

# **REBOOTING BRITAIN**

**Making the most of Brexit**

Dr Madsen Pirie



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# Introduction

“What has made the European family of nations an improving, instead of a stationary portion of mankind? Not any superior excellence in them, which when it exists, exists as the effect, not as the cause; but their remarkable diversity of character and culture. Individuals, classes, nations, have been extremely unlike one another...Europe is, in my judgment, wholly indebted to this plurality of paths for its progressive and many-sided development.”

*John Stuart Mill, On Liberty, Chapter 3*

The referendum decision to leave the EU has proved a real chance for Britain to renew itself, to regain its confidence in itself, and to take decisions that have been put off for too long. There are many features of modern Britain that are simply inadequate to serve its needs today. Some have not been tackled for a lack of political will, and the fear of confronting established interests that act against the national good. Some have been allowed to continue with occasional tinkering at the edges, when a comprehensive overhaul would be more appropriate. Some have not been tackled because our membership of the EU and the obligation to accept its rules has prevented us from doing what is necessary in the national interest.

It is as if the nation has been on automatic drift, plodding on with no clear sense of direction and purpose. A patchwork quilt of policies has evolved from a series of historical events, with no-one taking a clear look at where the nation should be heading if it is to serve the needs of its people in a changing world. The nation has fallen into managerialism as its governing ethos, with the view that the purpose of politics should be to manage things as they are, perhaps more efficiently, perhaps more competently, than the party in opposition might achieve, but without looking at the underlying philosophy that should underpin what we are trying to do.

Institutions and practices are allowed to continue simply because no-one seems ready to challenge them and to change them. When they fail to deliver adequate outcomes, temporary patches are applied when the real answer would be to change the system that engendered those failings.

Brexit provides a pretext and an opportunity now to do things differently, for the nation to reboot itself and bring its policies, practices and its performance up to speed, and in ways that transcend the merely adequate and promise instead the achievements that a modern nation such as ours should be able to deliver. Britain has problems, it is true, but they can all be solved by creative energy and skilful resourcefulness. All it needs is the will to do things differently, acting across every area of public policy.

# Rebooting Britain

## HOUSING

There is a shortage of housing in Britain, particularly of affordable housing. House prices have risen remorselessly because of a mismatch between the demand for housing and the supply of it. Several factors have contributed to this. People are living longer, which means that they occupy houses for a greater time before their death puts the house on the market.

More people are living singly, some because of separation and divorce, and many from choice. This means that they occupy more of the housing stock. Large-scale immigration has increased the population, increasing the pressure on housing. All of these factors have increased the demand for housing, but the supply has not been able to keep pace with this because of one glaring failure of public policy.

The Town & Country Planning Act of 1947 has prevented the expansion of our towns and cities, and prevented the building of new homes in the areas where they are required. It removed the right of owners to develop land without planning permission, and established the so-called green belts around cities and towns. It has acted as a green

noose, choking off the development that could have filled the housing shortfall.

The irony is that much of the land in the green belts is not actually green in the sense of verdant, with fields, woods and meadows. Some of it is damaged or distressed land formerly used for industrial purposes, and much of it is agricultural land characterized by great fields of monoculture crops requiring fertilizers and pesticides and providing poor habitat for wildlife.

A repeal of the 1947 Town & Country Planning Act would solve Britain's housing problems at a stroke. It would not mean the end of green belts around our cities, but would just create the ability to build sensibly on some of them. For example, developing just 20,000 acres of the Metropolitan Green Belt (roughly 3.7%) would create room for 1m new homes, estimating 50 houses per acre; nearly all of which could be built within 10 minute's walk of a station.

Governments have tried to cope with the housing shortage and the attendant high costs of housing by introducing measures to help first-time buyers. These measures have focused on financial assistance to would-be purchasers. The reason they do not solve the problem is that they concentrate on the demand side, trying to make demand effective with financial aid, whereas the problem is a shortage of supply. Indeed, it could be argued that by supplying more money without more houses, such government programmes push up prices even higher, making the problem worse.

Repeal of the Town & Country Planning Act, on the other hand, would immediately increase the supply. The cost of housing would stabilize, and in many cases it would go down, since the cost of land with planning permission is so high a proportion of the total cost of the house. Given much greater ability to build elsewhere, there would

no longer be a premium on approved land, the premium responsible for much of the cost.

A part of the problem is political, in that those with houses in or near the green belts constitute an interest group that opposes further development. Furthermore, those who already own or are buying high-cost houses, would be reluctant to see price falls caused by measures to facilitate house-building to aid those who do not presently own houses but who aspire to.

