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Acknowledgements
Support towards research for these studies
was given by the Institute for Policy Research.

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ISBN No: 1 903219 28 0

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Printed by The Chameleon Press, 5 – 25 Burr Road, London SW18

Centre for Policy Studies

CAN CONSIGNIA DELIVER?

THE POST OFFICE IN THE 21ST CENTURY

Stuart Lyons

SIMPLICITY AND STABILITY

THE POLITICS OF TAX POLICY

Geoffrey Howe

CONTENTS

FOREWORD

Since its foundation in 1974 the Centre for Policy Studies has been consistent in its defence of the small state, the primacy of free markets and the necessity for a simple, and low, tax regime. These themes are revisited in this Pointmaker with contributions from Stuart Lyons and Rt Hon Lord Howe of Aberavon CH QC.

The Post Office has long required the discipline and incentives of the free market. It remains the last great unreformed nationalised industry. Last year, strikes at the Post Office accounted for almost half of all industrial disputes logged by the Office for National Statistics. It is no surprise that the Royal Mail fails to meet its delivery performance targets, and charges the customer more than comparable services cost on the continent. Moreover, public ownership is hindering the enterprise from exploiting newly emerging possibilities: more flexible European operators are expanding and diversifying at a rate which threatens to undermine the Post Office's scope for growth – even for survival.

The great lessons of the privatisation and deregulation programmes of the 1980s and 1990s have yet to be applied to the Post Office. On Air Traffic Control, we are delighted to note, this Government has finally adopted the CPS's long-standing policy of full privatisation. But it has failed to accept fully the crucial point we have made over the years: that privatisation and competition deliver gains for the customer and the taxpayer to an extent unimaginable when industries are left in state control.

This paper takes forward the work of Robert Albon, who in *Privatise the Post* (1987) argued for the demonopolisation of letters and counter services, and of Peter Warry, whose *A new direction for the Post Office* (1991) showed how real competition could be introduced by franchising each of the Post Office's districts.

Yet despite these and other proposals, Post Office privatisation has never got off the ground in practice. Most recently, Michael Heseltine's attempts at full privatisation in the 1990s failed to win both parliamentary and public support. More recently, the Labour Government agreed to give the Post Office greater commercial freedom. The first was, perhaps, too radical for the times; the latter is definitely too cautious. For it is becoming clear that the Post Office does not have the operating freedom, or the commercial incentive, to compete effectively with the newly privatised Dutch and German Post Offices.

The Post Office does not have the operating freedom, or the commercial incentive, to compete effectively with the newly privatised Dutch and German Post Offices.

Lyons's solution avoids both sets of problems. He argues that the letters and parcels services should be amalgamated and separated from the counter network. This would create an organisation with a clear and commercially viable future in a dynamic, fast-evolving market. Steps to full privatisation could be taken immediately. The counter network, on the other hand, dogged by confusion over the Horizon project, may have to wait before losing state protection.

The proposals in this paper could be implemented by any of the political parties. The final form of privatisation still needs to be debated: the Centre would strongly argue for demonopolisation. But this debate need not hold up making progress on the first steps of privatisation.

In the second paper, Lord Howe examines another important theme: the simplification of the tax system. The *War of Independence* series by Maurice Saatchi and Peter Warburton has already called attention to the shameful overlap of tax and benefits – the 'churning' by which many millions of low-income families are caught in a ridiculously complex web of tax and benefits. The effect is pernicious generally, for not only are administrative costs high, but the complexity of the system can disguise an increase in the overall burden of taxation rises – as Gordon Brown seems to appreciate all too well.

Successive Governments have promised to simplify the system. Yet it grows ever more confused. This is mainly because while there is 'a huge range of lobbies which stand in the way of effective action' there is (the CPS notwithstanding) no vocal constituency calling for a reduction in the number of rates, bands, tapers, credits, allowances and so on. In the context of the debate about strengthening the power of Parliament, Lord Howe sets out an agenda for reform which puts improvement in the quality, and reduction in the quantity, of tax legislation at the heart of policy-making.

The CPS has long argued that both Post Office privatisation and simplification of the tax system would benefit all the citizens of the UK. The papers in the Pointmaker show what needs to be done and should prove acceptable to interested parties on all sides of politics.

Tessa Keswick
Director
March 2001

CAN CONSIGNIA DELIVER?

INTRODUCTION

The Post Office is one of the United Kingdom's best known brands. The universal delivery of the penny post harks back to the earliest years of Queen Victoria. The head of the reigning monarch continues to adorn our postage stamps. The bright red of the Royal Mail's vans and pillar boxes has become a national icon, symbolising the excellence of a trusted institution. To many UK citizens, the institution of the Post Office represents continuity and security in a changing world. The recently proposed name-change to Consignia challenges these feelings of certainty.

The Post Office has not been untouched by change. Since Rowland Hill's 1837 paper on Post Office reform, it has always been in a state of renewal, responding to social, demographic and technological circumstances. For many years until the early 1980s, its activities were linked with the telephone service. Then the Post Office Corporation became a headquarters organisation with its own Board of Directors and a reporting relationship to the Secretary of State. It is accounted for under the Annually Managed Expenditure budget of the Department of Trade and Industry and, until recently, was expected to deliver an annual surplus to the Exchequer under the External Financing Limit (EFL) system.

Towards the end of the last Conservative administration, a proposal was brought forward to privatise the Post Office. It failed to win parliamentary and public support. More recently, the Labour Government agreed to give the Post Office greater commercial freedom; while retaining the corporation in the public sector, it abolished the EFL constraints, allowed overseas acquisitions and announced that the Post Office would become a plc, paying dividends in relation to profits earned.

However, neither the Conservative nor Labour approach had the ingredients for long-term success. The first was too sweeping in its diagnosis and solution. The second, notwithstanding plc status, reserves notional ownership and matters of strategic direction to politicians and their officials, and restricts the Post Office's ability to compete effectively in a changing world.

> *The Government's approach reserves notional ownership and matters of strategic direction to politicians and their officials and restricts the Post Office's ability to compete effectively in a changing world.*

Consignia will need to demonstrate solid financial results. The purpose of this paper is to argue that, for these to be achieved, the Post Office's mails and distribution operations should be considered separately from its national branch network and that the different characteristics, dynamics and strategic requirements of the two divisions must be reflected in any future configuration. The conclusion drawn is that privatisation, sooner rather than later, will provide the best way forward for Mails and Distribution, but that the Post Office Counters network must address various social and operational challenges before privatisation becomes a realistic option. There is no reason why a delay in the latter case should cause delay in the former, and compelling reasons why it should not.

> *This paper argues that privatisation, sooner rather than later, will provide the best way forward for Mails and Distribution, but that the Post Office Counters network must address various social and political challenges before privatisation becomes a realistic option.*

Today, the Post Office's businesses generate annual sales of £7.5 billion and employ a workforce of over 200,000 at a cost of some £4 billion each year. The activities and structure may not be precisely understood by the British public, but people have a general appreciation of what the Post Office does because they are usually in daily contact with at least one of its operations. Virtually every household in Britain receives deliveries from the Royal Mail. Approximately 94% of the UK population lives within a mile of a post office. About 28 million customers make 45 million visits to a post office each week.

This partial knowledge can lead to misconceptions about the scale and nature of the Post Office's operations. In the financial year 1998-99, about £5,570 million sales, or three-quarters of those of the total corporation, came from the Royal Mail, which collects letters from mail-boxes throughout the UK, sorts them and delivers them to their final UK destination, or transmits them overseas. Parcelforce handles parcel traffic; although its vans are highly visible, it was, until its recent European expansion, a relatively small business with sales of £474 million representing only 7% of the total. The two combined to make the Post Office Mails and Distribution sector with its 180,000 workforce. Including the unsuccessful Subscription Services Limited (SSL) subsidiary, whose results are no longer separately identified in the accounts, they achieved sales of £6,450 million in 1999-2000.

Post Office Counters Limited is the company name given to the Post Office network, consisting of approximately 18,400 nationwide branches. These produced sales revenues of £1,148 million in 1998-99, rising to £1,167 million in 1999-2000. Although the company is owned by the Post Office corporation, its activities are to a great extent privately owned and operated. All but 3% of the UK's post offices are franchises run by sub-postmasters. Less than a quarter of the counters business is for postage stamps and mail services; most is for other forms of government financial services that have nothing to do with the mail.

POST OFFICE GROUP SALES 1998-99

	Sales	% of total sales
Royal Mail	£5,570 million	76%
Parcelforce	£474 million	6%
Post Office Counters	£1,148 million	16%
SSL	£94 million	1%
Total	**£7,192 million**	**100%**

Source: Post Office accounts.

POST OFFICE GROUP SALES 1999-2000

	Sales	% of total sales
Mails and Distribution	£6,450 million	86%
Counter Services	£1,167 million	15%
Other	£265 million	4%
Sales between segments	(£360 million)	(5%)
Total	**£7,522 million**	**100%**

Source: Post Office accounts.

CHAPTER ONE
THE INTERNATIONAL ENVIRONMENT

The challenges for a modern postal service are not simply national, but international. Mail travels from continent to continent and competes with new forms of telecommunication, such as e-mail, fax and voice-mail. The national Post Offices of Europe are now part of a global postal, logistics and supply-chain industry, competing among themselves and with the American players United Parcel Services (UPS) and Federal Express (FedEx). The European Commission and Parliament are intent on increasing competition and reducing monopoly power within the sector. It is a time of change.

