POLICY THUMBNAIL

A New Taxpayer Protection Act

Stronger, broader fiscal rules to protect taxpayers from politicians making big & expensive economic mistakes

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Centre for Small State Conservatives

THE PROBLEM

The UK has no fiscal guardrails to prevent politicians from making big and expensive economic mistakes, with taxpayers always picking up the bills when things have to be put right. This means:

1) Chancellors can invent new fiscal rules whenever they want and, because they spend up to whatever limit they set themselves, their successor never inherits any fiscal firepower. So each Chancellor sets looser rules which give them more spending or borrowing headroom than the ones before, creating an overspending ratchet away from sound money & towards bigger Government.
2) Fiscal rules focus narrowly on taxpayer-funded spending & debt, but ignore the equally-important issues of regulatory costs (which are large, rising fast & have the same economic impacts as tax rises); or of the enormous long term liabilities (future bills) which taxpayers will have to pay, such as the extra pensions & welfare benefits needed to cope with our ageing population.

THE SOLUTION

The answer is to introduce a new Taxpayer Protection Act, enshrining a broader & legally binding fiscal rule so Governments make fewer and smaller economic mistakes by always living within the country's means. It should have 3 parts:

a) Taxpayer-funded spending should follow the 'golden rule', that Government can only borrow to invest in building new infrastructure rather than to pay day-to-day bills. This part of the new rule would be phased in to begin with, cutting the initial deficit in equal-sized annual steps so difficult decisions can't be put off, until day-to-day Government spending is fully under control.
b) The regulatory burden of any new 'red tape' rules and regulations should satisfy a value-for-money test: either a cost-benefits ratio (eg a minimum £3:1 ratio of benefits to economic costs each year) or a net economic costs ratio (eg £1-in-£1-out, or £1-in-£2-out). This is explained in more detail in 'Slashing Red Tape'.
c) Long term taxpayer liabilities for welfare state social insurance schemes (like the State Pension) should be revealed & controlled for the first time by publishing annual Government balance sheets of Taxpayer Net Worth. This will initially show a very big deficit of many more taxpayer liabilities than assets, so the new fiscal rule should require Governments to improve it by a minimum amount each year (eg by ¼% or ½% GDP) until the deficit is gone. This is explained in more detail in 'Taxpayer Net Worth'.

The new fiscal rule would have built-in processes allowing it to be temporarily suspended if there is a recession, a civil contingency (like a pandemic), or a war. All the figures should be independently audited and published with the same degree of rigour as taxpayer funded spending already faces today, to prevent Ministers from marking their own homework.

THE BENEFITS

A Taxpayer Protection Act will:

- cement the UK's reputation as a permanently-safe, stable, predictable and commercially-attractive place for jobs, investment, wealth-creation & business growth.
- permanently cut the risks & costs of investing in the UK, meaning lower interest costs for taxpayers on UK Government debt, improved productivity across the rest of the UK economy & faster growth overall.
- protect taxpayers against Governments saddling them with the bills for economic mistakes like overspending, or borrowing too much, or hiding the true costs of enormous long-term IOUs, for the first time in our country's history.
- reduce the political exposure of the Office for Budgetary Responsibility (OBR), simplifying their task to assessing whether Governments are satisfying the Taxpayer Protection Act's fiscal rule in the next year, rather than trying to forecast broader or longer-term policy outcomes. OBR could then be merged into either the National Audit Office or the Office for National Statistics if desired in future.
- control red tape costs (a significant cause of poor UK productivity) properly. An extra pound of regulatory costs has similar effects on our economy as an extra pound of tax, so this change would install a productivity-improving ratchet to accelerate economic growth and jobs every time regulations were changed in future
- be more honest, generationally fairer & greener by preventing Governments from writing huge IOUs for future generations to pay. Examples include unfunded changes to the benefits system; selling long-term assets to pay for day to day spending; failing to maintain infrastructure (eg roads, railways etc) properly so they lose value over time; extracting natural resources (eg by mining or drilling) without using the proceeds to create something just as long-lasting and more valuable instead.