Part of the political problem could be solved by concentrating the new building on damaged green belt land or on agricultural land within it. If the verdant parts that people value so highly are not threatened, people will more readily acquiesce in the development that takes place.

Many other countries have planning rules much less restrictive than ours, yet seem to cope without excessive development, and certainly without the housing shortage that is such a drag on the UK economy. After nearly 70 years, it is time to correct the public policy error that has blighted the UK housing market ever since. If this government wants to make home ownership affordable to large numbers at present excluded from it, it can do so by allowing people to build homes where they are wanted and needed.

## **TAXATION**

No-one ever designed Britain's tax system; like Topsy it "just grewed." It grew to finance government, firstly by kings, then by Parliament. The chequered cloth on which nobles would count out their obligations to the king in piles of coins lives on in spirit as the Chancellor of the Exchequer, but the purpose of taxation has changed



drastically. The finance of wars loomed large in its original purposes, but much of it is now expended on transfer payments between different groups of citizens.

Because the tax system evolved historically from accidents and incidents rather than from design, it lacks coherence. Adam Smith set out four canons he thought should apply to it, but many taxes fall outside the good sense he was proposing.

Firstly, he said, the cost of collecting it should be low in proportion to its yield. Secondly, he said, the timing of the tax and the amount to be paid should be certain to the payer, rather than at the whim of tax inspectors. Thirdly, he maintained that the timing should be convenient to the payer. Ideally, it should be levied after the person due to pay it has received some money. His fourth point was that taxes should be levied according to the ability to pay; they should be paid by those with the money to do so.

Smith might have added (but didn't) a fifth canon to the effect that no tax should damage or limit the economy out of all proportion to the revenue it raises. If the revenue raised by a tax is insignificant compared to the damage and distortion it inflicts, then it should not be imposed in the first place.

Taxation always changes behaviour, and so the aim should be to avoid taxing behaviour that is of benefit to people and society, and to tax the behaviour that is not. The UK tax system seems more designed to raise revenue from whatever sources can be tapped, than to follow any sensible rules.

Behaviour that is generally regarded as benign includes things such as being self-supporting by earning a living, supporting one's family, saving as a precaution against life's possible hazards, building up

a nest-egg for one's old age, or investing in the businesses that will bring tomorrow's wealth, growth and employment.

If anyone were designing a rational tax system, they might well opt to tax such things as pollution, and consumption, as well as such things as gambling and high health-risk products such as tobacco and alcohol. UK taxes also include those on earning and investment savings, as well as travel, insurance, and moving house. It taxes people twice if they try to provide for their children after death.

Rebooting Britain's tax system is not the same as designing a rational tax system from scratch. It could, however, make the UK tax system more rational and certainly more simple. The tax code has been described as the biggest book in the world, since it is over 17,000 pages long. This compares with the 276 pages in Hong Kong's tax code.

The first move should be to abolish Corporation tax. There is a false belief that this is paid by companies, but it is not. It is paid by the employees of companies, by their customers, and by their shareholders. Without Corporation tax, businesses would have more money to distribute to shareholders in dividends, to increase the pay of their employees, and to keep prices keen for their customers. Although the government would forego the amount it receives in Corporation tax, it would receive more income tax from the higher dividends to shareholders and from the increased wages to employees, and more VAT from the extra spending power the lower prices put into the pockets on customers.

In practice this might be done in stages, starting with a reduction from 20 percent to 12.5 percent (as in Ireland, which levies only half that for research and development earnings), and then to 6.25 percent, and then to zero. This would make the UK a very attractive

location for world businesses, and drive a real boost to economic growth.

Capital Gains Tax certainly falls into the category of taxes that do economic harm. Its main impact is that it slows down the velocity of capital because people leave investments locked in place to avoid the tax they would incur if they realized them. In fact a vibrant, growing economy needs new capital to boost investment, especially for start-ups. It needs people to switch investment from businesses that no longer deliver sufficiently high returns and into ones that might.

The Treasury's case against it is that people might take their remuneration by capital gains to avoid income tax. This could be done by only a tiny minority because most people are paid salary or wages and do not have that option. Even there it would be possible for a tax tribunal to determine whether a capital gain was in fact a disguised salary payment and rule that it should be taxed accordingly.

Taxes on capital are bad because capital is the lifeblood of business, and especially of new and expanding businesses. People should be encouraged to invest, to seek the capital gains made from successful investment. Capital Gains Tax sends precisely the opposite message and should be abolished.

Inheritance tax (IHT), according to polls, is one of the most disliked taxes in Britain, even among those who will never themselves be subject to it. It is the morality of it that people object to. People pay tax on the money they earn and naturally enough wish to make provision for their children with what they are able to save. The idea that the state then steps in to take a further 40 percent of money that has already had taxes paid on it is one they find objectionable.

