

### **It's the money stupid!**

In his successful Presidential campaign Bill Clinton famously had 'It's the economy stupid' emblazoned around his campaign offices. Today in British politics this might be replaced with an alternative slogan – 'It's the money stupid.'

The received wisdom of course is that Britain is a highly taxed nation and cannot afford to invest more, even in the worst pensions in Western Europe let alone in what are written off by many as highly inefficient public services. Tony 'trust me' Blair for example has just launched his Big Conversation about all the key issues facing this and the next Government. Except the question of taxation never raises its head – just the choice of rationing priorities between different investment priorities. Michael Howard and the 'New' Conservatives on the other hand do mention taxation claiming that taxes have soared and are being poured down the open drain of inefficient public services. The (Old) Conservative answer it seems is that public services like the NHS should be privatised and spending slashed by 20% in order to allow for tax cuts.

There are two fundamental flaws with this viewpoint.

First, despite the views of the average member of the public 'informed' to the contrary by politicians and newspapers like the Sun and the Mail, we are not a heavily taxed country. The most recent figures from the OEDC show that in 2002 Britain at 35.9% of GDP paid the fourth lowest total tax take of the 15 EU members. British companies paid the lowest tax of any EU country, personal taxation is among the lowest in the EU and our national debt is the lowest of any G7 country. Even Tony Blair admitted on 22<sup>nd</sup> February 2002 that Britain "is a relatively low taxed economy," but it is not something either he or Gordon shouts out loud presumably because they do not want to upset Rupert Murdoch. Liberal Democrats too share this fear it seems. Early in 2002 Mark Oaten as Chairman of the Party questioned the need for a Penny on Income Tax. In autumn 2003 our new Shadow Chancellor said that any increases in spending must be met by cuts elsewhere and Charles Kennedy announced that we stood for 'Fairer taxes not higher taxes.' Insofar as that slogan means redressing a system where the wealthiest are taxed at 34% of their income and the poorest at 42% then I can support it, as with switching from Council Tax to Local Income Tax. But if it means never again addressing the issue of chronic underinvestment in key public services then I can't.

The second flaw is in the argument that investing more money in public services is the equivalent of pouring it down the drain. Most recently we have the CBI/ Michael Howard view that recent increases in public spending are wasted because productivity in the public sector is falling. What ludicrous nonsense. In an NHS for example where administration costs are 4% compared to 14% wasted on bureaucracy in the privatised utopia that is the USA health system. A utopia where 20% have no medical insurance at all and where the biggest cause of bankruptcy among small businesses is trying to pay medical bills for serious illness even when you do have medical insurance.

If the wages of Nurses or Teachers go up to tackle the recruitment crisis then productivity supposedly falls. If class sizes for 5-7 year olds are cut then 'productivity' as measured by the pupil teacher ratio goes down. Yet the quality of education goes up in ways that might not be measurable until many years later. These measures of productivity are as nonsensical as the Voodoo Economics that says that borrowing by LEA's or Health Authorities to build schools and hospitals is Public Debt and therefore a 'bad thing,' while borrowing (at higher interest rates), by private firms for the same purpose is economic growth and therefore a 'good thing.'

Liberal Democrats of course, in Sir Humphrey's words, previously took the 'brave' stance of arguing for appropriate tax increases to raise more money for investing in services such as Health and Education. A risky strategy according to the pundits received wisdom but one which gave us our best election results for 70 years in the 1997 and 2001 elections. Most of the seats we won then were of course Conservative ones where the voters nonetheless seemed to accept our argument that 'you don't get something for nothing.' They did not vote for us because we were more Tory than the discredited Tories.

New Labour on the other hand preferred the line of vote buying Income Tax cuts before the 2001 election and an insistence that they would not need to increase tax. They even repeatedly attacked us for our honest stance, but in 2002 suddenly increased National Insurance (regressive and a tax on jobs), rather than use the much more progressive option of Income Tax. Shame about the five wasted years from 1997-2002. Shame about the cynical and deliberate misleading of the public. At long last though we have the promise of real extra financial resources over the next few years. If optimistic economic growth forecasts continue to falter however will the Government also scale down the desperately needed investment in infrastructure and public services?

Either way, in all the fashionable enthusiasm for looking at management structures, competition and diversity lets not lose sight of reality while we rearrange the deck chairs on the Titanic. One or two years of real increases in investment cannot possibly undo the damage caused by a quarter century of underinvestment, from the IMF cuts of the seventies, through Thatcherism and on to New Labours deep cuts in 1997-1999 and their double and treble counting thereafter. An Institute for Fiscal Studies analysis shows that public investment in Britain was 8.9% of National Income in 1975 but just 1.7% in 2000, the lowest level since 1945. The Wanless Report quantified a £267 Billion underinvestment in the NHS and reported that access was a far greater issue of concern than 'choice.' British Rail, hamstrung by old fashioned political interference, managed to renew an inadequate 500 miles of track every year which plummeted to an appalling 200 miles under the privatised blessings of Railtrack. Network Rail (new style public ownership anyone?) has now increased this to 700 miles and by 2009 will be borrowing 2% of GDP to make good decades of neglect. But it will be 2014 before delays will be lower than they were in 1999.

