

CENTRE FOR POLICY STUDIES

# Freedom and Responsibility

*A manifesto for a smaller state, a bolder nation*

NORMAN BLACKWELL





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57 Tufton Street London SW1P 3QL  
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## THE AUTHOR

LORD BLACKWELL is Chairman of the Centre for Policy Studies. He was head of the Prime Minister's Policy Unit at 10 Downing Street from 1995 to 1997, and has been a Life Peer since 1997. His publications include *Towards Smaller Government: the second wave of the revolution* (Centre for Policy Studies, 2001), *Better Healthcare for All* (with Daniel Kruger) (CPS, 2002), and *A Defining Moment?* (CPS, 2003). He holds a doctorate in Finance and Economics and an MBA from the Wharton School, University of Pennsylvania, where he was a Thouron Scholar. He was a partner at McKinsey & Company until 1995, and currently has a range of business interests.

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## INTRODUCTION

“A state that dwarfs its men.... will find that, with small men, no great things can really be accomplished”<sup>1</sup>

THE PROGRAMME OF POLICIES set out in this paper is driven by a vision of Britain as a prosperous, free, global trading nation – a nation of small government, but wide horizons.

The policies spring from a belief that free, independent families and communities provide a better foundation for meeting our aspirations than an all-embracing state; and, conversely, that an over-large state holds back wealth creation, fails to deliver the public services that we all want, and encourages unhealthy dependency. The policies also reflect a conviction that a smaller state is the best guardian of democratic freedoms, on the grounds that over-powerful government can feed a swagger of administrative arrogance, can lead to an obsession with control, and can breed a corruption that ultimately threatens personal freedoms and liberties.

The policies proposed here would mark a sharp change of direction from the course Britain is set on at present. But they are consonant with Britain’s historical traditions and values.

For, despite the progress made in liberating enterprise and rolling back the frontiers of government in the 1980s and 1990s, Britain is now experiencing a period of expanding government expenditure, rising taxation and ever-increasing regulation. Although there is much talk of reform in public services, they are more tightly than ever in the grip of centralised targets and controls – with higher levels of spending pumped through the

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<sup>1</sup> John Stuart Mill, *On Liberty*, 1859.

## WEALTH CREATION

*Encouraging enterprise through limited government*

LIMITING THE SCOPE of government, and freeing the resources and opportunities that it monopolises, is essential for a strong, wealth creating economy.

In contrast, a high tax rate reduces economic growth by blunting incentives – making people of all income levels less willing to take on additional work and risk. By reducing the post-tax income of citizens and businesses, a high tax rate also reduces the level of savings and private investment in the economy.

High government expenditure is also a drag on productivity and growth: resources under public management are typically used less efficiently than those in private enterprises. The Government has quoted Office for National Statistics (ONS) data showing that reported NHS productivity actually fell 8% between 1995 and 2000;<sup>3</sup> the available evidence suggests that much of the recent rise in NHS and other public expenditure has been lost to inflated costs without a commensurate rise in activity or output. Indeed, the National Institute for Economic Research (NIER) data shows public sector inflation of 31% from 1995-2002, compared to 13% for consumer expenditure and just 3% for producer output prices.<sup>4</sup>

For all these reasons, high government spending and high taxation reduce the future wealth of the nation, as well as directly crowding out the scope for individual freedom and choice.

<sup>3</sup> HM Treasury, *Public Services: meeting the productivity challenge*, 2003.

<sup>4</sup> For this and other statistical analysis of recent economic performance see K. Marsden, *Gordon Brown and British Competitiveness: a statistical analysis*, CPS, 2003.

But the impact of over-large government is not only felt directly through high spending and high taxation. Government regulation can have an equally damaging effect on wealth creation – both through imposing additional costs on business, and by replacing the incentives for companies to listen to the signals of the market with a priority to satisfy bureaucratic procedures.

Of course much government expenditure and regulation is both necessary and desirable. Spending on areas such as law and order, defence and the public services can be justified in terms of both the social and the economic benefits that result. The question, as ever, is one of balance: the objective should be to ensure that the burdens on enterprise are kept within limits; those limits being defined as whatever is necessary to maintain Britain's competitiveness in the global economy and our ability to sustain future wealth creation.

Unfortunately, despite significant progress in the 1980s and 1990s in rolling back the state, recent government policies are now threatening the engine of wealth creation. Government spending – which, as a percentage of GDP, fell from a peak of 49.9% in 1975 to 37.4% in 2000 – is now rising much faster than growth in the economy as a whole. If the Government's growth assumptions for the economy are met, the ratio of spending to GDP will increase to nearly 42% in 2005, with no commitment to stop there. And if the Government's growth targets prove too optimistic, and if spending is not constrained, this percentage will rise still further.

To pay for this, the burden of taxes and regulation is rising, and will rise further. Taxes have already gone up by £100 billion (from an average of £252 billion between 1993 and 1997 to an average of £355 billion between 1998 and 2002). In addition, the costs of the Government's regulation on business are estimated by the British Chambers of Commerce to amount to an annual cost of over £15 billion. The result is a sharp drop in household and company savings ratios under New Labour.<sup>5</sup> These trends must be reversed.

<sup>5</sup> Ibid.

## FREEDOM AND RESPONSIBILITY

### Policy 1: Reduce the ratio of government spending to GDP

- Over time, structural reforms to the way public services are run – described in later sections – can result in more efficient use of public funds. Also, where people are free to add to public funding, the role of the public sector will reduce. In the longer term, a substantial reduction in the role of the state is thereby achievable.
- In the short term, the Government should make a start by aiming to reduce the ratio of public spending to GDP from its forecast level of 42% for 2005/6 back to the 40% of GDP forecast for 2002/3. In time, the aim would be to move below that. (By comparison, the average level over the 1997-2002 Parliament was 38.5%).
- This can be achieved without cutting existing or currently planned spending (however, all unnecessary or unproductive spending within current plans can and should be eliminated). It does involve a slower rate of growth in government spending than in the economy as a whole: for example, if government spending grew at 1% less than GDP each year for five years, the ratio of public spending to GDP over that period would fall by 2%. At the same time, if the trend GDP growth rate was maintained, public expenditure would still have increased by £33 billion over that period.<sup>6</sup>
- There is therefore the potential to increase spending faster than GDP in priority areas, while growth in spending in other areas can be limited to inflation-only adjustments and productivity benefits.
- Once the ratio of spending to GDP is reduced to 40%, the Government should adopt a new 'Golden Rule' – that the growth in government spending should not exceed the trend growth rate of the economy over the economic cycle.<sup>7</sup>

<sup>6</sup> See Appendix 1 for detailed calculations.

<sup>7</sup> Cf. George W Bush's statement in his 2002 State of The Union Address: "I will send you a budget that increases discretionary spending by 4% next year – about as much as the average family's income is expected to grow. And that is a good benchmark for us. Federal Spending should not rise any faster than the paychecks of American families."

## WEALTH CREATION

- Regular consideration should then be given to whether the ratio of public spending to GDP should be further reduced, taking account of both the progress of public sector reforms and the enduring need to ensure that the economy remains competitive.

### Policy 2: Cut taxes (when affordable) to encourage personal independence

A lower ratio of public spending to GDP will, over time, open up the scope for reducing tax levels once again. Since tax revenues rise in line with (or slightly faster) than GDP growth, the calculations set out in the Appendix show that a 2% decline in the spending as a proportion of GDP ratio would create room for £26 billion of tax cuts over five years – the equivalent of £1,000 per family.<sup>8</sup>

In line with the principles of this manifesto, the tax reductions outlined in Chapter Three focus on measures which support personal independence by encouraging long-term savings and which help those on low incomes to avoid welfare dependency. Such tax reductions are doubly virtuous: they both increase savings rather than consumption in the short term; and they reduce future welfare costs in the longer term. Therefore, to keep the overall level of tax in focus, a new reporting requirement for government should be introduced.

- Tax Freedom Day (the day on which people stop working for the government and start working for themselves) should be announced each year.<sup>9</sup> The Prime Minister should be required to report to Parliament on Tax Freedom Day, justifying the Government's public spending record.

<sup>8</sup> Any tax cuts are of course subject to the overall state of the public sector finances; if economic growth is lower than forecast by the Treasury over the remainder of this Parliament, and if public spending plans are not curtailed, some of the scope for tax reductions may need to be put towards reducing a larger than expected deficit. Any tax proposals can therefore only be set out as provisional, subject to affordability at the time.

<sup>9</sup> See M. Saatchi and P. Warburton *The War of Independence*, CPS, 1999. Tax Freedom Day in 2003 has been calculated by the Adam Smith Institute as 2 June.

## FREEDOM AND RESPONSIBILITY

### Policy 3: Cut red tape (where possible)

In addition to lower taxes, business needs to be freed up by eliminating many of the unnecessary regulations that are effectively government-imposed non-tax costs. Successive Governments have promised to reduce the regulatory burden, but with little success. Civil Servants and Ministers tend to have a vested interest in 'playing safe' rather than freeing regulated markets, and in responding to the agendas of individual pressure groups seeking new interventions. Furthermore many of the new regulations introduced in recent years have the force of European law. A more powerful regime is needed if deregulation is to stand any chance.

- A new Deregulation Act should require a five-yearly review of the regulatory costs and benefits of all recent regulations against their initial regulatory impact assessments.
- All new regulations would carry an automatic renewal (sunset) clause of 10 years unless a shorter period was specified.
- The Government should also set out a 'regulatory cost' budget alongside its tax and revenue projections, showing how much it expected to add to the cost imposed on the economy through the regulation imposed by its proposed policy measures.
- The Department of Trade and Industry should be recast to focus entirely on the objectives of free trade, competition and deregulation.<sup>10</sup> It should provide a rolling series of reports and proposals to a joint House of Lords/House of Commons Deregulation committee, whose job it would be to scrutinise any proposal for renewing regulations or introducing new regulations, and to recommend other areas where existing regulations should be abolished.