This is certainly one of the taxes that discourage benign behaviour. People generally approve of those who try to give their children a better start in life than they had themselves, yet Inheritance Tax punishes those who do so. Furthermore, the rise in house prices means that many people of fairly modest means will be drawn into the tax when they die because of the value of the home they leave.

The steady rise in longevity means that when most people die their children will already be established in life, perhaps in their 50s. This is the time when many people think of starting a business after many years of working for others. An inheritance can provide the capital that makes this possible, so IHT is draining the capital pools that could fund new enterprises, with the wealth and jobs they create. It makes it more likely that people will be dependent on the state in their retirement.

IHT does not contribute a huge amount to the Exchequer. Indeed when the Adam Smith Institute published a survey on its 100th anniversary, it found that the tax had yielded a negative return for every year of its existence. In other words the economic losses it caused had outweighed the revenue it produced. IHT is another tax on capital that should be abolished.

Income tax is much more complicated than it need be. When Nigel Lawson was Chancellor he made a point that in every budget he simplified taxes, and abolished at least one tax. Since his time the pattern has reversed, with greater complexity and additional taxes introduced year on year.

Some countries have achieved much simpler systems by opting for a flat tax in place of the different rates, thresholds and exemptions that characterize the UK system. They use flat taxes to broaden the tax base through economic growth, so that although rates are usually low,

they are taxing an increased amount of economic activity, and produce more revenue than high marginal rates would yield.

There is little doubt that a low flat tax would boost the UK's economic growth. Low taxes encourage people to work more, to produce more and to earn more. They make it more worthwhile for people to provide goods and services for each other. The UK Treasury traditionally calculates the 'cost' of every percentage point of tax reduction, without factoring in the positive side of increased growth. Nor do they factor in the fact that low taxes make it less worthwhile for people to use tax shelters and avoidance measures. When taxes are low, people find it easier to pay them than to employ accountants and tax shelters to escape them. This makes it possible for a lower rate on a broader base to yield more revenue.

Britain could move in stages to a flat tax system by a succession of reductions in the top rate, combined with a systematic removal of the various exemptions that make the tax code so complex and impenetrable. It should calculate in advance the rate at which more revenue would be collected from top-rate payers. When that new rate is settled in after one or two years, it should move on to calculate the lower rate that would yield more revenue from high earners.

The aim should be to move to a system of income tax in which minimum wage earners would pay no tax at all, with a single flat rate for income from all sources above that level. This would mean that the level of the minimum wage for an average working week would be the only tax threshold, since everything above that level would be taxed at the same rate.

In the 1980s Geoffrey Howe and Nigel Lawson reduced income tax several times and gained more revenue from the growth generated. They started with a top rate of 83 percent (with an extra 15 percent

added for investment income to give a top rate of 98 percent) down to 60 percent and then 40 percent. Chancellors in the future should bring the top rate down to 35 percent, then to 30 percent, and then explore the options for taking it lower still to coincide eventually with the basic rate.

The UK would then gain all the advantages of a flat tax system, including the simplicity that would tear out most of the 17,000 pages in its tax code.

## SCHOOLING

Britain made a mistake that began with the Forster Education Act of 1870 and has continued ever since. It is a mistake that has distorted children's education since then and has led to the acceptance of low standards and under-achievement. The state had intended to ensure the *provision* of education for children, but instead it entered into the *production* of education.

If the aim was to ensure that no child, however poor, should be deprived access to education, the way to achieve this would have been to fund those unable to be funded by their families. Instead, the state gradually extended its reach so that today, apart from the 7% of children educated privately, rising to 14% for sixth-formers, the state educates the remainder. In practical terms it constitutes a near monopoly by the state.

The result of that monopoly has been the politicization of education, with local authorities and teaching unions making decisions that should more properly be taken by parents. Education has been skewed more to achieving the aims of public servants at national and

local level, and to teaching unions, than it has been to improving the quality sought by parents.

Schooling could now be rebooted by the state moving out of the production of education and instead concerning itself with the finance, and with a benign oversight of quality. Schools, rather than local authorities or government, should employ and choose teachers. Head teachers, in consultation with parents and governors, should determine the policy of the schools and make the decisions concerning their day-to-day administration.

This would make the schools independent and free-standing. They would receive funding from government on behalf of each child they were able to recruit. Government should act to curb the planning requirements needed before new schools can be established, so that in areas where good schools are over-subscribed, it will be much easier for new ones to spring up. Many of the new schools will be self-owned and with non-profit status, but it is important that for-profit schools should be allowed, so that specialist firms can reproduce in new schools the successes they have enjoyed in others, and so that investment can be attracted into education, increasing its resources.

