

CENTRE FOR POLICY STUDIES

A Conservative Agenda

Proposals for a fifth term

TESSA KESWICK &
EDWARD HEATHCOAT AMORY





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PROLOGUE

SO MUCH MORE TO DO

THE NATIONS OF THE European Union are some of the richest in the world. They are also the most highly taxed, the most highly regulated and the most indebted. During the next century, governments must contain ever-expanding welfare demands – which could only be financed by a declining population of taxpayers – so that industry can maintain its competitiveness.

How should Britain respond to the challenges which lie ahead? Its response must be based on the bedrock of principles on which the Centre for Policy Studies has founded its recommendations for a generation and more. The development of free trade, a willingness to accept the challenge of free markets, the encouragement of enterprise, the concepts of duty, family, respect for law, national independence, individualism and liberty.

The Conservative Inheritance

Today's Conservative Party is the beneficiary of two great political inheritances. From its Tory heritage comes the sense of public duty, the belief in firm government and a concern for the less fortunate. It puts the nation, community and the family above the individual. Pragmatism, not dogmatism, is its hallmark.

From its liberal tradition, the Conservatives draw an understanding of the importance of individual opportunity. This translates into policies which favour individual choice and responsibility, the free market and minimal state interference in everyday life.

These two inheritances can, and should, be complementary: the free market bolsters existing institutions and creates new ones. Equally, Conservative policies instil a sense of confidence in our great public institutions. Such confidence generates a willingness to take on the inherent risks involved in enterprise, personal choice and responsibility.

The balance between the two traditions has always evolved and it will continue to evolve. Through such organic change comes the ability to redefine one's philosophy, and to meet new challenges.

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The Economic Reality

The forces shaping tomorrow's world are those of the international free market. The countries of Europe can no longer feel confident of retaining their economic pre-eminence. The third world's fight for a higher share of world prosperity and for a better standard of living will grow fiercer. There are well over one billion Chinese – and some time early in the next millennium India's population is forecast to overtake China's. Cut-throat competition from low cost environments with minimal or no welfare dependence is a fact of life. In Vietnam, 40 workers can be employed for the same cost as just one employee in Britain.

Companies are more mobile than ever. They can and will relocate to countries where they can enjoy minimal tax and regulatory impediments. Excessive government spending, leading to high taxation and high levels of borrowing, will be less practicable as tax environments and investment have to stand up to global competition. Even a Labour MP, Frank Field, has recently pointed out that corporate taxation is becoming 'a voluntary matter'. Britain must engage in successful tax competition with countries around the world.

In most major European economies, government taxation as a proportion of GDP has increased significantly in the last 17 years. But in Britain, we have contained the proportion of wealth which the state takes from the individual. Even so, in 1995 the state still spent the equivalent of 43% of GDP – an insupportable figure when compared to Japan (36%), America (33%) and above all, the Asian Tiger economies (where the figure is often below 20%). A high tax burden slows economic growth, and without raising any more revenue, discourages enterprise and fosters the dependency culture. If we are to create more wealth, we must strive not just to contain government spending and taxation, but to reduce it as a proportion of GDP.

Real jobs will be created by free enterprise offering goods and services at the right price. They will not come about through government edict. They will not, as the Labour Party seems to suggest, be protected by greater labour market regulation. The lessons of the United States are clear: there, while current job security may be relatively low, at least alternative employment is relatively easy to find. There, 35 million new jobs have been created in the last 20 years, of which 30 million were in the private sector; in Europe only 8 million jobs have been created – and 5 million of those were in the public sector.

Britain is in many ways not so badly placed to meet these global economic challenges. Our economy is in good shape, although the national debt is too high. Our investments abroad were, in 1994, almost as great as those of America. Britain has succeeded in attracting nearly half of all inward investment into the whole of the European Union put together. It must remain the next Government's priority to maintain a favourable environment for both foreign and domestic investors. To do that

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we need stable monetary conditions, lower tax rates, good labour relations and a genuinely deregulatory regime: our practical proposals on how the competitiveness of our economy can be enhanced are set out in Chapter 1.

The challenge of governance

The British constitution is not perfect. But it works and has successfully guaranteed the rights and freedoms of Britons for hundreds of years. From where do those critics who want to undertake an adventure of fundamental constitutional reform derive the arrogance to overturn the accumulated wisdom of centuries?

But examination of our 'culture of governance' is overdue. Business has had to 'downsize' to survive. Now it is the turn of the state. Practical proposals for the reform of Westminster and Whitehall are set out in Chapter 2.

The intimate relationship in Britain between the executive and the legislature has traditionally delivered strong government. But it has been increasingly at the expense of effective Parliamentary scrutiny of the executive's proposals. And it has cushioned the well-intentioned but poorly-managed civil service. In addition the last 30 years have seen an explosion of hasty and over-eager legislation in both central and local government. Our new obligations in Europe add a further torrent of additional red tape on top of an already overloaded programme. Steps must be taken to reduce the burden of legislation – not least by reducing the number of statutes which are passed by Brussels and Westminster every year.

The real costs of over-regulation fall on business and individuals. A recent uncontested de-merger in the City cost £20 million in regulatory paperwork, much of it of doubtful value. The new European Fire Regulations, contrary to Home Office promises, will impose substantial costs on small businesses. Successive CBI reports cite excessive regulation, paperwork and government-imposed costs as the worst obstacles to job creation. The same cry of despair is heard from the principal public services, from those who administer the health service, the police, the schools. If Britain is to remain competitive, the regulatory nettle must be grasped.

Throughout the public service, standards and efficiency can be expected to improve only when decision-making is devolved to those who are actually running and using the services. Local officialdom must be made to understand that they are there to serve the local community – not to harry them.

The process of delegating powers to the local level has begun, but should be extended: planning decisions should not be centralised in the Department of the Environment; police authorities should decide priorities for their localities and the composition of their boards, without 'assistance' from the man at the Home Office; parents should be able to choose where to send their children to school and schools

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should manage their own affairs; Hospital Trusts should be able to conduct their own business and choose the composition of their own boards. Every sector should be encouraged to raise additional funds locally for their local institutions. That will engender local pride and help to ensure that services meet local needs.

Support for the family should be at the heart of any reform of Britain's institutions. In many ways the nation state and how it is governed is a reflection of the traditional family structure. Both benefit from firm, but limited government; both benefit from a mutual respect for responsibility, freedom and duty; and above all, both should be protected against increasingly hostile forces. The family is under attack from many sides, but there are two areas where government can make a real difference: divorce legislation and taxation. The current tax system penalises the traditional family and current divorce laws undermine the very concept of marriage.

Efficiency and the public services

The growth of government spending must not be accepted as inexorable. Indeed, it must be reversed wherever practicable.

Why? Not only because of the need to remain internationally competitive. The pressures of an ageing population are equally relentless. The OECD calculates that state commitments to pensions could double the national debt in France and Germany by 2030 and bear even more heavily on Italy. In Britain, while we have successfully taken the hard decisions to ensure private pensions supplement State provision, our support ratio, defined as the number of people of working age to those of retirement age, will fall from 3.3:1 to 2.4:1 in 2030. These are the challenges of tomorrow, but they must be addressed today and our proposals on the public services are set out in Chapter 3.

The function of the state to provide good public services must be kept in balance with the rights of the individual. Most Conservatives today would regard that balance to have tipped too much in favour of the state. Expenditure on welfare, at £92 billion p.a. is all but insupportable. Lifting more of the burden off the taxpayer – so essential for our continuing competitiveness – will only be possible if the proportion of the nation's wealth devoted to this essential safety net is reduced. Some means-tested cash benefits have built-in 'perverse incentives': that is, they encourage dependency and fraud. In 1995, despite a reduction in the rate of unemployment, two million new claims were made on welfare.

In reviewing welfare we need to proceed with the greatest care. But there is need for reform and room for greater efficiency in its delivery. Government should ask the private sector, wherever it has the know-how and discipline, to enter the field. This should lead to changes in the fundamental culture of welfare: an emphasis on obligations as well as rights; a coincidence of self interest and self improvement; and

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encouragement to move away from dependency and into work.

A highly educated, skilled workforce is essential if we are to compete in the global market. Yet British children lag far behind their counterparts in the rest of the EU and the Far East, where children are expected to speak a second or even a third language. In Britain, one in four children leaving secondary schools in 1995 was rated poor in reading and writing skills in their own language. And 85% of English seven year-olds cannot multiply 5 x 5.

The present Government has strenuously sought to raise standards in our schools. Opposed only too often by the teaching unions and the Labour Party, it continues to try hard to re-introduce sensible teaching methods. At last we have begun to see a widespread agreement that the teaching methods introduced in the 1960s undermined the education of British children. Our teachers must rediscover the pleasures and rewards of good teaching practices.

Britain and the world

Free trade is the oxygen which sustains a trading nation and by virtue of geography, history, temperament and language, Britain is a trading nation. Our foreign policy must recognise this simple imperative. Our proposals are set out in Chapter 4.