<sup>10</sup> See S. Lyons, *A Department for Business*, CPS, 2001 for a fuller analysis of the opportunities for reshaping the DTI.

## WEALTH CREATION

- In the current EU negotiations on a new Constitution, the Government should insist on a UK opt-out of all new powers to impose regulations on employment markets – including through the proposed EU role in co-ordinating employment policies, and the wide and unpredictable consequences for UK employment law of incorporating the Charter of Fundamental Human Rights into the EU constitution.
- It should also ensure that these opt-outs from the new constitution mean that existing areas of economic intervention conceded when Britain signed the Social Chapter revert back to the UK Parliament – or, as described later, negotiate a status for Britain that allows such an arrangement. It should then set about abolishing the most damaging interventions for the UK economy – including the working time directive which carries high administrative costs, the inflexible requirements for works consultation, and many of the other recent EU impositions that, in many cases, the UK Government ineffectively opposed.<sup>11</sup>

<sup>11</sup> For a description of the impact on UK competitiveness see J. Littlewood, *Labour and the Stock Market*, CPS, 2002.

## IMUNITIES

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aspiration.<sup>12</sup> But family networks, of course, go far beyond that nucleus – through the financial and emotional linkages that bind grandparents, cousins, and indeed the partners and children of multiple relationships. Families are important for everyone, whatever lifestyle they choose.

The tax and benefit system should therefore work to support people in exercising their family responsibilities, not erode it. As the constraint on public spending growth opens up the scope for tax reductions, the priority should be to help families stand independent of the state today, and save for an independent future in old age tomorrow.

### **Policy 4: Let the tax system recognise the contribution of family carers**

While the benefit system takes all family incomes into account, the tax system for some years has treated every one as an individual – regardless of their family obligations. As a result, a family where one partner is not working in order to care for children or elderly parents loses that individual's tax allowance – and ends up paying more tax than two individuals would on the same joint income, but without the family responsibilities. This is unfair, and discriminates against those women who choose to take time to be full-time mothers.<sup>13</sup>

- The Government should introduce transferable personal allowances for those families where one partner has 'caring' responsibilities – defined as a child or parent/other dependant who requires care living with them. This would allow the working partner to take over the tax-free income allowance of the other partner, and would thereby remove the penalty that the tax system currently imposes on such families. At current levels this could be worth around £1,000 per year – £20 per week – to this group, reducing the financial

<sup>12</sup> See J. Kirby, *Broken Hearts*, CPS, 2002.

<sup>13</sup> See J. Kirby, *Choosing to be different*, CPS, 2003.



## FREEDOM AND RESPONSIBILITY

pressures for carers to give up their role and re-enter the work-place before they are ready to do so. The cost in terms of lost tax revenue is estimated at around £2 billion and is relatively modest against the impact on this well-defined group.

Government also needs to simplify and untangle the current complex web of means-tested benefit entitlements and tax credits – which, with the latest child tax credit, take the scope of means-tested welfare benefits up the income scale to a family on £55,000.

The complexity of the system is worst at the bottom of the income scale. Here people can be means-tested, then taxed (minus special credits and allowances), then means-tested again, and finally paid benefits to increase their post-tax income.<sup>14</sup>

### **Policy 5: Raise tax thresholds to take the poorest families out of income tax**

- As a first step in reducing complexity, the level of income that can be earned without paying tax should be raised from £4,615 to £7,500 as soon as affordable. As well as taking the lowest paid out of income tax, all taxpayers would gain by up to £400 – or £800 for a two-earner household. This would have a gross cost to the Treasury of about £10 billion.<sup>15</sup> However there would also be some offsetting savings from reduced housing and council tax benefit payments to those people who are currently receiving benefits on after tax earnings, as well as administrative cost savings from taking people out of the system.
- When combined with the introduction of transferable tax-free allowances, higher thresholds would enable all two parent families to earn £15,000 before they paid income tax. Some of those currently most dependent on benefits would then be able to stand

<sup>14</sup> See M. Saatchi and P. Warburton, *Poor People! Stop paying tax!*, CPS, 2001.

<sup>15</sup> This assumes that the 10% tax band on the first £1,960 of income is subsumed and abolished; and that the income level at which higher rate tax became payable is not raised.

## FAMILIES AND COMMUNITIES

on their own feet. The tax threshold of £15,000 would mean a single earner family on £20,000 would save over £2,000 a year on tax. This would increase the cost of transferable allowances from £2 billion to £4 billion.

- Raising income tax thresholds could be accompanied by one immediate simplification of the child tax credit system. This currently features a fixed 'family payment' of £545 a year which can potentially be claimed by every family in full until its income reaches £50,000 a year. The proposed tax cuts provide enough gain to offset phasing out this payment as incomes rise (as part of the taper structure applying to other elements of the child tax credit). This could potentially remove several million families from the bureaucracy involved in processing of annual child tax credit claims, while leaving most of them better off.<sup>16</sup>

Over time it should be an objective to raise tax thresholds further, while also raising the tax threshold at which families move into the higher tax bracket. Higher thresholds could be partly funded by increasing the taper rate on schemes such as the child tax credit and working tax credit – calculated on gross income levels. Over time the proportion of the population involved in claiming means-tested benefits would be reduced substantially. However, since the net costs of raising thresholds further would still be high, this further extension has not been included in costing a deliverable short- to medium-term programme.

### **Policy 6: Simplify the benefits system by creating a single 'unitary benefit'**

The complexity of the current benefit system is a problem in itself, with a range of different entitlements, each requiring different claim forms and with varying qualifying criteria and tapers. It is difficult

<sup>16</sup> Precise numbers will not be available until the government publishes data on the initial take up out of the 5.75 million families it estimated would be eligible to claim.

## FREEDOM AND RESPONSIBILITY

for individuals to understand their entitlements, and it creates complications when they take temporary work and then have to re-establish their benefit structure. Attempts to simplify this in the past have foundered on the desire to avoid 'winners' and 'losers' – resulting in even more complexity every time a new scheme is introduced. Sooner rather than later this has to be tackled.

- Most benefits should be aggregated into a single 'unitary benefit'. Individuals would fill in one claim form, listing all those factors currently used to determine entitlements under any of the schemes.
- The total benefit would then be a single simplified calculation and single entitlement – avoiding the current labyrinthine claims process.
- To avoid hardship resulting from any potential losers, the Government could consider guaranteeing benefits at existing levels for current claimants for a period of time, or until their circumstances changed.

## PENSIONS AND SAVINGS

Independence from the state can also be encouraged by helping those who can afford it to save more to see them through periods of difficulty or high expenditure; and to save for their own retirement.

The current state pension costs the state £35 billion annually. The commitment to pay future pensions at the same rate represents a total unfunded government liability of over £1,000 billion. Given the anticipated ageing of the population relative to the active workforce, the percentage of GDP requirement to fund state pensions – about 5% of GDP – is expected to become an increasing burden on those still in work, with the ratio of workers to retired dependents halving from 3:1 to 1.5:1 over the next 50 years. Even so, the value of the state pension – assuming an inflation-indexing of current benefits – is unlikely to be sufficient to meet most peoples' income expectations.

In the immediate future there is little alternative to raising the state retirement age gradually in order to help reduce these costs.

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However, saving for retirement can be encouraged by giving people more ownership of their basic state pension entitlement.

### **Policy 7: Give people ownership of their personal state pension fund**

The Government should 'crystallise' the liabilities currently represented by the unfunded state pension on a per-capita basis, and give people rights over how those assets are then invested.<sup>17</sup>

- Each individual would receive a statement of the amount of notional pension funds accumulated under their name – equivalent to the actuarial value of their basic state pension entitlement at their age. At the same time, the Government would crystallise its liabilities by issuing a corresponding value of government bonds which would be allocated to these funds. At this point there would have been no change in government liabilities and no macroeconomic effect – merely a change in the way future government liabilities were accounted for.
- While the issuing and holding of these bonds would not, of itself, add to government liabilities or net public sector financing flows, it would make clearer to individuals how much was already in their personal fund – and encourage them to make incremental additions to their own personal pension fund.
- Subsequently it would also be desirable to allow individuals to transfer their state pension funds and annual contributions to a personal pension fund invested more broadly than gilts, alongside their own personal pension contributions. To the extent that this led to a net sale of gilts and purchase of other assets, there would be a relative movement in asset prices which would raise gilt yields relative to equities. However the main economic effect might be to lead to a greater flow of funds into overseas equity investments, which – assuming returns were higher than gilts – would bring

<sup>17</sup> See CPS, *Funding the Basic State Pension*, 2001.

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higher future income into the UK to help pay for higher pension pay-outs.

### **Policy 8: Encourage savings for low income families**

While the above change could help spark a revolution in thinking about personal pension responsibilities, for those on lowest incomes the problem is simply that they do not have sufficient discretionary savings to make much of a difference. Furthermore, existing tax incentives are far less valuable to them as those on higher incomes can get tax relief at higher rates. However it is better for independence to help them look after themselves than to promise them future state support.