In Germany and Holland, the governments have decided that state corporations are unsuited to the new era, believing their respective national interests will be best served by the development of fast-moving, entrepreneurial postal systems, which can take a growing share of a dynamic world market. Deutsche Post World Net (DPWN) was partially privatised in November 2000, the Initial Public Offering (IPO) valuing the company's total equity at 23.4 billion euros. Industry observers expect full privatisation to take place within five years.

DPWN has now emerged as the leading force in Europe and a significant global player. Its acquisitions include the international logistics operator Danzas and a 50% share in the international carrier DHL, soon to be increased to 75%. Through its majority stake in DHL, DPWN will control over 25% of the European courier express and parcel (CEP) industry, valued at 30 billion euros. Its marketable shares, underpinned by an under-geared balance sheet, now give it an acquisition currency for further expansion.

The Dutch TNT Post Group (TPG) has emerged as the second force in Europe. It operates from a smaller domestic base and has not been so aggressive as its German competitor. TPG has, however, been wholly privatised. With its first-mover advantage it has been able to embark on an extensive programme of acquisitions, including the global TNT business and Ansett Air Freight in Australia. Recently it has been the senior partner, and Britain and Singapore the juniors, in a cross-border business mail alliance.

The international industry perceives the Post Office as having faltered and been overtaken by its more agile competitors in Holland and Germany.

The German and Dutch postal organisations see themselves as global integrators, combining traditional letter and parcel post with activities in e-mail, direct marketing and CEP services. The international industry perceives the UK as having faltered and been overtaken by its more agile competitors.

La Poste of France remains in the public sector and has moved less quickly than its major continental rivals. It has an evolving role as leader of a Mediterranean alliance including the Italian, Spanish, Portuguese and Greek Post Offices, and has formed a CEP alliance, known as Geopost, between its Chronopost unit and Federal Express of America. Subsequently, however, it has announced it would be willing to sell stakes in Geopost to obtain more financial leverage for acquisitions.

La Poste is, in effect, France's third-largest bank, with 44 million customers. However, it has been unable to overcome the political and legal hurdles to spinning off its financial service activities and raising development capital for its distribution business. La Poste's evident lack of pace in developing its potential markets appears to be a consequence of government ownership.

The moves in Germany, Holland, and even France, reflect the pressures of globalisation and technological change. Within the international postal and logistics industry, the major players plan and refine their strategies like airlines, seeking dominance through partnerships and acquisitions. New questions are raised as a result of developments in e-commerce and CEP services. How and in what form will the letter-messages, documents, packages and parcels of the future be delivered? Which will be the most lucrative sectoral and geographic markets? If traditional mail is eroded, how can the old carriers participate in the new opportunities?

EUROPEAN CEP OPERATORS (EUROPEAN EXPRESS PARCEL SALES ONLY)

Company	European CEP sales 1999	European market share %
DPWN	Euro 3.9 bn	15%
DHL	Euro 2.9 bn	11%
TPG	Euro 2.8 bn	11%
La Poste	Euro 1.7 bn	7%
Royal Mail etc	Euro 1.5 bn	5%
UPS	Euro 1.2 bn	5%
FedEx	Euro 0.25 bn	1%

Source: Analysts' research.

The privatisation of national Post Offices, where it has occurred, has created more favourable conditions for cross-border mergers and acquisitions by them. Economies of scale in international transportation and logistics, and new technologies and delivery systems, have added to the pressure for consolidation within the industry. As the European single market develops, it is not difficult to envisage the integration of various European postal services.

Such integration raises serious competition issues. To what extent will Brussels allow national Post Offices to use the leverage of their domestic monopolies to develop exclusive trading relationships elsewhere? Britain's proposed cross-border business mail alliance with Holland and Singapore is now under investigation by the European Commission.

The European Commission is not only concerned about the effects of concentration, but is committed to introducing greater competition into the letter-post industry. While recognising that member states regard their national postal services as a necessary part of national infrastructure, the EC wishes to see tighter operating parameters and has presented a proposal whereby national Post Offices would lose their monopoly rights to letters over 50 grammes in weight (roughly equivalent to six sheets of paper and one envelope). This has been resisted by a number of member states, which want their Post Offices to enjoy short-term protection, as they respond to the changing environment. A revised limit of 150 grammes has now been endorsed by the European Parliament.

> *The Post Offices of Europe will come under further pressure to reduce their monopolies and open their markets to competition. In the race for European leadership, will Britain be a serious contender?*

It is clear that the Post Offices of Europe will come under further pressure to reduce their monopolies and open up their markets to competition. To maintain their market positions, they will have to introduce efficiencies and innovations. In the race for European leadership, will Britain be a serious contender?

CHAPTER TWO
PROGRESS AND PROBLEMS AT THE POST OFFICE

The UK Post Office's responses to the changes in the external environment have varied between the positive and the less certain. The board and its senior executives have encouraged their management teams to respond to the new technologies by creating business units for e-commerce and logistics. The Post Office acquired German Parcel for £256 million and about 20 small, mainly European, CEP businesses, together with Citipost of New York, at a further cost of some £250 million. It has formed overseas distribution partnerships with General Parcel, TPG and others. It has invested in a new sorting and distribution facility for Parcelforce at Coventry. It has entered the market for e-commerce fulfilment. These moves have not matched the pace or scale of those in Germany and Holland, but are welcome indications of a new sense of direction.

Other matters, though, have diverted the Post Office board from giving undivided attention to its commercial challenges. Two of the most significant have been the long-standing political debate about the locus and freedom of the corporation within the public sector, and the Horizon project for the electronic integration of the national Post Office Counters network.

THE STATUS OF THE POST OFFICE

In the last Conservative administration, the then Deputy Prime Minister came forward with a proposal to privatise the entire Post Office corporation. With hindsight, the sweeping nature of his plans probably contributed to their failure. Trades unions, sub-postmasters, employees, customers and MPs – particularly those from rural constituencies – were concerned about the possible impact on job security, employment practices, customer service, franchisees and local communities. If the intention was to retain the culture and scale of the Post

Office corporation, what was the benefit, they asked, of the proposed change, other than to raise money for the taxpayer? And why did capital have to be raised, when the Post Office was contributing an average of £250 million annually to the Exchequer? Conversely, if the culture and scale were to be changed, what were those changes to be, and how would they affect the main stakeholders, who included over 200,000 direct employees, some 20,000 (at the time) sub-postmasters and their 40,000 staff, and the British public?

The initiative failed to win political support and was aborted, but the case for greater commercial independence remained. In January 2000, the Labour Government introduced the Postal Services Bill which, while falling short of privatisation, allowed the Post Office to become a public limited company from the end of March 2001. The government will still be the single shareholder, but the Post Office will no longer be financed under the EFL cash-accounting system. Instead, it will pay an annual dividend to the government, estimated at £151 million in respect of the year 1999-2000. The obligation to maintain a universal service, uniform tariff and a nationwide network of post offices will stay in place, and a regulator will be appointed. The new status as a government-owned plc is to be accompanied by a corporate name-change to Consignia, in a move intended to show the Post Office's determination to be a major global force. The negotiations and discussions leading to these changes took a great deal of ministerial, official and managerial time. The results are yet to become apparent.

THE HORIZON PROJECT

The second matter to divert the attention of the Post Office's management was the Horizon project. A £100 million initiative for the post office branch network, Horizon's purpose was to use interactive computer technology to manage individual counter transactions by reference to a national database. The largest single element of these transactions was to be social security benefits, accounting for 36% by value of all the network's business. In May 1999, Post Office Counters entered into an agreement with ICL to invest in the project.

However, the Department of Social Security announced that from April 2003 benefits payments would go directly into claimants' bank accounts and by-pass the new system. The Horizon project was hastily reconfigured and in September 1999 the Post Office announced it would roll it out without the planned benefits payment card. It was an expensive change. The auditors argued that the Horizon infrastructure had become an asset which did not yield sufficient assured income to cover its cost. The Post Office's year-end results for 1999-2000 included an exceptional charge of £571 million and the corporation reported its first loss for over 20 years.

Government ministers were then informed that about 15% of the projected claimants did not have bank accounts in which to receive the benefits payments. Having failed to support the original Horizon plan, they found they had no alternative system in place. The Government invited the major high-street banks to help launch the so-called Universal Bank under the banner of social and financial inclusiveness. The Post Office pressed ahead with a reconfigured Horizon project, although forecasting further write-offs, and announced plans to introduce about 40,000 terminals and train 70,000 people in their use, including 17,000 sub-postmasters and 40,000 assistants. But faced with the loss of the social benefits business, yielding some £300 million per annum – or more than one third of total network revenues – the Post Office Counters business is in crisis. Older franchisees, who want to sell out, find their businesses have been blighted. Morale across the network is low. Management and ministers continue to wrestle with the problem.

Faced with the loss of the social security benefits business – worth £300 million a year – the Post Office Counters business is in crisis.

By the end of 2000, the Government's discussions with the banks were reaching a tentative conclusion. The term Universal Bank seemed to have been dropped. Most of the banks agreed to subscribe towards a general concept whereby banking services would be provided at sub post offices. The level of the Government's financial contribution was not revealed, but the extra subvention from the banks and central government seemed unlikely to offset the shortfall to the network caused by the loss of the social benefits business. The April 2003 cut-off date remained in place, though more prudent counsels might have suggested some postponement of the deadline.

CHAPTER THREE

THE POST OFFICE'S MAILS AND DISTRIBUTION BUSINESSES

In the 1999-2000 Report and Accounts, for the first time, the Post Office aggregated the results of Royal Mail and Parcelforce under the heading Mails and Distribution, without separating out the detail. In part, the lack of transparency was convenient, masking the continuing losses at Parcelforce and the poor results from SSL. More seriously, it reflected a view that increasingly these businesses form part of a single sector in the postal and logistics supply chain industry.