Protectionism – whether open or latent – must be fought. And there is nowhere where this battle is more likely to break out than in Brussels. Europe is developing far beyond the original intention of a Single European Market. Yet Britain has signed Treaties which involve us in a series of close and increasingly intrusive relationships. The British Government must honour its commitments. But it must also do more to protect the nation's interests. The bravest and the best should be enrolled to fight openly for British causes both at home and in Brussels.

The challenges which lie ahead are not of our own making. They emerge from the fluid and changeable nature of our world today. Change is rarely welcome. But security, like 'rights' and 'freedom', has to be fought for. It is won not by running away from, but by facing up to and overcoming, the challenges ahead. That is why we believe that the proposals defined in the following chapters will help to secure the nation's future.

There is, as our founder Margaret Thatcher used to say, 'so much more to do'.

CHAPTER 1

THE ECONOMY

1.1 The Conservative approach

In 1979, Britain's economy was a source of national shame. Inflation was 14%; manufacturing productivity was 51% higher in Germany and 86% higher in the United States; personal and corporate incomes were taxed at penal rates (98% for investment income), and strikes were an everyday occurrence.

In 1996, Britain's economy is an example to the rest of the world. After many struggles, it is now enjoying a virtuous cycle of low inflation, low interest rates, falling rates of personal and company taxation, sustainable growth and dwindling unemployment. Between 1975 and 1979, there were an average of 2,345 strikes a year; between 1991 and 1995, there were only 255. Britain is rediscovering its entrepreneurial culture.

Privatisation has relieved the state of the burden of nationalised industries which were net recipients of state funds (in 1981, British Steel alone managed to drain over £1 billion from the public purse). Now these same companies contribute over £9 billion a year to the Exchequer. Finally, the OECD estimates that the total value of equity offerings associated with privatisation flotations around the world between 1995 and 2000 will be in the region of \$200 billion. Britain, as the original architect of the concept of privatisation, should be flattered by such global imitation.

These great achievements are fragile – and incomplete. Government spending is still too high. The tax burden must fall further. Regulation is expensive and intrusive. Above all, the government should recognise its limits. It must ensure that inflation is controlled; interest rates are low; exchange rates are predictable and taxation is coherent and comprehensible.

1.2 The tax system

Since 1979, the British tax system has been radically overhauled. As marginal rates of income tax have fallen, incentives have improved, and tax avoidance declined. Unfortunately, the overall tax burden has failed to fall, as real spending on priority areas, including education and health, has risen substantially in real terms. In the UK,

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43% of GDP passes through the hands of the State, compared with 33% in America. This is too high.

We need lower taxes, fairer taxes and simpler taxes. Government should look at the balance between direct and indirect taxation. Indirect taxation on spending is inherently more desirable than taxation on income; the former taxes consumption, whereas the latter taxes work. The Conservatives have shifted the burden towards indirect taxation, but this should go further.

People on very low incomes should be removed from the income tax system and hence out of benefit. The tax system, which inevitably encourages patterns of behaviour amongst taxpayers, should reflect society's core values including, for instance, the Conservative commitment to encouraging family life. We also must continue to use the tax system more to encourage personal provision for sickness, unemployment and retirement.

Finally Britain should have a simpler tax structure, which people can understand. In the last few years it has become more complex.

The next Government should:

- *Remove the VAT zero-rating on food, water and sewerage services, books and magazines, and domestic passenger transport, and use the money raised to cut the basic rate of income tax to 20%* The example of domestic fuel showed that extending the VAT base is not politically easy. However, the economic case for removing the zero-rating remains compelling (some of the resulting revenue can be used to compensate those on low incomes). The funds raised should be used to reduce the basic rate of income tax – a target towards which the Government has already made progress, by steadily expanding the scope of the lower 20% band.
- *Introduce a transferable personal allowance for married couples and a child tax allowance.* The current tax and benefit system puts two-parent families with one earner at a substantial financial disadvantage. Only child benefit, which has been reduced, recognises the increased financial burdens on families with children. A transferable personal allowance would permit one-earner families to utilise both personal allowances. Child allowances would recognise the costs involved in bringing up children, as well as reflecting society's commitment to encouraging family life.
- *Abolish marriage tax allowance.* This would be replaced by the transferable personal allowance for married couples.

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- *Means-test child benefit* (see section 1.3).
- *Increase personal allowances, as soon as the funds are available.* Substantial tax cuts will only be possible once public spending has been significantly reduced and the PSBR eliminated. This will take time. However, personal allowances should be increased as soon and by as much as is prudent. People on very low pay should be removed completely from the income tax system.
- *Phase out tax relief on mortgage interest payments.* MIRAS has successfully encouraged the widening of home ownership in Britain and is now dispensable, particularly as the financial climate for first-time buyers, with low house prices and low interest rates, is now more favourable.
- *Replace PEPs and TESSAs with a more targeted form of tax relief for savings.* PEPs and TESSAs have been far more successful than was originally intended. They can be more a means of tax avoidance than an incentive to encourage saving. PEPs and TESSAs should be replaced by more targeted schemes.
- *Abolish inheritance tax.* Conservatives believe in encouraging people to hand on wealth to the next generation. Tax on inheritance is double taxation. It falls on income or capital gains which the state has already taxed. It discourages thrift and enterprise. It is also expensive to collect, and falls largely on the middle classes (the rich can more easily avoid it).
- *Simplify the tax system.* Britain's tax system is too complicated. Taxpayers do not understand it and distrust it. The next Government should undertake a fundamental review to consider the scope for further simplification of the tax system (see section 3.2 for proposals on reform of pensions taxation).

1.3 Public spending

The relentless upward rise of public spending in Britain has forced up both taxation and public borrowing. Since 1979, the Conservatives have made determined attempts to reduce public spending, but have not succeeded: the Government spends a similar proportion of national income today as it did in 1979. Instead, public spending has become better targeted, with more funds going to education and the health service and less to outdated and inefficient nationalised industries. But this is only a beginning.

The failure to reduce public spending stems from the nature of the main areas

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where spending is increasing, which include the elderly, the unemployed, lone parents, people on low incomes, and means-tested housing benefits. Spending on social security, education and the health service totals almost £150 billion. As our population ages, this proportion will increase. This challenge is considered in Chapter 3.

There is also a role for funding partnerships between public and private sectors, through the Private Finance Initiative, though this is still bogged down by bureaucratic inertia. The next Government must continue to take care that this does not become a more expensive method of building public sector infrastructure projects, attractive only because it keeps their cost off the public balance sheet.

The next Government should:

- **Means-test child benefit.** Child tax allowances reflect our belief that children must be properly cared for and that those in work should be rewarded. Child tax allowances should replace child benefit for many people. Child benefit should be amalgamated into family credit but would be tapered out gradually at higher earnings levels.
- **Abolish grants and privatise loans for students in higher education.** (See section 3.4)
- **Reduce the Civil Service by a further 20%.** Some progress has been made in reducing the number of personnel within the civil service. More can still be done. As a target, the next Government should aim to reduce numbers employed by 20%.
- **Make meeting the New Control Total for public spending a statutory requirement.** In 1992, the Conservatives introduced the New Control Total, which involved the Cabinet agreeing, in advance of the detailed public spending negotiations, to an absolute limit on total public spending, with the exception of items paid automatically, such as welfare expenditure. Meeting this total should be a statutory requirement for the next Government. If it failed to do so, it would be obliged to return to Parliament to ask for permission to spend more, having first explained the reasons for the initial failure.

1.4 Monetary policy

The Conservatives have now won a tremendous battle in bringing inflation under control, but the failure to check inflation in the late 1980s has left the markets suspicious of Britain's motives, and unwilling to reflect the current low inflation rate with similarly low long-term interest rates.

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The next Government must make monetary policy transparent and consistent, with the aims of providing business with a stable macro-economic backdrop, and of giving the markets confidence in Britain's determination to keep inflation low over time. The current administration has already taken important steps in this direction, with the publication of the minutes of the monthly meetings between the Chancellor and Governor of the Bank of England, the quarterly publication of the Inflation Report and the establishment of clear targets for inflation.

However, a number of concerns remain. First, the continuing threat that Britain might join a Single European Currency. As Britain's economy remains fundamentally different from Europe's, this would be immensely economically damaging, as would a return to any kind of shadowing of a single currency.

Second, however transparent the monetary policy process, however carefully argued the reasons behind interest rate changes, the markets continue to believe that interest rate decisions are influenced by political considerations. This imposes a cost on British business, in the form of a risk premium included in UK interest rates. The only solution to this problem is for the next Government to give up control of interest rate decisions. But the Bank of England would need substantial reform before being given its independence.

Third, although it is important that the currency should not be overvalued, competitive devaluation is not a route to economic success. The pound has fallen since Britain left the ERM because the markets do not trust its commitment to controlling inflation. Although the falling pound has benefited our exporters, this is only a temporary gain, and in no way a substitute for keeping industry's costs down, and improving productivity.