- Low income families could be encouraged to save for retirement through the introduction of a 'matching' contribution savings scheme – where the first £1,000 of income saved each year was matched £1 for £1 by a 'tax-credit' contribution to their savings scheme from government (paid whether or not they are taxpayers). For individuals making higher contributions the tax credit would remain at £1,000 until the existing tax relief amounted to a larger figure – limiting the additional benefits and costs to those who now have most difficulty building up worthwhile pension funds.
- If individuals saved close to or above £1,000 a year, the matching contributions would mean that it becomes feasible for them to accumulate a pension income that would take them well above the minimum income guarantee – avoiding the disincentive to saving built into the current pension structure. The Government's own calculations, for example, show savings of approximately £30 per week or £1,600 per year which would enable individuals to have a total income (including state pension) of some £200 per week.<sup>18</sup> Under the proposed scheme this would require personal contributions of only £15 per week or £800 per year. Over the

<sup>18</sup> See Department for Work and Pensions, *Simplicity, Security and Choice: working and saving for retirement*, 2002, page 28.

## FAMILIES AND COMMUNITIES

long run the additional up-front government payment could therefore help reduce future benefit costs.

- As a further encouragement to those on low incomes to put aside money in long term savings, these pension schemes should provide flexibility for individuals to withdraw some of the cash before retirement – for example, to meet bills during unexpected periods of unemployment or ill-health. In these circumstances, however, the government top-up funds would be frozen or withdrawn.
- The costs of this scheme depends on levels of uptake of new savings, as well as the proportion of existing pension savings that would qualify for higher government tax relief. At relatively high uptake levels the cost of the additional tax credits could build up to £10 billion. However, if these contributions were accompanied by £5 billion of new savings, it would add approximately 1.5% of GDP to the national savings ratio – enough to make a significant difference to the accumulation of assets for long-term retirement. In the costings set out in the Appendix this has been classified as potential new expenditure, which would vie in priority with other claims on the new public expenditure allowed for as the economy grows.

### **Policy 9: The tax raid on pension funds should be reversed as soon as possible**

It is not only those on low incomes who need encouragement to save. The tax hit on pension funds has eroded the potential retirement income of millions of people who had saved in good faith.

- The £5 billion tax raised annually from pension funds as a result of the Government's decision to change the treatment of Advanced Corporation Tax is effectively a tax on savings. It is a clear example of higher tax and spend resulting in a direct erosion of people's ability to provide for their own future. As soon as feasible, this should be reversed.

## FREEDOM AND RESPONSIBILITY

- This measure alone would add a further 0.5% of GDP a year to the national savings ratio.

### **Policy 10: ISAs should be made more flexible, evolving into a more broadly based, tax-exempt structure for long term savings and investment**

Potential savers are confused by a plethora of different schemes – ISAs, TESSAs, pensions, endowments – all with their own rules and tax treatment. Savers are also penalised (by crystallising a liability for capital gains tax) when they transfer savings from one asset class to another. A simple principle should be adopted: that money set aside out of taxed income to support the family in retirement or other times of need should not be taxed again.

- The annual limit for ISA contributions should be raised from £7,000 to £20,000 – enabling most people to use ISAs as a cost effective personal pension fund, as well as investing lump sum receipts from redundancy, endowment policies, and inheritances.
- The current restrictions on asset classes should also be removed. Money within an ISA should be allowed to be invested in unit trusts, shares, bonds, cash accounts or property (other than one's own residence). Effectively the ISA would become a form of 'Self Administered Investment Trust' (or 'SAINT'), replicating the private trust structure currently only available to the rich.
- As now, income would be taxed before being placed in an ISA but would then be free of all income and capital gains tax as long as it was held in the ISA. Most individuals would therefore be able to avoid capital gains tax entirely on long-term assets, on the condition that the capital was reinvested.
- Investment schemes which allow contributions out of income which has not been taxed could be accommodated in a similar but parallel 'gross SAINT'. Pension savings could be included in this category of SAINT, and would remain subject to the rules on holding until retirement. As now, income from the 'gross SAINT' would be taxed at the investor's marginal rate of tax, unlike ISAs and other

## FAMILIES AND COMMUNITIES

investments from post tax income which would remain free of tax when withdrawn.

### **Policy 11: Abolish the annuities rule once a minimum income has been provided**

The current rule requiring pension funds to be used to purchase an annuity is an unnecessary example of big government interference that further discourages pension savings.

- The 'annuities rule' should be suspended once a large enough annuity has been purchased to ensure the individual is above income support levels.
- This allows people to retain the flexibility provided by owning their own capital, and leaves them free to pass it on to future generations if unused – providing an additional incentive for many to people to accumulate long term savings.

### **Policy 12: Encourage housing equity release schemes**

Savings policy should also recognise that, for many people the greatest financial asset they have accumulated over their lifetime is the value locked up in their house. It should be easier for people to realise that equity in retirement, if they so wish.

Such schemes already exist – effectively providing householders a 'mortgage' to fund current income – with the loan repaid from the proceeds of the house sale when they die. However, they suffer from a lack of consumer awareness and a fear on the part of homeowners of schemes which evict them while they are still alive.

- To help make them more widely available the Government – or the FSA – should work with the industry to formalise a simple set of kitemark regulations which providers have to meet, and then monitor compliance.

### **Policy 13: Abolish Inheritance Tax**

Finally, if families are to become independent of the State, there is one tax – inheritance tax – which acts directly against that intent. By removing capital accumulated by one generation, it prevents that capital being passed down to help secure independence for subsequent generations.

- While the current exemption of £255,000 excludes many families, an increasing proportion of middle-income families are becoming included by the rise in property values on top of other savings.
- Many of the very wealthy are effectively excluded by the use of trusts and other vehicles to pass on their property prior to their death; it is therefore the less financially sophisticated who suffer.
- With many grandparents wishing to pass money directly on to grandchildren – to help pay university fees, fund a house deposit, and so on – a limit of £255,000 turns into a much smaller level of receipts when split among a large group of recipients.
- Since the principle is wrong, and tax avoidance by the rich means the yield is relatively low, the tax should be abolished rather than reformed.

### **Policy 14: A greater role for community welfare**

However much the Government seeks to encourage independence and self-sufficiency, many individuals will still need support from their fellow citizens. One of the limitations of a centralised ‘big state’ approach to welfare is that it can never be sensitive enough to anticipate every personal circumstance. It is this tension which leads to high costs and contention in local administration, as well as growing complexity in the rules. In simplifying state welfare entitlements, more discretionary welfare should be encouraged at the community level, administered – as in the past – through voluntary and charitable organisations that are able to link hand-outs with support and constructive help.

Organisations such as the Rotary Clubs, Meals on Wheels, Groundwork and many others already play a crucial role in welfare support. While it is important that such voluntary organisations do not get captured by the state, the Government can provide assistance by matching pound for pound (or more) the money these organisations raise, while leaving them free to take decisions on disbursements according to their own assessment of local needs.

- Such government aid should come with the minimum set of rules to avoid fraud – for example, submitting summary accounts audited by an independent professional. The organisations would, of course, need to abide by existing laws that outlaw unfair discrimination. Government should not set targets, or specify programmes, that qualify for support beyond the very broad definition of community welfare support.
- Funding for this approach should come from diverting welfare funds currently administered through local authorities.

### **Policy 15: Experiment with using voluntary groups to administer welfare benefits in local communities**

In addition, the Government should experiment with allowing voluntary organisations to take over the administration of welfare benefits in trial areas. The objective would be to couple the administrative payment of benefits with volunteer-based advice, support and other services designed to help the individual become self-supporting where possible; or to recognise the need for non-cash support and services from voluntary organisations which may be important to the quality of life.

- These experiments should be assessed on both the extent to which the organisations are able to administer benefits more cost effectively than the current social security system; and on their success in delivering real value to the community through coupling these with the additional programmes they run – getting people into jobs, off-drugs, out of debt, and so on.

## PUBLIC SERVICES

*An end to centralised state bureaucracies*

Britain's education system, health service and police force were all once the envy of the world. Today, one in five adults are unable to read and write properly,<sup>19</sup> the NHS lags far behind the health systems of almost all other developed countries, and crime continues to rise in many of our towns and cities.

Despite the best efforts of teachers, health professionals and police officers, our public services operate at well below the standard which citizens and taxpayers have a right to expect. This is because the structures public servants work in are inappropriate for the task they are charged with.

Over the last 50 years, our public services have been built on the principle that central government funding requires central government management. Huge, centralised structures have developed. These have become increasingly focused on delivering centrally set targets and programmes. Personal initiative on the part of professionals is depressed; and the needs of local consumers ignored. The bigger the institution, the worse the problem becomes.

<sup>19</sup> The Education Secretary, Charles Clarke, recently stated that the "the fact that seven to eight million adults did not have basic literacy and numeracy was a tremendous indictment both of the education system now and of the education systems in the past". Press Association, 21 August, 2003.

This way of providing public services most disadvantages the poorest and weakest members of society. It is the poorest children who end up in the worst schools – because the parents cannot afford to pay to send them elsewhere. The affluent have similar survival rates from cancer as in the rest of Europe; the British poor die five years sooner.<sup>20</sup> It is the old and less assured who end up waiting longest for NHS treatments – because they are less skilled and resourceful in working their way around the rationing system.

Further tinkering will not solve the problem. Instead a radical restructuring built around a new political settlement is needed. Universal availability of services can still be funded by government. But the provision of those services should be moved out from central government to voluntary and private institutions, or in the case of police, to local communities. And, where competition is possible, consumers should be given as much freedom as possible to choose the services they want from the provider of their choice.

Where appropriate this consumer choice should be introduced into public services through the development of a range of 'Personal Passports' – for example, a passport for education, a passport for health. These passports would allow individuals to take the public funding currently provided to any one of a range of alternative, independent service providers. Like passports, they would open up a world of possibilities for individuals to choose the way forward that best suited them – rather than being confined to a single choice offered to them by a centralised state monopoly. It would widen choice from the preserve of the wealthy and privileged, and give everyone the chance to choose the best.