Royal Mail is the Post Office's largest division, accounting for over three-quarters of corporation sales and producing about £300 million of sustainable profits each year. It is a highly respected national and international brand. Royal Mail's Stamps and Collectables division is believed to deliver gross profits in excess of £100 million annually. Royal Mail as a whole delivers £5.6 billion of sales, focussing on high-quality service from mail-box to door at a uniform tariff. Out of 5.5 billion first class letters handled last year for UK delivery, 91% were delivered next day. Of the 13.4 billion second class letters, nearly 99% were delivered within three days. Deliveries to European destinations are monitored and performance is well ahead of target. Letter complaints under the Universal Service Obligation are only 0.0084% of total. Nevertheless, global competition in higher weight envelopes and packages, and the imminent European restrictions on the letter-post monopoly, are adding to the pressures on Royal Mail to become financially more competitive and to develop its global presence.

In his report in the 1999-2000 accounts, the Post Office's chief executive announced the agreement of new productivity deals and changes in working methods. Regrettably, they were not followed by a period of trouble-free service. Criticism of working practices remains. The half-year report in December 2000 referred to increased staff costs of £120 million. "The changes will deliver future savings," said the announcement, "but progress in introducing the package has not been as rapid as hoped."

Last year, strikes cost the Post Office 22,199 working days and accounted for almost half of the UK's officially recorded disputes.

This was an understatement. During the past year, strikes cost the Post Office 22,199 working days and accounted for almost half of the total of 195 industrial disputes logged by the Office for National Statistics. The Chairman of the Post Office National Users Council described the organisation as "the last unreformed industry in this country." In his judgment, the strikes were caused by a hard core of militants who needed to be disciplined by their trades union and tackled head-on by management. Industrial relations continued to deteriorate, severe disruption being caused to postal deliveries in the period before Christmas.

Overseas, the Post Office's chief executive announced the joint venture with TPG and Singapore Post, intended to create the world's largest bulk mailing partnership. The UK Post Office and Singapore took 24.5% each, while TPG took 51%. However, on reports of understandings that Britain and Holland would not compete on each other's territory, the European Commission began an investigation. The Post Office's attempt to leverage its UK monopoly strength so as to develop commercial activities overseas has received at least a temporary blow.

PARCELFORCE

What of Parcelforce? On estimated sales in 1999-2000 of under £500 million, Parcelforce made a post-tax loss of £11 million and suffered an "impairment write-down" of £50 million. The write-down implies, as in the Horizon project, that certain investments could not be justified by the expected revenue stream. Parcelforce is not protected by monopoly status and faces intense competition from its German and Dutch rivals. Only 84% of parcels consigned to it are delivered within three working days, a statistic which excludes the less favourable December period.

Parcelforce has taken recent steps to become more internationally competitive. It is managed from a modern headquarters in Milton Keynes and operates the new £100 million twin-hub sorting facility near Coventry airport. It has a fleet of nearly 6,000 branded vehicles. A new parcel-tracking system is being installed. Parcelforce has yet to prove a commercial success, but its management is responding to the challenges of new technology and global competition.

Parcelforce has acquired a majority holding in the international General Parcel business and there are suggestions that it may merge this with La Poste's CEP interests. There have been more acquisitions, too, to achieve a wider geographical footprint. These, in a new departure from Treasury funding, have been funded by loans at commercial rates. They include German Parcel, Williames of Ireland, Pakke-Trans of Denmark, Nederlandse Pakket Dienst of

Holland, and Extand of France. These do not have obvious claims to market leadership, and whether the UK Post Office has the management capability to convert them into a successful, pan-European group is as yet unproven.

The recent acquisitions by Parcelforce do not have obvious claims to market leadership. Whether the UK Post Office has the management ability to convert them into a successful pan-European group is unproven.

RECENT PARCELFORCE ACQUISITIONS

Company	Country	Date	Price
German Parcel	Germany	Dec 1998	£256 million*
Der Kurier	Germany	Apr 1999	under £10 million
Williames	Ireland	Dec 1999	£10 million
Citipost	USA	Jan 2000	£25 million
Crie	France	Jan 2000	£6 million
Pakke Trans	Denmark	Mar 2000	£20 million
Nederlandse Pakket Dienst	Holland	Apr 2000	£68 million
Extand	France	May 2000	£97 million

* Price later increased by £11 million
Source: Post Office Accounts

Even after these acquisitions, Parcelforce, as a commercial venture, lacks critical mass. Commentators still regard it as a rather slow-moving, medium-sized enterprise facing dynamic global competition. The options for the Post Office and the Government probably fall into two categories:

- Should the business be regarded as a strategic part of the corporation's forward strategy, linking in with Royal Mail as a global integrator?
- Or should it operate as an independent unit, acquiring (and perhaps ultimately being acquired by) specialist parcel and CEP businesses?

Similarly, the Royal Mail faces two alternative futures:

- Should it remain as a focussed, national distributor of letter post within its increasingly limited monopoly?
- Or should it endeavour to become a serious global player, matching the footprint and technology of its private-sector German, Dutch and American competitors?

The answers to both sets of questions depend on the economic, social and political perceptions of government.

CHAPTER FOUR
POST OFFICE COUNTERS: THE NATIONAL NETWORK

Post Office Counters Limited is an entirely different business from Mails and Distribution. It manages the national network of some 18,400 post offices throughout the UK and is, in a sense, a private business already, since all but 600 branches are franchises run by sub-postmasters. Today, even the name Post Office Counters is misleading, in that less than a quarter of its £1,167 million sales comes from the sale of postage stamps and postal services. A post office is in truth a one-stop shop providing government services in the community. The most significant service was benefits payments, until the Horizon debacle.

The Prime Minister's office was sufficiently disturbed by the Horizon situation to commission a study by the Performance and Innovation Unit (PIU) of the Cabinet Office. This was published in June 2000 under the title *Counter Revolution: Modernising the Post Office Network*. The report was largely devoted to the Post Office network and, in its foreword, the Prime Minister announced that the Government fully accepted its recommendations.

The PIU report gives useful statistical and other information on the Post Office network. Of the 18,400 post offices, about 9,900 offices are rural and 8,500 urban. Each rural office serves on average 1,800 people and each urban office 4,500. The post offices offer 170 different postal, governmental and commercial services. Post office coverage per 100,000 population is about twice that of France, Germany, Italy, Australia and Japan, and five times that of the USA.

The PIU report confirms that fees for the payment of social security benefits accounted for 36% of network income in 1998-99. The 1999-2000 Report and Accounts shows a similar picture. The network carried out nearly 800 million transactions for national insurance and pension payments or child benefit payments, at a transaction value of £54 billion, – about one-third of the total transaction value within the network of £160 billion. Mails account for only 23% of network income. Sales of national lottery tickets at £1.3 billion, the Report and Accounts reveals, are higher by value than those of stamps, although the income they yield to the network is lower.

NETWORK INCOME BY CATEGORY, 1998-99

Category	%
Benefit payments	36%
Mails	23%
Bill payments	15%
Banking	6%
National Savings	4%
Lottery	4%
Other Government	5%
Other	7%

Source: Post Office Accounts

The Post Office pays its sub-postmasters a mixture of fixed and variable elements. The fixed element is specific to the outlet and can range between under £5,000 for a small rural branch and over £75,000 for a town centre. Variable payments are related to individual transactions. A girocheque benefits payment can yield 79p, a vehicle licensing transaction 55p and a pension payment 13p.

The largest 2,000 post offices account for 40% of total network business and the smallest 2,000 account for less than 1%. The 600 Crown offices, staffed by Post Office employees and situated mainly in city centres, transact 20% of the total counters business from only 3% of the sites. However, the Crown Offices still lose money because of high staff and occupancy costs. In over one third of the total network, the cost to the Post Office of maintaining the outlet is less than the income generated. About 90% of the urban network is profitable, producing profits of over £100 million per annum, but 60% of the rural network is loss-making, yielding a deficit to Post Office Counters of £25 million. The Crown offices, according to the PIU estimate, lose about £50 million each year. After netting off these ups and downs, the counters as a whole delivered average annual operating profits of only £30 million in the five years to 1998-99.

The PIU report paints a picture of growing uncertainty. Many branches are unsustainable. The network's density is twice that of the UK's competitors. And several hundred branches are closing every year.

The PIU report paints a picture of growing uncertainty. While the work done by the nation's sub-postmasters is admirable, many branches in the network are now commercially unsustainable, in spite of the ancillary retail activities carried out by the franchisees. The network's density, measured pro rata, exceeds that of the UK's typical industrial competitors by more than double. 30% of UK villages with between 100 and 300 inhabitants have a post office, and over 70% of villages with between 500 and 1,000 residents. Closures are occurring at a rate of several hundred each year and industry observers believe this rate has accelerated since the Government announced the 2003 cut-off date, because of the difficulty retirees face in selling their blighted businesses. Last year, 380 sub-post offices were closed, and in the first half of the current financial year a net loss of 299 post offices has occurred.

Every closure creates a local ripple or worse, and most are understandably unpopular. But today's 18,400 rural and urban branches compare with 2,500 branches of Lloyds TSB, the largest high street bank by outlet, and 1,400 branches of Boots the Chemist. There are 14,400 banks and building society branches in the UK and 11,000 surgeries for general practitioners. To visit a doctor conveniently can be regarded as a higher national priority than to visit a post office. All the comparators suggest that the post office network should have about 10,000 to 12,500 branches, given the current state of technology, and that further reductions should be achieved in the future. In France, citizens can go to their local tabac in the month of December to license their vehicles for the ensuing year. In the USA, an increasing number of such transactions is carried out online.