The next Government should:

- **Rule out joining a single currency or a revised ERM during the lifetime of the next Parliament.** The British economy differs from the economies of our European partners in a number of important ways. A single currency, or a revised Exchange Rate Mechanism, would therefore be very damaging to Britain, because the monetary policy that may be appropriate for other European countries may not be right for us. Furthermore, only a very much larger federal budget could reduce the economic tensions created by a unitary monetary policy for Europe. The British exchange rate should be allowed to float freely, and find its own level. The Government should make this clear, prior to the election.

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- *Give the Bank of England its independence, and a statutory responsibility for meeting certain targets in terms of inflation and economic growth.* Giving the Bank of England independence will remove the political risk premium on interest rates that British business currently has to pay. The Bank should be given an inflation target, and a statutory responsibility for meeting it, and should also be explicitly obliged to consider the need for economic growth. But the Bank will first need reform. The current autocratic structure gives the Governor too much power. In a reformed Bank, interest rate decisions should be taken by a Council, drawn from a wider spectrum of occupations than the current Court.
- *Privatise the management of the national debt.* The management of the national debt would be done more effectively in the private sector. This should be tendered out to private banks, which would act on the instructions of the Treasury.

1.5 Privatisation

Privatisation is a great Conservative success story. Fading industries have been revitalised, prices for consumers cut, competition introduced, and the financial and management disciplines of the private sector have replaced industrial strife and endemic inefficiency. Other countries are following suit.

The Centre for Policy Studies has commissioned a major study from National Economic Research Associates (NERA), the independent economic consultants, on the effects of privatisation in Britain. NERA have convincingly demonstrated that safety standards have risen following privatisation. They also show that the 33 companies in eight industries denationalised since 1979, and which in 1980 absorbed £483 million of public funds, by 1987 were contributing £8,374 million a year to Exchequer, and have since continued to contribute at this level.

Regulatory agencies are a proxy for competitive markets. As such, they will always be second best, a substitute. Great strides have been made towards making the utility markets more competitive – the supply of gas will be open to competition in 1998, and electricity supply shortly after that. Contestable markets will remove the need for regulation – and everything should be done to further that aim.

The next Government should:

- *Privatise the Royal Mail.* The Royal Mail is a great British company. It should welcome the introduction of competition – particularly as it operates in a sector which is inherently competitive. Privatisation will enable the Royal Mail to expand

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overseas and to develop in parallel business areas – whereas the borrowing constraints currently imposed on it by virtue of its public sector status make it impossible to develop either opportunity.

- *Privatise the Crown Estates.* The Crown Estates were royal property investments which were handed over to the State in return for the civil list. Today there is no meaningful connection between the two. The next Government should privatise the Crown Estates holdings, retaining those parts for which privatisation might not be suitable, such as Windsor Great Park.
- *Privatise London Underground.* (See section 3.6).
- *Privatise the Forestry Commission.* The commercial elements of the Commission's estate should be sold. Woods where conservation and amenity use are paramount should be transferred to local authorities. Finally, the Commission's regulatory arm, the Forestry Authority, should be completely divorced from the Commission, and absorbed into the Environment Agency.
- *Privatise the Commonwealth Development Corporation.* The British Government, which invented privatisation, should not own a fund that buys, holds and develops property and commercial investments overseas on behalf of the British taxpayer. In some cases, CDC acquisitions are being privatised by other overseas governments following Britain's example. The CDC's work in helping companies across the Commonwealth to achieve efficient free market working practices could be done through an advisory body; there is no need for Britain to own these firms.
- *Privatise the delivery of benefits.* (See section 3.2).
- *Privatise the Crown Prosecution Service.* (See section 3.5).
- *Extend the Private Finance Initiative.* The proposed sale and leaseback and the contracting-out of the related facilities management of all DSS offices is a major step in the right direction. It should be extended to all property belonging to other Government departments (except the MOD).
- *Wind up regulatory bodies such as OFTEL and OFFER once their markets are truly competitive.* Competition policy within these markets should then be subject

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overseen by the Office of Fair Trading and the Monopoly and Mergers Commission. The next Government should avoid creating a new industry of regulators which have a vested interest in perpetuating their role.

1.6 Employment

Governments must ensure that inflation is kept firmly under control; taxation reduced; regulatory interference minimised; and the labour market is free to operate efficiently.

In Britain it now costs less to employ someone than in most other European countries. For every £100 paid in wages by employers, there are additional non-wage labour costs of £44 in Italy, £41 in France, £34 in Spain, £32 in Germany, but only £18 in the UK. The unemployment rate is also now well below those of all of its major European partners, and at its lowest level for five years. A flexible labour market has been a key factor in attracting increasing levels of overseas investment into the UK, thereby creating jobs. Britain must fight to ensure that its opt-out from the European Social Chapter, which would impose substantial non-wage costs on British business, is not undermined.

Conservative reforms of the labour market will continue to reduce unemployment over time. The OECD has praised Britain's flexible labour market which, it says, now has a significantly lower Non Accelerating Inflation Rate of Unemployment (NAIRU) – the rate of unemployment at which inflation starts to accelerate – than in 1979. As a result, unemployment has now been falling for over three years, but inflation still remains dormant.

But the aim must be to reduce unemployment still further – and eventually to eliminate involuntary joblessness altogether. Not having a job is a personal tragedy as well as an economic waste. Long-term unemployment is particularly damaging since its victims effectively leave the labour force, and therefore no longer exert a downward pressure on the wages of those remaining in work. Pockets of structural long-term unemployment also have terrible social consequences, as communities lose the habit of working and come to depend on the state.

There is little doubt that people do generally feel less secure. Conservatives understand that insecurity about jobs can only be tackled through private sector job creation. In America, the fear of losing a job is mitigated by the knowledge that there is another one to go to. Attempts by government to force businesses to retain employees, or to engage in its own misguided job creation schemes, are doomed to failure.

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The next Government should:

- *Provide companies with a low inflation, low tax environment.* (See section 1.1).
- *Fight protectionism in all its forms.* (See section 1.7).
- *Reform the state education system where low standards, particularly at primary level, are damaging the future prospects of our children.* (See section 3.4).
- *Veto costly regulation emanating from Brussels and Whitehall which restricts job creation.* (See section 1.8).
- *Oppose the introduction of a minimum wage and the European Social Chapter.* Both would severely damage job prospects in Britain.
- *Establish the Employment Service as an independent agency, which would subcontract its employment work to the private sector.* In this area, as in others, the involvement of the private sector would provide a more effective service, as well as saving money.
- *Abolish the Agricultural Wages Board.* Wage setting boards are unnecessary. When the other wages boards, which set minimum wages for certain industries, were abolished in 1993, the AWB survived. It is an anachronism and should be dismantled immediately. There is no benefit in farmers overpaying for labour.

1.7 Free trade

Britain became a trading nation as a result of geography, history and temperament. Today, it acts as a gateway to Europe for overseas airlines, financial capital and businesses of all kinds. Straddling the time zones, half way between America and Asia, and equipped with the English language, Britain is a principal international financial centre, and uniquely well-placed to benefit from expanding world trade. British business thrives overseas. It is the Government's job to promote free trade and to ensure that British business is well placed to benefit from it.

The British commitment to free trade is active, not passive, and Britain was a powerful force for liberalisation during the Uruguay Round of the GATT negotiations. The EU, at Britain's urging, threw much of its negotiating power behind trade liberalisation, and blocked attempts to throw up protectionist barriers.

However, it did so in the face of protectionist demands from other EU members,

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and in particular France. Some of our EU partners have a long tradition of protectionism, which has given rise to the most protectionist cartel of all, the Common Agricultural Policy (CAP). A key reason for Britain remaining within the EU is to prevent the protectionist element within the organisation gaining the upper hand.

The next Government should:

- *Commit Britain to a free-trading future, and stay within the EU to ensure that Europe remains committed to free trade.* (See section 4.2).
- *Demand the reform of the CAP.* (See section 4.2).
- *Demand that protectionist barriers on agricultural, textile and steel imports from Eastern Europe are removed.* The former communist countries of Eastern Europe were encouraged by the EU to embrace the free market. However, access for Eastern European exports to those markets in which they have a competitive advantage is severely restricted. This short-sighted protectionism undermines their commitment to free trade and democracy, and must be abandoned.

1.8 Deregulation

From 1984-94, Parliament enacted 572 new statutes. In 1994 alone, there were 41 Acts of Parliament, and 3,334 statutory instruments; *in addition*, the European Commission put through 33 new Directives and over 7,000 new regulations and decisions. The vast majority of these passed into law without any Parliamentary scrutiny.