The fundamental principle underlying a rebooted school system is that the state owns no schools and employs no teachers. Instead it funds the children, directing money on their behalf to the schools they choose to attend. The money follows the child, so that a poor school loses funds if it cannot attract students, and a good school gains funds if it can. Some schools will undoubtedly close as new ones spring up, and quality will increase as parents opt for the schools they think will serve their children well, and abandon any they think are failing to do that. Special provision will, or course, be available for children with special needs.

The state will no longer direct in detail the curriculum to be followed, but rather the schools will decide what and how to teach, based on the syllabi of the several different exam boards. Parents will choose to send their children to schools that achieve a good record and a good pass rate, and there will be healthy competition between schools to reach high standards.

Some of these changes can be brought about by building on steps already taken; others will require new policy initiatives. The effect will be to take education out of the political system, away from government, local authorities and teaching unions, and into the hands of parents and teachers. Head teachers will play a pivotal role in motivating their staff, and morale will be raised throughout the school sector.

## **MIGRATION**

The UK has allowed its policy on inward migration to develop haphazardly, originally under a pro-Commonwealth view that gave Commonwealth citizens the right to settle, and more recently under the direction of European Union rules that stipulate free movement within the EU for citizens of member states. There has been no overview of the type of immigration that would benefit the country, or of a fair system of rules that would prevent abuse.

It is an economic fact that much immigration is beneficial to Britain, as it is to the immigrants seeking to improve their lives. Typically immigrants are young people seeking to advance their lot through employment. They are not people who see Britain as a soft touch, easy to claim benefits from. Furthermore, the ones who uproot themselves and travel tend to be those with a spirit of initiative and enterprise. They make good citizens, contributing to the economic



life of the nation. They earn money and pay taxes, creating jobs by the goods and services they seek. There are many success stories of first generation immigrants becoming successful entrepreneurs, ranging in scale from small shops to multi-million pound businesses. Second generation immigrants yield their own success stories as well.

Obviously the UK cannot absorb unlimited numbers, so there has to be control over the rate at which newcomers can be granted entry. Beyond that lies the need to avoid overloading some areas with a concentration of immigrants greater than it can handle. Immigrants do increase demand for housing, education, and to a lesser extent, healthcare. Most of them tend to be young and healthy, and many are themselves employed in the NHS providing healthcare for others.

It would be foolish to ignore the fact that there is some resentment among the native population towards immigrants, particularly Muslims, who do not integrate into British culture, and who retain attitudes to women and LGBT people, for example, that are simply not acceptable in modern Britain. There is a need for immigration to proceed at a rate which does allow for greater and faster integration, and for immigrants to be made aware that Britain is not a hotel that people can stay in without acknowledging that it is a vibrant culture with a long history of integrating successive waves of immigration.

Given that the UK cannot cope with unrestricted immigration, there is a need to a clear policy that sets out priorities. The UK needs more talented and skilled people, and should be prepared to accept more of them. Students should not be counted as immigrants, and should not be subjected to the same restrictions and rules. Would-be immigrants with proven skills and qualifications should be fast-tracked into the country. Those who speak English should receive faster admission than those who do not.

Britain should join other countries that accept immigrants prepared to invest in the country, and should prioritize those putting up the specified investment, and who pledge to create jobs in the UK. This would boost economic growth, as it has done elsewhere.

The key point of these policies is the recognition that if the rate and numbers of immigration is to be controlled, the UK's policy should be such as to give first preference to the type of immigrants it knows will augment the nation's economy and make it more competitive in global markets.

## **DRUGS**

Total prohibition of narcotics combined with punishment for possession of even small amounts of illegal substances has plainly not worked. The nearly four decades of benign treatment that followed the 1926 Rolleston Report were characterized by a legal supply under doctors' prescriptions to registered addicts. Drug abuse remained relatively stable and of manageable proportions. The ending of that system in the 1960s led to an explosion of drug use and the rise of criminal gangs to supply banned substances such as heroin, morphine and opium.

The sixties also witnessed the expansion of recreational drugs such as cannabis and cocaine, and later Ecstasy. All of these are in widespread use today, and the policy of total prohibition has plainly failed to restrict their use, as well as bringing users into conflict with the law and the police. The tabloid press stridently calls for greater penalties and tighter controls, despite the fact that these have not worked. Politicians seem to assume that if something has not worked, that is a reason to do more of it. It would be more sensible to do something else instead.

The first step to rebooting the UK's drugs policy would be to re-medicalize many of the hard drugs. This involves treating them as a medical, rather than a criminal problem and responding accordingly. Under the old system a few doctors abused their position by over-prescribing, and addicts sometimes sold on their surplus supply on the streets. This could be overcome by making the drugs available in clinics under medical supervision.