Given the skills base of the franchisees and the one third reduction in the revenue base, there must be doubts about the diagnosis and the remedy suggested by the PIU.

Statistics, however, are not always a perfect guide to public policy. The considerations of community, social service, employment and the management of change cannot be glossed over. These are all politically sensitive issues, as an analysis of any MP's mail would testify. Consequently, governments have felt under pressure to maintain the size of the network and create functions to fill it. The PIU report sees "a need for urgent action to modernise the network" and has advocated a challenging mix of "e-commerce, one stop shops for government information and transactions and internet learning and access." It claims "these new lines of business will not only generate new sources of revenue but will also enhance the contribution post offices make to local communities." Given the skills base of the franchisees and the one third reduction in the revenue base, there must be doubts about the diagnosis and the remedy. Alternative revenue plans have not been fully developed or published, but a number of expensive and, in some cases impracticable, demands are being placed on the service.

"In order to ensure convenient access for all to post offices, to protect the network for social purposes, and to modernise it for the future," the PIU recommended that the Government should require the Post Office to prevent all avoidable closures between now and 2006, and task the Postal Services Commission to monitor levels of access and develop a framework for the period beyond. The Government fully accepted these conclusions.

In spite of this public concern, senior executives at the Post Office still report that the organisation does not hold easily accessible, centralised listings of branch openings, closures and transfers and that they delegate these matters to local offices.

CHAPTER FIVE
RESPONSES AND RESPONSIBILITIES

The two principal Post Office businesses, Royal Mail and Post Office Counters, are very different businesses. Royal Mail carries close to 80 million letters every day. While the volumes of domestic letter post are being eroded by the growth of mobile phone and e-mail communications, bulk mail and CEP services are growing rapidly. Faced with the choice of becoming a global integrator, or remaining as a national player in a shrinking traditional market while the Germans and Dutch pick up the cream, Royal Mail, supported by Parcelforce, must surely choose the former. The UK is the fourth largest economy in the world with a powerful international presence. It is in the national interest that its postal services should aspire to the top tier of the global postal and logistics industry.

Faced with the choice of becoming a global integrator, or remaining as a national player in a shrinking traditional market, the Royal Mail and Parcelforce should surely choose the former.

Post Office Counters is a franchise operation mainly offering government services in multiple sites throughout the UK. Postal services are only a small part of these. The network is under pressure because of the pace and type of demographic and technological change. The content and footprint of the service are in urgent need of remodelling, but the desire for speed must be tempered by social considerations and a realistic assessment of staff training needs. Post Office Counters is a nationally based business with a community presence.

Royal Mail and Post Office Counters are different in their scale, focus, processes, patterns of employment, labour relations, technology, capital spending requirements, performance monitoring profiles, and relevant financial ratios. There is overlap in the sense that customers can buy Royal Mail stamps at a post office, as they can at several other types of retailer, and deposit certain types of mail for collection there. The two businesses do not fit easily within the same, single corporate group.

The Post Office has pressed for greater commercial freedom. With its new status as a public company, how will the Consignia board add value to such diverse subsidiary operations? It cannot give the board confidence that the strategy for the national network of post offices is outside its control, having been passed to the Postal Services Commission.

Insiders suggest that changes in internal management have been driven not just by a desire for greater efficiency, but through concern that the organisation was not equipped either for possible privatisation or to respond to a regulator's insistence on transparency in cost and revenue allocation.

In the 1999-2000 Report and Accounts, the Post Office's chief executive announced that he had completed a major organisational restructuring, resulting in the creation of 12 business units and a further five units handling internal operations, services and property. The units have been broadly defined as falling into three generic categories: market-facing, service-delivery and support. These sit within four divisions, namely letters, distribution services, network and banking services, and the Post Office support group.

The 17 unit heads now report to the executive board. The executive board in turn reports to the Post Office main board. Here, the part-time chairman and four part-time non-executive directors make up the majority. Will this general structure of governance permit adequate responses to changes in the international postal and logistics industry?

The 17 unit heads now report to the Post Office's executive board of seven. These seven are the chief executive, four group managing directors (for strategy and business development, mail services, customer and banking services, and distribution services respectively), a finance director and a corporate affairs director. The executive board in turn reports to the Post Office main board. Here, the part-time chairman and the four part-time non-executive directors make up the majority. There are two executive directors (the chief executive and the managing director for strategy and business development) and a company secretary. A new finance director has recently been appointed, and group managing directors may be invited to attend board meetings.

Will this general structure of governance permit adequate responses to changes in the international postal and logistics industry, as well as to the complex tasks of remodelling and developing the national post office counters? In December 2000, the Post Office announced it planned to invest £2.4 billion over the next five years "to transform the business into a complete distribution company with a global reach." That is a strategy for the Mails and Distribution businesses, but not for Post Office Counters. The overlaying of a government superstructure makes matters more problematical. Too many strategic discussions flow upwards to government departments and committees. Too few are rooted in the needs and realities of the businesses. In the fast-moving business of the global integrator, the German and Dutch Post Offices are showing Britain a clean pair of heels. It is time to consider a new structure for the UK industry.

Too many strategic discussions flow upwards to government departments and committees.

NEW STRUCTURE FOR NEW STRATEGIES

The new structure must reflect and be capable of responding to the new realities. Royal Mail/Parcelforce and Post Office Counters are, in all material particulars, separate businesses and should be demerged as such so that they become separately accountable. Two new boards should be appointed. The Post Office board, and that of its successor Consignia, would disappear. Parcelforce would become a subsidiary not of the Post Office, but of Royal Mail. Post Office Counters would pursue its own direction within an agreed public policy framework.

Government will then be able to determine the best way forward for each company without being constrained by considerations of the other. Each business has its own trading characteristics and investment needs. Each could be expected to benefit from new focus and dynamism in its own particular markets.

Should demerger be accompanied or followed by privatisation? A significant advantage of the proposed split is that it will make it possible to marshal the arguments for and against privatisation on the merits of each of the businesses separately. These arguments are not the same for Royal Mail/Parcelforce as for Post Office Counters. Even if both companies are privatised, the mechanics and timing should certainly be different, and the Government should be able to make a separate and appropriate judgment in each case on whether, at what level and for how long, to retain a shareholding.

MAILS AND DISTRIBUTION

The argument for privatising Royal Mail/Parcelforce is that, in the fast-moving global economy, these businesses of data integration and transfer are no longer such that their strategies can successfully be directed by government officials or supervised by the government as sole shareholder. They are international providers of service, like the utilities and airlines. They operate in an increasingly competitive national and international environment, where they have fallen behind their major rivals. They need to benefit from the pace and techniques of private sector management, from the leverage and dynamism afforded by private sector financing, and from the acquisition currency provided by an internationally quoted share price.

> *In the fast-moving global economy, and an increasingly competitive international environment, the Royal Mail can no longer compete successfully if its commercial strategies are directed by government.*

There is a strong national interest in Britain's having an international postal company that is a European and world leader, but there is not a parallel taxpayer interest that such a company should be controlled by ministers and their officials, and its markets picked off by more agile competitors. The evidence from Germany and Holland, contrasted with that from France and the UK, is that privatisation leads to greater rewards both for postal companies and their various stakeholders.

The letter-post monopoly is now under attack from Brussels, while CEP services are facing competition in the open market. These businesses have sophisticated investment requirements for new plant, logistical systems and communications technology, which should not be a burden on the taxpayer. They are large employers of labour with a pressing need to improve working practices. All these factors suggest that their affairs should be controlled by a board and managers with relevant competences, and not by politicians and civil servants. The Postal Services Act has moved matters forward, but its provisions do not set an adequate framework for the businesses to meet the challenges of the new century successfully.

Underpinning the argument for change is the fact that the UK letter post is not particularly good value. While the delivery standards are reasonable, they are not excellent and the price to the user is high. A first-class stamp now costs 27p, but the service has never succeeded in meeting its target of 92.5% next-day delivery. The competition commissions in Brussels and London will rightly continue to challenge any monopoly system, where the consumer is deprived of choice or the freedom to buy the best product or service at the best price. The privatisation of British Telecom and British Gas provides evidence that open competition leads to lower prices and greater choice.

It is likely that Brussels will continue to look for progressive deregulation of the protected letter delivery sector and that there will be a growing squeeze on the permitted areas of monopoly. In the UK, the universal service obligation and the uniform tariff should remain, but this will only be commercially practicable if investment in new sorting and delivery systems is matched by improved labour flexibility and productivity. The Post Office workforce, protected by its status within a nationalised industry, has the worst record of any UK industry or company. Post Office managers, together with the trades union leadership, will, as has proved the case in other industries, deal with the matter more effectively once they can operate outside the public sector.

THE POST OFFICE NETWORK

Post Office Counters is already a substantially privatised operation, with only 600 branches still operated by Post Office employees. Its remit to provide government services in the community will remain. It offers convenience and social focus, not least in deprived and rural communities. This in itself is no reason for privatisation being excluded as an option. The contracts between government and Post Office Counters, and Post Office Counters and its franchisees would still specify the service levels required and the rates of payment for them. The negotiation of the contract would provide a disciplined framework for determining the commercial, social and demographic objectives.

The arguments for and against the privatisation of Post Office Counters Limited must be influenced by the figures. If the counters network were inherently unprofitable, social considerations would suggest it were best left in the public sector, albeit as a demerged company. In fact, however, Post Office Counters appears to be inherently profitable, or was until the decision was made to remove benefits payments. Any uncertainty over its profitability seems to have arisen from unproductive debates about the allocation of overheads and exceptional charges.

