[logo]

Poor People! Stop Paying Tax!

The War of Independence: A Call to Arms

MAURICE SAATCHI & PETER WARBURTON

CENTRE FOR POLICY STUDIES
57 Tufton Street, London SW1P 3QL
2001

THE AUTHORS

MAURICE SAATCHI graduated from the London School of Economics and Political Science in 1967 with First Class Honours in Economics. He won the MacMillan Prize for Sociology in that year. He was the co-founder of Saatchi & Saatchi Advertising and is now a partner in M & C Saatchi. He is a Governor of the London School of Economics and a Director of the Centre for Policy Studies. He was elevated to the peerage in 1996, and is now the Conservative Treasury Spokesman in the House of Lords.

PETER WARBURTON is an independent economic consultant and a Director of Economic Perspectives and Rhombus Research. He was previously economic adviser in the equity research division of Chase Manhattan, having joined Robert Fleming in 1989 as Chief Economist. He is a member of the Shadow Monetary Policy Committee at the Institute of Economic Affairs and published, *Debt and Delusion* in 1999.

Acknowledgements

The authors wish to thank Jeremy Sinclair for his major contribution to this pamphlet; and to Steve Hilton for his part in its early stages. Support for this publication was given by the Institute for Policy Research.

ISBN No. 1 903219 28 0

57 Tufton Street, London SW1P 3QA

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

CONTENTS

PREFACE

IN THE LAST SIX GENERAL ELECTIONS, the party that leads on Gallup's 'economic competence' rating is the one that wins. Party ratings on other issues like health and education do not affect the outcome.

Building a reputation for economic management is therefore the priority for any party with ambition for Government.

The modern Conservative Party is inhibited in this task by concern that a focus on economics reinforces its cruel and heartless reputation.

Yet an interest in economics does not imply a heart of stone.

Conservatives through the ages have always recognised the noble purpose of economics. Disraeli's aim was 'the elevation of the condition of the people'. Churchill put 'the improvement of the condition of the British people' at the forefront of his speeches. Iain Macloed said 'money is the route of all progress'. And Mrs. Thatcher thought 'caring that works costs cash'.

Labour spokesmen tend to wear their hearts on their sleeves, and routinely condemn Conservatives for ice-cold brutishness.

Conservatives criticise Labour for naïve romanticism.

Meanwhile 3.6 million people who are too poor to be taxed, are being taxed. The poorest people are paying tax at a rate of 63%. It's a mad world with the poor paying higher taxes than the rich.

Between the unfulfilled dreams of the Left – which doesn't seem to deliver; and the worldly cynicism of the Right – which doesn't seem to care, the public has been left high and dry, sceptical of all politics and all politicians. No wonder so many don't bother to vote.

What is required is a synthesis to appeal to utopian theories as well as practical necessities. To show how Tory economics can solve the problems that Labour like to talk about. That is what this pamphlet aims to provide – Labour dreams by Tory means.

POOR PEOPLE! STOP PAYING TAX!

SUMMARY

- Poor people should stop paying tax.

- It is outrageous that 3.6 million people who earn less than half the national average should pay any tax at all. The result is that the Government then has to hand out an extra £3 billion to help them get by.

- The poorest 10% of people pay between 50% and 63% of their income in tax. The least well-off pay the highest rate.

- Can this injustice be stopped? The opportunity exists because of the staggering complexity of the current system – in which the government claims billions of pounds a year in taxes from citizens who also claim billions of pounds a year in benefits from the government.

- The government first taxes people on low incomes. Then it means-tests their income. Then it offers them benefits to restore their income back to where it was before they paid the tax. Then, finally, it taxes some of the benefits.

POOR PEOPLE! STOP PAYING TAX!

- A radical simplification is needed in which the tangled web of benefits and credits is simply exchanged for lower tax. In this proposal, the personal income tax allowance (the threshold at which you start paying tax) is dramatically raised from £4,385 to £10,000.

- The advantage of the proposed system is that eight million people earning less than £10,000 a year stop paying income tax altogether. With higher after-tax incomes, their need for state benefits is reduced and their independence is increased. The typical improvement in their net income is between 4% and 10%. They will be the first prisoners freed in the War of Independence.

- Cancellation of the bizarre overlap between tax and benefits means lower tax receipts for the Exchequer, which are compensated by lower benefit payments. With other proposed changes the net outcome is fiscally neutral.

- After this first act in the War of Independence, a rolling programme will move towards the ultimate aim – that people will either be taxpayers, or benefit recipients, but not both at the same time.

SUMMARY

- The joy of this proposal is its simplicity. The current over-complicated system allows governments too much scope for invisible tax raising. The present measure of taxation – ‘tax as a percentage of GDP’ – is incomprehensible to most people.

- A simple yardstick of taxation is required to focus attention on the true levels of tax paid. That is ‘Independence Day’, the day of the year on which people stop working for the government and start working for themselves and their families. In the last four years alone that day has moved from 27 May to 10 June.

- Independence Day should be a benchmark symbol, so that people will always be able to assess: ‘Are we going forwards or backwards?’

- Independence Day should be declared an annual national holiday, a mark of progress towards the goal of greater independence for everyone.

- The result would be a dramatically more transparent and open system, understood by all. Not least by the eight million people who will stop paying tax.

CHAPTER ONE

INTRODUCTION

IT IS A STARK FACT of twenty-first century life that government and citizen have something in common: they are both short of money.

The government is so short of it, it even taxes people who can't afford to pay tax at all.

The government does not have enough money for the best health service, schools, roads and suchlike; and the citizen does not have enough for a good pension, medical care in old age, university fees and so on. So they torture each other. Governments put up tax, which reduces individual incomes and creates more dependence on the state. And citizens claim more state benefits to compensate. And so it goes on until the government is claiming billions of pounds a year in taxes from citizens who also claim billions of pounds a year in benefits from the government.

The result is that almost a quarter of the households in Britain are currently means tested for benefits; this Government plans to increase this proportion to nearly 40%. Almost half[1] of the increase in government administration costs is allocated to the collection of tax or the distribution of benefits: yet billions of pounds of benefits and credits go unclaimed by millions of citizens who cannot fathom how to claim them.

Nor has the political debate moved on. Right-wing politicians always said that taxes should be cut to increase self-determination; and the only way they could think of to do that was to cut public spending. But the Left always said that tax served a moral purpose, and it would be cruel and uncaring to cut public spending. That was it: stalemate. Tax went up whoever was in office, with the poorest people bearing the heaviest tax burden.

---

1 Public expenditure plans show that government administration costs will increase from £13.7 billion in 1998/99 to £17.2 billion in 2003/04. About half of this increase in administrative costs, or about £1.8 billion, has been allocated to tax collection and benefit distribution.

It is not as though this steady increase in taxation has achieved a noble purpose. On the contrary, the terrible problem at the heart of the present system has not gone away; taxes always seem to be going up, yet there never seems to be enough money to spend on good things like health and education. It is as if we always have to accept as inevitable the combination of high taxes and inadequate public services.

The loss of individual independence involved in this process is not a theoretical notion: it can be measured. 'Independence' can be gauged by measuring the proportion of an average citizen's working year that is spent earning money to pay to the government; by looking at the day on which people stop working for the government, and start working for themselves and their families. That day is 'Independence Day'.

A simple measure of the way governments raise tax revenue is needed in order to focus public attention on the true levels of tax being paid. There was once a time when the public could look to the standard rate of income tax as the yardstick of whether their taxes were going up or down. But that was before the Treasury perfected its skill in cutting visible taxes on voters, while raising invisible taxes elsewhere. The complications in the tax system resulting from that strategy are described in the next chapter. They have rendered obsolete the old-fashioned measure of taxation.

For the poorest people, Independence Day will not arrive until 18 August.

The Government's preferred replacement, the 'official tax burden', is defined as net taxes and social security contributions as a percentage of GDP. This is incomprehensible to most people. It is also distorted by the introduction of tax credits. A different measure is required to assess the real level of taxation in the modern age.

'Independence Day' adopts the method of calculation used by the Adam Smith Institute in determining 'Tax Freedom Day'.[2]

As little as 40 years ago, soon after the establishment of the modern welfare state, and before 'privatisation' was even thought of, the government accounted for just 31% of economic activity in Britain. In those days, Independence Day, fell on 25 April.

In 2000, the tax burden reached £365 billion, equivalent to more than 43% of Net National Income (NNI). Appendix 1 describes this calculation in detail. On this calculation, people worked for the government for all of the first five months of the year. So Independence Day in 2000 fell on June 9.

---

[2] See Appendix 1 for details.

INTRODUCTION

When the present Government was elected four years ago Independence Day fell on May 27. This year, it was on June 10. But for the poorest people, it will not arrive until 18 August. The ultimate aim should be to move it forward to 25 April (where it was in the 1950s), when tax was only 31% of NNI.

It is time for a declaration of war. The War of Independence. Its aim is to focus public attention on the benefits of bringing forward Britain's 'Independence Day'.

The aims of this war are not merely to increase economic growth and provide more families with jobs (although experience shows that it will). Nor are its aims to improve living standards and reduce social exclusion (although experience shows that this is the most likely outcome). A War of Independence is just because dependence is bad, and independence is good – good in itself. The overwhelming moral, political and economic arguments are in its favour. It is a necessary and just war – and it should be fought first to rescue 3.6 million working adults with below half average earnings from tax payments that help to make them dependent on the government.

Independence Day – the day on which people stop working for the government and start working for themselves and their families – should be declared a national holiday, a mark of progress towards the goal of greater independence for all (see Appendix 2).

Independence Day should be a benchmark symbol, so that people will always be able to assess: 'Are we going forwards or backwards?'

Within five years, the UK could restore transparency and simplicity to the financial affairs of millions of households, and reduce the official tax burden from 38% towards 34% of GDP into the bargain.

Governments would be obliged to display greater transparency in their tax policies. Full disclosure would mean governments could not hide from the political consequences of their tax actions. The scope for 'stealth tax' could be reduced. The hidden effects of 'fiscal drag' could be neutralised. The system can be revitalised and restructured for the benefit of everyone.

Under the rolling programme to bring forward Independence Day, work could begin to smooth the transition to a permanently lower tax burden, and a greatly simplified tax system, with all the long-term benefits that it will bring to Britain's growth, competitiveness and wealth.

The old, sterile debate on tax and spending is unsuited to a new century. The need for change is evident from examination of the present system.

CHAPTER TWO

THE HIDEOUS COMPLEXITY OF THE PRESENT SYSTEM

A massive overlap between tax and benefit payments

Incremental reform of the existing tax, national insurance and benefit systems over the past 30 years has created a highly complex and contradictory framework of transfer payments.

Every year, the government collects around £30 billion in income tax and national insurance contributions from working households to whom it also distributes around £30 billion in benefits.

So, bizarrely, Britain's tax and benefit system today needlessly transfers £30 billion each year (9% of all government spending) in and out of the very same working age households, because of the overlap between taxpayers and recipients of state-administered benefits and pensions.

The requirement to pay tax has never reached so far down the income scale as it does today.

Meanwhile, the requirement to pay income tax has never reached so low down the income scale. 3.6 million people of working age earn less than half the national average. (£21,842 p.a. at April 2000). Virtually all of them pay tax to the government. And the majority of them also receive means-tested benefits from the government. Some of these benefits are themselves taxed. The result is that tens of millions of benefit claims have to be paid each week, many of which are income top-ups and housing subsidies to tax-paying low income working households.

How much better it would be if these households simply retained a larger proportion of their earned income. Higher net incomes reduce the need for government benefit payments, because people no longer qualify for means-tested benefits. The motivations for millions of minor tax and benefit transfers would simply disappear.

A bizarre range of methods by which benefits are assessed for tax.
Some benefits are income means-tested, some are capital means-tested and others neither.

Income tax is based on the income of the individual. Benefits are based on the income and capital of household units, defined simply as individuals living in the same accommodation and sharing at least one meal together each day.

One result of this interaction of taxes and benefits is that the net income of a single mother will more than double if she works 16 as opposed to 15 hours per week; and will fall if she works 27 hours as opposed to 26 hours per week.[3]

This year, £2.6 billion of benefits will go unclaimed.

Another is that a family with total earnings of £100,000 per annum pays 0% tax on child benefit, while an unemployed household pays tax at 100%. For those working 16 hours per week or more, child benefit is taxed at 65% with housing benefit, and 20% with council tax benefit. This is because it forms part of the income calculation which triggers the taper restriction when resources exceed the relevant threshold.

And for a pensioner to claim the Government's new Minimum Income Guarantee, for example, requires the completion of a 40 page application form. Age Concern described it: "a massively complex system and endless form filling for pensioners."[4]

In 1998-99, between £2 billion and £4 billion of existing income-related benefits went unclaimed (see Appendix 6). This year, following the introduction of the Children's Tax Credit and the Pensions Credit, it estimated that a further £2.6 billion pounds of budgeted expenditure will go unclaimed.

The interaction of all these various benefits and taxes creates a marginal tax rate of 95% for hundreds of thousands of households. And capital means-testing for the Working Families Tax Credit means households with savings are heavily penalised if they confess to holding them in deposit accounts. O what a tangled web!

---

3 See Maurice Saatchi and Peter Warburton, *The Bad Samaritan,* Centre for Policy Studies, 2000, p. 5.

4 It is no surprise that, of the 500,000 pensioners entitled to claim this allowance, only 82,000 had attempted the feat by April 2001.

A staggering proliferation of tax rates.

The tax burden is constantly rising. The tax system is getting more complicated. This complexity increases the tax burden further by adding to the cost of administration.

According to the latest figures from the House of Commons Library, even the number of basic tax rates has more than doubled from 15 to 38 under the present Government. Tolley's collection of tax manuals, the bible of tax accountants, has increased from 2,529 to 3,293 pages since 1997 .

The latest pre-Budget Report ran to 205 pages, plus a further 140 in Treasury supporting documents, plus another 126 pages from the Social Security Department. The last Finance Bill took existing tax legislation to over 6,000 pages, over one foot high.

