

# uk2020

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Rt Hon Owen Paterson MP

UK 2020 Launch

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Royal Institute of Chartered Surveyors

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Check Against Delivery

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## INTRODUCTION

Ladies and gentlemen, I am delighted to see so many friends of UK 2020 here tonight.

I would like to begin by thanking a very generous group of people, my donors, who have helped to get UK 2020 off the ground so quickly.

After 14 years on the Front Bench, I am using my new freedom to set up a think-tank, with a very simple mission: to establish where the UK would be by 2020 if we adopted robust, outward-looking, common sense policies.

As Tim Montgomerie said last week, “Look after the country, its economy and its security, and the opinion polls will take care of themselves. Focus on the opinion polls, and you don’t fix the country and ultimately voters won’t thank you.”<sup>1</sup>

As we launch this evening, I take a really optimistic outlook for our country. We will not shrink from challenging the political consensus, groupthink and ‘blobs’ wherever they get in the way of common sense and effective solutions. All too often our political discussions are devoid of plain speaking. No wonder voters are disengaged. We will say exactly what we mean regardless of the prevailing mood if it’s right for the country.

We will work with Parliamentary colleagues, the private sector, multi-nationals, small businesses, other think tanks, academics, the best researchers, and the media to suggest solutions with honesty and clarity.

As someone who has always lived 200 miles from London, I have never aspired to be a member of the metropolitan elite. It is a matter of great personal regret that although the first Parliament met in Acton Burnell in Shropshire in 1283 there has been an unfortunate tendency to hold them in Westminster in recent years.

My front bench posts took me to every corner of the UK and it is my clear intention to get out well beyond London in my new role as Chairman of UK 2020, to listen to a much wider group of people as we develop workable solutions to current problems.

The Conservative Party last won with a proper majority in 1992 with 14.1 million votes under John Major. Even Blair in his landslide only got 13.5m and in the 2010 election Conservatives were down to 10.7 million. Where have the 3 million gone? They are still out there, but they are not attracted by the Blairite-Clintonite retail politics of focus groups which relegate those on both the right and left of the consensus to “noises off.”

Before we’ve even launched we have started a genuine debate on energy, by challenging the consensus, and made the unsayable about energy and

climate change sayable. We have even introduced a new phrase into the English language: the ‘Green Blob’ was a popular Halloween costume last weekend.

And I’m delighted to announce that Chris Bullivant has joined as Executive Director. Chris was an integral part of establishing the Centre for Social Justice where he was a Director for five years from 2006 to 2011. He worked closely with my good friend and colleague Iain Duncan Smith and was instrumental in turning the CSJ into the powerhouse it is today setting much of the agenda adopted by the DWP, Home Office and Ministry of Justice. We are very lucky to get someone of Chris’s calibre.

Over the coming months we are going to make detailed and meticulously researched interventions into the policy debate of this country on: energy and the environment, Britain’s relationship with Europe and the world, innovation in business, health, international security, and how we use technology to tackle poverty and starvation in developing countries.

My experience is that when you listen to your constituents and stick to the findings of your research, even in the face of prevailing Westminster culture, then debates progress, voters and the media get involved, and our public discourse takes off. We live in a wonderful country but the reality is we face some very tricky and urgent policy conundrums. And we won’t resolve the tough problems without rocking the boat in an honest way.

I want to do my bit for my country and to the best of my ability meet this vital public challenge. We will have honest discussion and treat voters with respect: a lot more evidence and a lot less spin. That's what UK 2020 stands for – and that's why I am proud to be here tonight, launching this think-tank.

This evening, while I have you, I want to make a few simple comments about the one subject we cannot ignore, the one thing upon which everything else depends, and that is the economy.

## **BEYOND POST WAR CONSENSUS**

Contemporary British politics is still defined by the Post War Consensus. We emerged from the Second World War and embraced the welfare state.