If an addict could enter a clinic and, after examination by a doctor or nurse, could receive a supply to be consumed on the premises, it would deal with the problem of a supply leaking onto the streets. It would also destroy the criminal narcotics network. If people could satisfy their addiction for free, it would induce a collapse in the price of illegal drugs and put the drug gangs out of business.

It would also enable the quality of the drugs to be maintained, something that is not possible with an illegal street supply, and which leads to some deaths. Similarly it would enable the dose to be monitored and cut down deaths from overdose.

The recreational drugs pose a separate problem. Few people would want to enter a high street clinic and talk to a doctor or nurse before smoking marijuana, popping an Ecstasy pill or snorting a line of cocaine. These drugs are typically consumed in company while people are enjoying themselves. These drugs should be legalized so that people can take them without fearing prosecution and possible imprisonment. Several places, including some US states have already legalized the recreational as well as the medical consumption of cannabis. As with medicalization of the hard addictive drugs, legalization would enable quality control of the recreational drugs, and enable education about their use to make it safer.

Taking drug use out of the criminal arena would yield benefits on a scale that is scarcely comprehensible. Their criminality ended, so would the rule of the drug gangs. If other countries followed the UK's example in this respect, the murder and misery drug gangs inflict in poorer countries would be greatly diminished, perhaps ended. Drugs would simply not be profitable. While it is possible that drug use, particularly recreational drug use, might increase somewhat, this would arguably be a better situation than the criminal world presently created by prohibition. The same could have been said about the repeal of prohibition in the US. It might indeed have led an increase alcohol consumption and the problems that result, but this was better than Al Capone and his ilk running riot with mayhem and murder on the streets, and bribing police and the courts with the profits illegality made possible.

## **SELF-EMPLOYMENT**

The UK Treasury prefers to have its taxes collected by unpaid tax-gatherers because this is less costly and more efficient than employing its own army of tax collectors. It likes PAYE income tax because employers collect it for them and send it on. It likes VAT because shop assistants and restaurateurs do likewise. It dislikes self-employment because it does not receive the income tax from it automatically, collected by others, but depends on the individual self-employed person filing a tax return and remitting the tax due.

For this reason the Treasury has been hostile to self-employment over many decades, and has sought to move as many self-employed as it can to be classified as employees. In doing so it has acted for its convenience, but against the trends and needs of a modern economy. In fact the economic trend is to more self-employment. The Treasury's preference dates from a time when most people worked for a single

employer through their working life. This is no longer true. People move between different jobs, and the Treasury's attempt to keep them on the books as full-time employees is a rearguard action against the modern economy.

Increasingly people reach contracts with successive employers, sometimes even with simultaneous employers. Sometimes they have more work than at other times. What is needed is a flexible system that can adapt to people's changing needs. Self-employment is just such a system, and it has been rising rapidly to the point where one in seven people are self-employed. Part of the cause has been technological. It is easier to start a business today than it used to be. The rise of the 'sharing economy' with Uber and Airbnb enables people to earn money as self-employed sub-contractors.

Part of the rise in total employment in the UK is down to a steep rise in self-employment, enabling the UK to outperform other European countries in its job creation. Some of the new self-employment is represented in new start-ups, with new and small companies providing most of the new jobs. To turn the UK into a truly modern economy we should go along with the trend and act to facilitate self-employment, not to try to prevent it, as the Treasury has done in its bid to reclassify people as fully employed wherever it can.

Self-employment should become the new norm in Britain, with people reaching contracts with employers, and with organizations to help them do so and to represent them when needed. The pensions system should recognize this change and be adjusted to take account of it by ensuring that successive employers can pay into the pension funds of their self-employed workers.

## PENSIONS

The UK pensions system has traditionally been a pay-as-you-go system, with today's pension benefits coming from today's contributors. It is, in effect, a transfer system under which funds from younger people in work are distributed to older people in retirement. It has not been a funded scheme under which money paid into a fund is invested to provide for the future needs of the participants.

The main drawback to unfunded schemes arises from changes to the population's age profile. In the 1940s five people in work could support one dependent for a short period, typically two years, of retirement. Changes in longevity have altered this balance, and it is unlikely to say the least that three people in work could support one person for several decades of retirement. Indeed, as the century progresses, its pattern might be of two persons in work for every one person in retirement.

Britain needs to take its pension scheme into the modern world by changing over the course of a generation from an unfunded pay-as-you-go scheme into a fully funded system under which money contributed by participants is invested on their behalf to achieve growth that can support them when they need to draw on it.