The franchised urban network, excluding the Crown post offices, produces annual profits estimated by the PIU to exceed £100 million. The rural network, the subject of so much debate, seems to lose only £25 million. The most serious losses in the network are those suffered by the nationalised part of it. Although the 600 Crown offices operate in prime sites and account for 20% of network revenue, they drain the organisation of cash and profits, showing annual losses estimated at £50 million. The PIU believes the Crown offices can produce recurring savings of £80 million per annum, if these branches are converted to franchises and other unnecessary losses are eliminated.

The Crown office conversion programme has been in operation since 1988, but only 900 offices have been converted to franchises since then, and management has failed to bite the bullet in tackling the real problem. Priority for conversion was generally given to smaller offices. Most of the larger offices with high staff and occupancy costs, and poor footfall and sales, were not converted or relocated to more cost-effective premises. It is hard to imagine a private-sector enterprise tolerating such a state of affairs for over 12 years. The portfolio of Crown offices should be reconfigured and the branches should be turned into franchises as quickly as practicable.

In spite of these possible savings, the removal of benefits payments from the post offices will move the network into losses, requiring a substantial subsidy, if the Government adheres to the cut-off date in April 2003. Meanwhile, the prospects for the Universal Bank are uncertain, just as the remodelled Horizon project is being rolled out into the network. This is not a practical time for going to the equity market for privatisation.

The Postal Services Commission has been asked by the Government to make recommendations for the network in relation to the period beyond 2006. The commission may, by virtue of its terms of reference, apply precepts of central planning to the changing world of the commercial marketplace and the social community. But questions on the extent and scope of the post office network cannot always be answered by reference to statistical data. How large should a community be before it has a post office? How far should people be asked to travel to a post office? At what point should social costs be paid? How much subsidy should be paid to meet social ends? There is much to be said for a broader framework of policy rather than carefully calculated, prescriptive definitions. The UK would benefit from a network that was selectively and sensitively streamlined by a management team operating within a contractual framework and under the broad supervision of a regulator.

Nor does streamlining preclude the opening of new counters to replace those in decline. The German Post Office has opened more than 50 branches in department stores. In the UK, garages, food retailers and convenience stores are all possible hosts for government financial services in the community. The new dynamism in Germany has followed the privatisation of the service. This issue will return once the current uncertainties are resolved.

CHAPTER SIX
CONCLUSIONS

According to Post Office forecasts, the global postal and distribution market is expected to grow from £20 billion to £57 billion within the next decade. Neither the existing Post Office corporation nor the proposed Consignia plc, with the government as sole shareholder, is appropriately structured to secure a major share of this market. The Post Office's activities are too diverse, some global, others rooted in the community. Strategies are determined in too many fora, including the Cabinet Office, the DTI, and the Postal Services Commission, as well as the Post Office main and executive boards. The Germans and Dutch, in particular, have made faster and greater progress in positioning their businesses for the new era.

The Mails and Distribution businesses of the Post Office, including Royal Mail, Parcelforce, and their recent overseas acquisitions in bulk mail and CEP services, operate in a rapidly changing technical and regulatory international environment. They have great opportunities, but face intense competition, particularly from the major European global integrators. The UK's efforts to become a world player will founder, unless structures are created to enable the country to compete effectively. The Mails and Distribution businesses should be demerged as a separate company with its own board and management. This Royal Mail group, with or without the corporate name of Consignia, should then be privatised and draw on external capital markets to finance its expansion.

What would be the valuation of a privatised Royal Mail group? Ever since the issue arose under the last Conservative administration, the DTI has taken regular professional advice on this point. The indications seem to be that the Post Office as a whole could be valued at some 50% of annual sales or, at today's turnover, £3.75 billion. The Royal Mail group itself, with more dynamic global prospects than Post Office Counters, had sales in the year 1999-2000 of £6.45 billion. Its valuation should be in the order of £3.25 billion or more. To ensure best value for the taxpayer, a government could follow the German precedent of privatising 50% of the group initially, with further tranches being placed on the market over a five year period.

Post Office Counters Limited is a network of largely private franchises supplying governmental financial and administrative services in the community. One of its weakest elements is the nationalised group of Crown post offices, which needs urgent restructuring. Other steps must be taken to reshape the network, while providing appropriate service levels, particularly to those with social needs, but sentiment must be given a realistic context. It is hard to see why there should be more post offices than either bank and building society branches, or doctors' surgeries. Post Office Counters should be demerged as a separate company with its own board and management, operating within a contractual framework agreed with government. Although privatisation should be a medium-term possibility and give the organisation greater flexibility and more effective financing, many current uncertainties must be removed before privatisation can be considered practical. In the meantime, there is plenty of scope for greater efficiency.

Government has not performed well in its management of the Post Office. This should be a reminder of the fallibility of ministers and departmental officials, when they intervene in little understood matters of commerce, technology and the marketplace. The Post Office board is not responsible for policy changes at the Department of Social Security.

The Consignia board should hand over its responsibilities, not because of any errors it has made, but because the changing world demands a more focussed approach in their two major business streams, Royal Mail and Post Office Counters. In this new scenario, Royal Mail and Post Offices Counters should both be subject to a regulatory regime, but not controlled by ministers or officials; their relations with government should be contractual. It is not the purpose of this paper to recommend the precise mechanics of privatisation or to define the role of a regulator.

The new Royal Mail group should be allowed to compete with the world's best as a global integrator. A separate Post Office Counters business should be given the responsibility for reconfiguring the national network of post offices.

These steps would realise substantial sums for the Exchequer, relieve the taxpayer of the burden of funding future capital investment, provide greater dynamism and focus for the businesses, and offer improved competitiveness for the user. They would maintain the social and economic benefits of universal delivery at a uniform postal tariff within the UK, and of a national network of post offices within the community. They would create the flexibility for the postal organisations to respond to a liberalisation of competitive markets and further restrictions on their corporate monopolies. They would equip each section of the Post Office group to meet the challenges of its market sector with renewed vigour and success.

SIMPLICITY AND STABILITY:
THE POLITICS OF TAX POLICY*

The Rt Hon The Lord Howe Of Aberavon CH QC

> If taxes had existed in the Garden of Eden, the serpent wouldn't have needed an apple; the promise of a simpler tax system alone would have seduced Eve.

Not my words but those of an American tax law professor. She said it all, didn't she?[1] Tax simplification is a hugely seductive subject. And headline-seductive as well:

> Irrational, confused, damaging the economy and out of control.

Those words, from your latest Tax Manifesto, closely echo an earlier verdict:

> Incomprehensible, unrespected, unenforceable – and spinning like a top.

My words – from a talk which I once gave to the Addington Society. And it is even clearer today than it was then, that we are facing a problem not just of complexity but of volume too – of legislative overkill: too much law, too much change, and all too quickly.

But for all the words directed at this clutch of problems, not just here in Britain but all round the world, it is hard to spot much improvement. And, as others do

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* This paper contains the complete text of the eighth Hardman Memorial Lecture, delivered by Lord Howe on 9 November 2000. It is also being published in the *British Tax Review*, issue No. 2 for 2001. It is published by the CPS with the kind agreement of the *British Tax Review*.

1 Alice G. Abreu: "Untangling tax reform," (1996) 33 *San Diego Law Review* 1355.

not hesitate to remind me – frequently and, alas, rightly – this is a theatre in which I have played the part not just of critic but also of actor-manager. They point to my four years as Chancellor of the Exchequer. Most of them go on (as did last year's Hardman lecturer, Adam Broke, in whose distinguished and trail-blazing footsteps I am glad to tread tonight) to point to the *locus classicus* of the neglected case for reform – to that very talk of mine to the Addington Society, now almost quarter of a century ago.[2]

And the more sophisticated critics go on to identify the year – my last in office – which I spent as Leader of the House of Commons, as one of Parliament's so-called "business managers". Why, they ask – with the utmost courtesy, of course – did you not do more to tackle these problems when you were, not just once but twice, in a position to do so? It is a fair charge, to which I offer two defences -and from which I shall try to draw some useful conclusions.

The first – no surprise from a lawyer, perhaps – is an alibi: "I wasn't there, Guv!". I was too busy doing other important things. I was struggling to manage public expenditure, civil service pay, the nationalised industries, the International Monetary Fund, the European Community budget – not to mention the Prime Minister.

My second defence is to point to the huge forces, powerful institutions, time-hallowed processes – whose weight is all stacked against reform of any kind. In Douglas Hurd's memorable words, in a different context: "Inertia can develop its own momentum".

And so to my first positive conclusion, which springs – perhaps immodestly but directly – from the very existence of the Tax Law Rewrite project itself and from the success (limited though it may be) of the project thus far. And when I say "success" in that context, I mean two things.

First, we can now be seen to be delivering a product that is indisputably an improvement on the previous chaos. The draft Capital Allowances Bill, which the Rewrite team produced in August this year and which should be presented to Parliament before Christmas, has been widely acclaimed. In Adam Broke's words at the Rewrite press conference:

> For me, the Bill represents a revolution in accessibility. It has a logical structure and for the first time in my experience it has actually been designed to help the user.

So, it is possible to make things better.

Second, and of greater significance, the conception and structure of the Tax Law Rewrite project itself (and the process which brought it into existence) points the way to a wider future. For it can serve, both as a model and as an encouragement for those who seek a more far-reaching and sustainable improvement in quality, and reduction in quantity, of tax legislation. I cannot repeat too often that lower quantity is at least as important as higher quality.
If this exercise is to be carried through successfully, over what is bound to be a long period of years, there are a number of distractions that have to be resisted.

2 "Reform of Taxation Machinery," (1977) *BTR*, 97.

Few, if any, are intended to sabotage the search for simplicity. But they can easily have that effect.