New Labour of course made this even worse. The Government with the worst five year record of capital investment in public services since 1945 was New Labour 1997-2002. They spent less than the Tories on Transport. They have allowed core student funding in Further Education to fall since 1996. Spending in real terms per Higher Education student has fallen by over 30%. Class sizes for most pupils aged 7-16 actually increased from 1997-2001. Education spending will reach average OECD levels for the first time in 2006 but it will take many years of 'average' spending to reverse decades of under investment. OECD figures show that the UK was one of only four industrialised countries to spend less per pupil in 2000 than they did in 1995. Real terms spending actually fell by 1% in Britain while it rose by 30% in Ireland and 13% in France. Meanwhile Britain fell from 13<sup>th</sup> to 22<sup>nd</sup> out of 32 industrialised countries for the number attaining 5 or more higher grade GCSE's and has one of the worst post 16 staying on rates. Pensions are an insult with a complex maze of means testing on top that prevents one third of eligible pensioners from gaining the Pension Credit they need to barely climb above poverty level. Yet as private pension schemes collapse all around him Gordon Brown boasts of the fact that state pension spending will be limited to 5% of GDP compared to up to 15% in the future in France and Germany.

You won't recognise these economic truths of course because the New Labour spin machine has portrayed a period of constant growth in investment. A self defeating propaganda exercise in the long run as the electorate are now increasingly receptive to the Tory line that 6 years of Labour tax and spend has shown the folly of investing in public services – lets privatise it all and cut taxes instead!

All this in one of the richest countries in the world. The costs of the welfare system that the Liberal Beveridge was the architect of were met by a near bankrupt country immediately after World War Two. The first pensions, introduced by Lloyd George almost a century ago, were accompanied by a tax on land and an associated constitutional struggle with the Lords. Can Britain in the early 21<sup>st</sup> century really not afford to invest more in its public services and infrastructure?

Expanding University costs for example could be met from an equitable and progressive tax –such as Income Tax which well paid graduates would pay more of surprisingly enough! Or they can be met through Labours Fees which have a deterrent effect on potential students and upon graduate recruitment to lower paid public sector jobs.

The Liberal Democrat answer – recognising also the need to provide immediate rather than deferred injections of money to improve University facilities and raise academic pay as recommended in the Betts Report – is to raise Higher Rate Income Tax from 40-50p in the pound on earnings over £100,000. This affects just 1% of the population (82% of whom are graduates), leaves the top rate lower than the 60p that it was at during most of Thatcher's' reign and also raises the money to pay for Free Care for the Elderly.

In one of the richest countries in the world, with some of the lowest taxation in Western Europe, is this as far as we are able to 'push the tax envelope?' **Can desperately needed investment otherwise be met from increased tax revenue from economic growth,**

**increased government borrowing or from cuts and ‘efficiency savings’ elsewhere?  
Excellent news if so, but if not are we happy to continue to see Health, Education,  
Pensions and Transport stagnate or decline?**

In all the debate about centralisation versus regionalisation and public versus private let’s not lose sight of the fact that, however you hide the bill, someone still has to pay. Seventy five per cent of Social Services Authorities were spending more than the Government said they should in 2001. Charles Clarke unsuccessfully tried to blame the 2003 schools spending crisis on LEA’s not passing Government Grants through to schools when the reality is that most LEA’S spend more than the Government provides. The Disability Discrimination Act now requires disabled access to all educational institutions – who is going to pay for this or provide the money to fund the aspirations for learning disabled people in the ‘Valuing People’ White Paper?

Switching power and money raising back from Central Government to Local, or privatising the NHS whether through Tory Policy or Labour’s Foundation Hospitals does not alter financial reality. What is the fairest, most efficient and most equitable way of recognising and delivering this increased spending is the debate most people seem to duck these days. At least the Liberal Democrats have argued openly and honestly for increased taxation, where necessary, to fund specific key areas of investment as with the 1p on Income Tax in the last two elections and the 50p top rate tax now. The voters might in a Tory/New Labour world choose poorly financed public services or the privatised, dog eat dog, medical system of the USA. But before choosing they should at least be given the clear facts, rather than being left to the mercy of Labour, Tory and media distortion about the level of taxation or the efficiency of public services in this country.

The choice, in Galbraith’s words, is between ‘private affluence and public squalor.’ The reality is that however you disguise the question the answer is still ‘it’s the money stupid.’

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