

ROLLING BACK THE STATE FOR REAL:

THE ALTERNATIVE CLARKE BUDGET 1995

ANTOINE CLARKE

"Federal spending is determined by a simple mathematical formula: $X - Y = A$ Huge Stink. X is what we want from the government, which is everything in the world. Y is how much we're willing to pay for this in taxes, which is not very much, and we're going to cheat on that. In 1990 the smell was particularly ripe. So much so that George Bush went, in a matter of weeks, from being the most popular unassassinated president in American history to somebody who might be dropped from the 1992 Quayle ticket."¹

It may seem uncanny, the way P. J. O'Rourke's sketch on the United States' Federal Budget could be transposed to the United Kingdom. At the risk of appearing a determinist, I suggest that George Bush and John Major are similar personalities, who have arrived at similar difficulties after living for years in the shadows of the great duo of Ronald Reagan and Margaret Thatcher. Consider the speed with which their popularity was lost, and the reason why. In the case of George Bush, we have a US president who has been elected with the now infamous promise "Read my lips ... No tax increases!" Months later, he reneged, and the president's popularity was hit, to the extent that it never recovered. In 1992, Bush lost to a mediocrity who aspires to the mantle of J. F. Kennedy, but only achieves the same status in terms of womanising, although none of Bill Clinton's "victims" comes close to Marilyn Monroe. It is said that Bill Clinton has performed one significant achievement in three years: making Jimmy Carter look like a world statesman!

Both Bush and Major have suffered a significant shift from considerable popularity to what can only be termed revulsion, in the eyes of key elements of their respective electorates. John Major was elected in 1992 on the strength that his government would cut taxes, but that a Labour one would raise them. He was also given the benefit of doubt about the then recession: the theory that it was all Mrs Thatcher's fault for not going into the Exchange Rate Mechanism of the European Monetary System (ERM) early enough was at least considered plausible. What the electors seem reluctant to do is trust those leaders who have promised tax cuts, yet delivered the reverse, especially as there is no good reason to vote for either, apart from a vague feeling that they are "nice men". Who lied. For this reason, I can see no prospect of the Conservative Party winning an election with John Major as Prime Minister. He is widely believed to have lied shamelessly before the last general election in April 1992. He has muddled with the currency in and out of the Exchange Rate Mechanism, whilst trying to suggest that there is no change in government policy. And all the while hoping that no one would remember that it was a Mr John Major who threatened to resign from Mrs Thatcher's Cabinet, if the pound wasn't taken into the ERM in the first place. Kenneth Clarke, the present Chancellor of the Ex-

chequer is if anything worse, he has described a 5 per cent cut in public expenditure as "policies which could never get us elected in a thousand years". I almost wish that "Red Ken" were a relative so that I could disown him publicly, calling him all sorts of names which he wouldn't dare to sue me for, as it would lead to his being cut out of several wills. It is doubtless too late for this proposal to help Kenneth Clarke, who freely admits in any case, that he doesn't read all of his papers. This is instead intended as a marker. Any budget which even vaguely approaches the methodology advocated here can be regarded a serious attempt at controlling government activity. I expect that the November 1995 UK budget will exceed mine by at least £90 billion. (£1 billion = £1 thousand million.)

THE METHOD

The methodology used in preparing the Alternative Clarke Budget (ACB) is the following. Major chunks of expenditure are identified. The smallest item is roads maintenance (excluding local roads) which accounts for about £400 million. Because I am not being paid £50,000 to do this job, I shall round all figures to the nearest £100 million. The largest single items are the National Health Service with £29,600 million and state pensions at £29,500 million. The third largest item is "Debt costs" at £22,600 million, which is more than total defence spending.