One such distraction deserves little sympathy – the argument that "for the great majority of individuals and for quite a lot of companies, the tax system is simple. After all only a third of tax payers have to fill in a tax return."[3] In the United States, remarkably, I have seen the argument expressed in exactly the opposite way: "It is people, not businesses who are thought to be near revolt at having to spend so much time and energy on complex tax returns".[4] Whichever way the argument is put, wherever the shoe pinches most, I am sure that Adam Broke's answer is the only acceptable one:

> All compliance costs … are a burden on the economy …. Complexity is a problem and it does matter.[5]

The next distraction is rather more dispiriting: the suggestion that the whole exercise is inescapably doomed to failure. Bitter experience, it is said, leads to no other conclusion. In the United States, for example, the Reagan reforms of 1986, described by one expert as "the most comprehensive for decades … fell short of the kind of fundamental reform for which many economists had hoped".[6] So too, it seems, the fruits of reform have been equally disappointing elsewhere – even as perceived by that tenacious tax reformer, Cedric Sandford. In *Further Key Issues in Tax Reform*,[7] his judgments are very discouraging. In Canada, he concludes "whilst some of the changes promoted the object of simplicity, the net effect of the tax reform was the opposite"; in Australia, "on simplicity no progress was achieved"; and in New Zealand "as elsewhere, the tax reform failed to deliver simplification: rather the reverse".

This argument is supported by detailed analysis, purporting to prove that mounting complexity is inevitable. I may myself have unwittingly added some weight to this gloomy conclusion. For in my Addington lecture, I cited the Canadian verdict that implementation of their Carter Commission's tax reform package was "the economic Vietnam of the Trudeau government", which "failed to satisfy anyone [and] … produced strong, positive dissatisfaction in virtually every quarter".

But when I said that, I was certainly not seeking to establish a case against reform, still less against simplification. I was, however, expressing my deep suspicion of "the root-and-branch approach, even when it is dignified by the name of a Royal Commission".[8] I have elsewhere denounced this as "the magic box school of politics". Nowhere is that approach less useful than in the field of tax policy and legislation.

This kind of analysis has led all those who have studied the problem to conclude that, so far from seeking a "big bang" solution, we need instead to

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3 Adam Broke, "Simplification of Tax," (2000) *BTR*, 18, 20.

4 Ernest S. Christian, "How much simplification is enough?," *Tax Notes Today*, 23, December 1996.

5 Adam Broke, *op. cit*.

6 Joel B. Slemrod, "The Simplification Potential of Alternatives to Income Tax", *Tax Notes Today*, 1 March 1995.

7 *Fiscal Publications*, London, 1998 pp. 212-216.

8 Howe, op. cit. p 102.

identify, define and establish not an event but a process. We must, in other words, establish a comprehensive mechanism, through which the problems can be addressed and managed tenaciously over a period of years – not unlike the Tax Law Rewrite project itself. As Adam Broke has said:

> It's very unlikely that we can make any real progress on reform without some measure of institutional change.[9]

And that requires us to tackle the political process as well. Robert Maas has stressed: "Parliament is the key".[10]

The political process is indeed of fundamental importance at every stage. For it is only by persuading political leaders that we shall, first, win the intellectual case for simplification as an objective; and, second and above all, establish and keep in place the essential process that will enable it to happen. This is a tough case to lodge in political minds – and to lodge so firmly that it will in fact be carried through. Reformers can never relax.

For political pressure is often as easily mobilised in support of quite other objectives – which can actually obstruct, or distract from, our key agenda. It can, for example, be argued that the principal, if not the only, reason for tax complexity is that taxes are just too high. And this argument sometimes fuels a near-crusade against high taxation, with the risk of excluding other objectives.[11] I have to say that I am uneasy at trying to debate either the imposition or the avoidance of taxes in terms of morality. The first, on an appropriate scale, is effectively a necessity for any civilised society; and the second is an inevitable, and not in itself illegitimate, response in a society governed by law.

Now do not misunderstand me. I am certainly not seeking to make the opposite case, for higher taxation (still less for avoidance!) as a matter of principle. But I am warning against absolutism in our approach to this problem. It is not so much that a high tax burden is immoral as that it can all too easily be counter-productive. For avoidance – and thus, of course, counter-avoidance legislation – is greatly stimulated by the impact of too high a tax burden.

"Too high" a tax burden can manifest itself, as Maurice Saatchi and Peter Warburton (and a number of others) have pointed out,[12] in a number of avoidance-provocative ways: marginal rates that are too high; tax bases that have, often for that reason, been eroded by too many exceptions; and thresholds that are too low, quite probably because they have not been consistently indexed to take account of inflation. (Audrey Wise, alas, has passed away; and Jeff Rooker is otherwise engaged in some corner of the ministerial forest).

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9 Broke, op. cit. p 25.

10 "Why Parliament fails tax-payers", *The Tax Journal*, 21 February 2000, pp 10-12.

11 See, for example, a recent speech by William Hague: "The Moral Case for Low Taxation" to Politeia, 14 March 2000.

12 See *The War of Independence* and *The Bad Samaritan*, CPS, April 1999 and May 2000 respectively.

One other key cause of complexity, once again highlighted by Adam Broke,[13] has been the restless and recurrent diversification of the tax structure. This is another consequence of too high a tax burden – or, more often and directly perhaps, of spending programmes that are running out of control. This has often, in past "crises", been the real trigger for the introduction of hastily invented, additional taxes: from dog licences and window taxes in the Pitt-Napoleon era to investment income surcharge and capital transfer tax in the Cripps-Healey decades. Nigel Lawson and I can take credit for getting rid of a number of these; but, it must be said, with a disappointingly modest dividend in terms of a slimmer statute book. The removal of national insurance and investment income surcharges and of capital transfer and development land taxes effected a net reduction of only 200 disappointing pages.[14]

And even more discouragingly, recent occupants of Number 11 have spawned a clutch of new taxes – and legislative growth: airport tax, insurance premium tax, differential rates for stamp duty, for example, – all with soaring yields; and, from a depressing partnership between two Chancellors, not just one but two reduced rate bands for income tax. As you may imagine, that particularly saddened me – since it reversed my own removal, twenty years ago, of Denis Healey's single reduced rate band. That had enabled me to raise tax thresholds substantially and thus to save some 1,400 man-years of Inland Revenue staff time, with corresponding relief for the private sector. Now all that has been more than reversed. And so the tax law wheel keeps spinning.

No wonder that reformers, everywhere in the world, have set off in search of a simple – even revolutionary – solution. In this country, for example, we were for a time excited by the prospect apparently offered by Professor James Meade, of the expenditure tax as an answer to all our problems.[15] So too on the other side of the Atlantic, others have shared a similar dream. You can almost feel Joel Slemrod's mouth watering, as he writes:

> Using VAT to replace the income tax would provide an enormous amount of simplification ... [and] may be the United States is in the unique position [because of its low total tax burden] of [thus] being able to replace the income tax entirely.

But all too soon reality takes over. Even in the land of the free, such a change would not only be "entirely unprecedented" but also "highly regressive". And so, there too, the dream fades.[16]

One other apparently simple proposition recurs regularly in this debate: the flat tax proposal. Its most prominent (though not its first) manifestation was in the United States, under the joint authorship of Robert Hall and Alvin Rabushka[17] and the political sponsorship of (then) House Majority Leader Armey.

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13 Broke, op. cit. p 18.

14 See Geoffrey Howe, "Managing the Statute Book", (1992) *Statute Law Review* 165.

15 See, for example, *The Reform of Taxation*, IFS, 1978.

16 Joel B. Slemrod, op. cit.

17 *The Flat Tax* (1985): Hoover Institution Press, Stanford, CA.

Its most recent backers in this country have included Lord Saatchi and his fellow-thinkers.[18] They have put this familiar proposal into its most comprehensive form, designed to eliminate the annual "churning" (as it has long been described) of some £30 to £40 billion – payable in Exchequer cash benefits to millions of the very same families whose tax (and N.I.) payments help to finance the entire operation. Three "simple" steps are identified as necessary to make this possible:

(i) End the overlap between tax and benefits;
(ii) Exchange allowances for lower tax rates;
(iii) Merge the four agencies involved in gathering and giving out the cash: Inland Revenue, DSS, Benefits and Contribution Agencies.

For many of us, this has a familiar ring. Norman Lamont and I co-authored *Policies for Poverty*, a Bow Group paper on the subject in 1969. It was the theme of my maiden speech on 12 November 1964:

> Let us determine to integrate PAYE and RAYN ("Receive As You Need") into one simple comprehensive system.

(Notice the way in which, like others, I applied the word "simple" to an idea which has so far proved intractably difficult in practice!) Even so, the notion was warmly blessed by the Minister replying to the debate, another life-long seeker after the Holy Grail of simplification (and a former General Secretary of the Inland Revenue Staff Federation), Douglas Houghton. Since then the notion has inspired many unsuccessful protagonists – determined developers (Tony Barber and Arthur Cockfield, for example) of the whole Tax Credit project; or, more recently, Martin Taylor and his Gordon Brown-inspired Task Force; even, perhaps, Brown himself – with his half-formed, less than transparent, Working Family Tax Credit. How many here tonight would be able to explain this scheme to one of the Chancellor's target families?

Not that I have abandoned my youthful enthusiasm for this idea. Edward Troup, I know, has recently warned us[19] that the whole process "compromises the Inland Revenue's tradition of protecting privacy ... risks diverting [it] from its primary process of collecting money [and] ... should be ended". I have to say that he has not convinced me that we should give up the attempt to establish one rather than two sets of accounts between government and the country's citizens.