We switched from the low tax, low spend small state beliefs of the Victorian era and accepted the Continental model of corporatism: government, business and unions governing together.

As a result by 1955, total public spending as a percentage of national output was 36 per cent.<sup>2</sup> According to Eurostat, by 1981, in the grip of a post-Labour recession, public spending had reached 51.2 per cent. The Thatcher government brought it down to 39 per cent. Under John Major financial discipline was maintained.<sup>3</sup>

But then Blair and Brown exacerbated the worst financial crisis to strike this country in a century. Spending soared to 49.3 per cent of GDP in 2009.<sup>4</sup>

Today, despite the best efforts of a Coalition government dedicated to eliminating the deficit and paying down national debt, public spending still soaks up 47.1 per cent of national output.<sup>5</sup>

It is no consolation whatever that our European neighbours are in a worse state. The French state is spending 57 per cent of its GDP.<sup>6</sup>

Angela Merkel said: “If Europe today accounts for just over 7 per cent of the world’s population, produces around 25 per cent of global GDP and has to finance 50 per cent of global social spending, then it’s obvious that it will have to work very hard to maintain its prosperity and way of life... All of us have to stop spending more than we earn every year.”<sup>7</sup>

## **DEFICIT –**

### **A RESULT OF SPENDING TOO MUCH, PLUS INTEREST**

The Coalition Government has slowed the increase in spending.<sup>8</sup> We’ve also done good things such as reducing corporation tax from 28% to 20% by the end of this Parliament.<sup>9</sup> And it is a remarkable achievement that

the UK has created 1.8m jobs, more than the whole of Europe put together.<sup>10</sup>

But it is still only a job half done because we have this horrendous deficit. And it is not difficult to understand why.

The brutal fact is that over the last forty years no British Government has ever managed to raise more than 39 per cent of national income in tax in a single year.<sup>11</sup> Everything above that has had to be borrowed.

In Gordon Brown's final year, the Government spent £670 billion, but only raised £513 billion in tax. This resulted in a deficit of £157 billion. That meant borrowing £300,000 a minute.<sup>12</sup>

But we should reflect very soberly on the fact that we are still borrowing about £200,000 a minute because the Coalition Government will be spending over £100 billion more than it raised in this final year in office. At the end of the last financial year we had added £437 billion to the national debt, which now stands at £1.5 trillion.<sup>13</sup>

The interest alone on this borrowing will rise to around £60 billion.<sup>14</sup> That's over half the welfare budget, and more than we spend on defence.

Increasingly, our creditors are foreigners, so much of the interest we pay on our national debt goes abroad, weakening our balance of payments. It is both irresponsible and immoral to keep borrowing at this rate and to expect our children and grandchildren to pay the interest.

In short, my concern is that we spend too much; we tax too much; and we borrow too much. It is time to remember what Margaret Thatcher said in 1983: “the State has no source of money other than money which people earn themselves... There is no such thing as public money; there is only taxpayers' money.”<sup>15</sup>

There are two solutions to this. First, cut spending and borrowing. And second, grow the economy. The Tax Payers Alliance has identified £120 billion in potential savings. In order to get public expenditure down to 40 per cent, we would have to reduce spending by £50 billion.<sup>16</sup>

One of the most striking features I noticed while attending Cabinet, is that there are too many chairs at the table. We shouldn't shy away from getting rid of departments. It is easy for Government Departments to lose focus of their central mission and to become obese. We must sharpen up Departments and ensure they are effective.

Can we afford BIS, DECC, DCMS or DfID as independent Departments with all the associated costs?



On spending, we must stop valuing government effectiveness by the amount of money spent, and measure its effectiveness by outcomes instead. Take welfare, soaking up £120 billion a year where Iain, in the face of opposition from inside and outside Government, has done wonders in bringing this Department back on mission – ensuring welfare assists people into work rather than trapping them in dependency and poverty. The work at the DWP is a shining example of a team who have bravely tackled the status quo head on, and have begun to steer the ship in a much more productive direction which will also eventually save money.