The charm of such a complicated tax system, from the government's point of view, is the scope it allows for hidden tax increases via reduced allowances. Under this structure the Chancellor can increase the tax burden without ever announcing a tax rise. People just wake up one day and find that they are in a higher tax bracket, with the result that tax as a percentage of national income creeps up invisibly. Economists call this 'fiscal drag', and it is part of the reason why, in the last three years, the Government's tax revenues have risen three times faster than average earnings.

The charm of such a complicated system is the scope it allows for hidden tax increases.

Lack of Parliamentary Scrutiny

The Institute of Chartered Accountants recently warned that the tax system was so complicated that it had 'spun out of democratic control'.

The Treasury Select Committee in the House of Commons explained in its latest report in January that the passage of Finance Bills through Parliament affords insufficient opportunities for scrutiny of complex measures. Lord Barnett, a former Chief Secretary to the Treasury, told the Commons Committee:

> The Finance Bill and the way it is examined by Parliament is totally inadequate, so you get very bad legislation on the statute book and there is no opportunity for the House of Lords or any Select Committee to look at it from a purely technical point of view.

The Select Committee concluded:

> We are dissatisfied with procedure on the Finance Bill, which lets badly drafted and insufficiently tested tax legislation onto the statute book every year.

The difficulty of giving a detailed Finance Bill proper scrutiny in Parliament is reflected in widespread concern about the complexity of the resulting tax system. The Institute of Chartered Accountants says:

> The Finance Act 2000 ran to a staggering 624 pages. Much of this legislation was barely debated in its progress through Parliament. Many of the provisions became law without either a thorough review or the time for second thoughts or worthwhile amendments.

This may not be an accident. Consider the words of the Chancellor in his last Budget Statement:

> The direct tax burden for the average family falls ... [to] the lowest level for 30 years.

That statement, exploiting the distinction between direct and indirect taxes, took full advantage of the complexity of the system.

The *Financial Times* concluded that the Chancellor had:

> …reduced budget transparency to a new low. Important tax changes have been omitted from the speech. Statistics have rarely been quoted on a consistent basis. The Budget documentation has been filled with political point-scoring rather than factual analysis. There has been a continued tendency to classify the collection of revenue as anything other than taxation.

No citizen, however intelligent, can match the massed ranks of No. 10, No. 11 and the Treasury: one man against the legions of Rome.

The tax system collects a staggering 53% of GDP. The citizen then has to claim back 14% of GDP by navigating over 250 allowances, reliefs, exemptions, credits, tapers, indexations, disregards and so on.

And lack of transparency

Most people believe the tax system now takes around 39% of GDP. But as Figure 1 shows that is just the end result of the system – the total system collects a staggering total of 53% of GDP. The Citizen is obliged to claim back 14% of GDP – £143 billion – by navigating a mass of over 250 complex tax allowances, reliefs, exemptions, credits, tapers, indexations, disregards and so on. The whole process gives the government much greater sway over individuals' lives than it needs to achieve the same financial result.

Figure 1

Structure of the UK taxation system (2000-01)

	Tax paid £bn	Estimated value of tax reliefs £bn	Notional taxation £bn
Income, capital gains tax and IHT	112.1	70.7	182.8
Council tax and motor vehicle duty	18.7	0.0	18.7
National Insurance contributions	29.1	11.3	40.4
VAT	61.6	26.8	88.4
Other taxes and duties on products	52.4	0.0	52.4
Taxes levied on companies	93.2	28.7	121.9
Totals	**367.1**	**137.5**	**504.6**
Total tax as a % of GDP at market prices	38.8*	14.5	53.3
Principal tax reliefs:			
Personal income tax thresholds		32.9	
Occupational and personal pension relief		21.3	
Zero-rated VAT items		19.6	
Capital investment allowances (companies)		18.8	
Other income tax allowances		10.4	
Other corporation tax and PRT reliefs		9.9	
Inheritance tax and stamp duty reliefs		8.2	
Exemptions from VAT		7.2	
Capital gains tax relief		6.8	
Other National Insurance reliefs		2.4	
Total		137.5	

* This figure takes no account of the impact of tax credits and so differs from the official tax burden of 38%.

Sources: HM Treasury Tax Ready Reckoner and Reliefs, November 2000; ONS Financial Statistics, May 2001

POOR PEOPLE. MOST TAX

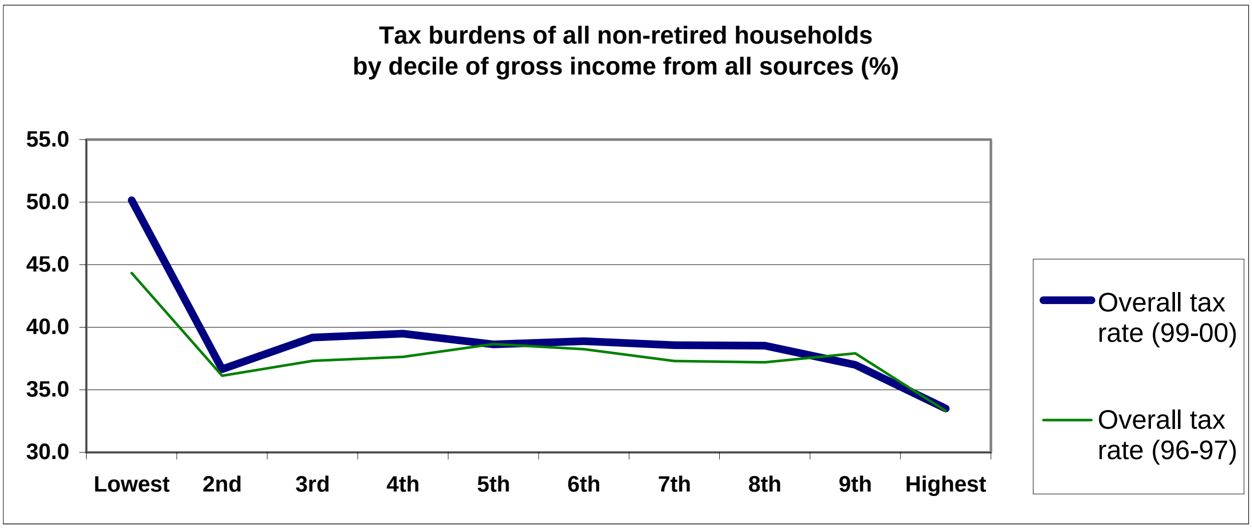
ALL TAXATION, direct or indirect, wealth, income or expenditure-based, is paid ultimately by individuals. A system with many different types of taxation is likely to include some that are progressive, some that are neutral with respect to income, and some that are regressive. It is generally assumed, however, that those with the highest incomes will pay a larger slice of income in tax than those with the lowest. In other words, that the progressive taxes will dominate the regressive ones in the overall scheme. For working households in the UK, this is untrue. Unbelievably, the lowest decile of gross income (comprising cash benefits in addition to original income) suffers an average tax burden of more than 50%, as against about 37% for the six middle deciles and 33% for the highest decile. This perversity has become more pronounced since 1996-97 (see Figure 2). Households with children (Figure 3) fare slightly better, but those without children (Figure 4) suffer an even more brutal burden – a staggering 63% of their income is paid in tax.

The poorest people are paying 63% of their income in tax.

Poor people should stop paying tax

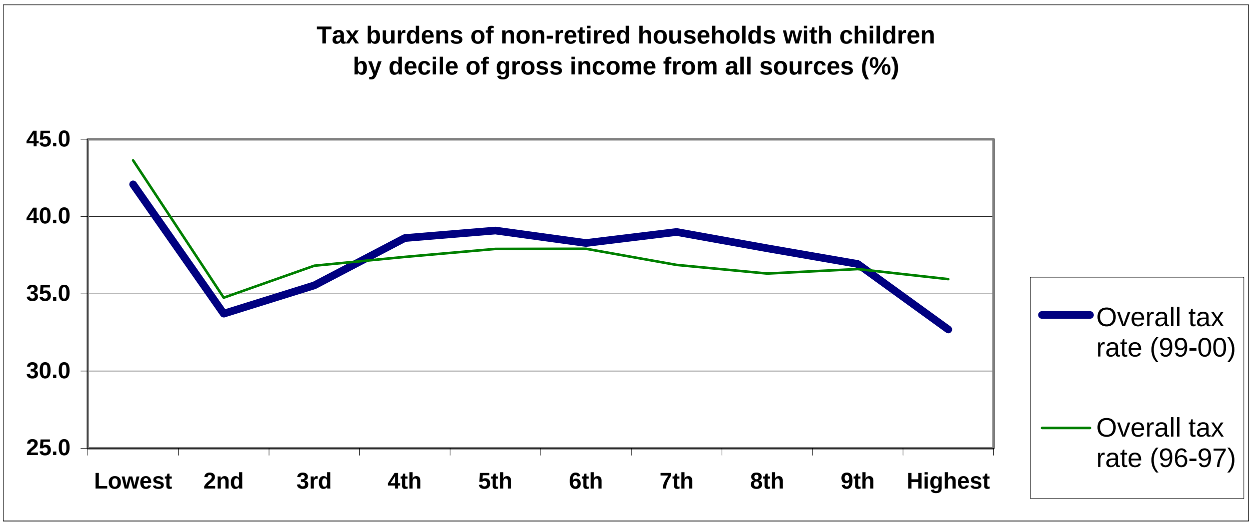
This arises largely because those with the lowest incomes have similar propensities to consume alcohol, tobacco, petrol and lottery tickets as people with much higher incomes. Since the rates of VAT and excise duties are common to everyone who purchases these items, the absolute amount of indirect taxation shouldered by the poorest tenth of the distribution accounts for a very high percentage of their gross income. However, this is no reason to load these individuals with a direct tax burden as well. The bottom decile pays income tax, employees national insurance contributions and a hefty slug of council tax, net of council tax benefit. What good purpose is served by these impositions?

Figure 2



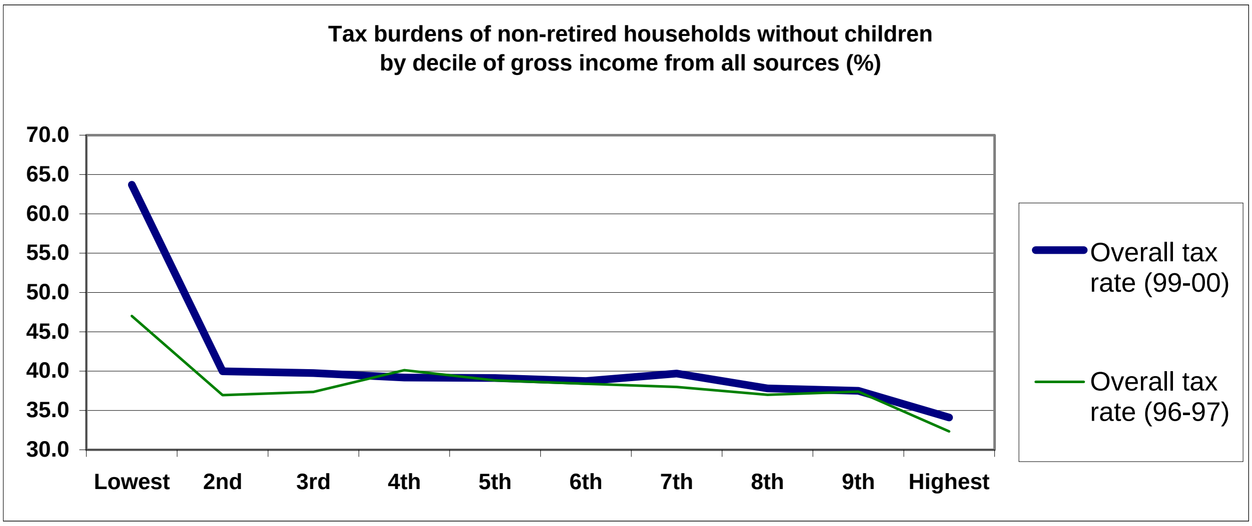
Source: ONS, Economic Trends, April 1998 and April 2001.

Figure 3



Source: ONS, Economic Trends, April 1998 and April 2001.

Figure 4



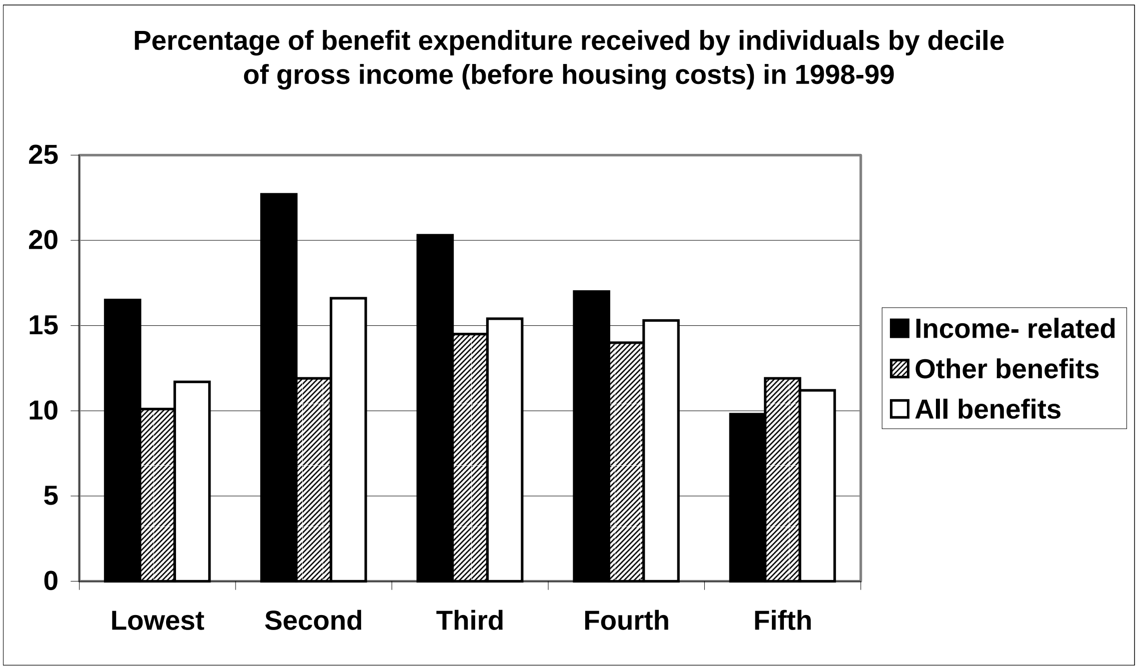
Source: ONS, Economic Trends, April 1998 and April 2001.