Having itemised the various uses of public expenditure, I propose to adopt a method that I shall call "pruning". This consists of closing certain departments, abolishing certain payments or withholding some items for a full year. The criteria for abolition is to remember that taxation is legalised extortion. If you don't pay, you will be fined. If you don't pay the fine, you will be jailed. And if you resist vigorously enough, you will be shot. P. J. O'Rourke poses the moral dilemma thus:

Every time the government spends money on anything, you have to ask yourself, "Would I kill my kindly, gray-haired mother for this?" In the case of defense spending, the argument is simple: "Come on, Ma, everybody's in this together. If those Canadian hordes come down over the border, we'll all be dead meat. Pony up." In the case of helping cripples, orphans and blind people, the argument is almost as persuasive: "Mother, I know you don't know these people from Adam, but we've got five thousand years of Judeo-Christian-Muslim-Buddhist-Hindu-Confucian-animist-jungle-God morality going here. Fork over the dough." But day care doesn't fly: "You're paying for the next-door neighbor's baby-sitter, or it's curtains for you, Mom."²

Having reduced the scope of government, I then propose to revive the Roman practice of "decimation". Unlike the present day usage of the term, decimation involved the execution of one in ten of a unit which had failed in battle. I do not propose the execution of bureaucrats as a budgetary measure, however it is a truism that a bureaucracy can easily absorb ten per cent increases in spending without showing any noticeable effect. I suspect that although the decimation process would provide a ready excuse for every failure of every public employee for years to come, the truth is that I doubt if anyone will notice an actual drop in productiveness.

It did occur to me that some areas of government could afford a deeper cut than ten per cent. The decimation process is therefore an average figure, rather than an equal cut in each area.

After the spending come the taxes. Because I have effectively removed the government from supplying certain functions, it has proved necessary to reduce taxation substantially. I have left excise duties alone, this year. Despite offering tax cuts to make the most hardened cynic weep with joy, the result is a budget surplus. I propose to use this surplus to cut the National Debt by about 15 per cent.

There are macroeconomic arguments for and against this measure, but there are two which count in my opinion. The first is that reducing the National Debt is the only serious method of reducing the debt costs (the *third largest* item of expenditure). The other methods are defaulting and inflation. Neither of these is assured of success, and they would probably end up aggravating the problem.³ The second is that by shrinking the market in government stock and reducing the taxation of capital, I hope to stimulate private sector



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investment for many years. The current situation offers a third pragmatic argument in favour of my approach. The National Debt is expected to rise faster during a recession, because of tax receipts falling and welfare expenditure rising. By acting now, the government can absorb some increases in welfare spending (on unemployment benefit, for example), which would otherwise send the budget deficit soaring beyond £ 50,000 million and possibly pushing up the National Debt by a further 50 per cent over the next three years. If the Government's aim were to find an excuse for failing to meet the Maastricht Treaty qualifications for European Monetary Union in 1999, then I am willing, at a fraction of the cost, to provide alternative and persuasive arguments!

CURRENT SPENDING

The table below shows the major areas of government spending:

	sub-total* (£ billion)	total* (£ billion)	(%**)
DEFENCE		22.2	8
OVERSEAS AID		3.7	1
AGRICULTURE		3.9	1
European contributions + interventions	2.4		
Other items	1.5		
TRADE & INDUSTRY		4.8	2
EMPLOYMENT		3.8	1
TRANSPORT		10.3	4
Road maintenance	0.4		
New roads	2.3		
Local roads	1.9		
Other items	2.1		
HOUSING		5.5	2
OTHER ENVIRONMENT		9.6	3
HOME OFFICE		15.4	5
Courts	2.8		
Prisons	2.4		
Police	7.6		
Other items	2.6		
EDUCATION		35.1	12
Local Authority Schools	18.5		
Further Education	3.3		
Higher Education	4.3		
Other items	9.0		
NATIONAL HERITAGE		2.7	1
HEALTH & PERSONAL SOCIAL SERVICES		46.4	15
National Health Service	29.6		
Family Health	6.7		
Local Authority Social Services	8.1		
Others	2.0		
SOCIAL SECURITY		90.6	30
Pensions	29.5		
Unemployment	10.1		
Income Support	12.8		
Housing Benefit	10.8		
Family Benefit	8.2		
Disability	6.8		
Administration	4.2		
Other items	8.2		
MISCELLANEOUS		8.3	3
Other European contributions	2.0		
Other items	6.3		
DEBT COSTS		22.6	8
"OTHER"		11.8	4
SUB-TOTAL		296.7	100
ALLOWANCE FOR SHORTFALL		(1.5)	
PRIVATISATION RECEIPTS		(6.3)	
TOTAL		288.9	

[Figures are based on estimates for 1994-95, from *Public Expenditure, Statistical Supplement to Financial Statement and Budget Report*, Treasury, February 1995, quoted from *The Sunday Telegraph*, 24/09/1995]

* Figures rounded to the nearest £100 million. £1 billion = £1,000 million.