Pension savings paid into a person's fund can be from taxed income (T) or from exempt income (E). Similarly growth achieved within that fund can be taxed (T) or exempt from tax (E). And when the money is withdrawn in retirement, it can be taxed (T) or exempt (E). Britain has chosen to take the route of EET, allowing tax-exempt pension contributions to be paid in up to set levels, with growth retained in the fund as also exempt, but then taxing income taken out. In fact a better model for the modern trend in work, population patterns and longevity would be TEE.

People should save into their pension fund from money they have paid tax on, and then the state need have no further interest in what they do with it afterwards. Growth within the fund would not be taxed, nor would withdrawals made from the fund. The personal pension funds accumulated in this way would be a major source of investment, boosting the development of businesses and their productivity.

People should be free to choose between approved competing pension providers, as they do in Sweden. Sweden's privately managed pension funds build up from payments by participants and growth achieved on the investments made by the managers on behalf of the participants. This gives prospective retirees the confidence of a reasonable standard of living in retirement achieved from the fund, rather than from the goodwill of future taxpayers, a goodwill that might be strained if too many demands are made on them.

There is a spurious argument dubbed the "rice bowl" argument which says that retired people who take rice out of the bowl can only do so if young people put rice into it. Whatever the system, runs the argument, the old will be supported by the labours of the young. The argument is in error by not appreciating that a funded system makes the bowl bigger. The funds saved are available for investment in business and industry, in production and productivity. They increase economic growth to the point where dividends paid can support those who invested. Under tax transfer systems, there is no fund to bring those gains to growth and productivity.

Britain should take its pensions system through a transition, as Sweden did, to give people a choice between approved private pension providers into which people and their employers would pay annually. The government's welfare role in this would be to make up the contributions of those unfortunate enough, eg through disability

or unemployment, to be unable to contribute themselves from their earnings.

Such a system would be more resilient, more shockproof, and more readily able to adapt to changing economic and demographic trends.

## HEALTH

Britain made the same mistake with health that it did with education. It assumed that in order to ensure universal access that it had to nationalize the service and supply it itself. In fact, as with education, the aim of ensuring access for all could have better been achieved by concentrating on the finance rather than on the production.

Although supporters of the National Health Service as presently constituted describe it as “second to none,” the fact is that no other nation has attempted to copy it, whereas several nations including France and Germany have organized their healthcare systems differently to achieve what most observers deem to be a superior outcome.

The worst fact of the politicization of healthcare into a state-run operation has been that it has turned health into a zero sum game. This means simply that money spent on one thing cannot also be spent on others. Money used to perform a hip operation cannot also be used to care for premature babies. Within a finite budget the NHS has therefore to ration, and to give priority to the treatments it thinks give the best value. In practice this gives rise to an almost chronic plea for more money to be spent on health. No matter how much health spending is increased, there will always be a shortfall simply because when a product such as this is free, the demand can be infinite.



A rebooted UK health service would keep most of the finance in the public sector, but move the supply, that is the actual production of healthcare, out of the hands of the state. The state would not own the hospitals or the equipment, nor would doctors and nurses be its employees. It would ensure that everyone had access to healthcare, which they could choose from a variety of suppliers.

Many hospitals and clinics would be self-owned, with non-profit status, though it would be important to allow for-profit hospitals to operate as well, bringing in with them the extra investment and quality control that chains of medical facilities can bring. The GP or specialist would recommend an appropriate institution that offered the needed procedure within the stipulated budget for it, and would have an incentive to choose ones offering an efficient procedure at an attractive cost.

This would open up many more choices for patients. They could choose, for example, between being treated immediately if they were prepared to travel, or waiting until treatment became available locally. Different procedures could be explained to them, giving them choice over the treatment they preferred. The biggest change is that healthcare would become more personal. Sometimes the NHS gives the impression that patients are statistics, to be processed efficiently in units, rather than customers to be satisfied. With patients bringing public funds to the treatment centres, the staff would have a huge incentive to treat them in ways they preferred.

The private healthcare sector would still exist, and would certainly expand by providing NHS patients with treatments paid for out of public funds. If its charges were above the amount stipulated for a procedure, some patients might be willing and able to top up the NHS contribution in order to meet the institutions fees.

One of the main advantages of this rebooted NHS system is that providers of healthcare would keep their costs as low as possible. They would want to attract patients, and for doctors to recommend patients there, so they would compete to keep costs down and quality high by introducing efficiencies. Undoubtedly many institutions would choose to specialize in certain procedures in order to become efficient at them. They would attract medical staff talented in those areas and become centres of excellence, keeping abreast of medical advances in their field in order to keep their reputation and their competitive edge.