One of the arguments that is frequently aired is that the payment of income tax or council tax, even at a low level, is a mark of civic responsibility; an acknowledgement of the cost of government services. Yet, the regressive nature of the overall tax system exacts an ample fraction of low incomes via the choice of expenditures. The bottom two income deciles should have nothing to do with the income tax system.

The top half of income earners receives 30% of all benefit expenditure.

Likewise, the upper half of earners should have little contact with the benefit system, and yet it does. The top half receives 30% of all benefit expenditure, composed of 14% of income-related benefits and 38% of benefits connected to personal or household characteristics (see Figure 5). The poorest tenth barely receives 12% of all benefit spending, a figure bettered by the second-lowest (15%), third-lowest (16%) and fourth-lowest (15%) deciles. The failure of the tax and means-tested benefit system to concentrate financial support on the most needy is a considerable indictment.

Figure 5



Source: Derived from DSS Social Security Statistics 2000, p.188.

One element of the explanation for the greater success of the second to fourth deciles in securing benefits lies in their preferential access to information and facilities. Higher educational attainment may also play a part.

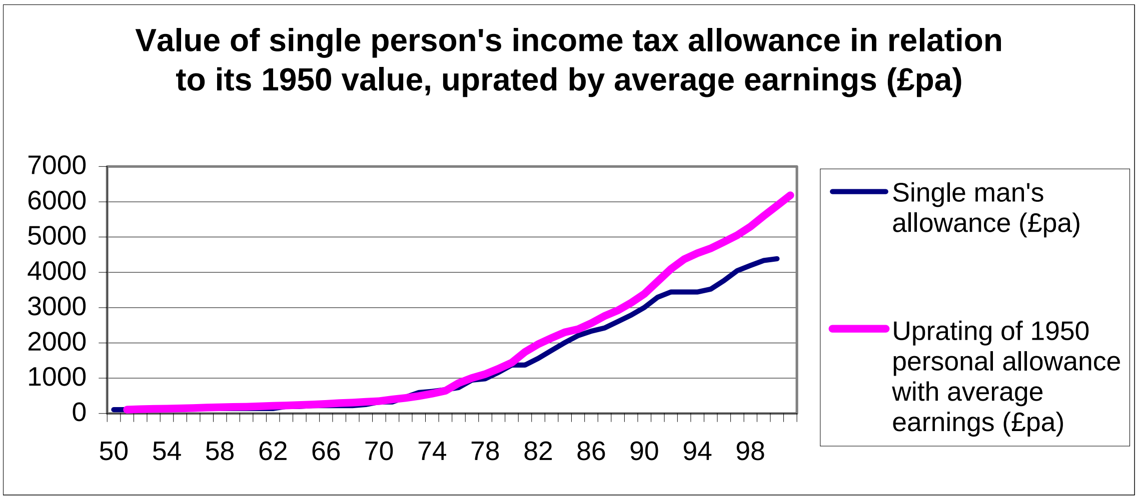
The point is not that poorer people pay a lot of income tax, but that they pay any tax at all. According to Inland Revenue Statistics for 2000-01, a total of £3 billion was received from 8 million taxpayers with annual gross incomes below £10,000. This proposal envisages an income tax system with 8 million fewer taxpayers, a drop from nearly 28 million at present to under 20 million individuals.

£3 billion is taken from 8 million taxpayers with annual incomes below £10,000.

Erosion of personal income tax threshold

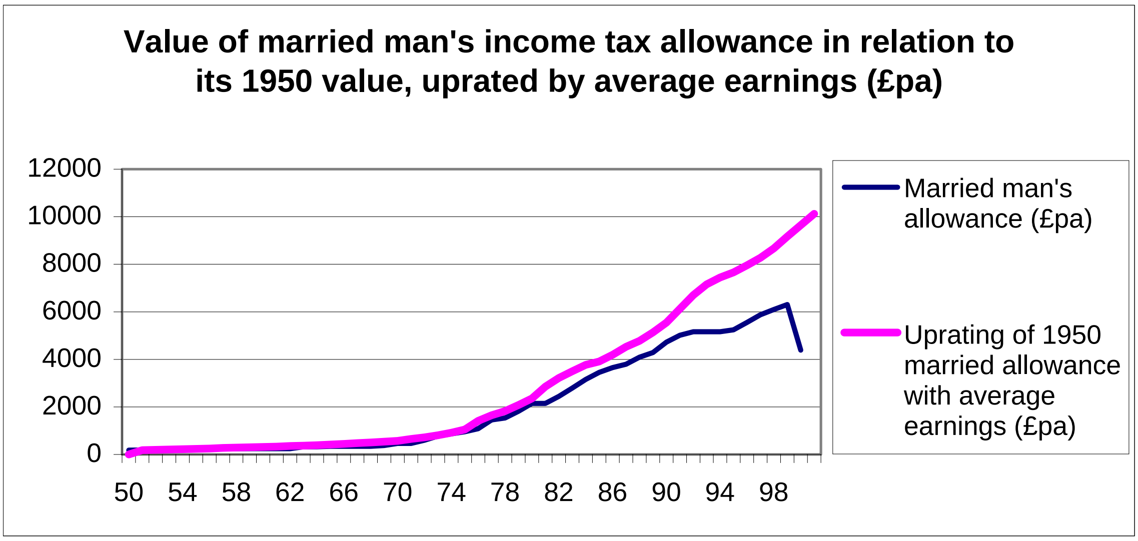
At the heart of this proposal is the notion that poor people should not pay tax. The most effective means of achieving this is through a significant increase in the universal personal income tax allowance – the threshold at which taxpayers begin to pay tax. The personal tax threshold for 2000-01 was £4,385, equivalent to £84.33 per week or £2.28 per hour for an employee working a typical 37-hour week. Over the past 50 years this threshold has dropped lower and lower in relation to average earnings. For a single person, it would need to be £6,200 in the tax year 2000-01 to restore the value that it had in 1950 (see Figure 6). The recent abolition of the married couple's allowance means that the primary earner in a marriage would require an allowance of £10,000 per annum to enjoy the same degree of protection from tax as a married man in 1950 (see Figure 7).

Figure 6



Source: Inland Revenue Statistics.

Figure 7



Source: Inland Revenue Statistics.

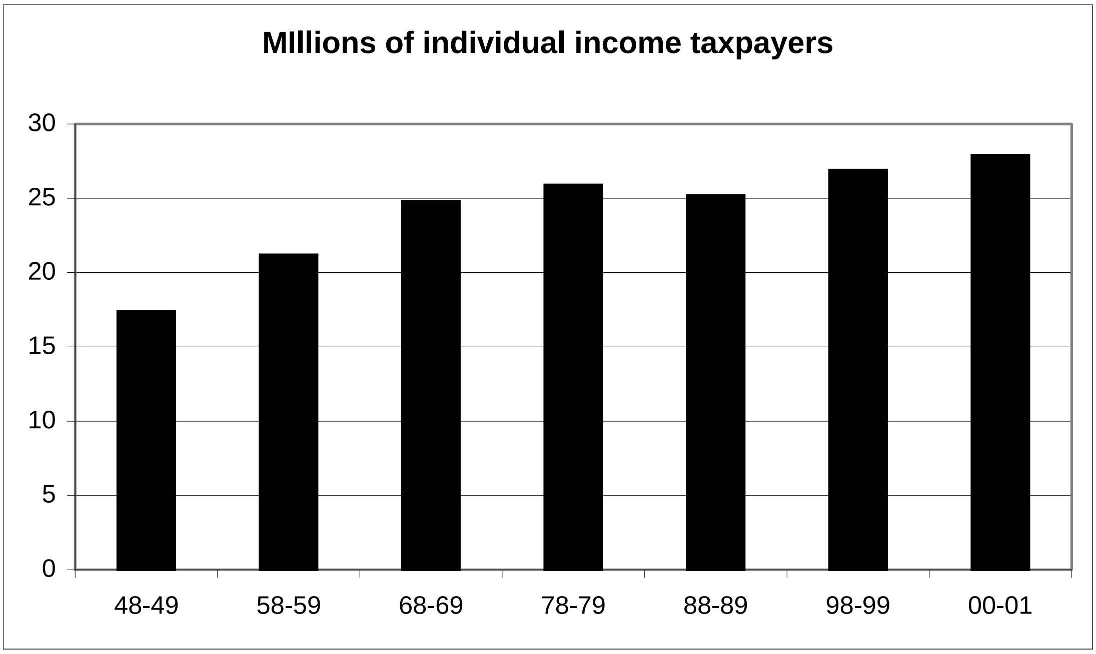
> The most effective means of achieving change is through a significant increase in the threshold at which people begin to pay tax.

The consequences of the failure by post-war governments to uprate the personal and married couple's allowances with earnings are obvious. More adults have become income taxpayers (see Figure 8). From around 17 million individuals (representing 34% of the population) in 1948-49, the total has swelled to 27.8 million last year, 60% of the population. Between 1996-97 and 2000-01, the number of single people paying income tax has risen by 1.3 million from 10.35 million to 11.7 million, an increase of 13%. The number of married male taxpayers has grown from 9.11 million to 9.4 million and for married female taxpayers, from 6.2 million to 6.7 million. The over-65 age group numbers 3.5 million taxpayers, up from 3.3 million four years ago and less than 3 million as recently as 1992-93.

> Over the past 50 years, this threshold has dropped lower and lower in relation to average earnings.

Despite the introduction of lower rate bands and a reduction in the standard rate of tax from 30% in 1985-86 to 22% in 2001-01, gross income tax receipts have risen from 9.8% of GDP in 1985-86 to an estimated 11.3% in 2000-01. Year by year, the income tax system becomes more and more 'socially inclusive'. More people are paying income tax, and the share of income tax in total incomes is rising.

Figure 8



Source: Inland Revenue Statistics 2001.

Hidden by the complex tax system

Since 1997, a number of new elements have been added to the structure of personal taxation, benefits and work incentives. The National Minimum Wage, the New Deal and the increase in the value of tax credits for working families have been presented as measures to modernise Britain's tax and benefit system. Within these structural changes is the commendable objective of reducing the incidence of child poverty. However, this programme of modernisation has found no virtue in simplification.

The latest quarterly bulletin on this subject, published by the Department of Social Security, runs to 50 pages. The tax credit system is so complicated that the take-up rates are much lower than expected and small employers have become wary of taking on employees for whom they will be required to administer Working Family Tax Credit (WFTC) payments.[5] For the self-employed, the system is intractable and impenetrable.

More means testing

A parallel development has been the extension of means-testing within the tax-benefit system. The most common form of this is means-tested benefits, but there is another complex feature of the tax and benefit system: the taxable benefit. Figure 9 shows the characteristics of the main non-contributory benefits, allowances and tax credits.

---

5 See Appendix 6.

Figure 9

Characteristics of non-contributory benefits

	Means-tested	Taxable
Family Credit	Yes	No
WFTC	Yes	Not applicable
Income Support	Yes	Yes
Housing Benefit	Yes	No
Council Tax Benefit	Yes	No
Social Fund*	Yes	No
Jobseeker's Allowance (income-based)	Yes	Yes
Incapacity Benefit	No	Yes
Child Tax Credit	Yes	Not applicable
Pension Credit	Yes	Not applicable

Sources: DSS Social Security Statistics, 2000.

24% of households today receive at least one means-tested benefit. The House of Commons Library expects that to rise to 38% in 2003.

Means-tested benefits, including those that have been reclassified as tax credits, have assumed a rising proportion of social security spending in the post-War years. The DSS *Family Resources Survey* for 1998-99 reported that 24% of benefit units (a definition that loosely equates to households) received at least one means-tested benefit. But the introduction of the Pension Credit and the Child Tax Credit, in addition to the WFTC, is expected to produce a sizeable increase in the percentage of households in receipt of some means-tested benefit. The House of Commons Library estimates that:

> By 2003, the proportion of non-pensioner households on any means-tested benefit could be around 29%. The proportion of pensioner households could be around 57%. These imply an average for all households of 38%.

All of this creates several problems.

Problem I : Overlap of tax and benefits

The expanding population of income taxpayers and of healthy individuals in receipt of means-tested benefits or tax credits is *prima facie* evidence of an increasingly confused transfer system. As more low earners are drawn into the tax system and more middle earners are lured into the benefit system, the overlapping tendencies of the tax-benefit system are reinforced.

In the tax year 2000-01, the Inland Revenue estimates that there were 27.9 million personal income taxpayers, equivalent to 60% of the population aged 18 and over. Only four years ago, this proportion was 56%. The overlap between personal taxation and benefits can be considered in two main dimensions – the number of individuals concerned and the value of the transfers.

More low earners are drawn into the tax system and more middle earners are lured into the benefit system.

Figure 10 sets out the comparative information for 1998-99 in terms of the numbers of individuals or benefit units. Because the basis of reporting differs, it is possible only to draw broad conclusions about the extent of the overlap. In terms of all benefits, the overlap of income tax and benefits covers at least 17 million individuals aged 18 or over. For means-tested benefits, the overlap with income tax is harder to assess but the figure probably lies in the range of 6 million to 8 million, of whom about 3 million are aged over 60. If the current plans for the extension of means-tested tax credits are executed, both these totals will increase substantially.