** Figures are rounded to the nearest percentage point.

STEP ONE: PRUNING

The first step — "pruning" — involves the abolition of intervention funds, government training projects and those items which duplicate others. In the case of European Union contributions, I propose a "temporary" moratorium. In the case of transport, I propose the removal into the private sector, if necessary without charging, of roads, the Civil Aviation Authority, the railways and London's public transport.

	sub-total* (£ billion)	total* (£ billion)
DEFENCE		22.2
OVERSEAS AID		scrapped
AGRICULTURE		scrapped
European contributions + interventions	frozen 12 months	
Other items	scrapped	
TRADE & INDUSTRY		scrapped
EMPLOYMENT		scrapped
TRANSPORT		scrapped
Road maintenance	scrapped	
New roads	private	
Local roads	private	
Other items	private	
HOUSING		5.5
OTHER ENVIRONMENT		9.6
HOME OFFICE		15.4
Courts	2.8	
Prisons	2.4	
Police	7.6	
Other items	2.6	
EDUCATION		35.1
Local Authority Schools	18.5	
Further Education	3.3	
Higher Education	4.3	
Other items	9.0	
NATIONAL HERITAGE		scrapped
HEALTH AND PERSONAL SOCIAL SERVICES		39.7
National Health Service	29.6	
Family Health	scrapped	
Local Authority Social Services	8.1	
Others	2.0	
SOCIAL SECURITY		74.2
Pensions	29.5	
Unemployment	10.1	
Income Support	12.8	
Housing Benefit	10.8	
Family Benefit	scrapped	
Disability	6.8	
Administration	4.2	
Other items	scrapped	
MISCELLANEOUS		6.3
Other European contributions	frozen 12 months	
Other items	6.3	
DEBT COSTS		22.6
"OTHER"		scrapped
TOTAL		230.6

* Figures rounded to the nearest £100 million. £1 billion = £1,000 million.

STEP TWO: DECIMATION

In this step, cuts are made to virtually every surviving item. There is no question that these would not involve redundancies, that is the whole point. This not a petty exercise in not wasting paperclips, *à la* John Redwood, which is why it is called “decimation”. I am unhappy about the “other environment” item. I would be astonished if less than half of this could not be scrapped. However, I would leave it alone, at this time, and expect to examine this item in some detail next year.

THE ALTERNATIVE CLARKE BUDGET (Expenditure)

	sub-total* (£ billion)	total* (£ billion)	(%**)
DEFENCE		20.0	10
HOUSING		2.0	1
OTHER ENVIRONMENT		8.6	4
HOME OFFICE		14.0	7
Courts	2.3		
Prisons	2.3		
Police	7.2		
Other items	2.2		
EDUCATION		31.5	15
Local Authority Schools	17.5		
Further Education	3.0		
Higher Education	4.0		
Other items	7.0		
HEALTH AND PERSONAL SOCIAL SERVICES			35.517
National Health Service	27.0		
Local Authority Social Services	7.0		
Others	1.5		
SOCIAL SECURITY		67.0	32
Pensions	27.5		
Unemployment	9.1		
Income Support	11.8		
Housing Benefit	8.8		
Disability	6.8		
Administration	3.0		
MISCELLANEOUS		5.5	3
DEBT COSTS		22.6	11
TOTAL		206.7	100

* Figures rounded to the nearest 100 million. £1 billion = £1,000 million.

** Figures are rounded to the nearest percentage point.

STEP THREE: TAXES

CURRENT INCOME

The figures I have are not very helpful: although I can cost cuts in most taxes, I do not have the administrative costs of collection, which might justify the abolition of taxes and would help to calculate expenditure savings.

	(£ billion)	(%*)
INCOME TAX	68.9	25
CORPORATION TAX	26.1	9
VALUE ADDED TAX	45.4	16
EXCISE DUTIES	29.0	10.5
OTHER TAXES (INCLUDING COUNCIL TAX)	44.1	16.5
SOCIAL SECURITY CONTRIBUTIONS	43.3	16
OTHER ITEMS	18.6	7
TOTAL	276.4	100

* Figures in the percentage column are rounded to the nearest half percent.