But, whatever the right answer to that question, it can have little bearing upon the task of tax policy simplification in the here and now. The on-going tax credit debate has been with us throughout my political life. So too, in North America – despite all the Forbes' millions spent upon it – the flat tax proposal has yet to enter anything like clear water.

Each idea may well have identified a long-term strategic objective. But for action today, one is driven towards the same central conclusion – that there is no chance of a knock-out success against tax complexity. If there is, as it has been put, "a war

18 See Saatchi, op. cit., and Jacob W. Braestrup, *Simpler Taxes*, Adam Smith Institute, 2000.

19 *Financial Times*, 3 November 2000.

to be declared",[20] then it has to be a war of attrition. And if it is ever to be won, then the leaders of that conflict will have to mobilise enduring support for simplification, on a scale that will consistently outweigh the huge range of lobbies, which stand in the way of effective action. Maurice Saatchi has rightly observed that:

> A national culture has emerged which stops political leaders taking the required action.[21]

Adam Broke has put the point even more sharply:

> You cannot achieve true simplification with the political process as it stands; put bleakly, it carries no votes.

An American commentator explains why.

> There is no strong constituency that opposes complexity and, above all, no constituency that is galvanised by simplicity.[22]

This is why it must be our central task to find ways of giving sustainable strength to that unrepresented constituency. Hence the need to establish and institutionalise a process, whose continuing insistence on simplicity is as irremovable, as constantly present, as the voice of the tax-raising departments – and as the politically restless, impatient, input of successive Chancellors.

One group who must continue to play a leading role in this process must be tax practitioners – yourselves and the other tax professionals. That is one clear lesson of the Tax Law Rewrite project. My colleagues and I on the Steering Committee, as well as those in the project team, are immensely grateful for the input of those who so painstakingly offer advice both on and through the Consultative Committee. But that advice (and that of other consumers) needs to be available, and heeded, throughout the process, at every level and across the board. This message is loudly echoed in the United States. As Daniel Halperin explains:

> We cannot rely on either the government or the academics alone to do the spade-work. The task requires considerable (and continuous) practitioner involvement.[23]

But if the first task is to broaden and intensify the input from the outside world into the process of tax policy-making and law-framing – and to do that at every stage – there is another even more challenging conclusion that has to be reached.

And that is encapsulated in one word in the title of this lecture:

Stability

The antithesis of that is the Institute's familiar (and entirely understandable) cry that the system is "out of control". And above all, it must be said, in volume terms. The statistics about the continuing explosion of tax law pages are all too

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20 Saatchi, op. cit., passim.
21 Saatchi, op. cit., age 18.
22 Joel B. Slemrod, op. cit.
23 "Saving the U.S. income tax", Laurence Wordsworth Memorial Lecture, Washington, DC, 7 November 1997.

familiar. And not least to those of us engaged in the Rewrite Project. This year's Finance Act (624 pages, largely drafted in traditional "style") is almost twice as long as our only Rewrite product so far – after four years work – the Capital Allowances Bill (340 pages). As I said last summer:

> It is like trying to repaint Brighton Pier at a time when its owners are trying to extend it to the French coast.

And so to one crucial conclusion. The Provisional Collection of Taxes Act, 1968, (first enacted in 1913) must no longer guarantee the Revenue Departments (and successive Chancellors) unlimited annual access to the statute book – effectively the right to write as much new tax law as they want. If we are ever to have a chance of stabilising, let alone simplifying our tax system, then we have to take action – and as soon as possible – to check the flow of new law.

The original purpose of the Provisional Collection of Taxes Act was arguably legitimate. It was a by-product of David Lloyd-George's 1909 budget clash with the House of Lords – and designed to ensure that, whatever the arguments about structure or tax reform, the basic taxes could continue to be collected. For this purpose, each year's Finance Bill implementing the Budget's taxing resolutions was granted by Parliament a "self-imposed and automatic guillotine",[24] which effectively ensured its enactment by the start of the summer recess. And this benefit was from the outset extended in effect to the entire Bill – whatever its contents and however long. Every other department of state has to fight to gain a place for even the smallest bill. Not so the Treasury. In Andrew Tyrie's graphic phrase, budgets (and their consequent Finance Bills, however large) are thus "unstoppable juggernauts".[25] Year in, year out. It is this which simply has to stop. Stability as well as simplicity. Legislative appetite must be restrained.

The right way to tackle this, I think, has been on the theoretical agenda – and reiterated by Malcolm Gammie[26] – over some years. The amendment of the Provisional Collection of Taxes Act so that it would apply only for its originally intended purpose – for the continuance of the income tax, and the imposition or alteration of any duties necessary for the purpose of adjusting the revenue. The remaining "technical" measures would not then require the Royal Assent until the following October. From this *de facto* division of the Financial Bill into two parts, it would then be only a short step to the more fundamental reform – also long advocated – of a separate Tax Management Bill.[27]

Some folk – not many, I suspect – may see this as a rather negative proposition. Those in the Revenue Departments, for example, with their customary stock of anti-avoidance measures. Or bright-eyed Chancellors, who relish – in Adam Broke's words – "playing God", with new tax initiatives – to promote savings or investment or whatever the fashion may be. I still retain, as you may imagine, a fellow-feeling for tax-collectors as well as for Chancellors.

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24 See my Addington lecture, op. cit., p 98 and passim.

25 *Mr Blair's Poodle*, Centre for Policy Studies, 2000, p. 11.

26 See, for example, *The Enactment of Tax Legislation*, The Law Society, 1988; and "The Process of Fiscal Reform in the UK", 1989, *BTR*, 252 at 255 and 264.

27 Supported as long ago as 1971 by the House of Commons Procedure Committee, *First Report*, 1970-71, HC 276.

But I have been persuaded – largely by several[28] of those semi-political but clear-sighted outsiders to the system, "special advisers", as they are called – that one serious problem is the extent to which tax policy formation is so largely dominated by these two influences: advice from the revenue departments (with "unequalled but necessarily one-sided experience") on the one hand and, on the other, by inspirational input from Chancellors who retain the misguided (and conceited) belief that tax changes can dramatically transform human behaviour.

I must confess, and emphasise, that much of the complexity of which we complain has arisen from that fundamental misconception. I plead personally guilty, by way of example, to what has been described as "the best example of a behemoth that has never achieved its purpose":[29] The Business Expansion Scheme, introduced in my 1982 Budget. I was warned at the time by the Inland Revenue that it could turn into a huge avoidance loophole. And so indeed it did. But I was at the same time urged in the opposite direction by a working party, which I had established specifically to design a more "enterprise-friendly" tax structure. So I consciously decided to accept the fiscal risk for the sake of the hoped-for structural reward. And I was wrong. I shall never forget the lesson.

The proper response is very clear. We need to ensure that the neglected constituency of which I have spoken, those who yearn, above all, for stability and simplicity, are effectively represented at every level, every stage, of the tax-making system. The Tax Law Rewrite Project itself provides important pointers in that direction.

It is a purpose-built process, established with all-party support and committed to the completion of a clearly defined task. Its basic work is carried out not by a free-standing Commission, detached from current tax policy developments, but by a dedicated team serviced by the Inland Revenue – and thus usefully plugged into the system. That team includes a changing cast of professionals from outside the Revenue, who are acknowledged to make a valuable input. There is a comprehensive process of consultation, drawn together through a widely representative Consultative Committee. The whole is overseen by the Steering Committee, which I chair and which includes senior figures from the judiciary, the tax professions, the business community and the House of Commons. I believe that this structure serves to give the whole process an important degree of independent authority. And finally there is in place, ready to consider the Bills to be produced by the Project, a streamlined and tailor-made parliamentary procedure – shortly to be triggered, we hope by the introduction of our draft Capital Allowances Bill.

In principle, there is good reason for that model to be followed, with suitable – and sometimes significant – modification, for the much more difficult task of simplifying not just the words but the substance and structure of tax policy. Two preliminary questions arise.

First, how wide should be the scope of the project – which I have labelled, for working purposes, the Tax Structure Review Programme? Tax Law Rewrite has

28 Most notably, Peter Cropper and Edward Troup.

29 Edward Troup, unpublished paper.

been concerned so far only with direct taxation. Interestingly enough, however, it is largely modelled upon a procedure that was used to produce the "modernised" Customs and Excise Act, 1952. And we know that the Government is looking with at least some favour upon the proposal by the Commons Treasury Committee for the two Revenue departments to be brought together, if not amalgamated.[30] Plainly that is not a process that could be implemented immediately or at speed. But that is not a good reason for dividing consideration of tax policy in the same way. The Tax Structure Review Programme will need to cover the entire field, extending indeed to the work of the "tax"-collecting Contributions Agency as well as of Customs & Excise. For the Programme's ultimate objective must be the evolution of a strategy for tax simplification that becomes incorporated into the process of generating tax policy itself.[31]

Where then – and this is the second key question – is the heart of our new Programme to be located and how should it be organised? It needs a degree of independence from government and parliament alike. It must not be so detached from either that its work and input can be ignored. So it needs to be part of the ongoing process of government, but with some authority of its own. It must, of course, be able, in the words of the high-powered Norton Commission (which supports the concept), "to put forward proposals for tax law reform and simplification".[32] But it must be able to do more than just propose. It must have, in Adam Broke's most recent prescription, some guaranteed "ability to get Ministers to promote the changes it recommends."[33] (The word "guaranteed" is my addition to Adam's more gentle thinking!)

For all this to happen, the heart of the Programme could well be similar to the existing Rewrite Unit. It needs to comprise a dedicated working group under strong leadership, of the kind which Neil Munro has so conspicuously provided for the Rewrite project. But because the Programme's remit would not be confined to direct taxation, its crew would need to include contingents from the other Revenue departments. And because the Programme would most emphatically be addressing policy questions, there would need also to be a significantly larger proportion of team members from the outside world – from professional, business and academic bodies such as, for example, your own and the Institute for Fiscal Studies. This ambitious Programme's life would certainly exceed that of the Rewrite Project. I suspect that it might indeed be immortal.