Figure 10

Key Characteristics of income tax payers and benefit recipients (1998-99)

	UK resident population ('000s)	Individual taxpayers ('000s)	Proportion of taxpayers (%)
Single male aged 18-64	7,454	5,573	74.8
Single female aged 18-59	6,085	3,769	61.9
Married male aged 18-64	11,036	7,732	70.1
Married female aged 18-59	10,594	5,513	52.0
Single male pensioner	1,103	562	51.0
Single female pensioner	3,853	1,456	37.8
Married pensioner	5,797	2,325	40.1
All aged 18 and above	45,922	26,930	58.6

Sources: NS Inland Revenue Statistics, 2000 and Annual Abstract of Statistics, 2001

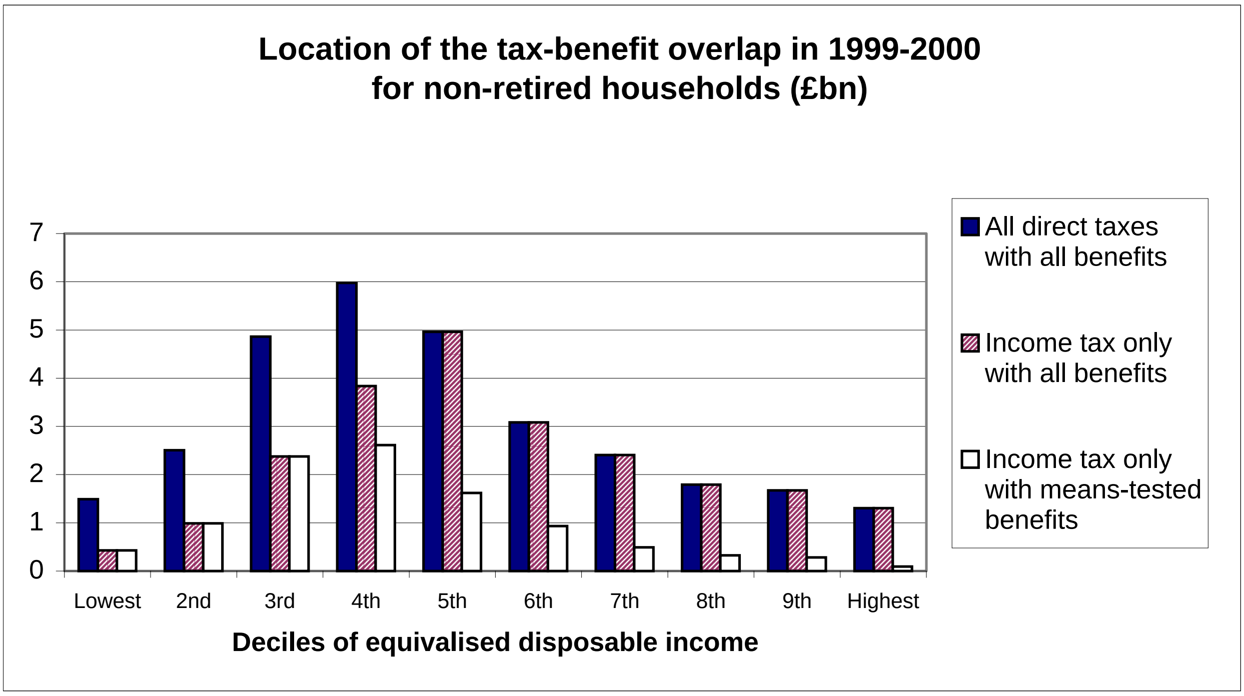
1998-99	Proportion of units receiving any means-tested benefits (%)	Proportion of units receiving other benefits (%)	Proportion of units receiving any benefits (%)
Single persons of working age without children	18	12	24
Single persons of working age with children	78	98	99
Couples of working age without children	8	25	28
Couples of working age with children	17	98	99
Single pensioners	47	99	100
Pensioner couples	21	100	100
All benefit units	24	55	59

Source: DSS Family Resources Survey, 1998-99

Figure 11 examines the value of the overlap according to the analysis published annually by National Statistics in *Economic Trends*. This analysis ranks households according to their disposable incomes, adjusted for the numbers of adults and children in the household. The overlap is calculated as the lesser of taxes and benefit payments in each decile of equivalised income. For working households, the aggregate overlap between all forms of direct taxation and all forms of benefit was £30 billion for 1999-

2000, similar to previous years. Using only income tax payments (net of mortgage interest relief at source) and all forms of benefit, the overlap reduces to £22 billion. The overlap between income tax and means-tested benefits is £10 billion. This is the specific component of the overlap that is targeted by the proposals contained in this paper.

Figure 11



Source: ONS, Economic trends, April 2001.

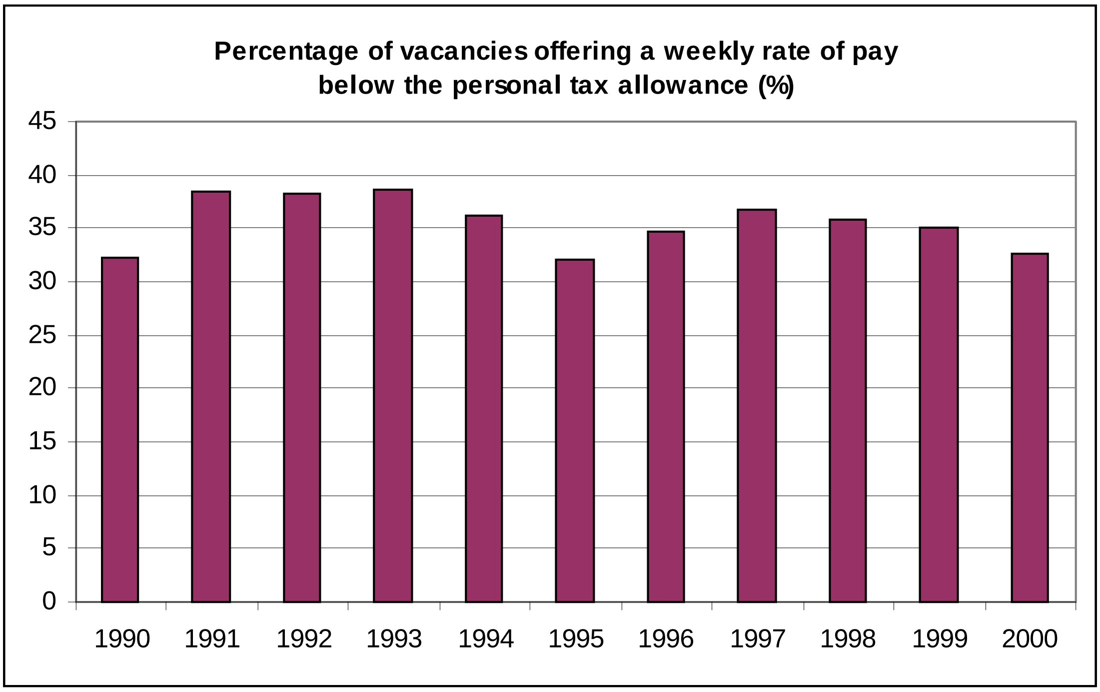
Problem 2 : Low-paid jobs not worth taking

A by-product of this erosion of independence is the spiralling numbers of unfilled Job Centre vacancies. From a recessionary low of just over 100,000 unfilled vacancies in 1991, unfilled vacancies reached a record of 395,900 in May 2001. The distribution of these reported vacancies is skewed towards the less well-paid occupations and job grades. But by setting the personal tax threshold so low and by increasing the scale rates for family benefits, fewer and fewer individuals have an economic incentive to apply for these low-paying jobs.

With the personal tax threshold so low, there is little incentive to apply for low-paying jobs.

There are no national statistics on the hourly pay distribution of unfilled vacancies, but the Greater Manchester Low Pay Unit has collected local data for the past 10 years. In the April 2000 survey, excluding the 22% of advertised vacancies for which the information was unavailable, 37.6% of jobs offered less than £3.99 per hour, comprising 27.2% of full-time jobs and 51.1% of part-time jobs. Moreover, 59.7% of all jobs offered less than £4.33 per hour (44.7% full-time, 78.9% part-time) and 69.6% less than £4.72 per hour (55.8% full-time, 87.5% part-time). The National Minimum Wage was £3.60 per hour at the time of the study. Figure 12 shows the percentages of unfilled vacancies, where the rate of weekly pay was known, that fell below the personal tax threshold. Despite the preponderance of low paid jobs on offer, less than a third were exempt from income tax.

Figure 12



Source: Gabrielle Cox, Jobwatch 2000, Greater Manchester Low Pay Unit.

The concentration of job offers at the lower end of the pay spectrum is a statement of fact in a competitive, internationally open, economy. The most practical way of invigorating this segment of the labour market is to offer greater protection from income tax for the earnings of single people (for whom out-of work benefits represent a low percentage of the average wage).

For working families, the solution is not to keep extending the income range for which benefits or tax credits can be claimed, but to allow these households to keep much more of their original incomes. The aim should be to offer a much lower marginal deduction rate within reach of the working family, close to average male full-time earnings.

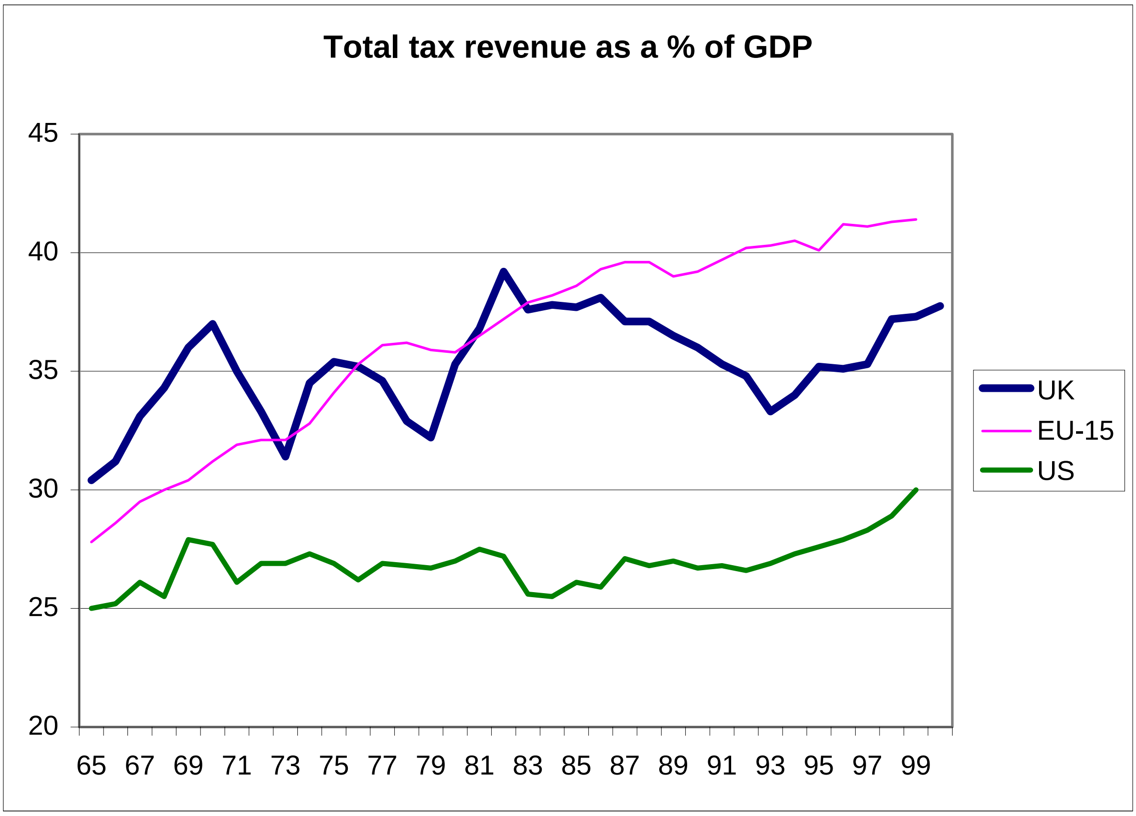
For the pensioner, who may still have a small amount of earned income in addition to pensions of various kinds, what is needed is not a new form to fill in and a new income guarantee, but a straightforward reduction of income tax liability. All that is needed is a revision of an annual tax code to reflect the higher personal allowance.

The raising of the personal income tax threshold has the virtue of simplicity. It offers a universal opportunity for young and old, married and single, primary and secondary earners to throw off the mantle of dependency on means-tested benefits, with its frequent reassessments, missed payments, frustrating enquiries and much more.

Problem 3: Record taxes

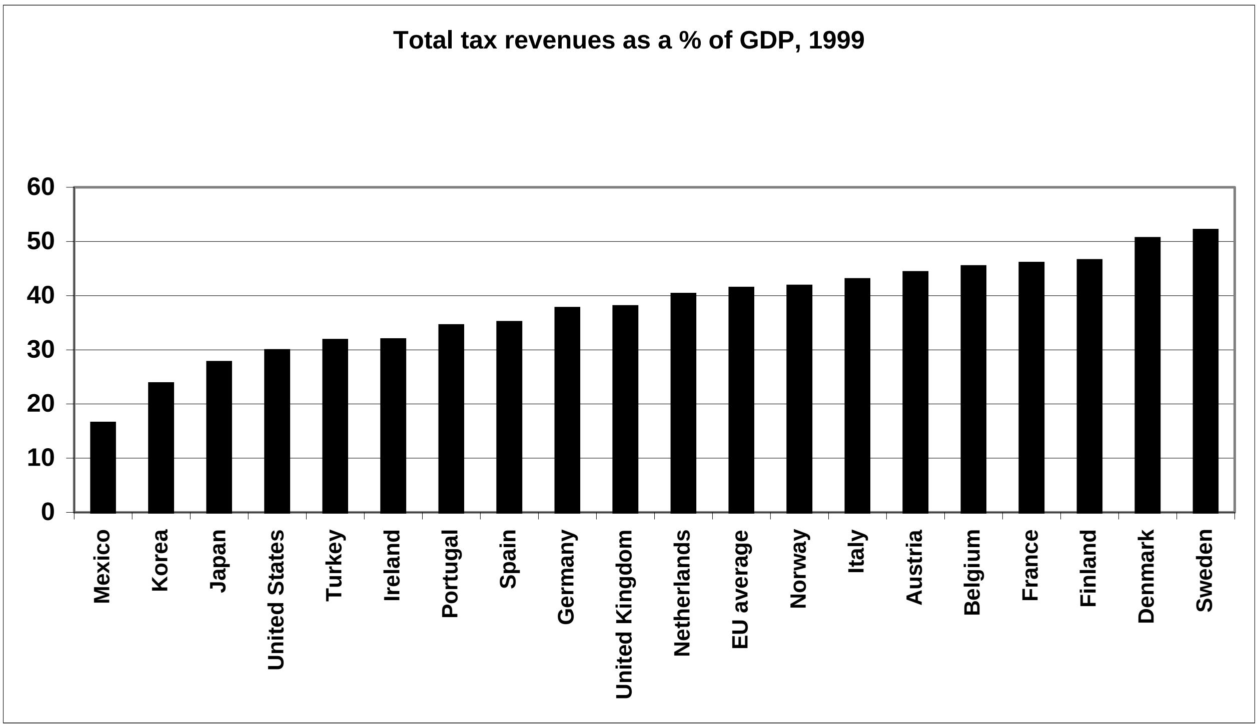
Despite a long sequence of respectable economic growth and the highest level of employment in a decade, the UK official tax burden has risen appreciably. Independence Day, the day of the year on which the typical citizen has paid off his annual obligation to the Government, has moved back from 27 May in 1997 to 10 June in 2001. Moreover the economic slowdown has now arrived. The Government has outlined plans to spend significant additional sums on health and education over the next four years. But it is doubtful that the economy will deliver sufficient tax revenues to pay for them without a further increase in the ratio of tax revenues to GDP – the overall tax burden. Whereas other European countries are working hard to bring down their overall tax burdens, the UK seems intent on catching up with, and possibly overtaking, the EU average of 41%. Figures 13 and 14 provide some up-to-date comparisons and Appendix 3 gives the calculation of Tax Freedom Day in other countries.