<sup>20</sup> See M. Coleman, *Cancer survival trends in England and Wales, 1971-1995: deprivation and NHS Regions*, ONS, 1999.

### EDUCATION

It is parents – not the Government, not ‘society’ in the abstract – who are responsible for the education of their children. It has long been a principle that government assistance is available to help provide this education. But that does not mean the Government should be in charge of the nation’s schooling, beyond setting some basic requirements. The prime responsibility lies with the nation’s parents – most of whom care deeply about the quality of education their children receive, but who are often frustrated at their inability to exercise much influence under the current system.

The way to give parents back the ability to exercise that responsibility is to give them control of the money the Government spends on their behalf.

#### **Policy 16: Give parents an Education Passport**

Parents should be responsible for allocating all of the money the Treasury spends on primary and secondary education, minus a small residue for administration and capital spending.<sup>21</sup>

- Parents should be given an Education Passport (or credit) worth around £5,000 – the current per capita cost of state education – to spend at the school of their choice. The precise value of the credit could be varied according to circumstances (age, special needs, whether English is the child’s first language, and so on).
- Choice would be widened by allowing the Education Passport to be credited to private as well as state schools. Initially, and to limit ‘deadweight costs’, top-ups would be limited – so schools which charge significantly more than the cost of the child’s credit would not be eligible to receive it. However, the average cost of a place at a private school is now already roughly the same as in the state

<sup>21</sup> See J. Redwood, *Power to Parents*, CPS 2002; and N. Seaton, *The True Cost of State Education*, CPS, 2002.

sector.<sup>22</sup> Expensive schools would, however, be eligible for the credit if it formed part of a bursary or scholarship – i.e. if they charged the parents no more than the credit itself. This partial funding would greatly increase the number of ‘free’ places which elite schools were able to offer to talented children from poor backgrounds.

- Provision for Special Educational Needs should occur naturally. A family’s Education Passport should cover the cost of Special Needs education if required.
- The Local Education Authority would have a residual role to find places for children whose parents neglect to do so, or claim they are unable to find a place.

Critics of giving parents choice sometimes claim that many parents will not use it effectively, or do not have the resources to travel out of their immediate area, or will not move children once established in a school. What these arguments ignore is the reality of markets – that only a small proportion of consumers need to exercise choice in order to create pressures that ultimately benefit all consumers.

With Education Passports, a school’s budget would be determined by the number of pupils it attracts. This in itself will act as a significant incentive to improved standards, without necessarily requiring additional funding. As noted above the average cost of private education is not significantly different from the state sector; and even within state schools, there is no evidence that schools with higher resources do better. If anything, there is a positive correlation between higher resources per pupil and poor exam results.<sup>23</sup>

<sup>22</sup> Ibid.

<sup>23</sup> See J. Marks, *Standards and Spending: dispelling the spending orthodoxy*, CPS, 2002.

## FREEDOM AND RESPONSIBILITY

### **Policy 17: Allow all schools to compete as independent schools, free from direct state control**

The current system also lacks the freedom to use resources creatively. The more freedom for all schools to compete can open up diversity as well as choice.

All Headteachers should therefore have the same degree of freedom as that currently enjoyed by heads in the independent sector. The best way to do this is to give all schools the same legal status as independent schools.<sup>24</sup>

- Every state school should be reconstituted as a Public Trust Company, or 'Trust': a not-for-profit legal entity, which owns the titles to the school's licence, leases and non-property assets, and is legally responsible for all aspects of its activities. Trusts could take many forms, as are common in the US and Europe: a 'producer mutual' or teacher-owned co-operative, where all employees have a stake in the Trust; a 'consumer mutual' or parent-owned co-operative, in which a child's admission to the school confers ownership rights on the parents; a non-profit subsidiary of a local charity, university, or business. A committee of Trustees would act as the school's Board of Governors.
- The Trust would have a standing legal obligation to ensure that the school and its assets, except by a special dispensation of the Secretary of State, are devoted to educational purposes.
- The Trust's main responsibilities, exercised through the Board of Governors, would be to oversee the finances of the school, and to appoint the Headteacher.
- All schools would require a properly qualified Bursar (or Finance Manager); and Headteachers would need the capabilities and training to take on a significant leadership task. Appropriate

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qualifications for these two key posts would be a pre-requisite for schools to gain independent status, with a timetable to retrain or replace Headteachers who are not up to the task.

- The Headteacher, on the authority of the Trust, would have full control over most aspects of the school's life, including staffing, the training of teachers, admissions, the balance of the curriculum, the administration of Special Educational Needs, discipline policy, school inspections, transport, the management of the school's assets and so on.
- All these functions could be handled by the school itself – through direct contracts with service providers – or by a body it contracts with to look after them on its behalf.
- Employment contracts would be transferred from LEAs to schools. National pay-bargaining would end. Headteachers would have absolute control over who they could employ, thereby enabling schools to recruit many eminently qualified people unwilling to go through the formal Teacher Training qualification procedure – as happens already in many independent schools.
- Schools would be allowed to generate alternative sources of funds – e.g. by selling services to each other or the business sector (as already provided for under this Government's legislation).

### **Policy 18: Charge local authorities with assisting new schools to open, good schools to expand and failing schools to be taken over**

A real choice of school places means that good schools need to be able to expand to meet parental demand. This is particularly important in city locations where suitable properties may be difficult to find, or prohibitively expensive. Problems with limited availability of new premises and capital constraints must therefore be addressed.

<sup>24</sup> See S. Williams, *Freedom for Schools*, CPS, 2000.



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- Unless former state schools are bought out by a private fund, the Local Authority would administer trusts which retain title to the existing land and property, let on a long term, nominal payment lease to the school operator – who would bear ongoing maintenance and improvement costs. If the school closed or was taken over, the lease would revert to the local authority to be reassigned. However local authorities would be prohibited from withdrawing property leases from schools that had ongoing demand for places unless the school was declared ‘failing’ by the governing body or a vote of parents.
- Local authorities should be required to allow planning permission for successful schools to expand, where there is excess demand for places, or to agree an alternative site. Equally where a new school wished to set up and could demonstrate viable parental demand, the local authority would be required to find and fund appropriate facilities within five years (unless they could satisfy a court that this was not achievable in the light of local development opportunities).
- The school’s revenue, in the form of the education credits, would be used to raise capital finance for medium-sized projects. To avoid loading schools with excessive burdens of debt, a central capital reserve fund could also be established either to award money, or lend it at a preferential rate of interest, to schools which wish to expand or set up.
- Boards of Governors should be empowered, with the permission of the Secretary of State, to transfer ownership and control of their school – with its property leases – to another Public Trust Company.
- A school deemed to be failing by a majority of parents, or which fails to attract enough pupils to manage its budgets, should be open to a take-over by another Public Trust Company.

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### **Policy 19: Enable schools to set their own academic policies with minimal central interference**

Finally, having freed up schools from centralised management, the forces of competition, diversity and parental choice must be allowed to work. The state must not reimpose control through over-regulation.

- Schools should be free to respond to parental demand by becoming specialist schools. Schools should be free to set their admissions criteria to reflect their field of speciality.
- While there is an argument for retaining a National Curriculum framework, the existing level of prescription should be simplified over time; and the frequency of required testing should be reduced.
- As now, schools should be free to choose the exam board and associated curriculum they favour in each subject (although tighter control of exam board standards by universities is desirable to counter accusations of grade drift).
- School inspections should fall under the same scheme as applies to existing private schools.

### **Policy 20: Redefine the role of local education authorities**

All these changes will require a radical reshaping of the role of local education authorities.

- LEAs would lose their financing role as funds would be allocated directly to schools based on their pupil numbers. Nor would LEAs be able or entitled to hold back any of the education budget; schools would be independent of local authorities in setting their own policies and procedures. Instead LEA’s would revert to being optional providers of services – administrative support, transport and so on – to the schools which want them; they should compete with other LEAs, private providers and schools themselves for the

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contracts to provide these services. As such they will receive their funding from schools, rather than, as at present, the other way around.

- As noted above, they would also retain local planning responsibilities to ensure school developments were facilitated, and administer trusts with title to the land and property leased to schools.

### HIGHER EDUCATION

Over the last two decades, the ratio of students to staff in higher education has doubled while real resources per student have more than halved. Over the same period academic pay has – by remaining virtually stagnant in real terms – declined relative to average earnings by 40%, and relative to the earnings of highly-educated professionals by considerably more. This situation is not sustainable.

#### **Policy 21: Abandon the 50% university access target**

Recent rises in student numbers have not increased the proportion of low-income students, but – by putting a strain on resources – have severely affected the quality of university teaching.

The Government is committed to ensuring that 50% of school-leavers attend university – compared to some 35% today, itself up from 15% just 25 years ago. This is an arbitrary target, unrelated to real educational needs, and is unreachable without further damage to the quality of university education.

- The 50% target should be abandoned, or at the very least revised to include further – vocational – education which may suit many young people better than an academic degree course.
- Indeed the Government should concentrate on encouraging more bright school-leavers into vocational education in schools and colleges, and into in-work training.

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- There is also a case for diverting some of the funding that would otherwise have been required into expanding further education opportunities – including part time and evening courses – for mature students wishing to upgrade their qualification later in life.

With the 50% target relaxed, many universities should be able to continue offering places to students with no additional top-up fees. However, even if the pressure on universities caused by the 50% participation target is reduced, some may still suffer a funding shortfall.

The pretence that all universities are equal in status and standards must be abandoned. Ending the centralised control over university finance will allow diversity into the system and deliver a rise in standards across the board. If our best universities are to be internationally competitive, they must be free to make their own judgement about the contribution paid directly by students.