From current to revised income, there is a methodological change: I have merged “EXCISE DUTIES” with “OTHER TAXES (INCLUDING COUNCIL TAX)” and “OTHER ITEMS”. The changes made to taxation are the following:

- 1) Income Tax: Basic Rate 20 per cent — Higher Rate 30 per cent — Thresholds unchanged — MPs to pay full income tax
- 2) Corporation Tax: flat rate 25 per cent — Thresholds unchanged
- 3) Value Added Tax: 15 per cent main rate — Thresholds, special rates and exemptions unchanged
- 4) Excise Duties unchanged, but re-calculated as percentages, except Vehicle Excise Duty.
- 5) Stamp duty: Abolished
- 6) Inheritance Tax: Abolished
- 7) Capital Gains Tax: Abolished

I may be criticised for leaving the thresholds alone. This means that if some people demand wage rises, they may find themselves in a higher tax threshold. This means that wage inflation is discouraged. I fail to see why it is that the business of government should be to condone creeping inflation.

THE ALTERNATIVE CLARKE BUDGET (Revenue)

	(£ billion)	(%*)
INCOME TAX	58.5	23
CORPORATION TAX	21.1	8.5
VALUE ADDED TAX	39.15	16
SOCIAL SECURITY CONTRIBUTIONS	43.3	17
OTHER TAXES (INCLUDES COUNCIL TAX AND EXCISE DUTY)	86.9	35
TOTAL	248.95	99.5

* Figures in the percentage column are rounded to the nearest half percent.

STEP FOUR: OTHER OPTIONS

Three other efforts can be made to boost tax revenues:

- 1) Tax company perks as income, with no allowances (e.g. company cars, pensions and other tax dodges);
- 2) Extension of the Value Added Tax main rate to any or all of the following:
 - a) books and newspapers
 - b) children’s clothes
 - c) food products presently exempted
 - d) pharmaceutical products (but prescription charge scrapped)
 - e) domestic fuel
- 3) Imposition of Cannabis Tax and Value Added Tax on Cannabis herbal products, resin and oil.

N.B. a) This measure requires legislation and justifies cuts in Home Office expenditure.

b) Unlike the Common Agricultural Policy, which subsidises tobacco and hemp farming, the government would not support production subsidies.

c) The suggested level tax would be 100 per cent, plus Value Added Tax at the full rate.

All of these measures would tend to increase the repayment of National Debt, therefore further reducing “Debt costs” in future years. I do not propose to decriminalise all narcotics, although it is worth noting that the Home Office budget could be cut by at least £4,000 million, if the lowest figures on drug related crime are accurate.

TOTAL: NATIONAL DEBT PAID OFF IN A DECADE

If we go back to the original equation then we get:

	(£ billion)
INCOME (Y)	248.95
EXPENDITURE (X)	(206.7)
BALANCE (+/-)	+ 42.25

The overall result is a budget surplus of £42,250 million. Six factors which improve the picture have been discounted:

- 1) Extra growth in the private sector (especially corporation tax)
- 2) Reduction in Black Economy (decriminalisation of cannabis, reduction of VAT, reduction in income tax, abolition capital gains tax, and welfare cuts)
- 3) Cannabis Duty (Excise figures assumed zero receipts)
- 4) VAT extension (none assumed)
- 5) Loopholes closed (no extra receipts assumed)
- 6) Privatisation Receipts (no revenues assumed above cost of privatising)

The following tentative list of projects for privatisation should cover any unexpected shortfalls:

- 1) Ambulance services
- 2) Bank of England
- 3) British Broadcasting Corporation (and related businesses)
- 4) British Rail (and associated businesses)
- 5) Civil Aviation Authority
- 6) Crown Prosecution Service
- 7) Fire Brigade Services
- 8) Forestry Commission
- 9) Hospitals due for closure
- 9) All municipal and social housing
- 10) London Buses
- 11) London Underground Ltd
- 12) Some Ministry of Defence properties
- 13) All motorways
- 14) Nuclear power generating companies
- 13) Municipal and national parks
- 14) Policing services
- 15) Post Office (and related businesses)
- 16) Prisons
- 17) Roads

In addition to these new privatisations, there is the option of continuing to sell further portions of government share-holdings in privatised firms. In order to simplify and speed up the sale of the assets listed above, a general law on privatisation is proposed, on similar lines to that passed by the French National Assembly in July 1986.