Would or should the establishment of a new Tax Structure Review Programme have any impact on the Tax Law Rewrite Project?

Some people, understandably impatient to get ahead with the broader task, might say "Forget about the rewrite; go for the root and branch reform instead, so as to make the rules themselves simpler". It is a tempting proposal – but is nevertheless rightly described by Maurice Parry-Wingfield as "misguided". It

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30 1998/99: Sixth Report: paras 79-81.

31 Along the lines of the Australian Tax Law Improvement Project: see for example, the article on this topic by Simon James and Ian Wallschutzky, Fiscal Studies (1997) pp 445-460.

32 *Report of the Commission to Strengthen Parliament*, (Chairman: Lord Norton of Louth), Conservative Party, 1990: pp. 41, 47.

33 Speaking at ICAEW Tax Symposium, 10 May 2000.

would, he points out, be folly to count on tax reform happening until it actually does. "By going for reform at the cost of the rewrite we risk throwing out the baby with the bathwater".[34]

Those of us involved with the Rewrite Project are well aware that our very process, in Parry-Wingfield's words, "cruelly exposes tax laws that are inconsistent, irrational and fundamentally complex". Our rightly limited terms of reference do not allow us to do more than nibble at the edges of such horrors. But we are highlighting them, on a growing stock-pile of targets for reform. They underline the urgency of the wider process. But, in another of Parry-Wingfield's metaphors: "It's not a question of whether the chicken should come before the egg but how we can have both". So certainly we must, in Adam Broke's words, "write in stone the government's continued support for the Rewrite".[35]

So the Tax Structure Review Programme would take its place alongside the continuing Rewrite Project. Clearly it would face a more challenging and substantial work-load than we have so far done. For much more difficult (and more frequent) questions – of policy rather than language – would have to be prepared for parliamentary and public consideration. It would enhance the authority of the Programme for parliament to be more strongly represented on the Steering Committee of this new project. The Committee might indeed itself be a parliamentary Select Committee. Its membership could usefully overlap with that of the Rewrite Steering Committee. There could be advantages if the membership included the Paymaster General or an other Treasury Minister responsible for tax policy. No one need, I hope, regard that idea as *lèse-majesté*, any more than present arrangements for Ministers to attend as members of parliamentary standing committees. The Chancellor of the Exchequer himself might also attend occasional meetings – rather as the Prime Minister used to attend NEDC meetings in the heyday of that extinct body.

Arrangements would, of course, be needed to ensure a regular pattern of liaison and consultation between the Rewrite Project and the Review Programme, on the one hand, and tax "consumers" – lay as well as business and professional. Even more important, however, would be the innovations involved for Parliament (and indeed in government itself) for handling the output of this new Tax Structure Review Programme.

Here too we can learn from the Rewrite Project, even though its purpose-built Parliamentary procedure[36] has yet to be tested. The crucial feature is that Rewrite Bills should go – not unlike present Consolidation Bills – for detailed consideration after Second Reading, not to the usual Commons Standing Committee but to the equivalent of what is known as a Special Standing Committee. This Special Standing Committee would include members of both Houses (under the chairmanship of a Commons Member) and be able to hear evidence about the Rewrite Bill before – or in parallel with – more formal consideration of its contents.

34 "The Chicken or the Egg?" 2000, *BTR*, 597.
35 10 May 2000, *vide* Note 33 supra.
36 Agreed and adopted by the Procedure Committee of both Houses; the Commons in March 1997 and the Lords as recently as last week. For the background to these changes, see *Parliamentary Procedures for the Enactment of Rewritten Tax Law*, IFS, November 1996.

This example of change has a wider significance than just for Rewrite Bills. For it is also, of course, a response to the widespread condemnation of the traditional Standing Committee procedures – certainly as applied to Finance Bills – as "pointless ritual",[37] "almost a complete waste of time",[38] and even "a scandalous spectacle".[39]

Andrew Tyrie indeed concludes that:

> It is unlikely that much would be lost if Standing Committees were abolished altogether.[40]

That is the view which has long ago been reached by the tax community so far as Finance Bills are concerned. It has now been more widely endorsed, (and not just in that context) by the Norton Commission to Strengthen Parliament. Lord Norton also proposes not only that the ritual Standing Committees should generally be replaced by Special Standing Committees but that the membership of such Special Standing Committees should be enlarged to include MPs with specialist experience, from the relevant back-bench Select Committee. For Finance Bills this would be, of course, the main Commons Finance Committee. The only remarkable thing about this proposal is that it has taken until now for it to emerge.

The same might also be said of the more radical notion that members of the House of Lords should be similarly engaged in the arrangements for scrutiny of fiscal legislation. This has already been agreed by both Houses for the Rewrite Bill procedure. But for a Finance Bill containing substantive proposals for amending tax statutes, it is indeed a more radical notion, that members of the Upper House should be directly involved. Yet it has been gaining wide support, at least from the members of the Upper House itself. In a debate only three months ago,[41] it was supported by members from all sides. And not surprisingly, given that membership of that House includes, as Lord Saatchi observed,[42] half a dozen former Chancellors and no less than nine former Chief Secretaries – as well as professors of economics, accountants and men of business galore.

Almost the last matter for consideration is the way in which changes – simplification, in other words – emerging from the Tax Structure Review Programme would come before Parliament. They would in fact be quite different from Rewrite Bills, which will normally be free-standing and self-contained. Tax Structure Review proposals for policy change would more traditionally emerge as part of (or as a contribution to the thinking contained in) more-or-less routine Finance Bills. And that raises again the question; are we still to be confronted with "routine" annual, block-buster, Finance Bills? Or are we, at last, to see this kind of material brought forward in separate parts? You will remember that this is what I suggested (and it wasn't original even

37 Tyrie, op. cit. p 11.
38 Maas, op. cit. p 11.
39 Ferdinand Mount, *The British Constitution Now*, 1992.
40 Tyrie, op. cit. p 51.
41 28 July 2000, Hansard, HL Vol. 616 cols. 725-761.
42 ibid. at Col. 731.

then) as long ago as 1977 and was then unable to implement during my time at the Treasury. And now it has been specifically commended in this context, again by the Norton Commission.

The proposal can now be linked, as I believe, with the suggestion which I mentioned a few minutes ago, for the substantial curtailment of scope of the Provisional Collection of Taxes Act (PCTA). This would have substantially the same effect as the two-part proposal. For the tax-raising provisions – for which the PCTA was originally designed – would indeed take effect by the prescribed date; but the structural proposals would enjoy much of the greater elbow room so long desired by the champions of the separate Tax Management Bill.

Beyond the achievement of these practically important procedural changes, there would, I hope and believe, develop from the proposals which I have tried to describe a much more important cultural change in the direction that we should all wish. For through these arrangements we might see developing an increasingly symbiotic and mutually respectful partnership between traditional opponents and mutual critics. We see indeed the beginning of this already, in the working of the Tax Law Rewrite project – which will, of course, remain a central and continuing process for the future.

Place alongside this the Tax Structure Review Programme, together with the potentially evolving parliamentary process I have described – and which has already received important political backing. Add to this the likely consequence of that process, that it would at least involve intelligent, public dialogue between experts (tax advisers as well as tax collectors); that it would be guided by a smaller and more expert group of politicians, in the jury box instead of being ranged in two reluctant shadow-boxing conscript platoons – and I should be quite optimistic about future developments. For I believe that such a structure and process could and would become the natural setting for the consultative processes that must be absolutely central to the making of tax policy as well as of tax law. Green papers, white papers, consultative documents and draft bills could all become as much the stock-in-trade of this process as Finance Bills themselves.

Only one thing more is essential: the additional resources – human as much as physical and, of course, financial – to make these changes come about. Clearly there will be the need for a substantial group of tax experts – from independent as well as public sources – in each of the new agencies I have described. Probably the most necessary, and hardest to recruit, will be those who have to undertake the drafting of the modernising legislation. For throughout my entire political life the Office of Parliamentary Counsel has been under-resourced, grossly over-worked – and ever more so.

It goes without saying that their work in this context would need to be in the style developed by the Rewrite team – and, rightly, very widely welcomed. We owe a debt of real gratitude to the dedicated few who have already been able to take us so far down that road. Nowhere, I can say from my own experience, is the role of pioneering innovation less easy than in the world of the law. That insight may be reinforced by the fact that in New Zealand it has proved necessary to establish, within the Inland Revenue department, a separate and distinct group of tax law draftsmen. This is said to be a consequence, apparently, of difficulties encountered in processing the desired product through the usual channels. Happily, we have not reached such a pass in this country. On the contrary indeed. And so, I hope, it will remain.

But, I repeat, mobilising the resources to make these changes happen – and above all the political will to achieve them – is going to be the hardest task of all. Much of my energy since I left office, almost exactly ten years ago, has been devoted to this task – but with the limited achievement, so far, of little more than the start of the Rewrite Project.

The choice of banner under which to achieve the next major mobilisation is not easy. "Simplification" alone will not be enough. For that task alone is, and will remain, intensely difficult. That is why I have suggested the two-pronged appeal: "Simplicity and Stability". For it is much easier at least to understand the significance of "stability". "For God's sake", it might be put, "stop messing us around – for heaven's sake, just leave us alone".

That is why those who complain about our tax system as well as our tax law are looking as much for a brake as a dynamo. We need both. And it is to those twin objectives that my proposals are directed.

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