It is policies like these that have appealed to the vast majority of people in the country who are by nature small-c conservatives: believing in living within your means, providing for your family, and working hard.

If the first thing to do is to cut spending, the second is to grow the economy. One of the surest ways to do that is to cut taxes and encourage a climate in which small businesses can thrive. It is unbelievable to me, that well into the second decade of the 21<sup>st</sup> century, we have to make the moral case for profit, restate the benefits of free markets and the essential contribution of small businesses to a growing economy.

When I was Secretary of State, state spending represented an incredible 77.6 % of the economy of Northern Ireland. Nowhere needed tax reductions more to revive business. I managed to get an agreement between all 5 political parties and the business community, united under

“Grow NI”, to campaign for the devolution of corporation tax so that it could compete with the 12.5% prevailing in the Republic.

Ronald Reagan clearly understood “the courage, generosity, and creativity of business” and said, “The more government takes in taxes, the less incentive people have to work...

"Any system that penalizes success and accomplishment is wrong. Any system that discourages work, discourages productivity, discourages economic progress, is wrong.

“A few economists call this principle supply-side economics. I just call it common sense.”<sup>17</sup>

Reagan understood that if you reduce taxes you grow the economy.

The impact spending and tax has on GDP growth is significant. Over time, this effect compounds into substantial differences in prosperity. Compare the UK with France. In 1980, France had a PPP GDP per capita 20 per cent higher than Britain's. That lead steadily eroded over the 1980s and 1990s until Britain overtook France in 2002.<sup>18</sup> Hollande’s recent penal 75% wealth tax has now driven huge numbers of French men and women to work in London. The contrast with Hong Kong and Singapore is even more stark, because the differences in policy are also more dramatic. Britons were 20 per cent richer than citizens of those two

countries in 1980. By 1989 both had overtaken Britain. By 2012 people in Hong Kong were almost 20 per cent richer and those in Singapore were 40 per cent richer than Britons.<sup>19</sup>

So the lesson is that taxes need to be lower. Not just lower, but simpler. Our Tolley's Tax Handbooks fill over 17,000 pages, compared to Hong Kong's 267.

The Taxpayers Alliance "2020 Tax Commission" with the Institute of Directors under the chairmanship of the excellent Allister Heath have already developed a comprehensive plan for reforming the tax system. We really must take this seriously.

## **THE TAX BASE**

As it is, we are seeing a narrowing of the tax base and, with it, an increased tax burden upon those who we really want to encourage to create wealth.

The accumulation of Income Tax, Stamp Duty and Inheritance tax, before even adding VAT, Council Tax and energy subsidies on a utilities bill have a compounding, dampening effect on people.

The amount of tax people pay is much higher than they think. Income tax headline rates of 20, 40 and 45 per cent leap to 40, 49 and 53 per cent once you add in National Insurance.

But it's not just that tax rates are higher: they catch more people. The 40% tax rate in the late 1980s only applied to 1 in 20; it now applies to nearly 1 in 6.<sup>20</sup>

The current threshold of £41,450 per annum catches senior teachers, senior nurses and middle-ranking police officers. Had the threshold been indexed in line with growth in wages, the 40 per cent tax would cut in at a salary of £75,700 a year.<sup>21</sup>

Likewise, Stamp Duty used to be levied at 1 per cent and only on the most expensive properties. But now by 2018 four fifths of homes will be hit by it at one level or another.<sup>22</sup>

It is high time we rediscovered the virtues of low taxation. Low taxes encourage effort, initiative and enterprise. They reward society's wealth creators and risk takers, the people who create jobs and build the prosperity that benefits us all. We should start with a significant uplift in the threshold for paying 40 per cent income tax to send a signal that those who work hard and achieve success will be rewarded, not penalized.