NEXT YEAR: MORE OF THE SAME

A reduction of £42,250 million would make a substantial dent in the National Debt, which stands at £303,000 million. Yet this need not be a one-off exercise. Next year's budget could search for savings in the following areas:

	(£ million)
1) Defence	20,000
2) "Other environment"	8,600
3) All areas of the Home Office	14,000
4) Local Authority education	17,500
5) "Other education"	7,000
6) All areas of Health and Personal Social Services	35,500
7) Income Support	11,800
8) Housing Benefit	8,800
9) Disability Benefit	6,800
10) Social Security Administration	3,000
11) "Miscellaneous"	5,500
Total from which cuts should be found:	138,500

If the process I have performed in this budget were only half as vigorously implemented on the areas listed above, then a further £20 billion cuts could be made next year.

THE PURPOSE

After circulating a draft of this paper, one recurring comment was made: "It's all well and good, but what *incentives* do politicians [meaning *Conservative* politicians] have to carry out your proposed changes?" In answering that question, I am setting out the purpose of this Alternative Clarke Budget. This is *not* an Adam Smith Institute report. It is not in any way expected, or hoped, that the current Conservative government will adopt any part of this paper. In fact, this paper is not intended to be of any assistance to the Conservative government at all. I am not writing as a friendly backbench Member of Parliament might, in the hope of rescuing an otherwise doomed administration. I am writing as an *opponent* of the present government. My aim is to expose the sham, that the present government has the remotest intention, let alone the capacity, for controlling, never mind cutting, public spending. If a Libertarian Party existed in the United Kingdom at this time, I would hope that this paper would form the basis for an economic policy programme. If or when the Conservative Party ceases to offer any hope for libertarians, the case for a new party will be almost unanswerable. The only *caveat*, yet a significant one, is that there is no room at present in the British political scene for such a party. There are many who will hope that the day never comes when a Libertarian Party is founded, to compete in the present electoral system. Whether or not we descend into the pit of party politics, I can see no reason for refusing to challenge those libertarians who remain in the Conservative Party. They are despised and feared by their supposed allies, and only suffered for their money and election time support.

Those libertarians who campaign for the Conservatives, without believing half of the bland collectivist verbiage they are told to support, should ask themselves how far they are prepared to go, in the words of Francisco d'Anconia in *Atlas Shrugged*:⁴

"[...] if you saw Atlas, the giant who holds the world on his shoulders, if you saw that he stood, blood running down his chest, his knees buckling, but still trying to hold the world aloft with the last of his strength, and the greater the effort the heavier the world on his shoulders - what would you tell him to do?"

"I ... don't know. What ... could he do? What would *you* tell him?"

"To shrug."

NOTES AND REFERENCES

1. "Would you kill your mother to pave I-95?", "The Federal Budget", in P. J. O'Rourke, *Parliament of Whores, A Lone Humourist Attempts to Explain the Entire U.S. Government*, Picador, London 1991, p. 94.
2. *Ibid.*, p. 100.
3. (i) Defaulting on Treasury loans was tried as part of the Keynesian experiment in the 1930s. One consequence of this measure was that at the outbreak of the Second World War, the United States Congress refused repeatedly to provide the British Government with armaments on credit. The policy therefore eventually cost the Bank of England its entire gold reserves and the loss of virtually all British investment portfolios in the United States of America.
(ii) Inflation reduces the National Debt in constant money terms, if the depreciation of the Debt is more rapid than the budget deficits caused by "automatic" rises in public expenditure. These are in turn the product of index linked pensions and what the Americans call "baseline budgeting" and the British "spending in real terms". The economic madness of such a policy is demonstrated by two side-effects. The first is higher interest rates (the Bank of Spain offered government stock at 14% tax free in 1993, to cover the costs of devaluation and inflation). The second is a vicious circle of a rising burden of public expenditure and monetary inflation feeding into each other.
The Government could cheat with the inflation figures: using one set to calculate "real terms spending requirements" and picking whichever indicator of monetary inflation happens to suit the whim of the Chancellor. This would apparently give a marginal degree of control to the politicians. The evidence of recent changes in the Retail Prices Index and the vagueness of "monetary indicators" suggests that the Government's economists are fully aware of this strategy.
4. Ayn Rand, *Atlas Shrugged*, New American Library, New York, 1957, p. 429.