THE SOUNDBITES

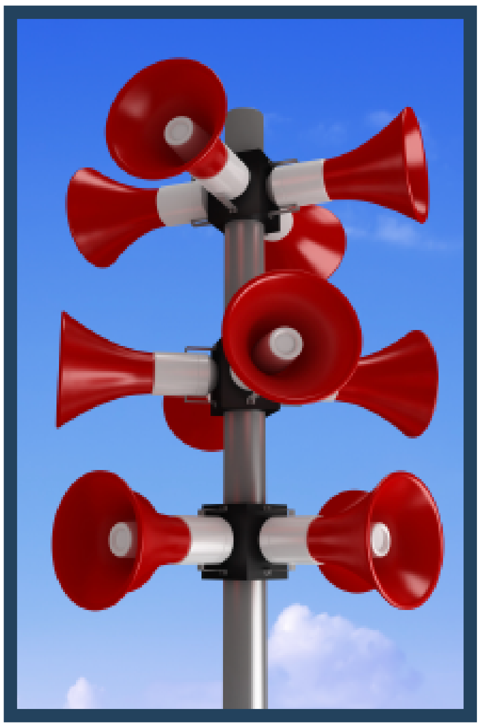
"There is no such thing as public money. There is only taxpayers' money. It's no good thinking that someone else will pay. That someone else is you." (Margaret Thatcher)

"Nobody can stop politicians & Governments from making any mistakes at all. But the new Taxpayer Protection Act will make sure they happen less often, and are smaller and less expensive for taxpayers to put right afterwards too"

"If we lock in sound money forever, Britain's jobs, investment and exports will all grow faster."

"A pound of red tape costs our economy as much as a pound taken in tax, so slashing red tape is just as good for our economy's growth, jobs and exports as a tax cut."

"Measuring and improving Taxpayer Net Worth each year won't just make politicians honest about the real bills which taxpayers are facing, and what they're doing to reduce them. It will make us a generationally fairer, greener, and more attractive place for jobs, entrepreneurs and business investment too."



THE REBUTTALS

1. *Won't a Taxpayer Protection Act make Government impossible by tying everybody's hands?*

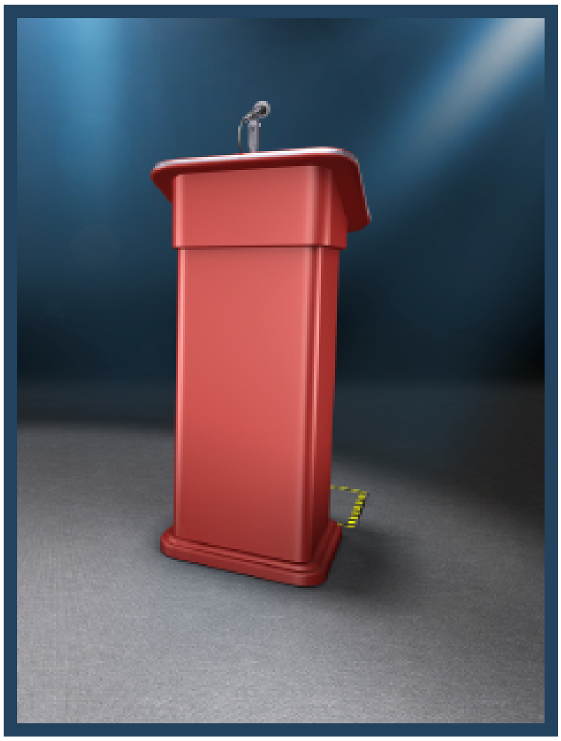
Only if you think that politicians spending taxpayers' cash carefully & getting better value for money counts as 'tying their hands'. In reality, this new Act will cement Britain's reputation as a safe, stable, commercially-attractive place for jobs, investment, wealth-creation and business growth. And it will have built-in stabilisers to deal with problems like recessions or emergencies like pandemics too.

2. *Why are you phasing in the 'golden rule' so slowly? Shouldn't we get day-to-day spending under control from day 1?*

Government spending is like a super-tanker: it takes a while to stop or change course. We will start cutting well-intentioned-but-ineffective spending programmes straight away, but the savings will take a while to feed through. That's why the Act will mandate legally-binding, equal-sized annual deficit cuts until we are living within our means, so Chancellors can't put off difficult decisions as often happens today.

3. *Doesn't this move us even further from 'rule of law' and towards 'rule of lawyers'?*

Quite the opposite. We are giving Parliament stronger & more effective democratic control of quangos & Government spending, which is exactly what it is constitutionally supposed to do.



4. *Won't controlling red tape costs just trigger a 'Race To The Bottom'?*

Our approach won't dilute a single safety or environmental standard: it will just deliver them as cheaply, efficiently and unbureaucratically as possible.

5. *Isn't this just a way to undermine the OBR?*

Asking OBR to make shorter-term forecasts makes them more likely to be accurate, leaving them less-exposed to political criticism in future as well. And stronger, broader fiscal rules will make stable, sensible Budgets more likely rather than less, no matter which Party is in Government in future.