There are three issues. First, there is too much legislation coming from both Brussels and London. The government must be discouraged from bringing forward a constant flood of new bills and must ensure effective scrutiny of bills, of regulations, and of statutory instruments (see section 2.2). Second, the method by which European directives are incorporated into British law remains a fundamental problem: there is still gold-plating by our own civil-servants. Third, ministers legislate, on occasion, too precipitately and are also reluctant to scrap regulations, for fear of being blamed if any future disaster could be traced, however remotely, to their easing the rules.

Some progress in damming the flood has been made. The Cabinet Office Deregulation Unit is pursuing the right policies, including insisting on proper cost-benefit analysis of new regulation, and avoiding the gold-plating of EU regulations when they are enacted in Britain. But the cause of the problem, not its symptoms, must be addressed.

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The next Government should:

- *Require ministers justify all new legislation and publicise the costs of new legislation.* There is too much legislation, and the next Government should vigorously discourage ministers from agreeing to new regulations. It should also publicise the cost of regulation to companies and individuals before it is introduced. All bills should include an independently-audited supplement of the cost and the impact of the regulations for both the private and the public sectors. The New Divorce Bill is one example of how substantial, unaudited costs are imposed without publicity.
- *Abolish the Parliamentary European Select Committee in its present form.* The European Select Committee cannot scrutinise properly the vast amount of European legislation emanating from Brussels. Its job should be done by relevant subject specific committees (see below).
- *Ensure that European legislation is scrutinised by the relevant Parliamentary subject-specific Select Committee.* European decisions and directives should be considered at an early stage by those Select Committees which specialise in the appropriate subject area. This would also strengthen the role of the British Parliament in scrutinising European legislation. British ministers should be encouraged to agree the British negotiating position with these committees before signing directives in the Council of Ministers. The committees should also be required to approve the Statutory Instruments which give effect to Directives. Finally, the Select Committees should appoint one of their members to maintain a constant dialogue with British and European officials who draw up the original directives.
- *Take into account the difference between the European Roman code and British common law.* European directives are drafted for Roman law which is more flexible than British common law. The directives frequently include the option for countries to apply the directive flexibly in line with national practice with exhortations that the directive should not 'damage small- and medium-sized businesses'. But when directives are passed into common law, this flexibility is lost. The result is that directives have much more serious consequences for Britain than for other European countries. The flexibility and the intentions of the original directive must be preserved.

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- *Stop 'gold-plating' legislation.* The civil service has a tradition of 'gold-plating' legislation, by adding too much detail when they draw up regulations. The next Government must put a stop to this.
- *Introduce an annual regulatory budget.* A statutory annual 'budget' for regulatory costs should be agreed by Parliament. The total cost of regulation to businesses and individuals could not be increased without Parliamentary approval. Otherwise, additional regulatory costs could only be imposed by the next Government if 'savings' – in the form of reduced regulations – were made elsewhere. The next Government should aim to reduce the regulatory budget as a proportion of GDP, at the same time as it cuts the public spending budget itself.

CHAPTER 2

GOVERNMENT AND CONSTITUTION

2.1 Our constitutional heritage

The British constitution is at the heart of the national sense of identity. Unlike most other countries, its constitutional settlement was not an artificially manufactured product, dreamt up in a hurry by reformist lawyers. Instead, it has developed over hundreds of years of practical use, incremental amendment, compromise and debate, and is particularly suited to the British national character.

But Britain's position in the world has changed and so have the responsibilities and obligations placed upon it. So far the government machine has failed to come to terms with this. Parliament's developing relationship with Brussels must be faced more openly, and without delay. Westminster and Whitehall must cut the amount of legislation, downsize and become more professional.

2.2 Westminster and Whitehall

If Parliament is to retain the respect of the electorate, it must reconsider its role in the light of the increasing transfer of its legal powers to Brussels. Last year, 68% of legislation entering the statute book originated in Brussels, compared to 32% from Britain. Parliament's legislative role has been reduced, and yet it fails to scrutinise adequately regulations that emanate from the European Union or even to consider domestic regulation with sufficient care. The incorporation of European directives into British law remains a fundamental problem that must be tackled if it is not to undermine Britain's relationship with Europe. (see Chapter 4)

Britain today has been legislating with abandon for 30 years and too often its laws have been badly drafted and ill-prepared. The Prime Minister's proposal that legislation should be announced in the Queen's Speech two years in advance of coming before the Commons is a welcome development. But the overwhelming legislative tide will not be turned until there a change of culture – and the filling of Parliament's legislative timetable becomes a source of concern rather than a symbol of political virility. Today, a minister enters his department to legislate rather than to ensure that the services for which he is responsible work effectively. Ministers, in co-operation with the civil service, should concentrate more on the competent administration of their department.

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When ministers do legislate, their aims are sometimes frustrated, either by lack of careful drafting, or because they simply do not have the time to follow through their ideas. More ministers with specialist knowledge would improve the quality of ministerial decision making, as would longer periods spent in each ministerial position. Before World War II, a minister could expect to spend four years in one position; now the average is under two years. When Lord Weinstock retired as head of GEC, he had dealt with 22 Secretaries of State for Trade and Industry during his period as chief executive. There have been six Secretaries of State for Education in just 10 years.

Only a limited number of ministers enter office with sufficient specialist knowledge to be able to initiate measures on their own. Most ministers come to office with little or no experience of management in a large organisation, such as a business, an educational establishment, a hospital or a trade union. In an age where hard work and professionalism are treated with respect and rewarded accordingly, the House of Commons with its pretensions to amateur status looks, too often, irrelevant. Governing Great Britain is no longer a job for amateurs.

The Government does not make enough use of the House of Commons in developing legislation. At present, its Members are too often underused. Although the Select Committee system has partly redressed the balance, the next Government needs to inject a greater degree of dynamism into the Select Committees, and the Chamber itself, and utilise MPs' talents to the full. The House of Commons should take responsibility for scrutinising legislation, statutory instruments and regulations, both European and British.

Structurally, it is time for a reshaping of ministries within Whitehall to reflect the changing role of government, from an interventionist institution before 1979, to an increasingly enabling body today. Some good work has already been done, for example in setting up the Next Steps Agencies and beginning to draft in more private sector managers. But the programme for attracting private sector recruits has been haphazard, and further progress must be made.

The next Government should:

- *Merge the Department of Trade with the commercial wing of the Foreign Office.* Given the importance of international trade to the British economy, the Foreign Office should play a far greater role in securing the UK's economic success and should be given the resources to do this properly. The DTI's export promotion division would provide this resource. The DTI's other roles, including competition policy and consumer protection, could be distributed to other Whitehall Departments. Companies no longer need the kind of direct support that the Industry Department was originally put in place to provide.

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- *Cut the number of MPs by 20%, and reduce the number of ministers by a similar proportion.* In 1979, Britain had 630 MPs; today there are 651. There should be fewer constituencies, represented by much better-paid MPs. The country also needs fewer ministers, if it to redress the current institutional bias for new legislation.
- *Allow ministers to appoint a cabinet of personally chosen political support staff.* This would complement rather than replace the existing private office. External appointees within the private office would be responsible for guiding and monitoring the civil service to ensure that the original intentions of ministers were fully reflected in final legislation or regulation. It would also improve the ability of departments for dealing with the media, and increase effective political liaison between different departments.
- *Separate ministerial success from legislative performance.* At present, ministers progress in career terms through the effective introduction of legislation. There is an in-built incentive to introduce new legislation. Instead, ministers should be judged just as much on the effective implementation of current policy as on the number of Bills they introduce to Parliament.
- *Give more powers to Select Committees.* Select Committees have been one of the most impressive Conservative constitutional innovations. But they should be given more powers: in particular, the next Government must appoint appropriate Select Committee members to the one-off committees that consider legislation. Outside experts should be invited to sit as non-voting members of Select Committees. Chairman of Select Committees should be paid the same as ministers of state within the next Government, reflecting the importance of the role which they perform.
- *Consider, in the longer term, merging the Ministry of Agriculture with the environmental responsibilities of the Department of the Environment, to create a Ministry of Rural Affairs.* The Department of the Environment has too many diverse responsibilities. MAFF, by contrast, is the only government department still to have a 'client' relationship with a group of producers. This is an anachronism. However, since the principal job of the Minister of Agriculture is to negotiate over the CAP in Brussels, and since his negotiating position might be weakened by this change, it will have to wait until the CAP itself has been thoroughly reformed (see section 4.2).

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2.3 Local government

In 1979, the local government system had been hijacked by a group of highly political individuals. They saw local councils as bases from which to wage political guerrilla warfare against central government, with no thought for the cost to local people, or the needs of local communities.

As a result, the Conservative Government was obliged to limit their scope for obstruction. The uniform business rate was introduced, and councils were compelled to contract out services. These initiatives have been a success: local government now concentrates more on delivering efficient local services, and less on empty political gestures. At the same time, local choice has been expanded in other ways. People now have the opportunity to choose their own schools and hospitals, and influence the way their local police force operates.