Figure 13



Source: OECD Revenue Statistics 1965-1999, ONS Finstats, May 2001.

Figure 14



Source: OECD Revenue Statistics 1965-1999.

CHAPTER FOUR

A PROPOSAL

IT IS PLAIN FROM the Figure 11 on page 17 that the greatest overlap for tax and benefits is concentrated in the middle of the income distribution. However, because the income tax system is a universal system that applies to all taxpayers alike, it is impractical to target the middle of the distribution. Any strategy for the elimination of the overlap must begin either by releasing those with the lowest incomes from income tax or by depriving those with moderately high incomes of benefits. This proposal adopts the first approach. It consists of some significant changes to the income tax parameters and one small change to the operation of the WFTC. We will refer to the application of the income tax changes on their own as Stage 1 and the additional change to WFTC as Stage 2 of the proposal.

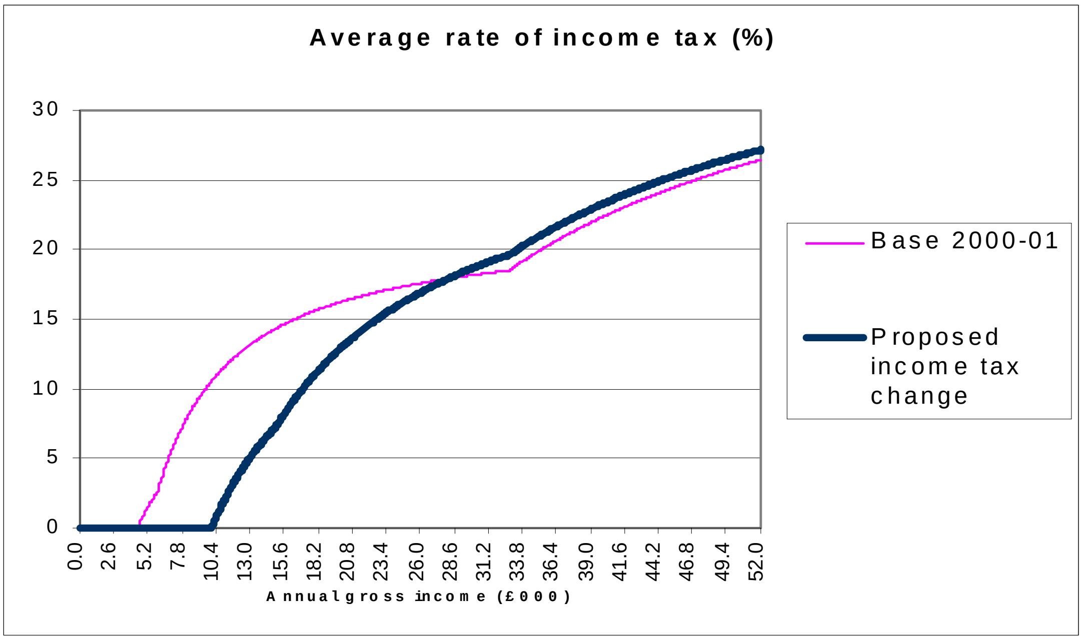
Stage 1: Income tax changes

Stage 1 consists of the following changes to the tax system as it stood in 2000-01:

a) raise the universal personal tax threshold from £4,385 p.a. to £10,000 p.a.;
b) abolish the 10% tax band;
c) introduce a 30% tax band beginning at the gross income level of £15,000 p.a.;
d) leave the 40% threshold of £32,785 unchanged.

The impact of these changes on the average rate of income tax is shown in Figure 15.

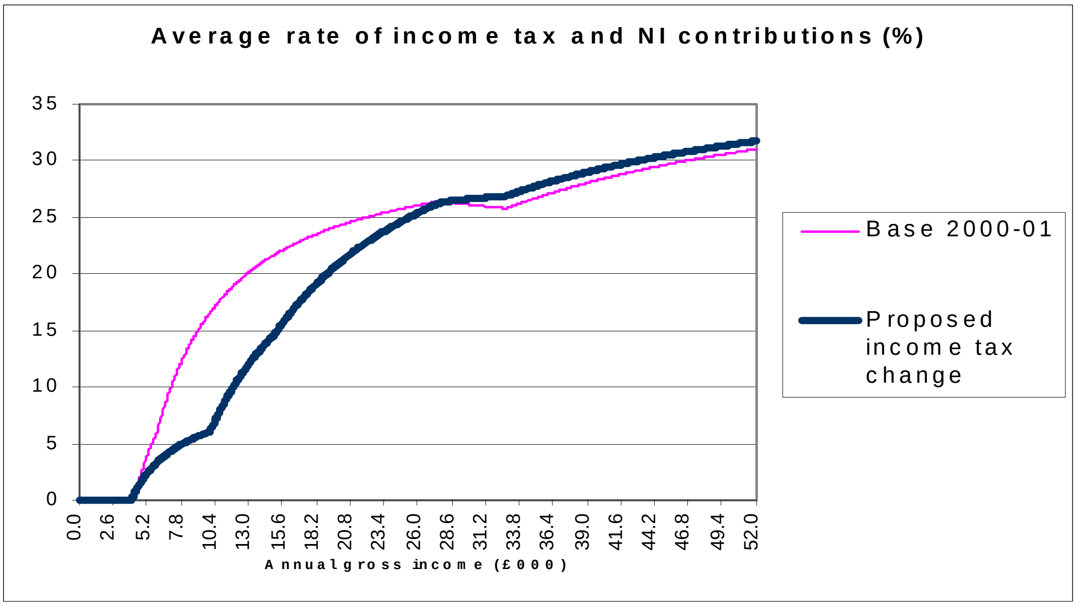
Figure 15



Source: Authors' calculations.

There is a dramatic reduction in tax of people with incomes from £4,386 to £15,000, a progressively smaller reduction in the gross income range £15,001 to £28,160 and a slight increase thereafter. The purpose of this increase is to remove the anomalous reduction in the average composite income tax and National Insurance contribution rate between gross incomes of £27,820 (the Upper Earnings Limit for NI) and £32,785 (the threshold for higher rate income tax), is shown in Figure 16.

Figure 16



Source: Authors' calculations.

Figure 17 gives a breakdown of income tax liabilities according to ranges of total income. It can be seen from Figure 18 that more than 95% of the gains from the proposed tax changes accrue to those earning less than the national average. It is important to note that the figures in this table do not constitute the gross cost to the exchequer, because of the automatic reduction in entitlement to certain means-tested benefits, even though the value of these benefits remains unchanged. For tenants without children in receipt of housing benefit and council tax benefit, the value of the tax reductions will be offset by a typical reduction in the value of these benefits at a marginal deduction rate of 85% (housing benefit tapers at 65% and council tax benefit at 20%) until the entitlement to benefit is exhausted.

For people with incomes of between £4,385 and £15,000, there is a dramatic reduction in tax.

For working families, the value of tax reductions is liable to erosion across a much wider range of income at a typical marginal deduction rate of 55%. Hence, for the majority of working households, there will be an offsetting fall in benefit entitlement. The exact size of the reduction in benefit depends on a number of household characteristics, but our calculations suggest that around 40% of the gross cost of the income tax proposal will be met automatically from lower benefit payments.

Figure 17

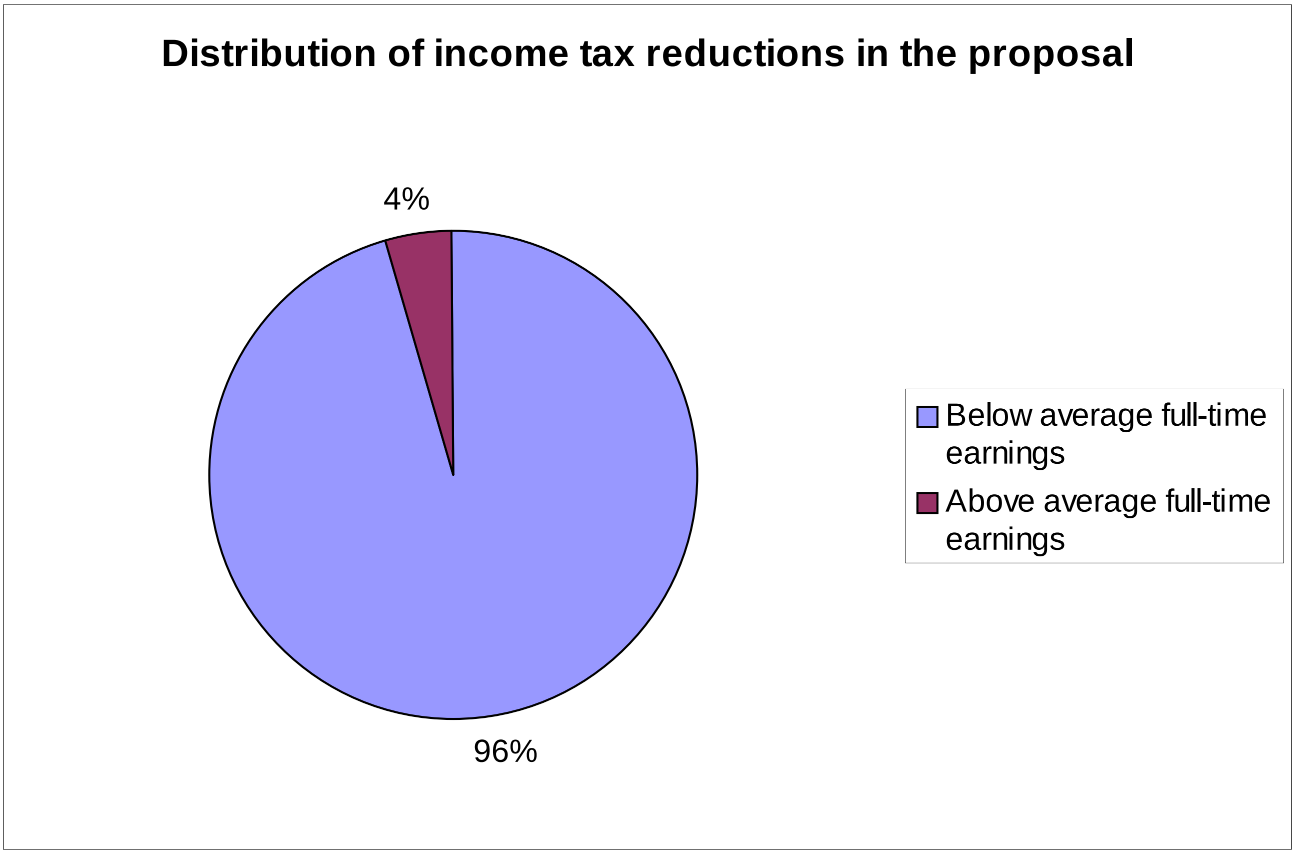
Calculation of income tax liability according to total income range and evaluation of aggregate cost of the tax change proposal

Proposal : Personal allowance raised to £10,000; lower rate abolished; new 30% band to start at £15,000; upper rate threshold maintained at £32,785

Tax year 2000-01		*Expected outcomes*			*Effect of proposal*			
Range of total income	Weighted range centre (£)	No of taxpayers (millions)	Average tax liability (£)	Total income tax liability (£m)	Annual saving per taxpayer (£)	Average tax liability (£)	Saving as a % of gross income	Cost to the Exchequer (£m)
£4386 to £5000	4,685	0.8	30	24	30	0	0.6	24
£5001 to £7500	6,125	3.8	200	762	200	0	3.3	762
£7501 to £10000	8,190	3.5	655	2,291	655	0	8.0	2,291
£10001 to £15000	11,630	6.3	1,412	8,892	1053	359	9.1	6,633
£15001 to £20000	16,380	4.6	2,457	11,300	943	1,514	5.8	4,336
£20001 to £30000	22,940	5.0	3,900	19,499	418	3,482	1.8	2,089
£30001 to £50000	35,305	2.7	7,074	19,099	-370	7,444	-1.0	-999
£50001 to £100000	60,120	0.9	17,000	15,300	-370	17,370	-0.6	-333
More than £100000	182,000	0.3	65,752	19,725	-370	66,122	-0.2	-111
Totals		27.9		96,892				14,692

Source: Inland Revenue Statistics 2000, Table 2.5

Figure 18



Source: Authors' calculations.

