

'I'd beat Brown the Tories need an economic policy that adds up

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You can't beat something with nothing" is one of the oldest clichés in

politics. And Gordon Brown is surely something – intelligent, dedicated, experienced, and a man with an economic record that has survived debunking by his critics. Yet the Tories are planning to unseat him with – nothing.

Consider their cast. David Cameron, likeable enough, with a shrewd sense of image-creation, who burst on the political scene with an opportunity to put policy flesh on the skin and bones of his natural, Reaganesque optimism. Give him this: he has succeeded in getting the Tories listened to. Oliver Letwin, who once believed that tax cuts were an important part of any effort to wrest some power from the state and return it to individuals. Give him this: he has delayed his U-turn on tax cuts into a return to the Tory top table. And George Osborne, who says he is persuaded that tax cuts are the enemy of "economic stability".

So as Gordon Brown prepares a tax programme as the centrepiece of his coherent view of Britain 2020, the Tories chuckle about how they plan to beat his old, dull, unfashionable politician with – nothing. Or at least nothing by way of policy.

Forget Cameron – his job is to create heart-warming photo ops, and he is good at it. Forget Letwin – his job is to convert the suggestions of some dozen or so groups into a manifesto. Concentrate instead on Osborne, the intelligent shadow chancellor, the man with the potential, as yet unused, to develop a sensible economic strategy, but who is trapped into defending the

proposition that tax cuts threaten economic stability.

Osborne proposes to hand over to the public sector some half of any increased wealth that the private sector creates. This, despite the fact that even Gordon Brown admits the public sector is so bloated that it needs a fiscal diet, and that the public sector is so wasteful that it is pulling down the nation's productivity. This is the beast that Osborne produces to feed, lest anyone think his party "mean".

Worse still, he and his leader have made it clear that consumers and taxpayers will not be allowed to combine their NHS money with some of their own funds to buy services from private health care providers. This removes any competitive check on the public sector, so it will demand – in its term, "need" – more and more money merely to maintain the miserable level of service it now provides. That means higher taxes.

Surely Osborne knows this. That is why he has diverted the public's eyes from the nothing that is Tory fiscal policy to debates about whether green taxes are needed, and how they should be levied: on people who decide to take a few weeks' break in Majorca or refuse to put wind machines on the roofs of their houses?

Osborne, of course, argues that such taxes will not increase the total burden on consumers because the levies will change behaviour, and when they do, they will not yield any revenue. That is more than a little disingenuous. Yes, if the green taxes persuade consumers to buy vehicles less dependent on emission-producing petrol, they can't also produce revenue. But



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the average life of an automobile is about 15 years, during which time new taxes on their use can produce a great deal of revenue. That would give the Government time to cut those taxes that retard economic growth, so that when the green taxes no longer produce revenues the larger economy will – and at lower rates of tax. Osborne is having none of such supply-side arguments.

But if he is serious about offering an alternative to Gordon Brown, he needs to accompany Tory green taxes with just such supply-side tax cuts, and – brace yourself – with reductions in government spending. Throw in tax simplification – the tax code has doubled in size under Brown – and the Tories might, just might, have a coherent policy that can withstand an assault by Brown.

Such an assault is already on the launching pad. First, Brown will reject the need for swinging green taxes in favour of a plan to develop a global carbon trading system, with charges for pollution permits. He is surely right that such a system would force consumers to pay for the costs

they impose on society by raising the prices of pollution-creating products. To which the Tories will respond: we prefer to tax your cars, your vacations and such other activities as offend us. Note: both the Chancellor and his shadow will be placing additional burdens on consumers, but the Chancellor will be doing it in a way that indirectly taxes all who cause pollution, while the Tories will be directly taxing only those activities they find unacceptable. So much for less intrusive government.

Then Brown will fire the next round – tax cuts. The inheritance tax will be lowered by raising the threshold at which it begins to bite (never mind that there is no supply-side advantage to such a cut); taxes on research and development will be reduced by the sort of tax credits the Chancellor thinks will make Britain more competitive (never mind that recent studies find no relation between government R&D expenditures and economic growth); there will be selective cuts aimed at benefiting first-time home buyers (never mind that the nation really needs a more robust rental market to increase labour mobility) and other groups whose plight tugs at the Brown heart-strings. In response, the Tories will be reduced to repeating that tax cuts threaten "economic stability" (never mind that Brown will win the who-can-we-count-on-for-stability contest over Cameron, who was in the Treasury when the Tories almost brought the nation to ruin by membership of the ERM).

All of which is a ploy. There is a case to be made for cuts in the general level of taxation, as opposed to the selective fiscal engineering of which Brown is so

fond. A new study for the World Bank by PricewaterhouseCoopers concludes: "Tax regimes with relatively high marginal rates and large numbers of exemptions and allowances tend to be less economically efficient in relation to encouraging work, saving and investment, as well as imposing higher compliance and tax administration costs."

There is also a case to be made for real reductions in spending, as opposed to the reduction in the rate of increase in spending that the Chancellor dismally calls a spending cut.

In the end, the nothing that is Tory policy is really a policy-by-default. It assumes it is politically impossible to rein in spending. It assumes that unlimited consumer choice is unacceptable, which means that the public sector monopoly can operate free of threat to its inefficiency. It guarantees the further enlargement of the public sector.

This leaves poor George Osborne to counter a tax-cutting Chancellor with a policy of no tax cuts. Later, poor David Cameron will be reduced to attacking the new Prime Minister for his "NHS cuts" and for granting tax relief to the old (means-tested pensions), the young (baby bonds), the cold (heating allowances), the capitalists, and all those from whose other pockets Brown is extracting the means to pay for his selective generosity. You might prefer broad-based tax cuts and the increased individual freedom that the late Milton Friedman argued they bring, but don't look to the Tories for that alternative. All they have to offer is plenty of nuffin'.

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