But people want to take even more decisions on matters affecting their everyday lives. The next Government must continue to expand local choice, and revitalise local democracy. This means continuing to reform local government so that it responds to the needs of local people. It also means looking at other ways of devolving responsibility and choice to a local level, without involving the formal council structure.

By encouraging the involvement of local people in their communities, the ties that bind those communities together will be strengthened. At a time when traditional institutions and values are under increasing pressure, strong and united communities are the blocks from which a strong and united Britain can be built.

Handing over responsibilities to those at a local level is a key Conservative policy and has also encouraged greater value for money. Further devolution of powers will lead to a greater involvement from the private sector, and communities will be able to tap into the enormous enthusiasm for voluntary action at the local level.

The next Government should:

- *Suspend the central government cap on local government for a trial period.* If local government is to mean anything, a local vote must have a local impact. Over-tight capping of council budgets means that councils are not judged on their fiscal competency, since that is guaranteed by central government. Local voters must be given a real choice, for a trial period. Overspending councils would pay an electoral penalty. These changes would take place on the understanding that local councils would use this power responsibly. In the event that councils increased budgets to an unacceptable degree or engaged in the political posturing that disfigured local politics during the 1980s, the cap would be re-imposed.

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- *Fund education directly from Central Government.* Funds for education should be 'ring-fenced' from the rest of local government funding to help to ensure that schools receive the full complement of Central Government funding. They would continue, for the moment, to be administered by LEAs. However LEAs are still holding back over 22% on average of the total schools budget – excluding capital costs which are a further 5% – which is outrageous. This arrangement would help to make local government finance more transparent.
- *Allow local businesses to set up Business Improvement Districts (BID).* American law allows firms within a small area to vote on establishing a BID, through which the private sector then invests in the local infrastructure. It is paid for through a surcharge on the business rate. The introduction of BIDs in Britain would allow local businesses to invest in the community in a way which would give them control over how they were spending their funds.
- *Give towns and parishes the ability to pay for more local police officers, if they choose to do so.* These officers would be part of the police force, and not answerable to the area that was paying for them, but they would be based in that area, and would be additional to any resources already devoted to it.

2.4 The House of Lords

The House of Lords is a good example of the effectiveness of our unwritten constitution. It is an almost perfect chamber of revision, complementing the House of Commons without challenging the political hegemony of the elected chamber. It is thorough, as it contains experts on nearly every issue, and it takes the time to go through the minutiae of legislation in far more detail than the Commons.

It is moderate in its political opinions, and independent in its actions, having inflicted a series of defeats on the Government during the current parliamentary session. It has little or no interest in populism or politics, placing itself slightly apart from the daily cut and thrust of political debate, preferring to deal with each issue on its merits. And it is cheap, as peers, many of whom make a very substantial commitment to their work in the Lords, only cost £141.50 a day each in basic attendance allowance.

Any real attempt at reform would, eventually, end in an elected second chamber. The people of Britain neither want, nor need, another chamber of elected politicians. The half way house of a fully appointed chamber would simply produce the world's largest quango – an even less attractive option.

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The next Government should:

- *Support the House of Lords in its current form.* Reform of the Lords would be a constitutional cul-de-sac, and should not be undertaken.

2.5 The Union

The Labour Party proposes to dissolve the ties which have united the Kingdoms of Wales, Scotland and England for nearly 400 years. Such a proposal would weaken the three countries, damaging their influence abroad, and their ability to compete in world markets. It would give rise to a series of troubling constitutional anomalies; such as the 'West Lothian' issue (whereby only Scottish members would decide local matters in Scotland but would still vote on similar issues in England). The proposals to give the Scottish assembly tax-raising powers would lead to higher taxes north of the border, and focus attention on the substantial transfer of public resources from England to Scotland.

Much of Scotland and Wales's dissatisfaction with the current state of affairs stems from their desire to be treated differently. Further concessions on devolution will simply widen the gap between the nations of the union. Instead, the next Government should halt any further administrative devolution.

Northern Ireland is a special case. The Prime Ministers' pursuit of peace deserves support, and Conservatives should endorse the delicate balance which the Government has followed so far in their policy towards the Northern Ireland.

A system of regional government for the rest of Britain has been proposed by the Labour party. Essentially, this is nothing more than an attempt to avoid the constitutional contradictions inherent in assemblies for Scotland and Wales. There is no public desire for regional assemblies in the English regions, and they would simply add an unnecessary, expensive and bureaucratic layer to our existing system of government.

The next Government should:

- *Reinforce the Union, by opposing devolution, but encouraging cultural diversity.* It gives Britain a strong constitutional basis on which it can continue to build economic prosperity at home, while maximising its influence abroad. The next Government should continue to make clear that it supports the Union, encourages diversity, and should make no further concessions to the devolution movement.

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2.6 The family

William Beveridge emphasised that a coherent family policy was essential to the growth of prosperity and the abolition of want and as a means of 'maintaining individual freedom and responsibilities and the family as the unit of the State'.

Divorce or unstable family arrangements are bad for children: there is now strong statistical evidence which shows that children brought up in a stable environment with two parents are healthier, achieve better academic results and have better employment and emotional prospects than the children of divorced parents or parents of unsettled marital status.

The Divorce Reform Act of 1969 together with the 1977 Reform has contributed to a dramatic increase in the divorce rate with over one in three marriages now ending in divorce. This loosening of the divorce laws over the years (including the 'no fault' reform in 1996) has been accompanied by changes in the tax system, which have undermined the position of families with children so that today two-parent families tend to be worse-off than lone parents. Nearly half of the poorest 10% of the British population are couples, while only 12% are single parents.

Taxation was previously set at levels on the basis of 'ability to pay'. The tax reforms of the 1990s abandoned this principle in favour of a 'neutral' system – one which is 'reasonably fair to everyone, whatever choice they happen to make'. As a result two-parent families have suffered financially while lone parents now receive a wide range of means-tested benefits which are denied to the wife of a working man who chooses to stay at home to look after their children. Lone parent benefits are substantially more generous than those available for families.

The current tax and benefit system gives virtually no incentives to parents to maintain the traditional two-parent family structure. The next Government must explicitly recognise the costs involved in the raising of a family.

The next Government should:

- *Introduce a transferable personal allowance for married couples.* (See section 1.2)
- *Introduce a child tax allowance.* (See section 1.2)
- *Phase out all payments exclusively created for broken families.* The money should be redistributed among all families. (See section 1.2)

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2.7 The media

The media's unique place in the constitutional balance makes statutory regulation, always to be shunned, particularly distasteful. As successive Conservative administrations have recognised, a self-regulatory system that works is far preferable. But the current self-regulatory system does not work. Newspapers regularly ignore the Press Complaints Council when commercial interest dictates, and the Council itself has few effective sanctions. Newspapers must be persuaded to put their own house in order, but as a first step, the next Government should take action to protect individuals against the more outrageous invasions of privacy.

Equally, government intervention in the commercial affairs of media companies should be kept to the minimum required to ensure competition and maintain a free and fair market. The moves towards deregulation contained in the new media bill should be welcomed.

Finally, the role of the BBC must be considered. Its unique position in our national life, together with John Birt's reforms, have allowed it to secure a renewal of its charter on very similar terms to those it previously enjoyed. There are advantages in having a well-funded, quality national radio and television service broadcasting a broad spectrum of programmes on a single channel.

There are two qualifications. First, the licence fee continues to impose a tax on those who choose not to use the BBC's programmes. At the moment this is balanced out by the fact that the quality standard set by the BBC forces other broadcasters to keep up the quality of their output. But were the BBC's audience share and quality standards to fall significantly, then the next Government should review the position of the licence fee. Secondly, those BBC channels which do not meet the conditions above should be auctioned to the private sector.

The next Government should:

- *Introduce a privacy bill.* Such a bill would make illegal the taking of photographs of individuals on private land and subsequent publication of those photographs without permission from the owner of the land.
- *Resist calls for any real increase in the licence fee.* The current internal reforms at the BBC are to be welcomed; however, they can go much further, particularly with regard to the contracting-out of support services.
- *Auction Radio 3 and Radio 5 to the highest bidder in the commercial sector.* The services provided by these two radio channels can be, and to a large extent

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already are, met by the commercial sector. There is no good reason why the BBC should continue to provide niche broadcasting of this kind.

- *Auction the BBC's local radio stations to the highest bidder.* Local radio services should be provided by the commercial sector. The funds from these two proposed sales could be partially ploughed back by the BBC into priority areas, such as the World Service.
- *Allocate funds to the World Service to enhance its role in providing high quality, unbiased news programmes and promoting the English language.*

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3.1 A new role for the state

The Government has put considerable energy, and resources, into improving the public services over the last 17 years; but they have the potential to become substantially better. New and more ingenious ways must be explored to improve provision and to take the strain off the taxpayer – making services work better, encouraging private provision, contracting out where feasible to the private sector. The users of public services must have more choice and ultimately resources must be focused on priority areas.