Stage 2: Reducing some gains from Stage 1

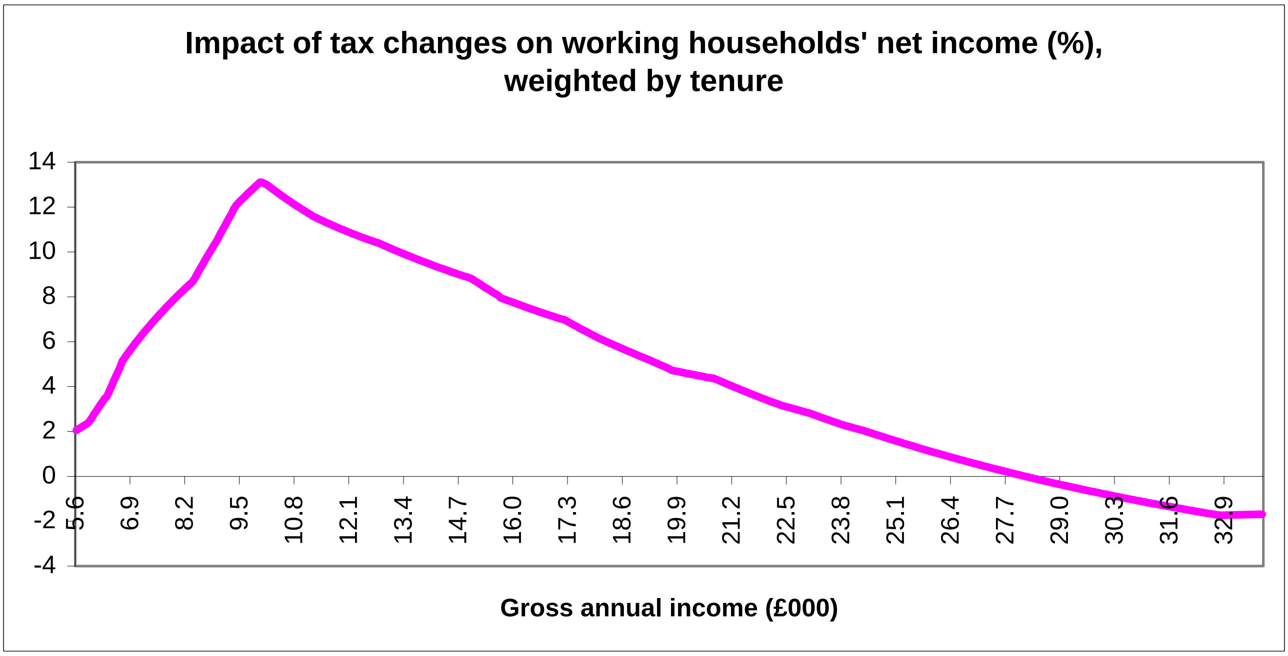
The ambition of the original pamphlet was to shrink the overlap between the income tax and benefit system. This is achieved to a significant degree in Stage 1. In addition, in Stage 2, some of the gains for medium to high income households delivered by Stage 1 are neutralised. This is achieved by raising the taper rate for WFTC from 55% to 60%. As a result of this adjustment, working families will have a greater incentive to raise their earnings beyond the level at which they have an entitlement to the tax credit. For them, some of the largest gains under this proposal lie in the income range of £15,000 to £25,000. After Stage 2 of the proposal, it remains the case that the households with the biggest gains will have an income of less than £15,000 p.a. And the households with the greatest likelihood of net losses are those with gross annual incomes over £28,000. However, their average loss is under 1% of their gross income.

Impact on different households

In order to assess the viability of the proposed tax and WFTC changes, it is necessary to examine their impact on different household types and over a wide range of household incomes. The most rigorous method of appraisal is to take a sample of live households, such as that created by the annual Family Expenditure Survey, and to use a static simulation model to recalculate the taxes and benefits of these households using the changed parameters of the system. As this route was not open to us, an alternative approach was taken. The detailed analysis of the latest Family Expenditure Survey (1999-2000) was used to construct a weighting system for households according to the family units contained within them. This weighting system is described in Appendix 5. The static simulation model used to evaluate the impact of the tax changes on different household types was the DSS Tax Benefit Model, June 2000 version.

Who has the most to gain and to lose from Stage 1 of the proposal? The answers may be gleaned by analysing the prospective gains that would accrue at each point along the income distribution. Figure 19 uses the gross annual income range from £5,616 to £32,785. The lower bound is chosen as the minimum income of someone working 30 hours per week at the National Minimum Wage and the upper bound as the threshold for higher rate income tax.

Figure 19



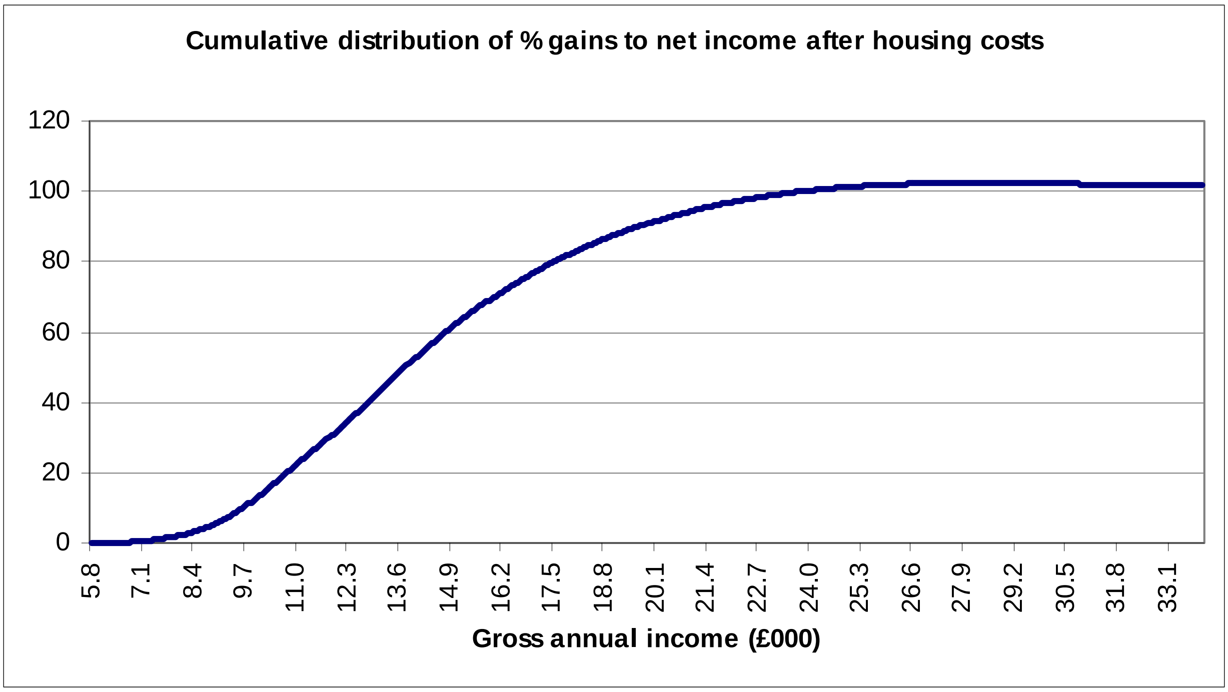
Source: Authors' calculations.

Figure 19 shows the distribution of hypothetical gains or losses as a proportion of net income after housing costs for all working households, weighted by tenure. The peak gain is of 13% at £10,000 of gross annual income. At lower income levels, the gain is smaller because not all of the personal tax allowance is used. Between earnings of £10,001 and £15,000, the full benefit of the enhanced allowance (£1052.90 per annum) is obtained, but it represents a declining percentage of net income. Between gross income levels of £15,001 and £28,160, the money value of the higher tax threshold is reduced through the application of the 30% marginal rate. Beyond this level, the proportion of gross income taken in tax rises fractionally.

Half the gains accrue to those earning less than £13,800, and 80% to those with earnings below £17,575.

However, the most commonly recurring level of personal income lies in the region of £14,000, and of household income at around £18,000. In terms of the weighted distribution of percentage net gains, Figure 20 shows that the median lies at £13,800 of annual income. So, half of the weighted percentage gains to net income accrue to those earning less than £13,800. Eighty per cent accrue to those with incomes below £17,575.

Figure 20

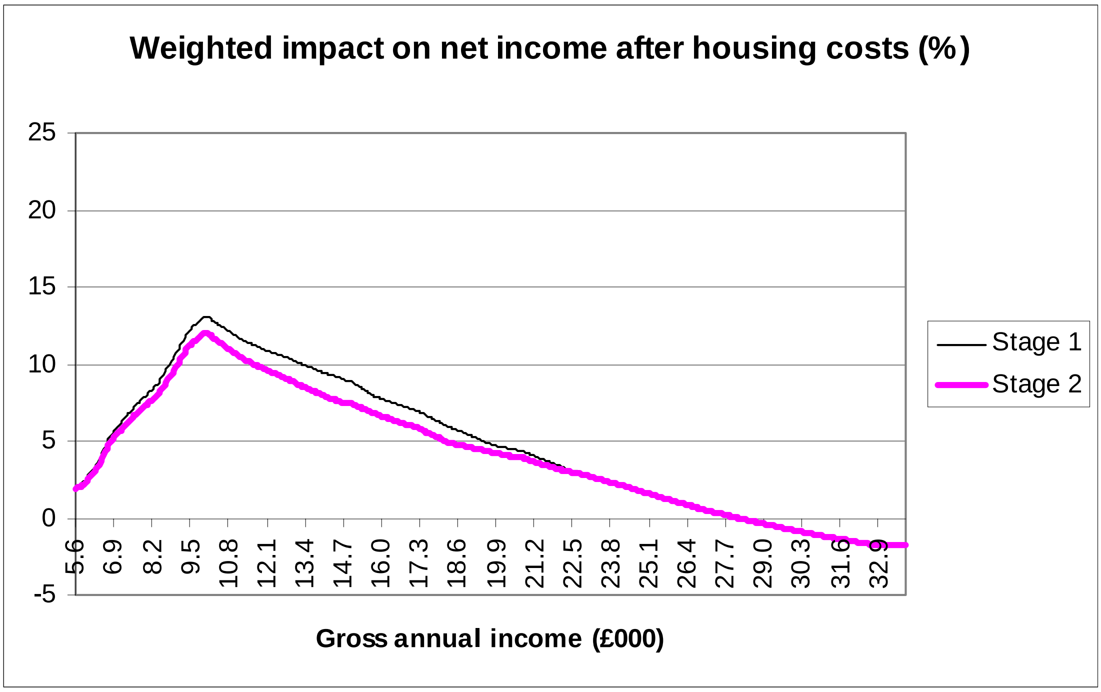


Source: Authors' calculations.

In terms of household types, it is clear that the tax changes have their greatest impact, on average, for single person households and for married couples with no children. Essentially, the lower the level of in-work benefits, the larger the net gain from the tax change proposal. Conversely, families enjoy the greatest degree of protection against low incomes under the prevailing arrangements and do not experience a significant benefit from the proposal until their household incomes rise beyond the qualifying level for WFTC. The effects of the proposal on marginal deduction rates are illustrated in Appendix 7.

The effect of this extension to the proposal is shown in Figure 21. While the effects of increasing the taper are significant for certain household types, in the aggregate, the profile of gains is very similar. However, the weighted average percentage gain (across the portion of the income distribution shown in Figure 21) in net income after housing costs falls from 6.6% after Stage 1 to 5.8% after Stage 2.

Figure 21



Source: Authors' calculations.

Figures 22 to 29 portray the profile of percentage gains for eight household types:

- a single person;
- a married couple with no children;
- a married couple with one child;
- a married couple with two children;
- a married couple with three children;
- a single parent with one child;
- a single parent with two children;
- a single parent with three children.

In each case, the gains are weighted according to housing tenure for each household type. The impact of tenure on the result can be seen from the examples in Appendix 8.