## **UK 2020**

When we look ahead to a brighter future, we can see the UK alongside self-reliant, low cost, entrepreneurial economies, starting with the Anglosphere where the economies of Australia, Canada and New Zealand are flourishing thanks to Conservative governments. And we have close links with the emerging economies of the Commonwealth, the Far East, and parts of Eastern Europe which are all growing faster than our local but important partners in Europe.

In conclusion, I am convinced that the majority of people in the country are small-c conservatives at heart, looking for optimistic, common sense policies that deliver results.

So if we are straight with the public – about the importance of balancing the books, about the duty on ministers to spend public money wisely and frugally, and about the dynamic effects of low taxation, this puts the country's best interests at the forefront. If we do all that, forget the focus groups, we will take the Public with us.

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Thank you for coming this evening, thank you for joining us at the launch of our think tank. We look forward to working with many of you and letting you know about the progress we make in developing a truly common sense set of policies.

ENDS

## Endnotes

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- <sup>2</sup> A Survey of Public Spending in the UK, Institute for Fiscal Studies, <http://www.ifs.org.uk/bns/bn43.pdf>
- <sup>3</sup> For Eurostat figures, see table 5:  
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- <sup>4</sup> Ibid.
- <sup>5</sup> Ibid.
- <sup>6</sup> Ibid.
- <sup>7</sup> *Financial Times*, 16 December 2012, “Merkel warns on cost of welfare”,  
<http://www.ft.com/cms/s/0/8cc0f584-45fa-11e2-b7ba-00144feabdc0.html#axzz3I26PU1Cr>
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- <sup>9</sup> <http://uk.reuters.com/article/2013/03/20/uk-britain-budget-corporation-idUKBRE92J0M320130320>
- <sup>10</sup> Official Report (Hansard), 2 Sep 2014 : Column 151,  
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<http://www.theguardian.com/news/datablog/2010/apr/25/tax-receipts-1963>
- <sup>12</sup> Ibid.
- <sup>13</sup> EU Government Deficit and Debt Return (Annual returns), October 2013/September 2014,  
[http://www.ons.gov.uk/ons/dcp171778\\_323850.pdf](http://www.ons.gov.uk/ons/dcp171778_323850.pdf) and  
[http://www.ons.gov.uk/ons/dcp171778\\_380981.pdf](http://www.ons.gov.uk/ons/dcp171778_380981.pdf) Table 1, p. 5
- <sup>14</sup> Office for Budget Responsibility, Fiscal sustainability report , July 2014,  
<http://cdn.budgetresponsibility.org.uk/41298-OBR-accessible.pdf>
- <sup>15</sup> Speech to the Conservative Party Conference, 10 October 1983,  
<http://www.margarethatcher.org/document/105454>
- <sup>16</sup> Based on a TME of £730bn – see: HM Treasury Public Expenditure, Statistical Analyses 2013, op cit.
- <sup>17</sup> Remarks at the National Conference of the National Federation of Independent Business

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22 June 1983, <http://www.presidency.ucsb.edu/ws/index.php?pid=41504&st=&st1=>

<sup>18</sup> IMF data, see: [http://www.economywatch.com/economic-statistics/economic-indicators/GDP\\_Per\\_Capita\\_PPP\\_US\\_Dollars/2012/](http://www.economywatch.com/economic-statistics/economic-indicators/GDP_Per_Capita_PPP_US_Dollars/2012/)

<sup>19</sup> Ibid.

<sup>20</sup> *The Guardian*, 20 March 2013, “Budget 2013: Extra 400,000 people to be caught in 40% higher tax band”, <http://www.theguardian.com/uk/2013/mar/20/budget-2013-40pc-higher-tax-bracket>

<sup>21</sup> *Financial Times*, 12 March 2014, “Higher-rate UK taxpayers bear heaviest burden”, <http://www.ft.com/cms/s/0/2c5553b8-aa10-11e3-8497-00144feab7de.html#axzz3I26PU1Cr>

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