3.2 Welfare

There is a general acceptance in Britain, in common with other industrial countries, that no citizen should suffer from genuine want. Beveridge's determination to eliminate the poverty and deprivation that stunt opportunity is shared by most people in British society and underpins Conservative thinking. But too often the welfare state, far from extending opportunity, has diminished it.

The welfare state was set up with the best possible intentions. However, the growth of social security payments has been alarming. Since 1992 the DSS budget rose from £68 billion to £92 billion in 1996 while nearly £4 billion is spent yearly on administration.

Although the growth in the welfare budget is now slowing the variety of differing benefits encourages new claims. In 1994 alone there were 2 million new claims on social security while unemployment was declining. There is also mounting concern that the welfare state ethos has undermined the culture of individual responsibility and that the right to benefit should be accompanied a sense of parallel duties and obligations.

Since 1980, the Conservatives have created a basic framework for the reform of the welfare state. The gap between those in work and those out of work has grown, and the Conservatives have delivered outstandingly on their commitment to improve the relative position of the working population. Welfare has been tied to prices rather than earnings which will, so long as the Government resists the temptation to create new schemes, and reduces some of the perverse incentives in others, help to control a growing welfare budget.

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The reform of the welfare state is too large an issue for a manifesto of this kind, and will be considered in more detail by the Centre for Policy Studies over the coming year. The next Government should adhere to the following principles in considering welfare reform:

- *Where possible, and over time, encourage individuals to supplement the state welfare system with voluntary private insurance.* Individuals should be encouraged to build up their own reserves against unemployment, illness, long-term care and retirement. People will be happier to pay into individual funds in the knowledge that they enjoy full ownership of them. Such funds are more suitable for modern career patterns, where individuals move in and out of the workforce over their lives. This insurance should be voluntary, otherwise the principle of individual responsibility is undermined. And it must be administered by the private sector; compulsory savings, an idea being considered by the Labour Party, would generate large pools of money which could be manipulated by government in a misguided attempt to manage the economy.
- *Set state welfare at levels which create incentives for individuals to take out private insurance.* Benefits levels should be set so that there is a clear economic advantage to individuals in taking out private insurance.

In addition to adopting the above principles, the next Government should:

- *Rebuild support for the family unit.* Lone parents receive a wide range of extra benefits – both means-tested and non means-tested. These payments are denied the wife of a working man who chooses to stay at home to look after her children; all payments exclusively for broken families – including one-parent benefit, premiums of income support and special housing arrangements – should be phased out. One-parent benefit should be absorbed into ordinary Child Benefit – as was originally intended. In addition, Child Benefit should be means-tested. (See also sections 1.2 and 2.6).
- *Act to eliminate fraud in the welfare system, by privatising the delivery of benefits.* Recent surveys estimate that there is up to 10% fraud in both Housing Benefit (total budget £9 billion) and Income Support (total budget £16.7 billion). The state should immediately privatise the delivery of benefits, and structure the returns for private sector operators so that they have a financial incentive to eliminate fraud.

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- *Introduce a compulsory and fool-proof identity card system for those on benefits.*
- *Replace the current complex system of rules governing tax incentives for pensions with a lifetime contribution limit.* At present, many people are either discouraged from taking out a pension, or find that charges eat into that pension, because their tax treatment is too complicated. A single lifetime limit on pensions contributions, calculated as a percentage of the lifetime earnings for an average earner, would allow individuals to save more during the periods in their life when they had higher disposable incomes, and reduce pension contributions if unemployment, illness, or the cost of children made high payments unattractive. This proposal would be more suited to today's flexible working patterns, easier to understand, and cheaper to administrate.
- *Deregulate the pensions industry.* The regulatory system for the marketing of both personal and occupational pensions should be greatly simplified. Compliance costs, introduced in the wake of the mis-selling scandals, are now so burdensome that they threaten to undermine one of the great achievements of the last 17 years. Employers should also be encouraged to recognise that they have a role in their employees pension provision.

3.3 Health

The British people take pride in the commitment that they made after World War II that medical treatment should be available free at the point of use to everyone in the country. However, a number of unforeseen social and technological changes have taken place since they made that covenant. For instance, the architects of the Health Service believed that demands on it would reduce as a result of the more widespread application of preventative medicine; the reverse has occurred.

And they failed to predict the enormous advances in medical science over the last 40 years. People live longer and are more likely to survive acute medical crises. Pressure on the Health Service has grown, and will continue to do so, as an infinite demand chases a finite supply.

The Government has responded by making the health service more efficient, and by increasing spending from £7.6 billion in 1979 to £36 billion today. Thanks to the recent reforms, Britain gets much greater value for the money it spends on its health service than it did in 1979. But the benefits of efficiency can only go so far.

As yet, there have been few cases of explicit rationing in the health service. But this will change. As the population ages, the next Government must look at ways to

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curb the growing cost of health provision. It must keep under constant review the need to make the health service run even more efficiently. NHS managers must receive political backing if they have to take on vested interests within the Health Service.

Conservative administrations have also greatly expanded patient choice; and management has successfully been delegated to the local level – a crucial reform. But more needs to be done. More information must be made available to patients to give them the option, if they choose to take it, to make informed decisions on their own care. At the same time, new ways must be found to make hospitals even more responsive to the needs of the communities they serve.

These further changes will be brought about, in part, by increasing the proportion of health care provided for out of private resources. Britain is unusual in that the State provides a greater percentage of the funding for health care than other developed countries, like France and Germany. This balance should be redressed, to help bring the health care budget under control.

The next Government should:

- *Abolish Regional Health Authorities.* This tier of bureaucracy is unnecessary and should be removed.
- *Allow Health Trusts to become genuinely independent of Whitehall.* Trust boards must be allowed to select their own members, set their own pay and conditions, expand services and make financial decisions independently of central government, increasing their ability to respond to local needs.
- *Permit successful trusts to keep more of any surpluses they make.* At present, trusts that manage, through efficiency savings, to achieve a financial surplus, are obliged to return it to the purchasing authority. This penalises efficient trusts, and removes the incentive to save money. Trusts that manage to undershoot financial targets should be allowed to retain a greater proportion of the surplus.
- *Move consultants to five year rolling contracts.* At present, NHS managers are on short-term contracts, whereas consultants get 20 year contracts, giving the doctors the upper hand over the management. Consultants should be switched to five year rolling contracts.
- *Publish information on the experience and performance of doctors.* Information on the major clinical performance indicators should be made available to patients. These

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could include the secondary infection rate and the repair rate. Initially this would be available on a departmental basis, putting pressure on doctors to tackle colleagues who are not performing satisfactorily, and forcing NHS managements to weed out or retrain the less successful doctors. Once the public learned to look at the information in context, it could be broken down so that the performance of individual doctors could be released to the public. Other information should also be made available, such as the number of times a specialist has performed an operation.

- *Allow patients to choose their consultants.* Once the relevant information is in the public domain, the public should be able to use it to exercise choice over their consultants.
- *Introduce a voucher system in the health service.* Initially, this voucher system would cover items such as wheel chairs. The State would provide a voucher covering the cost of the most basic wheel chair available. Individuals could choose to 'top up' this amount to buy a more advanced version. Later, the system could be extended to elective surgery, where the State would provide for the basic cost of the operation, and then patients could choose to add to this to have a private room, or advance the date of their treatment.

3.4 Education and training

Britain used to have one of the best education systems in the world, but that is no longer the case. A high quality national education system is essential to Britain's future prosperity. Two-thirds of all jobs now require a high degree of skill, and these skills command an improved standard of living. Technology is putting an increasing premium on education, and the gap between the qualified and unqualified in the workforce is widening.

The principal political and social failure of the last 17 years is that Britain still has a sub-standard education system. OFSTED found that in 1995, one in four children in primary education were unable to read, write or add up adequately. This is a problem that must be tackled as a priority, particularly at primary school level.

Important reforms have been pushed through. The National Curriculum provides, in principle, a national standard to which all schools have to conform. Local management of schools and opting-out have given some control of education back to parents and teachers, and diminished the power of town hall bureaucrats. The publication of league tables has helped parents to choose between schools, and begun to force up standards by exposing failing schools.

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Parents should be given greater choice in selecting the education they want for their children. The system must allow more choice and diversity, with different types of school or college meeting different needs. 'Progressive' educational methods – an orthodoxy deeply entrenched in some parts of the educational establishment – have manifestly failed to teach children basic skills of literacy and numeracy, and must be abandoned. Finally, the principle of voluntary change must be retained; Local Education Authorities should remain in place for the moment: schools should be encouraged but not forced to opt out.

