

What should be in the Conservative Manifesto

A joint note by the IEA and TPA

The snap general election provides a chance for all parties to upgrade their manifesto pledges and put forward strong and decisive policies that will get the economy fit for Brexit, lower taxes for working families and reduce wasteful government spending. Here are ten proposals that the Conservatives should adopt:

1. No areas of spending should be protected from proper scrutiny

Guaranteeing particular areas of spending and ring-fencing some departmental budgets puts unfair pressure on others. The Conservatives have already decided to keep the arbitrary 0.7% target for international aid, but the money could be spent more effectively if tied more closely to other foreign policy, defence and trade objectives. Other spending commitments that should be dropped include the 'triple-lock' on the state pension and benefits based solely on age rather than need (such as free bus passes and winter fuel allowances). Parliamentary oversight of departmental budgets should be tightened, with the relevant select committee having a greater say.

2. Make infrastructure spending work for the economy

Decisions on infrastructure spending should be left to the market wherever possible. In particular, the government should clear the way for more house building by liberalising the planning system and allow much-needed airport expansion. Too often politicians prioritise high-profile and very expensive projects even though the economic justification is weak. Public sector involvement should be limited to projects with a clear benefit/cost case, even if these are smaller in scale and less glamorous. There should be an independent review of HS2, but there is already a strong case for cancelling it.

3. Cap and cut taxes

Taxation should be lowered to alleviate the financial burden currently being placed on working families. The commitment not to raise income tax, National Insurance Contributions or VAT should be retained, or at least replaced with a clear statement that the government intends to reduce the overall burden of taxation. The long-term aim should be to keep this burden well below 35% of GDP.

The additional rate of 45% on taxable income over £150,000 raises little or no additional revenue but discourages risk-taking and so should be scrapped. The government should also abandon 'sin taxes' with dubious social benefits – such as those on sugary drinks – which hit poorer households disproportionately hard. Reductions in corporation tax – a tax which is ultimately paid by workers and customers, not firms – should be continued, with the long-term aim of replacing it with a tax on the earnings distributed to shareholders.

4. Eliminate government borrowing by 2022

The government's current fiscal objective is 'to return the public finances to balance at the earliest possible date in the next parliament', which, at the time, was assumed to run from 2020 to 2025. Consistent with this, the Office for Budget Responsibility (OBR) is still forecasting a budget deficit of 0.7% of GDP in 2021-22 (the end of its forecast horizon). The bringing forward of the election should be used as an opportunity to accelerate fiscal consolidation too, with a clear commitment to eliminate the deficit no later than 2022, if not before.

5. Commit to an industrial and trade strategy that works with the market, not against it

The government should abandon any attempt to pick winners or, worse still, prop up losers. Instead, any 'industrial strategy' should prioritise the interests of consumers, not producers, and focus on deregulating the economy to let market forces allocate resources to wherever the opportunities are the greatest. Households, companies and the public sector should be free to source the best and cheapest goods and services from wherever they want – even if this is from abroad. After Brexit the UK should be willing to lower trade barriers with the rest of the world unilaterally, if necessary.

6. Increase choices in education and employment

The government should allow greater diversity and choice in the UK's education system, including the introduction of more new free schools, University Technical Colleges and grammar schools. More modern forms of working, such as the 'gig economy', should be encouraged, not clamped down on. A small number of extreme cases of 'exploitation' or 'unfairness' are a poor basis for blanket intervention that reduces labour market flexibility and destroys jobs.

7. End political interference in wage-setting

The ability of politicians to curry favour by setting the National Minimum Wage at ever-higher levels should be curtailed. Control could be returned to the independent Low Pay Commission, or future increases capped to the general level of inflation or earnings. National pay bargaining for the public sector should also be abolished so that wages can be set according to local conditions. And it should be left to shareholders to agree the appropriate level of executive pay in the companies that they own.

8. Commit to a serious programme of red tape abolition

The so-called Great Repeal Bill simply consolidates existing EU legislation into UK law. Instead, the departure from the EU should be seen as a golden opportunity to realign and reduce regulation in a wide range of areas, from agriculture and fisheries to labour markets and product labelling.

One way to commit to serious reform would be to include 'sunset clauses' in UK legislation so that British laws based on EU directives could cease to apply after, say, five or ten years, unless they are specifically reaffirmed by parliament. This would put the burden of proof firmly on the shoulders of those who wish to retain regulation, while still reassuring households and businesses that worthwhile regulations will be kept. The Department for Business, Energy and Industrial Strategy should also be renamed the Department for Deregulation – or, at least, have deregulation as a primary goal.

9. Devolve and decentralise power

The UK is one of the most centralised countries in the world, with over 90% of all tax revenue accruing to the national level. We should look to the example of the Nordic countries, where local governments collect between a quarter and a third of all tax revenue. Or to Switzerland, Canada and the US, where regional and local governments collect between a third and half of all revenue.

Either way, this would clear the way for a massive decentralisation of power, including more freedom for devolved administrations in Scotland and Wales. This would improve democratic accountability, widen the scope for policy experimentation and learning from best practice, and ensure that public spending matches the preferences of local residents more closely. The ensuing tax competition would also provide a spur for local or regional governments to find efficiency savings, and new ways to attract residents and businesses.

10. Introduce co-payments and private sector competition in healthcare

The NHS is undoubtedly Britain's most popular institution. But this 'NHS patriotism' has a downside: it prevents us from having a grown-up discussion about the health service's problems, because we treat any criticism as treason. Yes, the NHS offers universal access to healthcare, irrespective of ability to pay. But many other health systems do that, too, and there is no reason why we should not look abroad for lessons to be learned.

Even in the generous Scandinavian welfare states, most patients are expected to pay a small proportion of their healthcare costs out of their own pockets. We should do the same. A co-payment of, say, 10% of medical bills, subject to a cap and with exemptions for poor people, would discourage unnecessary or inefficient use of the health service, and encourage greater cost-consciousness.

Even France and Italy – countries not famous for their positive attitudes to free markets and entrepreneurship – have huge private healthcare sectors. One in three hospitals are run by private companies, although the care they provide is still largely free at the point of use. We should aim for similar levels of private sector participation in the UK, which would empower patients by increasing choice and competition.

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