the other countries of the UK, and its leader would be chosen from the majority party. He or she could be called “Premier” rather than “Prime Minister,” as is done in the federal constitutions of Canada and Australia, or even simply “First Minister.” He or she would choose a cabinet and take responsibility for similar things to those within the purview of the Scottish parliament. The UK Prime Minister and cabinet would continue as at present, but without the powers taken up and exercised by the new body.

The question naturally arises, and might well arise in practice, as to what would happen if one party gained a majority in the UK, but found another had a majority in England. The answer is that it would work as it does in Scotland, where an SNP-led Scottish government co-exists with a UK Labour government. If one party gained a majority of the English seats, it would form the government of England, dealing with the purely English affairs. If another party had more seats in the UK parliament, it would form the UK government and decide on matters relating to the UK as a whole. The anomalous position of Scottish and Welsh MPs deciding English but not Scottish matters would be gone.

The English MPs at Westminster would have two roles: one as MPs within the English parliament at Westminster, and another as UK MPs. There would be no extra layer of representation, nor elections of separate personnel under a separate voting system. There would be realignment of responsibilities and offices, in that the UK cabinet would lose its responsibilities for matters such as health, education and policing, and these would pass to the English cabinet. This would amount to a transfer of bureaucratic function from the direction by one body to that of another.

While it is highly likely that there would be overlap of personnel, with some MPs serving in both the English cabinet and the UK cabinet, this is little different from what they already do. They would be responsible in one job for UK matters and in the other role for UK affairs, whereas they presently handle both sets of duties in a single cabinet role.

A parliament of the English MPs in Westminster would solve the West Lothian question and resolve most of the other anomalies. It would not be perfectly consistent and logical, because politics rarely is. The questions are "Would it work?" and "Would it be better and fairer than the system currently in place?" And the answer to both of those questions is an emphatic "yes."

18 Policy proposals

- Raise the income tax starting threshold to £12,000 and index it to the minimum wage or half the average wage.
- Abolish the 40% tax rate, or raise its thresholds in 4 yearly stages to £500,000.
- Finance local government by a local sales tax and a locally-set business rate.
- Require approval of local budgets by a vote of local electors.
- Remove detailed national directives on the tasks of local government.
- Abolish the regional tier of government.
- Appoint an independent judicial commission to undertake a year-long review and make recommendations on the state of civil liberties.
- Restrict the use of anti-terror legislation only to cases where terrorism is suspected.
- Restrict the use of public body CCTV surveillance to police and security services.
- Require police to show good cause for surveillance.
- Medicalize narcotic drugs, making them available in High Street clinics staffed by doctors and nurses, and available for use on the premises after medical assessment.
- Legalize the production and sale under controlled conditions of the recreational drugs Ecstasy, cocaine and cannabis.

- Harmonize National Insurance with income tax, subject to the same thresholds, and list the employee contribution as an “insurance surcharge” alongside income tax.

- Establish universal personal pension funds as in Sweden, with a minimum contribution from earnings equivalent to the “insurance surcharge” (the employee contribution to National Insurance).

- Limit job-seekers allowance to 6 months. If people fail to secure employment within 6 months, they will be required to perform state jobs in return for continued support.

- Establish independent panels involving disabled people to assess ability to work by those claiming incapacity benefit, with regular review.

- Give parents the right to use state funding for their child at any school they choose which is non-selective and requires no additional top-up fees.

- End education targets.

- Use ‘sunset’ clauses to have new regulations expire after 3 years unless renewed. Have existing regulations systematically be given similar expiry dates.

- Regulate by using case law so that the findings of tribunals and juries establish the interpretation of broad statures.

- Assert national interest to use ways appropriate to UK traditions to interpret EU rules.

- Grade regulations according to their importance, and give priority and resources to those that matter.

- Establish a body independent of government to rule on the accuracy of statistics, and give it powers to rebuke and correct ministers for misuse of them.

- Reduce Corporation Tax by 4% p.a. until it is down to 16%, then review whether a further cut to 12% is possible.

- Reduce Capital Gains Tax to 15% in year 1, then to 12% in year 2.

- Abolish Inheritance Tax.

- Abolish Stamp Duty.

- Eliminate several government ministries, using junior ministries in other departments to continue any necessary work.

- Abolish regional agencies

- Introduce exemption from most regulations for small businesses with fewer than 5 people. Have such employees treated as self-employed for tax purposes. Have light regulations for businesses with fewer than 25 employees.

- Deregulate domestic employment, treating all within it as self-employed.

- Make state hospitals and doctors' surgeries autonomous bodies within the NHS, funded according to the treatments they perform.

- Constitute the MPs from English constituencies as the Parliament of England, meeting within the Palace of Westminster, and with an English cabinet to exercise similar powers to those exercised by the Scottish Executive.

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