The next Government should:

- *Move gradually to a school-based approach to initial teacher training.* Schools identified as outstanding by OFSTED inspectors would be funded to act as teacher-training centres, and teacher training colleges would be phased out. Academic educational study should be undertaken at existing universities, which would also validate teacher-training qualifications issued by schools, to maintain quality.
- *Introduce a national trial of vouchers in primary schools.* A broad-based system of educational vouchers should be tested at primary level. All parents in the trial who wished to exercise choice should be free to do so, and should also be able to top up the voucher provision if necessary. Publicly-run schools, however, would not be able to demand further funds from parents in addition to the voucher. Trials, primarily in inner-city primary schools, would be expected to encourage the creation of new grant-maintained and private primary schools (which might occupy the buildings of failing schools). Private primary schools should have the right to require top-up fees, and should remain independent of the state sector. Good state schools would be allowed to expand. This scheme would enable more families to afford the cost of high quality private education and ultimately would bring about, if the scheme were successful, a judicious marriage between the state and the private sectors.
- *Increase the amount spent on primary schools.* Concurrent with the introduction of primary school vouchers, the current proportion of the education budget spent on primary schools (averaging just £1500 per pupil, equivalent to only 60% of spending per child at secondary school) should be increased.
- *Insist on a return to more traditional methods of teaching particularly in reading, writing and arithmetic.* Successful schools abroad recommend that the teacher, at primary level, should be teaching a class mainly from the front. All the evidence shows clearly that both teachers and pupils benefit from this approach.

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- *Increase the number of hours spent in class by pupils in Britain.* Currently, the average child in British secondary schools is taught five hours a day for 190 days a year – a total of 950 hours a year. In contrast, Japanese children are taught for 1,500 hours a year. City Technology Colleges typically teach their children for six hours a day for 200 days a year (1,200 hours a year). This is achieved by reducing the time spent by teachers on administration.
- *Slim down further the National Curriculum at Key Stage One.* The emphasis in primary schools for five- to seven-year-old children should be on attaining good literacy and numeracy skills. This should be achieved by slimming down the National Curriculum for this age group.
- *Introduce numeracy and literacy text books based on Continental models for primary teachers and set school books for the children.* The National Curriculum should be complemented by set books and text books for children to take home, ensuring high national standards of teaching.
- *Abolish the Teachers Pay and Conditions Act, and encourage better quality entrants to enter a more competitive and better-paid teaching profession.* The Teachers Pay and Conditions Act, which attempts to define the working habits of all teachers, is a clear example of excessive regulation and should be abolished. Schools should set their own pay levels. In addition, schools which want to introduce performance-related pay would be assisted by a simple annual assessment programme by the head and deputy head teachers. Secondary school teachers of specialist subjects should have attained a degree in that subject, or a closely related one.
- *Continue to encourage choice and diversity in our secondary schools.* Opting-out procedures should be streamlined to encourage more schools to opt out. More specialist schools should be created, including more technology, language, sports and arts colleges as well as new grammar schools.
- *Direct OFSTED to produce an annual report on examination board standards, and reduce the number of examination boards.* Some examination boards set easier papers than others. Such diversity accommodates the varied academic abilities of different students, but it should be clarified so that employers can recognise the value of various qualifications. In addition, the need for choice could be accommodated by halving the current six examination boards.

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- *Clarify the current method of school funding.* The current method of allocating school budgets is confusing. In 1996/97, the LEAs will withhold over £4 billion from school budgets (equivalent to over one-third of the funds which actually reach schools). However, LEA spending is frequently calculated as a proportion of the Potential Schools Budget, not the more accurate General Schools Budget. This is misleading. The Potential Schools Budget should be abolished and the calculation should be based on the General Schools Budget and the Aggregate Schools Budget.

With regard to universities, the next Government should:

- *Introduce better quality control for universities, including more rigorous external assessment – by the Higher Education Quality Council – of the standard required by different degree courses.* The rapid expansion in the number of university entrants, and the abolition of the distinction between universities and polytechnics, is in danger of devaluing a university degree. Clearly, it is much easier to earn a particular degree from some universities than others, but it is often difficult for employers to recognise this distinction. Indeed many universities maintain the fiction that there is no such distinction. External quality control, grading universities by subject area, would give employers the information they need, as well as creating an incentive for universities to improve the standard of the courses that they offer. The Higher Education Quality Council, which is already in place, could perform this function. No further expansion of university places should be permitted until such a system is in place. Pressure should be put on universities with low standards to increase the course workload or risk losing government funding for the course.
- *Cancel maintenance grants for students in higher education and privatise the student loan scheme, with repayments made through a national insurance surcharge.* Graduates are making an investment in their skills. This investment pays a dividend in terms of future earning capacity. The maintenance grant element of university funding should be abolished, and replaced by a private sector loans system. Graduates would repay their loan through a national insurance surcharge with repayment being related to the size of their salary. Students could select their loan-provider from the various banks and financial institutions that would offer these loans. With repayment through a national insurance surcharge, the risks to providers would be greatly reduced. Banks would recoup the very small percentage of defaults by charging a slightly higher interest rate. The next Government could subsidise the loans of those going into areas which are comparatively low paid, but deemed to be socially desirable, such as

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nursing or education. This reform would save £2 billion a year; some of this saving should be reinvested in the universities to improve the quality of higher education.

3.5 Crime and punishment

Crime destroys the society which Conservatives want to create. It damages opportunities, limits choices, restricts freedom, and pulls apart the ties that bind communities together. As a result, law and order has always been at the heart of a Conservative vision of Britain. Our police force – the first of its kind anywhere in the world – was set up by a Conservative administration. Today, with many pressures pulling Britain's culture and communities apart, law and order is more important than ever.

During the 1980s, the Government pursued a 'no prisons' policy designed to treat criminals as far as possible in the community. This approach culminated in the introduction of the ill-fated 1991 Criminal Justice Act, which had to be withdrawn six months after implementation. Over that same decade, crime in Britain rose by 80%, leading to an outcry from the public. Michael Howard now has in place a 'prison works' policy and recorded crimes over the last three years have fallen by about 10%.

Yet the recent sharp growth in the prison population from 44,000 to 56,000 in just 18 months is extremely costly. It costs £25,000 a year to keep someone in prison with a total cost of £1.5 billion a year – equivalent to 20% of the entire schools budget. More must be done to prevent crime.

The suppression of crime requires first that children are taught the difference between right and wrong. Second, a clear and simple system of justice to which all citizens have access, and in which everyone can have confidence. Third, that the police force has the resources to ensure that laws are fairly and effectively enforced. And fourth, that a fair balance is struck between the need to rehabilitate wrongdoers where possible, and the requirement that they should be punished for their crimes where necessary.

The next Government should:

- **Privatise the Crown Prosecution Service.** Since the introduction of the centralised Crown Prosecution Service, costs have risen, the number of cases brought to court declined, and the time taken to bring cases to court increased. The prosecution of criminals should be turned over to solicitors in each Crown Court district, appointed as Crown Prosecutor for a fixed period. The Crown Prosecution Service should be dismantled, only retaining responsibility for setting national policy, and prosecuting a few important cases, such as terrorist or espionage trials.

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- **Introduce a two-tier entry system for the police.** The mixed quality of recruits into the police force, and occasional problems with corruption, point to the need for a two-tier entry system. Few other organisations expect all their future leaders to start on the 'shop floor'. Modern policemen face increasingly-sophisticated criminals, who use advanced financial and technological know-how. The police force needs to recruit equally sophisticated individuals. Two years on the beat discourage many graduates from joining the police, and is irrelevant to what many policemen now do.
- **Allow Chief Constables more autonomy, and dramatically cut the burden of red tape on police forces.** Too many policemen are involved in administration, and the heaviest administrative burden is placed on the police by central government, either through the necessity to report regularly in writing to the Home Office, or through the requirements of the Police and Criminal Evidence Act. The burden of both must be reduced, if the police are to be freed to catch criminals.
- **Make the Police Inspectorate fully independent.** The Inspectorate should be led and largely staffed by management and efficiency experts who have not previously worked in the police. It should concentrate its attentions on those police forces who perform comparatively badly in regional crime statistics.
- **Ensure that all new prisons are private sector operations from the beginning.** Private prisons consistently provide far better quality of life for prisoners, in terms of hours outside cell for example, than their public sector counterparts. In addition, private prisons are between 15% and 18% better value for money, depending on the measurement used. This is clear evidence of the success of private sector prisons, and the next Government should award all new contracts for prisons to the private sector on a 'Design, Build, Finance and Operate' (DBFO) basis.
- **Continue the privatisation of the prison service itself.** Private prisons offer their prisoners a more humane regime and are more cost effective than their State sector equivalents. Within the State sector, inefficiencies and antiquated working practices are still common. A rolling programme of privatisation of State prisons, probably in clusters of geographically proximate institutions, should be considered. This would also undermine the power of the Prison Officers Association – which is itself one of the worst remaining examples in Britain of an over-mighty union blocking desirable reforms.