#### **Policy 22: Allow universities the option of charging top-up fees**

- The money currently set aside for expansion to meet the 50% access target should be used to raise the current 'teaching grant' paid by government per student (currently £2,800 for humanities, £5,600 for science and £12,600 for medicine). Most universities – if they wished – could continue to set fees equal to the teaching grant and continue to receive the same amount of money from the taxpayer, without requiring any additional funding from students (beyond the existing means-tested £1,100 tuition fee).
- But universities would also be free to charge fees to students in excess of the teaching grant, up to an agreed limit. In practice the higher quality universities with greatest student demand would be most likely to take advantage of this, using the money to fund the higher costs of attracting world class faculty.
- Rather than trying to intervene in University selection through an 'access regulator', Government should use part of the savings it will make on future higher education costs to help Universities fund a

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generous number of bursaries, awarded on merit to high quality applicants who come from low income families. Other students would be able to take out loans on the same basis as Student Loans, with repayment made on an income-contingent basis.

- It is likely that almost all of funds required to finance loans could be securitised by advances from private lenders, providing the universities with up-front funds without imposing on the public budget.
- If Universities are able to raise sufficient funds from endowments and other sources to replace teaching grants, they would be able to become completely independent of government – setting their own fees and scholarship programmes without restriction.

## HEALTHCARE

Patients and health professionals are the people who can best determine what is best in each individual case. But today patients themselves have little or no say over the service they receive; and doctors complain that administrative considerations frequently prevail over their clinical judgements.

The difficulties of the NHS flow from its status as a super-nationalised public monopoly, managed centrally from Whitehall. This result is a permanent funding shortfall, a permanent crisis in staff morale, and permanent dissatisfaction on the part of patients.

However much money is spent on the NHS, it is never enough: the system is inherently wasteful in its use of resources. However many doctors and nurses are hired, there are shortages, for their working conditions prompt a perpetual exodus. And however many initiatives designed to speed up care are implemented, waiting lists remain stubbornly high. The monumental task of running a system employing well over one million workers requires an army of bureaucrats just to manage it – there are now more managers and administrators than beds or qualified nurses in the NHS.<sup>25</sup>

<sup>25</sup> See M. Slevin *Resuscitating the NHS – A consultant's view*, CPS, 2003.

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To get more money into the NHS and to ensure that it is properly spent; to improve the working conditions, and hence the numbers, of health professionals; and to deliver prompt and high-quality care to patients – all this will require a fundamental redesign of the system of British healthcare – breaking down the current centralised control. This will take time, so short-term measures are also needed to free up the areas of greatest strain.

### **Policy 23: Introduce 'treatment passports' and external suppliers to eliminate the out-patient waiting list**

- Over half a million people are waiting for simple operations which would greatly improve their quality of life. Giving these people priority in the use of NHS facilities, however, may well distort clinical priorities – displacing more complex operations that are more life-threatening. More funds within the NHS may not help in the short term. Instead, many of these operations could be fulfilled more cost effectively by specialist high-volume treatment centres.<sup>26</sup>
- The NHS should immediately contract with private and non-profit companies, both British and foreign, to perform all out-patient operations which cannot be carried out 'in-house' within two months of referral.
- Contracts would be awarded for this work on the basis of cost and speed of delivery.
- Patients would effectively be given a credit that entitled them to treatment at one of these approved centres if they do not receive treatment at an NHS hospital within this timescale. Alternatively they could also be allowed to use the credit to contribute to the cost of the operation at a private facility of their choice.

<sup>26</sup> It was recently suggested (by Frank Field MP) that the 500,000 out-patient waiting list could be eliminated altogether by employing a European firm called German Medicine Net to operate in pre-fabricated surgery units across England. 'German doctors "can end NHS waiting lists"', *Financial Times*, 4 March 2002.

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- Because this would allow many treatments to take place in more efficient 'purpose built' facilities, with doctors able to work a list uninterrupted through a long operating session, it would result in higher levels of throughput from the same level of resources currently used less efficiently within the NHS.

### **Policy 24: Enable all hospitals to free themselves from Whitehall management**

While such short-term measures may help, the NHS will only improve substantially if it is completely redesigned, with power taken away from ministers and managers and given to patients and professionals.

As power shifts towards local needs, we need to recognise that it will result in a far more diverse and flexible system than the one designed in the era of mass planning. Many professionals believe that the age of the ubiquitous, multi-purpose District General Hospital (DGH) is now over. Unless sustained by local demand, there is no reason for a large DGH in every town. A far more flexible, high-speed, high-volume model of processing treatments is likely to be more efficient in the future.

The Government is currently allowing a handful of hospitals to apply for 'Foundation status', which will give them certain limited freedoms over staffing and the use of their assets. This policy needs to go much further and faster.

- All hospitals should qualify for Foundation status, pending approval from the Secretary of State. Only in very special circumstances would the Secretary of State refuse an application.
- Foundation hospitals should be free-standing, independent, locally-owned and self-managing institutions on the model of mutual societies or voluntary associations, operating under independent Boards answerable to the community they serve for the quality of care they deliver.

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- As detailed below, hospitals' funding would come via patient choice. But since there are fixed costs for maintaining emergency facilities, maternity services and other local requirements, Foundation hospitals could receive additional block funding for these services according to the catchment area as they do already. They would nevertheless have complete freedom to manage their budgets and set their own local priorities so long as they delivered the local services demanded.
- They would have the right to set their own terms and conditions for staff without government interference.
- They would be free to buy and sell their assets, shrinking, if desired, to providers solely of A+E and local/critical care, or expanding to provide a wider or specialist range of services based on local demand or the expertise of their professionals.

However, these supply-side reforms will have little effect unless they are matched with changes to the demand-side.<sup>27</sup> If a hospital still depends for its income on the Department of Health, central priorities will still dominate – restricting clinical freedom and limiting patient choice. The institutional focus of the NHS must be shifted decisively towards patients, so that health professionals can have regard purely to clinical – rather than bureaucratic – considerations.

With the creation of Primary Care Trusts (PCTs) the Government has sought to reintroduce the purchaser-provider split introduced in the 1990 reforms and abolished in 1997. This is a welcome step but, as with the earlier experiment, it is not radical enough to deliver sufficient improvements. Experience shows an 'internal market' merely increases the paperwork and bureaucratic administration endemic to the NHS. What is needed is an *external* market, one outside the bureaucracy and conducted by the free choices of both patients and providers.

<sup>27</sup> See N. Blackwell and D. Kruger, *Better Healthcare for all*, CPS, May 2002.

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### **Policy 25: As a first step, boost the power of commissioners by establishing Foundation PCTs**

Foundation status should be extended to Primary Care Trusts (PCTs) to give them greater freedom in setting priorities for local healthcare purchasing.

- Foundation PCTs would become autonomous organisations, owned and managed as co-operative enterprises on behalf of doctors and nurses (a producer mutual) or patients (a consumer mutual). They would have full freedoms to manage their budgets and commission care from hospitals – conventional NHS hospitals and Foundation hospitals as well as commercial and voluntary hospitals in the private sector.

### **Policy 26: Move progressively to patient control over NHS funding through 'patient passports'**

These institutional shifts are the prelude to a much more radical alteration in the working of the NHS. To guarantee a focus on patients, the control of NHS funding should be transferred to the people who use it.

The Government is already shifting towards a cost-per-case funding arrangement. This should be used as the basis for a more radical realignment.

- Tariffs should be set (nationally, by an independent panel) identifying the average costs of specific treatments. Initially this sum should be made available to the patient for use outside the NHS, if his PCT believes the same sum (with an optional top-up from the patient) would bring quicker or better treatment in an independent hospital.
- As a further development, patients who wished should be given a full NHS Passport, with a credit each year calculated as a per-capita percentage of the NHS budget minus central costs. Currently this would be in the region of £1,200. Patients could take this credit to a PCT or another approved enterprise – a

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private insurer or co-operative – who would then undertake to purchase all specified care on the patient's behalf.

- The care covered by the NHS Patient Passport would be specified annually by the National Institute for Clinical Excellence (NICE). The method of this determination – and hence the scale of expenditure and rationing – would be still be defined by the Government, but not the specific choices made. It is envisaged that NICE would follow a variant of the 'qualified list' employed in many other countries, by which a list of defined treatments is qualified by a set of social or moral considerations ascertained through public debate and established by parliamentary authority.
- Since these alternative care providers would average costs across a portfolio of patients, they would be prohibited from practising adverse selection – screening out high risk patients – unless they could prove that their existing patient group was already significantly skewed relative to the population as a whole. Like other insurance based organisations, they would also offload excessive risk through risk sharing and re-insurance facilities.
- Patients would be free to opt for a 'higher service level' contract from their healthcare provider in return for a top-up payment – enabling them to opt for higher standards of accommodation, more control over appointment times, and other conveniences that do not relate to the fundamental standard of care. By bringing more money into healthcare they would help improve standards for all.
- In due course it might be expected that competition between providers for the provision of healthcare would lead most people to opt to take their NHS credit to an independent care provider – with the NHS becoming primarily a funding pool and regulatory supervisor. The NHS commissioning structure, however, could remain as a residual purchaser of care for those who do not wish to move – perhaps because the severity of their condition would make them nervous about switching to an external service.

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- While, under this model, the universal core healthcare services would continue to be provided from central taxation, there would be an option over time to switch this to some form of compulsory social insurance – perhaps part-funded by employers – to encourage a more direct link with benefits and top-up policy options.

For these reforms to work effectively, however, there is one common programme which does need central direction and funding – the development of an effective information and communication system linking patient records in different parts of the service.