There would, of course, continue to be a very large role for government in issues that affect public health such as preventive measures and control of epidemics, but even here the state need not necessarily employ the physicians involved. It could stipulate the measures to be taken and contract with private medical institutions to undertake and oversee the necessary work. The government would need to inspect and monitor the work of private hospitals, and could contract out the task of actually doing so and reporting back.

What the British public would almost certainly insist on is the retention of the core principles of the NHS, that everyone should command treatment, no matter how poor, no matter how sick. What the state would not do under the rebooted NHS here proposed is to make life and death decisions that favour some at the expense of others.

## **FREE BANKING**

Banking in Britain needs major reform. It is not short of regulation; indeed it could be argued that along with pharmaceuticals, the financial sector is one of the most regulated of industries. Although some commentators suggest it is under-regulated and should come under

even tighter rules, there are those who suggest its relationship with government contributes to the cause of its difficulties.

There is a perception among the public that there is no level playing field. In good times bankers pocket the millions, they claim, whereas in bad times the taxpayer has to pay. Certainly the public mood since the bank bailouts following the crisis of 2008 has been one of hostility. What the public does not appreciate is the role played by governments in precipitating that crisis. Politicians in Britain tried to smooth out downturns in the business cycle in order to avoid the unpopularity of the rising unemployment that usually accompanies such times. Gordon Brown even claimed to have abolished the business cycle.

The easy credit achieved by low interest rates sent the wrong signals. With money so cheap, they were more inclined to take risks with it. With interest rates so low, they looked elsewhere for higher returns and made more risky investments. Risky investments were bundled with safer ones so the risk was underestimated.

There is a strong case for proposing that more competition is needed in banking, rather than more regulation. Metro Bank has been the first new bank to be founded in Britain in over a century. It should be much easier for competitors to enter the market and offer banking services, and they should be given more leeway to operate in different ways. Scotland had so-called “free banking” between 1716 and 1845, and it produced a stable and competitive banking system that proved capable of surviving several shocks during that period. Scottish banks issued their own notes during that period, and generally did so in a cautious and responsible way that provided Scotland’s growing economy with the liquidity it needed.

When banks are allowed to issue their own notes, the readiness of people to accept these depends upon the reputation of the bank. People learn which ones to trust, and are themselves more cautious. When banks have no-one to bail them out, and no lender of last resort, they also behave more cautiously. Moral hazard is introduced when government stands behind banks as a backstop. It sends the message that it is worth their while engaging in reckless behaviour to gain good returns, because the government will help them out in the event of failure. Without government behind them they behave differently and more prudently.

By opening up the banking sector to newcomers, and allowing banks to issue notes, and by withdrawing government support in the event of failure, the banking sector would become more versatile, more flexible, and less likely for any shock or failure to trigger a domino effect. The banking sector would become more stable, not less so.

## **BANK OF ENGLAND**

The Bank's role should be changed considerably. It was a positive move to give the Bank its independence in 1997, removing the ability of governments to boost inflation to create a feel-good factor in the run-up to a general election. The targeting of only inflation has proved its limitations, however. The Federal Reserve in the United States has to take into account the health of the economy as well, and a rebooted Britain could build in a mechanism to do the same.

Real GDP is a measure of economic growth with the part that is down to inflation taken out, and only the genuine growth remaining. Nominal GDP is the combination of both, that is real growth plus inflation. Economists typically take interest only in what the real economy is doing, and ignore what changing prices appear to

indicate. The historic real growth rate for the UK has averaged at about 2.5 percent over more than a century, and we currently view an inflation rate of 2 percent per annum as an acceptable, even desirable, figure.

These two would indicate that a nominal GDP growth rate of 4.5 percent would be a good target to aim at. If the Bank were instructed to target that nominal GDP growth rate, it would be balancing inflation against real growth, using its monetary mechanisms in its effort to achieve that target. The great advantage would be that it would act as a corrective mechanism if either of the measures went too far out of line.

If real growth were down to 1.5 percent, for example, the Bank would have to boost inflation to 3 percent in order to aim for that 4.5 percent of nominal GDP. In doing so it would increase liquidity, thereby helping the economy to achieve higher real growth. On the other hand, if real growth went up to 3.5 percent, the Bank would try to bring inflation down to 1 percent to hit its 4.5 percent nominal GDP target. This would take money out of the economy and squeeze the brakes a little to prevent the dangers of overheating.

It is this automatic response mechanism that makes nominal GDP targeting so attractive. It is sometimes said that although the official target is inflation of 2 percent, the Bank aims at it keeping one eye on the economy. Nominal GDP targeting would build that into the Bank's remit. Instead of responding in retrospect to what has happened, the Bank would be responding to events and taking corrective measures on a continuous basis.

