

FINANCIAL TIMES

Monday November 29 2004

Making the case for lower taxes

Why the Tories must campaign on a tax-cutting platform

It is make your mind up time on tax for the Conservatives. With less than six months until the expected date of the general election, the Tories have yet to make firm pledges on tax cuts. Worse, they are failing to make the political and economic case for lower taxes.

The Conservative silence is amplified by today's letter in the *Financial Times* from 100 business executives, economists and academics. This says reducing the tax burden must be a priority, in the interests of stimulating enterprise and wealth creation. It highlights the waste endemic in public spending – even the government sees potential efficiency savings of £20bn a year. And it draws attention to the disappointing improvements in public services from recent large rises in public spending.

The Centre for Policy Studies, the right of centre think-tank that jointly sponsored the letter, has published a programme of tax cuts that would be a starting point for the Conservatives. *These would take millions of low-paid families out of tax, make saving attractive and ease the burden on small businesses. The annual cost of £26bn-£30bn could be covered within five years by holding growth in public spending at 0.5 per cent a year below that in gross domestic product.*

This is an achievable target: public spending has leapt from 37.1 per cent of GDP in 1999-2000 to a projected 41.9 per cent in 2005-6. While the tax burden has been held below 40 per cent by borrowing, it is also on an upward trend. Many independent forecasters

believe Labour will be forced to raise taxes after the election to stay within the chancellor's golden rule.

Yet the Conservatives are unwilling to commit to cutting taxes. They worry that they will not be believed by voters who remember the failure of the 1992-7 government to honour such a pledge. They also fear Labour would accuse them of planning cuts in public services, and that voters would punish them accordingly. So they are searching for spending cuts first – very hard in opposition – before saying whether they would reduce taxes.

Yet a reforming government elected on a tax-cutting platform would – as in the past – be able to find ways to restrain growth in public expenditure. Success would not mean cuts in spending – which would continue to rise although at a slower rate than the economy as a whole – but it would reverse the upward drift in the proportion of GDP taken by the state.

The Conservatives must be the party of smaller government, offering less regulation and lower taxes. In opposition, they should refuse to provide detailed costings but instead promise a tax cut and set out the principles they would apply to achieve the target.

As for the cynicism of the electorate over tax pledges, this is unlikely to be quelled by the indecisive and muddled agonising now under way. Voters will be convinced only if the Conservatives show themselves implacably committed to cutting taxes, and hammer home the benefits from now until May 5.