Despite the admitted inefficiencies in the use of NHS resources, the service currently spends less than 1% of its budget on information technology. A system with common standards that focuses on the proper management of patient records (and other information in the system) will help free professionals from administrative bureaucracy while helping them deliver faster and more accurate treatments. It will enable NHS patients to access a greater range of providers and thus stimulate a major expansion of provision capacity within UK healthcare. And by enabling comparative analysis, it will bring far quicker and more accurate dissemination of best practice in terms of both managerial and clinical expertise.

- The central NHS service, while withdrawing from operational management, should therefore focus its efforts and investment on defining and delivering a shared IT health infrastructure.

### COMMUNITY POLICING

The police force is another area of public services which needs to undergo profound change. The existing national structure – under which large-scale police forces report through police authorities accountable to the Home Office – has led to too much remote control and bureaucracy, with too little responsiveness to local people and local priorities.

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Unlike health and education, however, the police's role of law enforcement means that it needs to continue to be primarily provided under public sector control. It can, however, be restructured to achieve closer affinity with the communities it serves.

Nearly all the recent experience of positive policing – including US communities as well as UK experiments such as in the London borough of Greenwich – point to some basic operational principles. These include: the importance of having visible policing on the street; providing deterrence and crime prevention through a real knowledge of the area they are patrolling; and encouraging strong community support, including links with other local support agencies. With such local support, the police can keep a watch on known offenders, and have more chance of identifying and dealing with youth crime early on, before it turns into serious criminality.

Current large area police structures and procedures have tended to pull against this – deploying a pool of police officers across a wider territory, often primarily responding to incidents after the event through car patrols, and with police moving off the beat into office based jobs at an early stage in their career.

### Policy 27: Create a new structure of community policing

The police service needs to be reclaimed by the communities it is supposed to serve, recognising the public demand for a visible police presence.

- Policing structures should be re-localised, so that a small team of policemen and women under a local community officer is dedicated to policing an area small enough for them to become intimately familiar with the neighbourhood and the likely sources of trouble.
- Policing incentives and structures should be changed – under local control – so that more of the police spend more of their time on

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visible display conducting foot patrols, with a residual team of back-up police cars available to respond at the first sign of trouble.

- Each community policing team should be part of a partnership team with other local authority services – social services, housing, environmental services and so on – with area boundaries aligned where necessary. Through these local partnerships they should have dedicated access to the local authority resources needed to keep streets clean and safe, including overnight graffiti removal and removal of derelict cars, broken glass and other rubbish. If necessary the police should have powers to take control over these budgets, with freedom to go elsewhere if the service is inadequate.
- Each community police team also should be paired with a local magistrate who can become equally familiar with the area, the persistent offenders, and the pressures on witnesses. The police officer and magistrate should form a team with the youth services, probation services and schools to do the best job possible of tailoring a way of dealing with young offenders to try to move them off the crime escalator.
- The local force would be free to decide what use it can best make of complementary resources to extend the reach of policing activities – ranging from neighbourhood watch schemes, CCTV, special constables, or private security services working with the police to protect high risk sites.
- In order to ensure compliance with local priorities, members of local supervisory police Boards should be directly elected – not just appointed by the local authority – ensuring as much local community pressure as possible on the police to deliver the kind of policing that the public demand.

### **Policy 28: Integrate the remaining responsibilities of regional police forces to form a national crime force**

Of course, much serious crime operates across local – and sometimes national boundaries. A national police force freed from

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community policing responsibilities would then be better placed to focus on major, organised crime.

- Officers of the National Crime force would have the resources, systems and territorial freedom to operate effectively across the Nation without constraints from regional police force boundaries.
- Like the US FBI, they would support community policing with intelligence where helpful and be able to take over investigations which clearly had national significance or required extensive casework to support a court conviction.

### **TRANSPORT**

The transport infrastructure is approaching paralysis and collapse. Transport policy must be responsive to consumers – who are best placed to choose the transport mode that most suits their needs – and less dominated by ‘big government’ planners attempting to impose what they think is best. And that means more effective use of the market to allow consumers to express their choice based on convenience, speed and cost.

### **Policy 29: Allow self-financing upgrades to the road network**

While maintaining an appropriate balance with environmental concerns, the Government should accept the demand for increased road traffic capacity wherever that demand is willing to help finance the improvements.

- Most major new motorways and significant infrastructure investments should be privately financed, with toll charges to pass the cost to those who use them.
- A proper road charging regime would also provide incentives for more freight to use the railways, where that is a competitive alternative, thereby also providing some of the revenue needed to support upgrades to the rail infrastructure.

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### **Policy 30: Use pricing rather than rationing to deal with city congestion**

Although large cities need an effective public transport system, use of public transport should be a positive choice rather than something into which the public are coerced. While it is too early to learn all the lessons from London's road (congestion) charging fee, it does appear to offer a way of allowing consumers to express a choice between transport options on more equal terms – so long as essential, low paid service workers are effectively compensated.

- City toll charges should be accompanied by an expansion in readily available car parking facilities so that those who drive in can move their cars quickly off the streets – and obstructions caused by on street parking are reduced. Planning permission for public car parks in cities should be substantially increased, while reducing parking on narrow streets and clamping down on other traffic obstructions.

### **Policy 31: Continue to encourage private management of competitive public transport services**

Although the public – and the City – is now sceptical about the privatisation of British Rail, the transfer of rail operators into private hands is proving successful: passenger numbers have risen in response to more commercial approaches to the marketing of rail services; and new investment in railway stock is slowly leading to better trains. The early experience of bus service privatisation and deregulation has also proved that private management works when the regulatory framework is right. Effective transport services needs more localised, private sector management – not a return to centralised, nationalised structures.

- Learning from the early experiences of railway regulation should lead to improvements in the system and structure of contracts,

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penalties and franchise terms to ensure commercial rail services are able to flourish.

- Once the immediate concerns over Network Rail have been addressed, the Government should look again at how the management of this infrastructure can be moved out of government hands – possibly by aligning core parts of the infrastructure with operating franchises, as is proposed for London Underground.

### **LOCAL GOVERNMENT SERVICES**

In addition to the big nationwide public services, there are a whole myriad of public services provided by or through local government – ranging at present from education to social services, libraries, street cleaning and recreation. Including money allocated through the education department and other central budgets, local government manages some 25% of total managed public expenditure, or almost 10% of GDP.

While locally managed services might be expected to be more responsive to local needs, local authorities currently have little discretion on how they spend their money: they are caught in the same network of centralised controls and targets as other public services. These controls have been imposed by Governments of both complexions over the years in an attempt to control spending and ensure value for money – but the consequence is that local government has become little more than an agency of big government in much of their activities. And the quality of services provided often bears little relationship to the amount of money raised through local taxes.

The changes proposed in policies set out earlier in this document provide a chance to escape from that history. In particular the freeing-up of education from local education authorities, and the direct payment of Treasury funds to schools through parent-controlled education credits will move a huge flow of central money out of local authority accounts. Without that



distortion, local authorities will become much closer to self-funding organisations – reopening the chance to make local democracy work.

**Policy 32: Central government controls over local authority spending should be abolished**

Some central funding will still be required to distribute business rates and reflect different funding needs. But most councils will be much closer to funding local expenditure out of local taxes. As a result decisions on spending will relate more directly to proportionate increases in their local rate base. They should be judged by their electorate on how well they deliver value for money.

- Over time other central government agency functions should also be removed from local authorities so that they can focus on real delivery of local services where they can make a difference.

**Policy 33: Big Cities should have elected mayors**

With local government having a real role again, it should be able to attract individuals of the calibre and leadership needed to reinvigorate local democracy.

- Individuals who can provide this leadership should be directly elected as executive mayors, accountable to the electorate for their term in office.

### THE NATION

*A free Britain with global horizons*

A strong, free and prosperous Britain can have the confidence to look outwards to the opportunities for global trading and strong international alliances.

#### PROTECTING OUR DEMOCRACY AT HOME

Important elements of our constitutional freedoms have been eroded in recent years by government actions that have placed the primacy of centralised, executive authority above the need to respect traditional checks and balances.

Parliament has been weakened by the growing tendency to bypass Parliament in making important government announcements; by the poor attendance of senior ministers; and by repeated dismissal of criticisms and requests from the parliamentary select committees. The impartiality of the civil service has been undermined by the blurring of official and party reporting lines, and the repeated use of government officials to manipulate or distort communications – to the point where official statements and publications can no longer be trusted to be impartial chronicles of the facts. And there is widespread suspicion that patronage has been widely used to place government supporters into positions of power on quangos and other institutions which had previously been more removed from party politics.

**Policy 34: The strength of Britain's democratic institutions must be restored**

- The Government should respect Parliament as the focus for announcing and debating key policy decisions; and for holding the executive to account.
- Parliamentary committees should be granted powers similar to US Congressional Committees (which can subpoena witnesses and which conduct hearings under rules of perjury).
- Reporting lines between civil servants and political appointees should be separated again, with civil servants answerable only to the Cabinet Secretary on issues of impartiality and communication of facts.

The democratic strength and coherence of the nation has also been undermined by a whole series of piecemeal constitutional 'reforms' which have unpicked centuries of step by step evolution – including the ill-thought out implementation of devolution, and the recent changes to the workings of the Law Lords and the role of the Lord Chancellor. The virtue of Britain's unwritten constitution is that it does not stand still – but proposed changes need to recognise that much of our constitutional strength depends on deeply ingrained acceptance of the conventions and unwritten values bound up in our institutions and traditions. There are many countries around the world where the existence of a well written constitution – in the absence of long established traditions – has proved to be no defence against the continual accretion of power by corrupt governments.