To a large extent this would be an interim measure to be applied until 'free banking' had taken hold and seen a greater number of banks enter the market and compete with different types of service, issuing

their own banknotes, and guarding the reputation that made those notes acceptable. If such a system were introduced, once it had bedded in, then strictly speaking there would be no need of a Central Bank at all. The banks between them would supply the liquidity required to keep the wheels of the economy turning, and the restraint to prevent inflation when it was booming.

## **AGRICULTURE AND FISHERIES**

Britain will soon be free from the Common Agricultural Policy (CAP) of the European Union. Designed largely to protect French farmers, the CAP was characterized by massive internal subsidies and tariff barriers against imported foodstuffs. Although it declined from consuming 40% of the EU budget to about 30%, that has to be added to a further 11% allocated for “Rural Development.” It costs the EU £59bn.

The CAP has been charged with impoverishing poor countries by not allowing them to sell their foodstuffs cheaply within the EU. Some estimates suggest that food could be 17% cheaper without the CAP. Furthermore, the EU discriminates against added value products from poorer countries, with low tariffs only on basic produce, and high tariffs on processed foodstuffs. Germany, for example, makes more money from its coffee than Nigeria does, by keeping out added value products.

The butter mountains and wine lakes that once characterized the CAP dumped subsidized goods onto world markets at below cost prices, keeping poorer countries from expanding their trade. It has dominated UK agriculture for decades, and our exit from it gives us the chance to implement a more rational agricultural policy.

New Zealand showed the way in 1984, when their government took agricultural subsidies down from 30% of the value of production to 2% and then to 1%. New Zealand farmers rapidly responded to world market demand, prices and conditions, and switched from farming the subsidy to farming goods that would sell on world markets. Although some people predicted dramatic falls in farm living standards. The reverse happened. Farming growth which had averaged 1.5% per year went up to 2.5% per year, and New Zealand farming is now reckoned to be among the world leaders in efficiency and competitiveness.

Post-Brexit Britain should follow that lead and phase out agricultural subsidies over a 3-year period to give UK farmers time to adjust and plan for a future in which a rebooted agriculture can produce and sell goods that the world want to buy.

Britain's fishing industry was largely destroyed when it entered the EU and was obliged to open its fishing limits to other EU nations. Fish stocks were depleted by over-fishing. EU attempts at regulation were completely inappropriate, and resulted in huge catches of fish being dumped at sea because they were of the wrong variety or size, and to land them would incur fines or other punishment.

Our exit from the Common Fisheries Policy gives the UK the chance to follow sensible conservation policies such as that pursued by Iceland, characterized by tradable quotas which assign value to the right to catch, and lead fishermen to conserve stocks to protect their own livelihoods. Twice a year in autumn and spring, Icelandic scientists assess the biomass and assign quotas per vessel, quotas which can be traded. It has been a great success story, conserving stocks while preserving and boosting a major industry.

The UK can now reboot its fishing industry by reasserting its fishing limits, banning foreign vessels from exploiting its waters, and assigning annual quotas on the Icelandic model to conserve stocks. It will be a major contribution to preserving biodiversity in our waters.

## FEDERAL GOVERNMENT

Clearly the present constitutional arrangements between the UK countries cannot endure. They are at best an interim arrangement, beset by anomalies and unfairness. It is plainly wrong that Scottish MPs can vote on England's health and education matters, when they cannot vote on such things for Scotland because these fall within the remit of the Scottish Assembly.

There is a simple solution that would reboot the constitutional process. Is it to give English MPs control over the matters that pertain to England. It does not need a separate assembly, a separate building, or another layer of representatives. The MPs elected to the House of Commons for English seats should sit in the morning in the Palace of Westminster as the English Parliament and decide on matters like those decided by the regional assemblies, without the presence of MPs from elsewhere in the UK. In the afternoons they would join their colleagues to debate and decide on matters pertaining to the UK as a whole.

There might well be occasions when the majority of English MPs differed in opinion from the majority of UK MPs, but other countries, including Canada and Australia, have learned to cope with a federal structure of this nature, and learned how to make it work. This is by far the simplest solution to deal with the anomalies created by ad hoc constitutional changes and to endow the UK with a working constitution seen to be both fair and representative.



# Epilogue

The UK has a unique chance of the sort that occurs perhaps once in a generation. The decision to leave the EU presents the opportunity to abandon the politics of drift and muddle, and to take confident steps to create the kind of country we want ourselves and our children to live in. We have a radical government prepared to take bold steps, and we know now that the future cannot continue as the past has done.

This is by no means an exhaustive list. It covers a few areas and presents a radical vision of what the future could be like if we chose to make it so, and to reboot our nation.