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- *Introduce contracting-out into the prison service.* As a preliminary measure, to save taxpayer's money and to begin to introduce private sector disciplines, ancillary services should be contracted out. These could include, for example, the provision of catering and cleaning services.
- *Establish more centres for the rehabilitation of young offenders such as Sherborne House and consider other alternatives to prison for young offenders.* 80% of those in prison re-offend upon release – half within two years. There is also considerable evidence that young offenders can be rehabilitated. Also, imaginative schemes are being developed for prisoners in the United States where they can earn better pay rates for work in prisons. Prisoners are incentivised and can build up savings for their release.
- *Allow local communities to pay for extra bobbies on their local beat.* (See section 2.3).

3.6 Transport policy

The demands on the transport infrastructure have risen sharply – and will continue to do so. Leisure travel has increased as the British have become more affluent over the last 17 years, and spend a larger proportion of their time engaged in leisure activities. Business and commercial transport needs have also increased, as businesses serve increasingly large catchment areas in the UK and abroad. The growth of the out-of-town store means that an increasing number of people do their shopping by car, and the development of commuter belts around many towns means that more people travel further to work than ever before.

At the same time, the British have continued their love affair with the car, preferring the independence and flexibility of travel by road to any other method. Conservative governments have improved the road system to accommodate this rising demand, and Britain currently has some of the best roads in the world, a particularly impressive achievement given the complex planning agreements necessary to build roads in a small country. This programme however, for all its success, suffers from a paradox. The better the roads, the more cars that use them, and the more roads that have to be built. But there is a limit to the number of new roads that our island can accommodate.

So other methods of transport must meet further increases in demand. Mass transport, whether by bus or train, must be made a more cost-effective option. The best way to achieve that is by involving the private sector. Privatisation has already been successful in revitalising the bus industry, and is beginning to rejuvenate the railways.

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The next Government should:

- *Privatise London Underground.* The London tube system suffers from the same problems as other moribund public sector industries before their privatisation; under-investment and inefficient performance. The next Government should franchise out each tube line separately, keeping control of the trains and track together in a single company. Such commercialisation would improve the efficiency of the tube but would not meet the need for investment. There are few genuine commercial opportunities for investment in the Underground system, so the next Government could arrange for funding to be raised from London businesses through a levy on the non-domestic rate within the capital. This could then be administered by a semi-private trust.
- *Change the rail privatisation rules to permit cost-effective capital investment.* At present, the rail operating companies have been awarded franchises that last for seven years. However, it takes more than seven years to provide an adequate return on capital invested in new rolling stock and improvements to station infrastructure. The next Government could extend the franchises, but this runs the risk of allowing the franchisees to make monopoly profits in a newly privatised area whose profitability remains unclear. Instead, the next Government should be prepared for the franchisees to give contracts to rolling stock leasing companies that extend for a longer period than their franchise, subject to approval by the franchising director. A new franchisee would be obliged to take over these contracts.
- *Build a new inner-city road network on top of the railway lines, and use the Private Finance Initiative to extend the provision of underground car parking in city centres.* Within cities, new roads involve knocking down people's homes. This is unpopular, and should be avoided. London should copy Tokyo and other cities around the world, and consider building new inner city arteries on top of the rail network. City centre areas are also short of car parking spaces; these should be made available by extending London's network of underground car parks, using the Private Finance Initiative to obtain private sector funding.
- *Explore ways of expanding the carrying capacity of trains.* The track network in Britain, and in particular the key junctions entering London, is nearing full capacity. There is little scope for adding new trains to the schedules. However, trains could be adapted to carry more passengers. They could be made longer, and in some areas, double-decker trains on the American model would be possible.

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4.1 Foreign affairs

Britain must recognise the force of the economic and technological assault on the old geographic barriers which previously dictated relationships between countries. 'Globalisation' – the growth of multi-national companies, footloose international capital, instant world-wide communication, and rapid global travel – has changed the rule-book.

Following the last war, Britain's relationship with Europe was all-important. The European Union grew out of this desire, and has been a positive force in strengthening democratic institutions in different European countries, and in improving trading arrangements between them. Over half of Britain's trade is now with the EU.

But today, as geographic links lose their potency, cultural and economic ties should be considered. The Anglo-Saxon market-model of an economy, which Britain shares with America, is fundamentally different from the social market structures on the Continent, which tie government and business more closely together.

Equally, the language, and related cultural ties, which Britain shares with America, Australia, Canada and New Zealand, provide a powerful bond. The Commonwealth ties Britain to its former colonies, all the more closely because the UK has effectively handled large-scale immigration from those countries in the past. And its long-standing trading relationships with the East, through Hong Kong, have forged another set of relationships with that region.

So, although Britain's relationship with Europe is important, it should not be allowed to dominate foreign policy. Instead the next Government should concentrate on continuing further to develop our ties with other nations such as the United States. It should promote internationally policies that strengthen Britain's national interest, such as the use of English as the international language of communication, and the extension of free trade. Neither of these is best advanced solely through the European Union.

It is also clear that, although membership of the Union is currently in Britain's national interest, this may not always be the case. So it would be sensible for the UK to develop other international alliances, as an insurance against a future withdrawal from the Union. Such alliances would also, by strengthening Britain's negotiating position, make such a withdrawal less likely.

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The next Government should be clear that the influence that Britain does wield abroad springs from commercial success at home, and therefore it is the Foreign Office's principal job to help British companies succeed overseas.

The next Government should:

- *Begin preliminary discussion with America to determine the feasibility of joining the North American Free Trade Agreement.* These would be complementary to the discussions currently under way between the EU and America on the same subject. Britain's membership would help promote international free trade, while strengthening its negotiating position in Europe.
- *Reassert the trading privileges available to Commonwealth countries, and ensure that membership of the EU does not preclude the lowering of trading barriers with the Commonwealth.* The Commonwealth gives Britain a unique competitive advantage in emerging markets, of which full advantage should be taken. Too often, trade with the Commonwealth has come second to the demands of EU membership. This must be reversed.
- *Promote English as an international language.* Britain has a particular interest in promoting English as it becomes the first international language and the leading European language. Funding for the World Service should also be increased (see section 2.7).
- *Amalgamate the Foreign Office and the Department of Trade.* (See section 2.2).

4.2 The European Union

The European Union was born from the desire to bind Germany into the political fabric of Europe after two world wars, and it was created by politicians who had experienced war at first hand. However, when Britain joined the Economic Community, most people in the UK believed that they had agreed to join a free trade area. As time has passed, and Germany has become stronger, the original political motivation of the community's architects has become more and more important in France and Germany.

At the same time Britain, after 17 years of Conservative government, has moved away from the high social costs implicit in the Christian Democrat social and economic model, and adopted a free trading, competitive approach. A wider, more flexible

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community could accommodate this 'variable geometry', but the EU partners are at present apparently determined on a narrower and deeper alliance, leading towards federalisation. If this trend continues, Britain will at some point have to leave the Union.

Until recently, it was assumed that Britain's economic self-interest dictated that it must remain within the EU. However, recent studies by Professor Patrick Minford and others have suggested that Britain loses as much as it gains from membership. However it is unlikely that the UK would be permitted to continue to trade with Europe on substantially the same terms as now if it withdrew from the EU. Britain's departure from the EU would be likely to tilt the balance of power within the Union towards protectionism. The loss or severe curtailment of access to European markets would do severe damage to the British economy.

If Britain remains within Europe, however, its citizens need to be clear on which powers and responsibilities they have ceded to Brussels, and which have been retained. In theory, this should be simple, but in practice, the European Court has used its powers to extend the competence of the Union way beyond what heads of government envisaged in various inter-governmental discussions. It is able to do this because, under the Treaty of Rome, European law has priority over British law. Not only does this leave the UK at the mercy of the European Court, but it is gradually undermining our unique common law legal system.

The next Government should:

- *Keep Britain out of a Single Currency or a revised ERM, during the lifetime of the next Parliament.* (See section 1.4).
- *Encourage the enlargement of the community, and in particular work towards bringing the Eastern European nations into the EU as soon as possible.*
- *Fiercely defend Britain's opt-out on the Social Chapter provisions.*
- *Pass a law spelling out certain key areas in which British law would have precedence over European law.* The supremacy of European law over English law, and the resulting hegemony of the European Court over English courts, has been one of the most damaging aspects of our membership of the EU. The Court has consistently interpreted the Treaty to the advantage of federalising forces within the EU, making a mockery of Britain's hard-won 'opt-outs'. And the use of judicial review by the court has seeped in the British legal system, undermining our tried and tested use of precedent to decide cases. The constitutional court in

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Germany has ruled that, in theory, EU law would not have supremacy over German law in certain circumstances. The next Government should enact legislation that gives Britain the same option.

- *Renegotiate the Common Fisheries Policy and the Common Agricultural Policy.* Both the CFP and the CAP damage the interests of producers and consumers. Both regimes should be fundamentally reformed. However, without withdrawing from the EU, real reform is unlikely. So Britain must accept, for the moment, that the CFP and the CAP are part of the price that it pays for membership of the EU.
- *Allow subject-specific House of Commons Select Committees to consider European legislation and abolish the European Select Committee.* (See section 2.2).