Future Governments should therefore take a far more considered view of constitutional change, ensuring that any proposals are widely discussed and debated – possibly through a Royal Commission – before being rushed into law.

**BRITAIN AND EUROPE**

It is not only at home that Britain's constitutional freedoms are under threat. The Convention on the Future of Europe, set up by the European Council of Ministers, has now drafted a new European Constitution. While this draft has yet to be approved by an IGC, it would effectively mark the end of independent nation states in Europe if approved in anything like its current form. Sovereignty will finally have been transferred of to a new European legal entity whose constitution will unequivocally give its laws superior status to any acts of its constituent members .

Such a transfer of sovereignty and political power raises huge questions in its own right – about whether the political objective of creating political integration across such a diverse range of nations and cultures is either desirable or sustainable, and whether we are right to swap our own constitutional protection for individual, democratic freedoms for those provided through European Institutions and Courts.<sup>28</sup>

What is doubly worrying for Britain, however, is that the Continental social market model that would predominate in such a structure would lock in a much stronger pressure for interventionist government, centralised administrative structures, stakeholder regulations of businesses and markets, and protection of state dominated public service monopolies. Our freedom to pursue the policies of smaller government and greater personal freedom would be lost.

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<sup>28</sup> See N. Blackwell, *A Defining Moment?*, CPS, 2003; and D. Heathcoat-Amory MP *The European Constitution*, CPS, 2003.

**Policy 35: Britain should reject the European Constitution as drafted; and no constitution should be imposed over Britain unless approved in a referendum**

- At this stage Britain still has a veto on any constitutional change in Europe: this should be used to retain the *status quo* rather than go along with an irreversible loss of sovereignty on this scale.

**Policy 36: Britain should seek to negotiate an alternative future for Europe as a community of Nation States**

In reality, Britain's opposition would force Europe to consider alternative futures.

- Britain could use its negotiating power at this point to agree arrangements which allowed it and other nations to remain in a looser European community while allowing a few core countries to proceed on a track to political integration.
- In the final resort, however, Britain should be prepared to negotiate a continued trading alliance with Europe – of the kind Switzerland and Norway currently enjoy – outside the formal structures of a more integrated EU. There is no reason to believe that Britain could not continue to enjoy favourable trading relationships with the EU: and while the EU accounts for roughly 50% of Britain's trade, the 50% of our trade with the rest of the world is to markets which are growing much faster.

**Policy 37: Britain should insist on restoring its right to opt out of 'social chapter' provisions and other regulations not essential to the development of free open markets**

Under any of these options, however, Britain should also seize this moment of negotiating strength to insist on changes that stop the flood of new regulations that are damaging economic competitiveness.

- Britain's opt-out of the social chapter, negotiated as part of the Maastricht Deal, was given up by the current Government when

they came into office. The new draft constitution formalises the EU's rights to take extensive actions in both employment and social policies. Blocking this, and winning the right to repeal interventionist regulations introduced under social chapter provisions would go a long way to preventing the import into Britain of the high cost, inflexible labour markets that undermine much of the Continent.

- The British Parliament should also have the right to scrutinise all proposed new regulations and to block application in the UK of any which cannot be justified as essential to opening up competitive markets in Europe.

**Policy 38: Britain should maintain its opt-out from the Euro currency**

In addition, British Governments should continue to resist any attempts to turn 'co-operation' or 'co-ordination' of economic policy into centralised economic management.

**SEEKING WIDER WORLD HORIZONS**

Instead of allowing itself to be locked into an inward looking, defensive Europe, Britain should look outwards to wider opportunities and alliances.

**Policy 39: Britain should continue to support and deepen the Atlantic alliance**

Rather than having its foreign policy shaped by those driven by creating a rival to US and Anglo-Saxon influence, Britain should celebrate the advantages that come from being part of the English speaking world, from being the closest ally of the US, and from having an unrivalled network of partners in the Commonwealth community. NATO remains crucial to the effectiveness of our own defence capability.

- Britain should continue to see our relationship with the US as the single most important objective of UK foreign policy.

## FREEDOM AND RESPONSIBILITY

- Accordingly Britain should refuse to engage in any common European defence force or common European foreign policy that puts that relationship at risk.

### **Policy 40: Britain should seek to develop global free trade**

Liberal trading arrangements, as well as being in Britain's interests, are the best way to help the world's poorer economies promote their own development and share in world prosperity.

While our trade policy is controlled by the EU, Europe must be persuaded to dismantle protectionist policies such as the CAP – which severely disadvantage developing countries. The initial CAP reforms announced in June point the way, but will need to be pushed forward strongly to avoid those countries opposed to reform from eroding their impact.

### **Policy 41: Britain should also invest in reviving and developing the effectiveness of the Commonwealth**

While the Commonwealth has been through many strains, it is re-emerging as a resilient network of relationships between independent nations. Despite differences in wealth and geography, we share many common threads of education, language and – with some exceptions – democratic values. 1.7 billion people live in the Commonwealth countries – about 30% of the world population.

- Britain is fortunate that, despite many years of relative neglect, it still has a privileged position of trust and goodwill in many Commonwealth countries. It should build on that to develop opportunities for global fair trade within this community – supported by constructive aid programmes – that together help raise the income levels of all participants.
- At the same time Britain should encourage the Commonwealth to maintain high standards and expectations in all its member nations. Flagrant abusers of democratic rights, such as Zimbabwe, should be pressured into change by those with influence or else expelled.<sup>29</sup>

<sup>29</sup> See P. Osborne, *A Moral Duty to Act There*, CPS, 2003.

## THE NATION

- As a small but important symbol of Britain's renewed commitment, Commonwealth Day should be reinstated as a focus for cultural exhibitions and displays, and for making school children aware of their common heritage.

### **Policy 42: Seek new alliances and trading relationships with the growing economic power house in Asia**

As in the past, British trade and investment should follow the opportunities for greatest growth and development around the world. Many of those opportunities are now in the rapidly expanding economies in the Far East – from the newly emerging market of China, to more established economies such as Korea, Singapore and Malaysia. Trend growth rates in these countries are two or three times higher than those in the EU, and Britain's exports are already growing much more rapidly to these countries than to our neighbours.

- Government support for British Trade – through the DTI and Foreign Office – should aim to create a pre-eminent position for British companies in these territories; and the Government should also provide generous funding for educational and cultural exchanges that increase British influence.
- Interest in the young should be stimulated by funding specialist teaching for oriental languages and culture in schools which are willing to take this up.

## CONCLUSION

Britain has a choice – to fall back into inward looking decline, its economy and its spirit increasingly burdened by the weight of government intervention, gradually losing its independent voice in the world; or to liberate its talent and enterprise at home and to have the confidence to reach out to the world as a free, independent nation.

It is only the 'little Englanders' trapped in past relationships who would believe we must choose the former. Those with a real understanding both of our history and traditions, and of the opportunities opened up by global trade, instant communications and world-class competition will know we have no choice but to grasp the bolder vision.

But that entails choosing the right policies now – policies based on a belief that releasing enterprise and personal responsibility is more effective than growing state control.

## FINANCING OF PROPOSED PROGRAMMES

Lowering the ratio of government spending and taxation as a proportion of GDP will both stimulate economic growth and restore personal choice and responsibility. However, a recurring issue for those who advocate this has been finding a credible and prudent basis for justifying the funding of future tax cuts.

The consequence of a full programme of structural reform of public services should be to reduce substantially the level of state activity. In the short term, savings can be expected from abolishing some government schemes and bureaucracy. Nevertheless, attempts to provide costed justifications for expenditure savings have proved very difficult to sustain in the heat of political debate.

This appendix suggests a different approach, arguing how an initial but sizeable programme of tax reductions could be financed from slowing the *growth* of future public expenditure, without relying on cuts in expenditure, or committing to changes in short- or medium-term expenditure plans.

The following calculations assume:

- that this programme was implemented from 2005/6 – the end of the current published spending plans;
- that trend economic growth rates and the forecast public finances are stable;
- that government expenditure after 2005/6 is 1% lower than GDP growth for the following five years.

If these assumptions held true, the consequence would be:

## FREEDOM AND RESPONSIBILITY

- to provide scope for tax reductions of £26 billion over the following five years;
- and to allow public spending to increase by £33 billion over the same period.<sup>30</sup>

These estimates do not imply that this should be the limit of tax reduction ambitions. Clearly a slower growth in spending would result in even larger scope for tax reductions. In particular, the calculations do not allow for the opportunities that a new Government might expect to find for making savings from current expenditure plans through greater focus and efficiency. Nor do they attempt to assess the scope for longer term structural reforms in the delivery of public services, and the mix of public and private expenditure. Any such savings would of course provide additional scope for tax reductions.

Equally they do not make any allowance for the positive impact lower taxes might be expected to have on future economic growth, and hence on raising tax yields. The calculations assume the same GDP growth rate as currently built into government projections. In reality a lower tax economy should be expected to sustain higher growth rates, raising the overall national wealth and the tax revenue available to spend on public services over time.

### SCOPE FOR TAX REDUCTIONS FROM GDP GROWTH

The following table shows how the current Government expects public spending as percentage GDP to rise from 39.9% in 2002/3 to 41.8% in 2005/6 before flattening at around 42%.

<sup>30</sup> If near term economic growth and tax revenues are substantially less than currently predicted by the Treasury, some of this scope for tax reductions might be foreclosed by the need to reduce the borrowing requirement that would be implied if the current spending programme up to 2005/6 was not also adjusted.

## FINANCING OF PROPOSED PROGRAMMES

The "Proposed Spending" shows the impact of growing government spending by roughly 1% a year less than GDP from 2005/6. The difference between the £539 billion that the current Government plans to spend in 2010/11 and the proposed £513 billion proposed provides the basis for raising £26 billion less in tax.