Figure 22

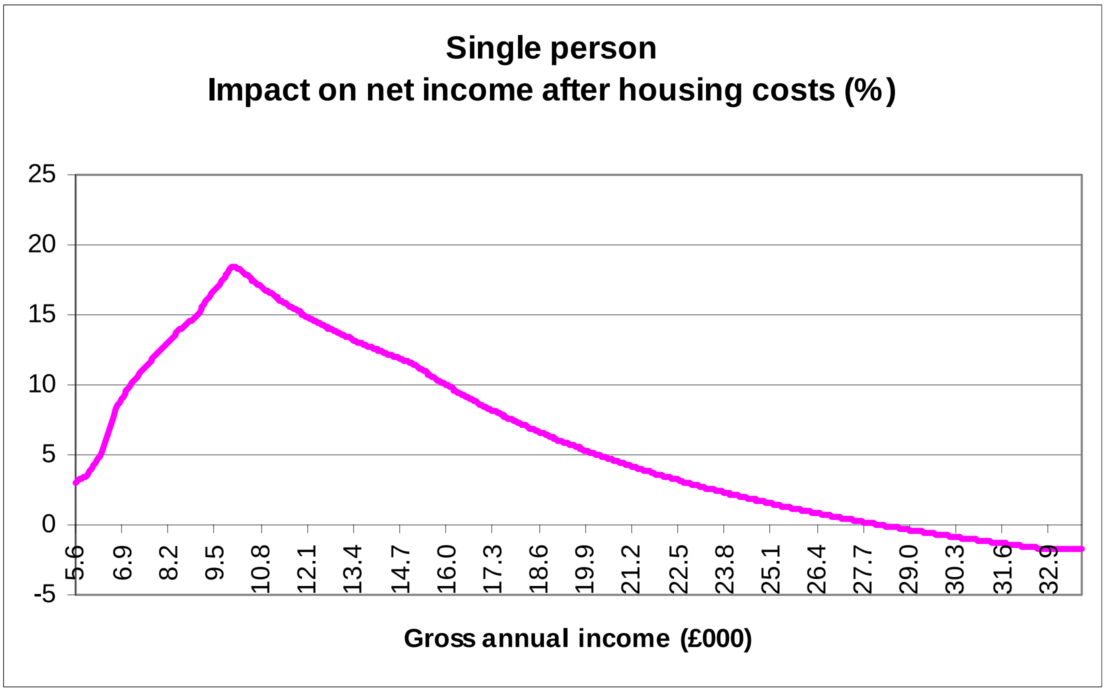


Figure 23

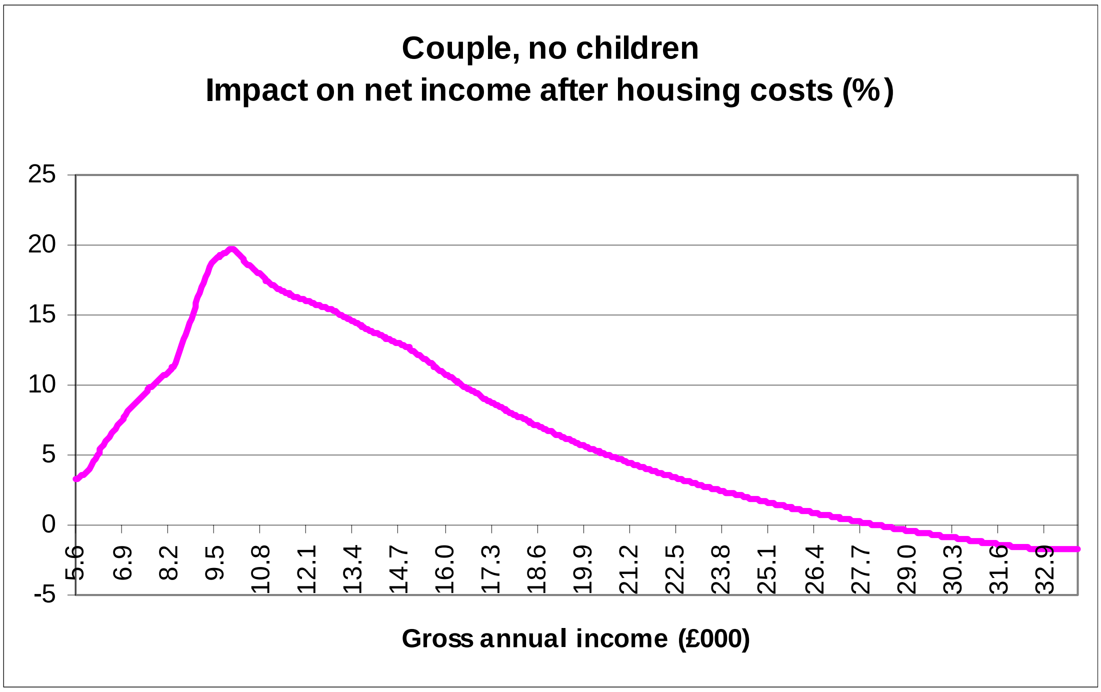


Figure 24

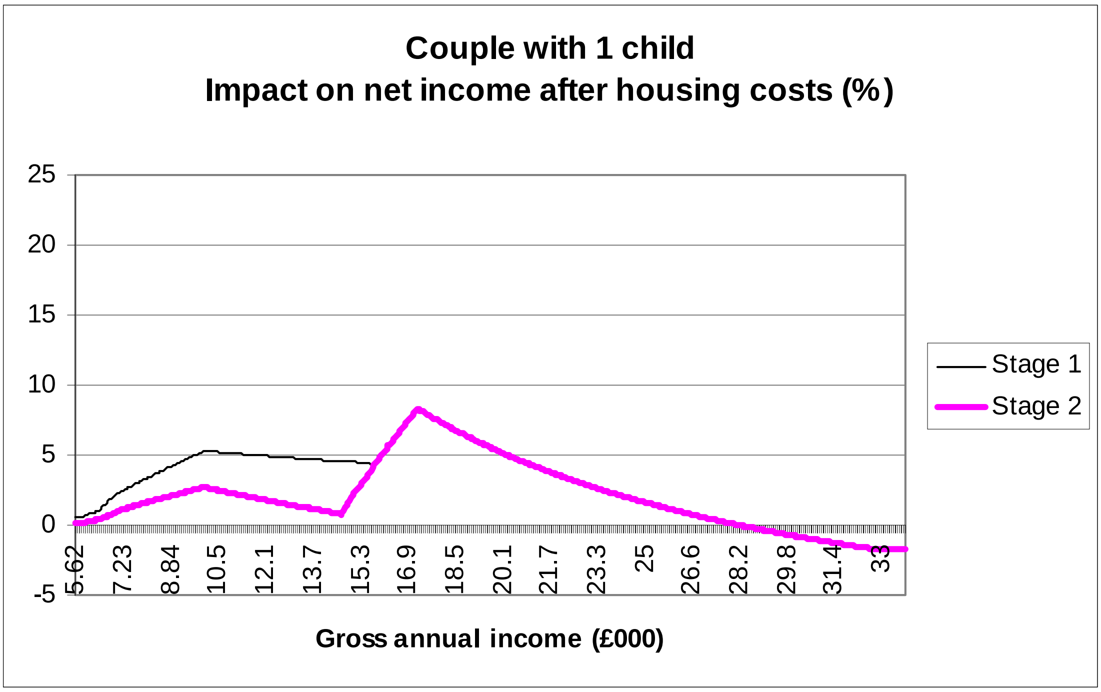


Figure 25

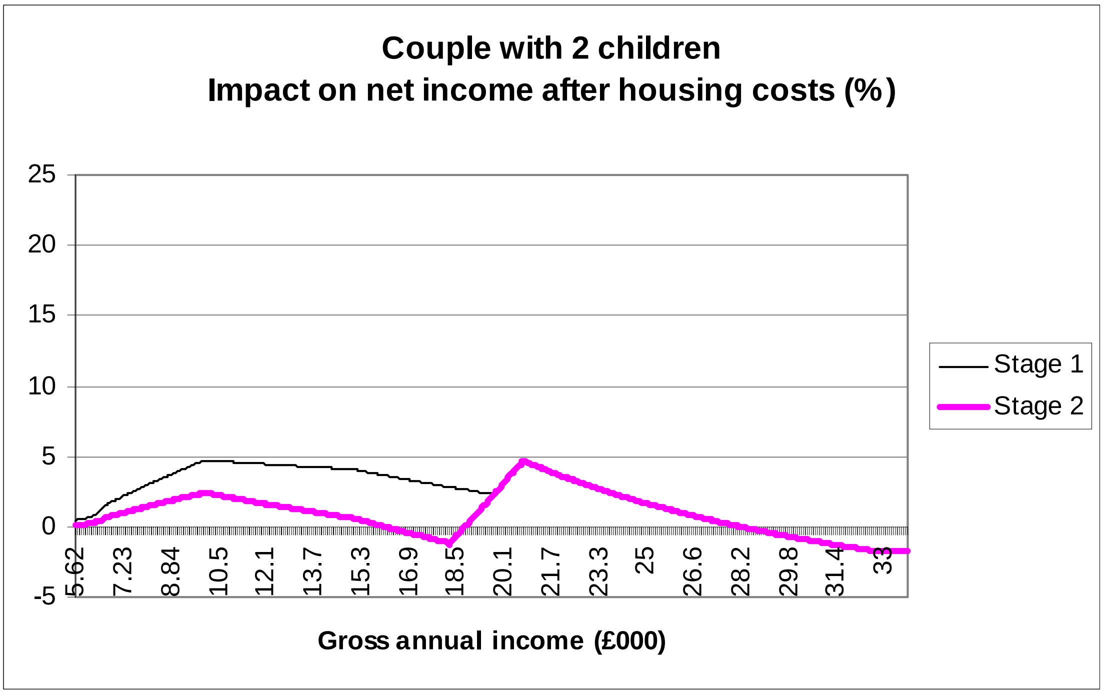


Figure 26

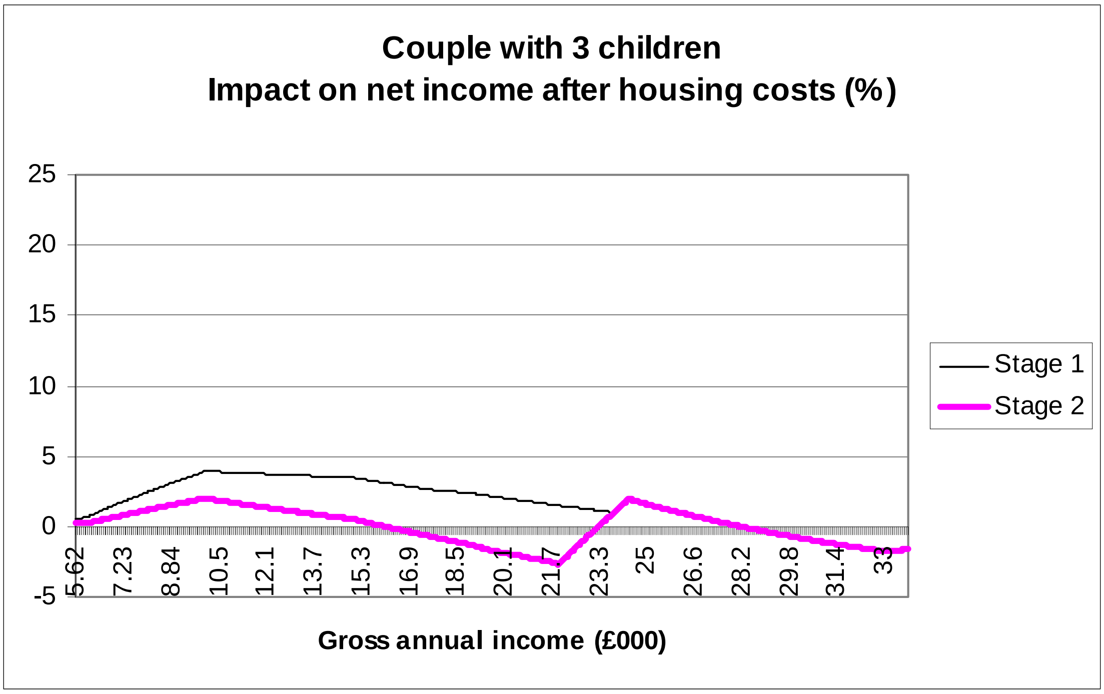


Figure 27

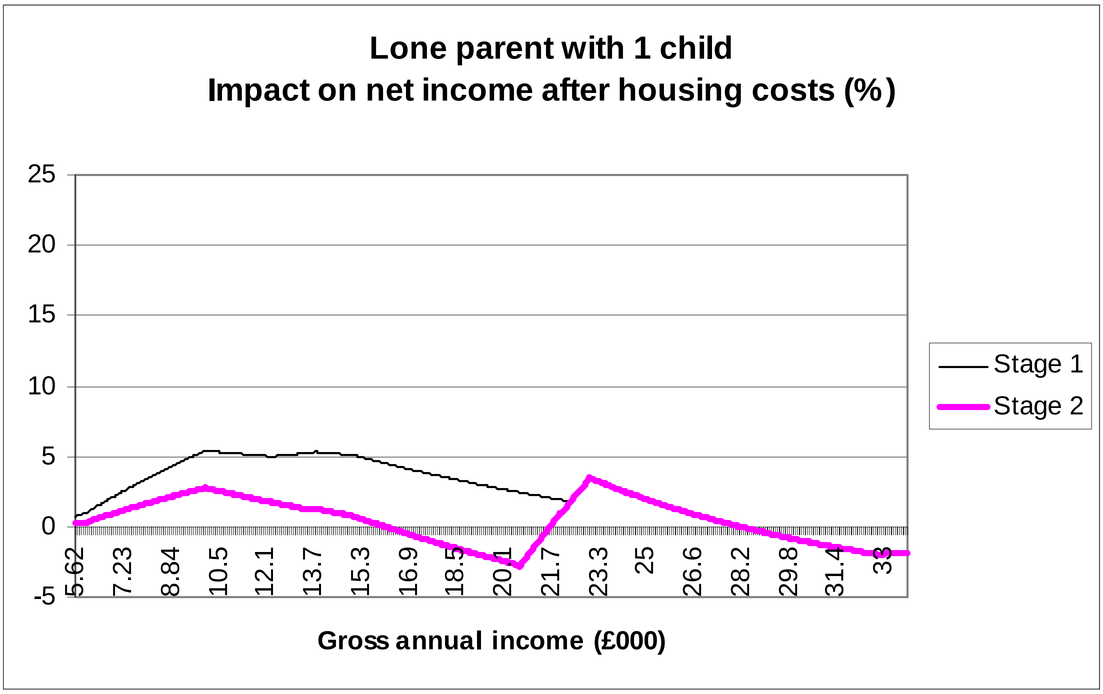


Figure 28

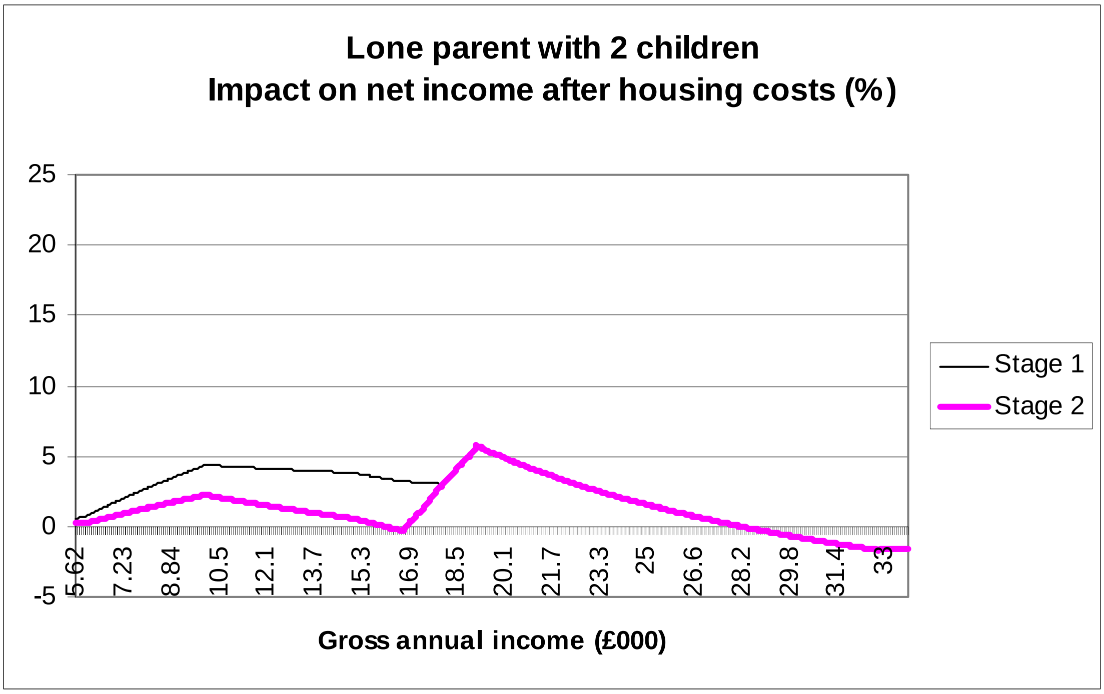
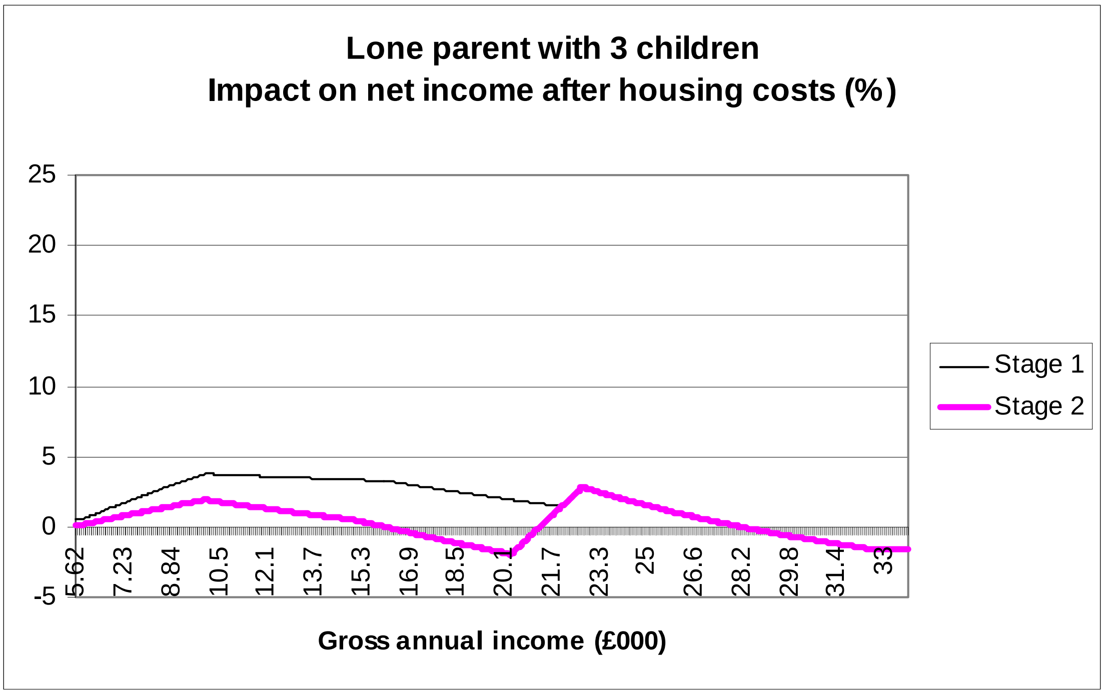


Figure 29



Illustrations of the impact on family finances

In order to make the impact of the proposal more transparent, a couple of illustrations of the arithmetic of household finances may prove helpful. The impact of each of the two stages is identified separately.

Figure 30

Example 1: Married couple with two children under 11, earning £9,880 p.a., local authority tenant, rent £47.37 per week (£2,463 p.a.), council tax £14.50 per week (£754 p.a.), no child care costs, single earner works more than 30 hours per week

£ per annum	Status Quo	After Stage 1	After Stage 2
Gross earnings	9,880	9,880	9,880
Income tax	1,026	-	-
NICs	593	593	593
Take home pay	8,261	9,287	9,287
WFTC	4,083	3,519	3,292
Child benefit	1,300	1,300	1,300
Net income:			
Before housing costs	13,644	14,106	13,879
After housing costs	10,427	10,889	10,662
Reduction in tax		1,026	1,026
Reduction in WFTC		564	791
Net gain		**462**	**435**

Figure 31

Example 2: Married couple with 1 child under 11, earning £15,080 p.a., local authority tenant, rent £53.85 per week (£2,800 p.a.), council tax £12.90 per week (£671 p.a.), no child care costs, single earner works more than 30 hours per week

£ per annum	Status Quo	After Stage 1	After Stage 2
Gross earnings	15,080	15,080	15,080
Income tax	2,171	1,124	1,124
NICs	1,113	1,113	1,113
Take home pay	1,797	12,843	12,843
WFTC	807	232	-
Child benefit	780	780	780
Net income:			
Before housing costs	13,384	13,855	13,623
After housing costs	9,913	10,384	10,152
Reduction in tax		1,047	1,047
Reduction in WFTC		575	807
Net gain		**472**	**240**

In the first example, the family is lifted out of income tax altogether by the raising of the personal tax threshold to £10,000. Take home pay rises by 12.4% and, as a result, the assessed level of WFTC falls by 55% of the absolute increase in take home pay under the existing system. This is shown as Stage 1. In Stage 2, the WFTC taper is raised to 60%, meaning that the benefit is withdrawn more quickly than before. The effect for this particular family is to lessen the net gain from £462 to £235 per annum. The gain is equivalent to 2.25% of net income after housing costs. The detailed calculations underlying these examples are shown in Appendix 4.

In the first example, a family earning less than £10,000 is lifted out of income tax. In the second example, the level of tax is halved.

The second example identifies a family where the earned income level is much higher, yet still well below average earnings for males in full-time employment (£24,300 at April 2000) and below female average earnings on the same basis (£17,550 at April 2000). In this example, the level of income tax is approximately halved by the proposals. A corresponding reduction in WFTC occurs as in the first example, but when the higher WFTC taper rate is applied (Stage 2), entitlement to WFTC evaporates. Nevertheless, at this modest level of household income, there is still a net gain after housing costs of £240 per annum, equivalent to 2.4%. Example 1 illustrates the potential for taking very low earners out of income tax altogether. Example 2 shows how income tax reduction can substitute completely for the payment of the working family tax credit in some cases.

In both the illustrated cases, the reduction in family benefits (WFTC) offsets a large proportion of the income tax reduction. In other examples, the benefit recovery percentage is even higher (and can exceed 100%) but for some cases it is zero. Take, for example, a married couple with no children, with annual earnings of £13,000 p.a., may well have exhausted all entitlement to means-tested benefits – housing and council tax benefit in this case. By increasing the personal tax allowance, this couple will enjoy the full advantage of the tax cut because they are not subject to benefit reduction as a consequence of receiving higher take-home pay. Similarly, in a workless household, the tax reform is purely hypothetical if there is no original income. Equally, there is no reduction in benefit either.

Only by weighting together the displacement effects for the various household types, tenures and earnings levels is it possible to approximate the aggregate saving on social security spending. As a working assumption, we shall use 40% as the average displacement factor.

Neutral effect on the Exchequer

More than doubling the value of the personal tax threshold constitutes a radical change to the tax system. Ready reckoners and ex post calculations can take us into the appropriate ranges of costs or benefits, but they may prove inaccurate for a large number of reasons. A tax change of this magnitude is liable to alter the behaviour of millions of individuals, particularly those employed on low hourly pay rates. If the income effect dominates the substitution effect, then the cost of the proposal will diminish. Conversely, if the substitution of leisure for work (for example, by part-time workers who can now achieve their target net income by working fewer hours) dominates the incentive effect (the encouragement to work more and earn more) then the cost of the proposal may be understated.

With higher after-tax incomes, the need for state benefits is reduced.

If the personal tax threshold increase had been operative in the 2000-01 tax year, it is estimated that the gross cost to the exchequer in lost revenue would have been £25.8 billion, allowing for the slightly lower cost of raising the personal threshold for the over-65s. Figure 32 is an approximate funding scheme for the gross cost of the income tax changes. The high gross cost contrasts with the apparently low net cost of lifting those with original incomes of under £10,000 out of income tax (£3 billion) for the simple reason that the raising of the tax threshold for the poorest income deciles is simultaneously extended to all taxpayers. If the existing 10% band had been abolished at the same time, the annual cost would have been a little over £22 billion. The effect of introducing the 30% band is to reduce the estimated net loss of tax revenue arising from the proposal to about £13 billion.

Figure 32

Funding of the Proposal	
	£bn
Gross cost of raising personal tax threshold from £4,385 to £10,000	25.8
Less:	