### ILLUSTRATIVE PROJECTION

Figures in real term £ billions (i.e. deflated by the GDP deflator)

	2002/3	2005/6	2010/11	Average annual growth	
				% 02-05	% 05-10
GDP (bns)	£1056	£1148	£1283	2.8%	2.2%
<b>Managed Expenditure</b>					
Gov. plan (bn)	£421	£480	£539	4.5%	2.3%
% of GDP	39.9%		42%		
Proposed spending (bn)		£480	£513	4.5%	1.33%
% of GDP		41.8%	40%		

Note that spending as a percentage GDP hit a recent low of 37.4% of GDP in 1999/2000 before starting to rise again. It has been below 40% in every year since 1997/98. The proposed level of spending would therefore still leave public spending at the high end of recent experience. To the extent that savings from existing programmes and revised priorities reduced the need to increase spending by this amount, any surplus could be available for further tax reductions.

Of course the Government's projections may prove over-optimistic. If economic growth averaged 0.5% less each year between now and 2005/6, and if government expenditure growth over that period was not reduced, the lower tax-take could add over £10 billion to the deficit in 2005/6. In that case some of the savings resulting from slower growth in public spending in subsequent years might need to be diverted into reducing the public sector deficit, with tax reductions deferred unless bigger savings could be made.

## **COSTS OF PROPOSED PROGRAMMES**

The table overleaf shows how the impact of the policies described in the main section of this pamphlet are affordable within the context of a lower tax burden.

## APPENDIX B

Policy	Annual cost £bn	New expenditure £bn	Comment
4. Introduce transferable personal allowances for families with carer responsibilities	£2 to £4 billion		1997 estimates predicted up to 2 million families at cost of £1.2 bn. Numbers reflect higher current allowances, and upper end based on raised allowances in policy 5.
5. Raise tax thresholds to £7,500, offset by eliminating 10% tax band	£10 billion		Possible savings in lower benefit payments
6. Create a unitary benefit		Could be positive or negative	Depends on adjustments to avoid losers
7. Give people ownership of their existing state pension pot		-	Issuance of gilts would simply recognise existing liabilities: no new taxpayer cost
8. Match pension savings up to £1000 per individual		£3 to £10 billion	Provided as tax credit into pension funds for tax payers and non-tax payers; cuts off at point where existing tax credit is greater value. Cost depends on uptake – estimate max 15 million could benefit, but offset by smaller sums for some individuals, and tax offset
9. Reverse ACT tax take from pension funds	£5 billion		
10. Encourage long term savings with more flexible ISA/SAINT	£3 to £5 billion		Effectively abolish CGT for most individuals; some loss of tax on investment income
11. Abolish inheritance tax	£2.5 billion		
14. Provide matching support for charitable support programmes			Reallocation of existing local authority support programmes
15. Experiment with voluntary groups to administer benefits			Reallocation of existing spend and admin costs; could be cost savings
16. Introduce education passports to give parents free choice over schools		£1 to £2 billion	Some 'deadweight' cost, but minimised by initially preventing top-ups – limiting passport rights to schools which charge the average cost of state education
21. Abolish the 50% target for higher education			Savings used to avoid need for higher top-up fees and expand vocational training
23. Introduce NHS Treatment passports		£1 to £2 billion	Some 'deadweight' cost, plus operations brought forward
26. Introduce full NHS patient passports		£1 to £2 billion	Some 'deadweight' cost of people dropping private insurance
29. Self financing roads			Self financing
30. Allow urban congestion charges	Could raise new revenue	offset	Assumes funds raised used to improve infrastructure
32. Free local authorities from funding controls	Could raise new revenue	offset	Local taxes vary with spending; no impact on central finances
<b>Total from policies</b>	<b>£22 to £26 bn</b>	<b>£6 to £16 bn</b>	
<b>Total available assuming spending rising at 1% less than GDP</b>	<b>£26 billion</b>	<b>Up to £33 bn</b>	<b>Consistent with Managed Expenditure at 40% GDP in 2010/2011</b>



## MAINTAINING HIGH SPENDING GROWTH IN PRIORITY AREAS

If spending as a proportion of GDP drops back to 40% by 2010/2011, will it still be possible to maintain accelerated spending on priority areas such as health and education?

The table overleaf shows that, if desired, it would still be possible to grow spending in health in line with the proposals made in the Wanless Report and to increase spending on education in line with GDP growth beyond the current projections, on the condition that other spending remained flat in real terms. Even with flat spending, output levels should of course continue to rise if the public sector achieves expected productivity improvements. Furthermore, within this aggregate, a slightly faster rate of growth in any particular area – such as the pension tax credit proposed in this paper – might be accommodated by a modest switch in resources from areas of declining expenditure, and by any benefit savings resulting from the tax reduction proposals.

Given the disappointing impact of recent increases in health spending, it is open to question whether further increases on the scale envisaged would be productive within the current NHS structure. In addition, the proposals in this paper would be likely to attract higher levels of personal health spending to supplement public sector spending. Therefore, if a lower growth rate in NHS spending were adopted, more resources would be freed up for other priorities.

### APPENDIX C

	Assumed annual real growth rate 2005/6 – 2010/11	Published Expenditure Plans for 2005/6 at 2002/3 prices £bn	Implied Expenditure in 2010/11 at 2002/3 prices £bn	Comment
Health	7.2% for 2 years 4.4% for 3 years	83.9	109.6	In line with the Wanless proposals
Education*	2.2%	63.5	70.8	In line with GDP
<b>Subtotal</b>		<b>147.4</b>	<b>180.4</b>	
Other spend	0.0%	332.6	332.6	
<b>Total Managed Expenditure</b>	<b>1.33%</b>	<b>480</b>	<b>513</b>	<b>Growth rate to hit 40% GDP in 2010/11</b>

#### Notes

In line with the recommendations of the Wanless Report, the Government's 2003 Budget set out that UK NHS spending is planned to grow by 7.2% a year in real terms over the five years to 2007/8 from a base of £68.1 billion in 2002/3. Projections to 2010/11 assume that continued growth beyond that of 4.4% a year, in line with the Wanless Report's further proposals.

The figures for Education and Other spend include current and capital expenditure as set out in Budget 2003 adjusted by the GDP inflator assumed in Treasury projections for this period.

## A SELECTION OF RECENT PUBLICATIONS

### GORDON BROWN AND BRITISH COMPETITIVENESS £7.50

*Keith Marsden*

How does Gordon Brown's record as Chancellor of the Exchequer compare with his original promises, pledges, aims, and statements? Marsden finds that while the Chancellor has kept his promises to keep inflation and unemployment low, the rate of GDP growth has fallen; the burden of regulation and taxes have risen; investment, and household and company savings have all fallen, as had productivity growth; and perhaps most alarmingly Britain's share of world exports is falling significantly. Marsden concludes that the outlook is bleak: GDP growth has now stalled – just when government spending is set to soar by another £95 billion. Under these circumstances, Britain's competitiveness is in danger of being substantially undermined.

*The damning statistics... highlight the way in which the Chancellor has squandered the favourable economic conditions he inherited and created the circumstances for increased taxes and declining competitiveness and growth – leading article in the Yorkshire Post*

### POWER TO PARENTS

£7.50

*John Redwood and Nick Seaton*

The average cost per pupil at a state school in Britain today is between £4,500 and £5,000 a year – and is set to rise by 6% a year for the next four years. If all the money followed the child, all state schools would have a sum equivalent to the independent sector. So why not free all state schools from government, and give them the same legal status and autonomy as an independent school? New schools would be able to open and existing ones to expand, where there is demand. Parents would then have direct control over their child's education. Government would be seen as a funder and regulator, not a provider, of education. Teachers would be seen as responsible professionals. LEAs would become service providers, catering to the needs of schools which want them, on a competitive basis. And most important of all, those children who currently have no choice but to endure the low standards and low aspirations that characterise failing inner-city schools would be set free of a system that has failed them.

*The report makes a case of such striking originality that it deserves to be adopted immediately as Tory policy – and if the Conservatives don't have the courage, perhaps Labour will do so – Edward Heathcoat Amory in The Daily Mail*

## A SELECTION OF RECENT PUBLICATIONS

### RESUSCITATING THE NHS: A CONSULTANT'S VIEW £7.50

*Maurice Slevin*

The NHS is imploding. Despite the substantial increase in funding over the last 10 years, there has been little improvement in patient care. And the further huge increases in NHS spending over the next five years will fail to produce the desired results. For waste and mismanagement are rife. Two key reforms are essential: the balance of power and control in the NHS must be taken from the bureaucracy, where it currently resides, and given to patients, where it belongs; and the number of managers and administrators in the NHS must be substantially reduced, thereby releasing funds to substantially increase the number and pay of nurses and allied professions.

*Slevin's is one of the best researched and most eloquent versions – Minette Marrin in The Sunday Times*

### THE EUROPEAN CONSTITUTION

£7.50

*David Heathcoat-Amory MP*

The political landscape of Europe is being transformed by the arrival of a new European Constitution. Many more decisions on foreign policy, criminal justice matters and economic and employment policies will in future be taken in Brussels, not Westminster. The new Union will have a permanent President and a Foreign Minister; the European Commission, the European Parliament, and the European Court of Justice will all gain new powers; national parliaments will be the losers. The author, who served on the Convention on the Future of Europe, shows how this represents a new constitutional order for the Union and its member states, with profound implications for parliamentary democracy and the principles of self-government. The author concludes that the British Government has no mandate to ratify such a major constitutional change without a referendum.

*...a withering analysis of the draft – The Guardian*