Yield from abolition of 10% income Tax band	3.7
Yield from introduction of new 30% Income Tax band	9.1
Yield from increase in taper rate for WFTC	1.7
Effect of higher after tax incomes in reducing means-tested benefit entitlements	5.0
Net cost of proposal	**6.3**
Less:	
Underspending on benefits against budget	2.6
Reduced administrative costs	1.5
Removal of employment subsidy element from New Deal	1.0
Shortfall	1.2
Less:	
Yield from effect of higher disposable incomes on indirect taxes	1.0
Total net cost of proposal to Exchequer	**0.2**

Taking into account the change to WFTC and the effect of higher after-tax incomes in reducing means-tested benefits, the net cost of the proposal falls to approximately £6 billion. Finally, because part of the gains in after-tax income will be spent on items bearing indirect taxes (such as VAT), about £1 billion will be recouped.

The remaining £5 billion could be funded from any number of sources, related or unrelated to direct taxation or social security benefits. In our view, the proposal does not stand or fall on the basis of the funding particulars. However we have identified three potential sources of funding that are consistent with the thrust of the proposal and which make the proposal fiscally neutral. In the opinion of the accountants, Chantrey Vellacott DFK, the above estimates have been "computed in a realistic fashion." (See Appendix 9).

Notes on the funding of the proposal

1. Under-spending on benefits against budget

The Children's Tax Credit and the Pension Credit, with all the attendant paperwork, have so far elicited a weak response from the public and it is probable that expenditures will fall well short of the budgeted amounts as a result. In addition, the WFTC is subject to the similar low levels of take-up as its predecessor, Family Credit, and is unlikely to reach its intended spending allocation. The shortfall in the take-up for tax credits is expected to result in a shortfall in expenditures in comparison to budgeted spending of £2.6 billion in the financial year 2001-02.

2. Reduced administrative costs

The administrative budget for the Department of Social Security was £3.225 billion in 2000-01 and the current public expenditure plans allow for an increase to £4.252 billion in 2002-03. For the Inland Revenue (which now also includes the Contributions Agency), the budgets were £2.271 billion in 2000-01 and £2.646 billion in 2002-03. By reducing the caseload for self-assessment and other tax schedules and the number of benefit awards by at least 20%, it should be feasible to save around £1.5 billion by 2002-03 from the present budgets.

3. Removal of employment subsidy element of the New Deal

The New Deal is currently budgeted at £1.5 billion per annum, of which the significant portion is in paid to employers in the form of a subsidy. By protecting the incomes of trainees and other low-paid workers much more generously through the tax system, it is inappropriate to continue to subsidise employment. This could save £1 billion per annum.

EFFECTS OF THE PROPOSAL

- 8 million people stop paying income tax altogether. The typical improvement in their net income is between 4% and 10%.
- 3 million people need less government benefits; about half a million none at all.
- £3 billion of tax/benefit overlap eliminated.
- Enormous reduction in administrative costs.
- More incentive for work, especially for lower paid jobs.
- UK official tax burden falls from 38% to 36.5%.
- Independence Day moves back 5 days.
- First step in a rolling programme to stop poor people paying income tax altogether.

CHAPTER SIX

CONCLUSION

PEOPLE ARE WEARY OF THE sterile debate abut tax. It always seems to lead to the same conclusion – we have to accept as inevitable the present combination of high taxes and inadequate public services.

Between the failed romanticism of the Left and the worldly cynicism of the Right, the public is left high and dry, sceptical of all politics and politicians.

It is time for a radical new approach and greater independence for all.

There are those who will say this can't be done – there are no new ideas under the sun. But it can. Somebody once had the idea of selling council houses to their tenants. That one idea turned dozens of marginal seats into safe Conservative seats at the following election.

Yet, since its earliest days, the Conservative Party often mistrusted such theories or blueprints. With a shrug of the shoulders often mistaken for heartlessness, Conservative cynics denied that any plan or act of will of mere men could build a new Jerusalem.

Years ago, it took Disraeli to rescue Conservatives from that sceptical and pessimistic outlook. In his famous Crystal Palace speech of 1872 he described as the 'historic function' of the Conservative Party 'the elevation of the condition of the people'. It was a revolutionary change of direction that proved critical to Conservative survival.

Radical proposals can excite the imagination. But the worst of all worlds would be a continuation of the status quo – for the electorate has grown weary of politicians' glib or pat answers to Britain's intractable problems of tax and spending.

For Conservatives, there should be no shame in an aim to help the poorest people; no ban on a plan to improve their living standards. On the contrary, a certain idealism, a marching tune people can respond to, will be, as it once was for Disraeli, the essential prerequisite for Conservative revival.

CONCLUSIONS

* * * * *

In a remarkable essay in 1708: 'An Answer to the Question: What is Enlightenment?' Immanuel Kant declared that 'to be civilised is to be grown-up'.

To be grown-up, he wrote, is not to abdicate one's responsibilities to others, not to permit oneself to be treated as a child, or barter away one's freedom for the sake of security and comfort. He said a paternalist government, based on 'the benevolence of a ruler who treats his subjects as dependent children…is the greatest conceivable despotism and destroys all freedom'.

Unless a creature can determine itself, he said, it is not a moral being. Kant was absolutely definite on this point – autonomy was the basis of all morality.

In the 18th Century Kant's political writings were celebrated models of liberal rationalism.

Like Locke, Rousseau, Jefferson and most of the champions of liberal democracy, Kant placed immense stress on independence, inner-directness and self-determination.

He wanted a free man to be able to say: 'I am the captain of my soul'.

In the 21st Century it is up to Conservative thinkers to make that dream come true for the poorest people in our society.