SWP 21/91 ROLLING BACK THE STATE? : UK TAX AND GOVERNMENT SPENDING CHANGES IN THE 1980s

DAVID PARKER
Finance, Economics and Accounting Group
Cranfield School of Management
Cranfield Institute of Technology
Cranfield
Bedford MK43 OAL

(Tel: 0234 751122)

and

PROFESSOR JOHN BURTON
Director, Centre for Business Economics
European Business School
Regents College
Inner Circle, Regents Park
London NW1 4NS

ABSTRACT

The 1980s in the UK was associated with government by one political party and one leader dedicated to reducing government spending and taxation.

This paper analyses the history of public spending and taxation in this period in the light of the government's stated objectives and recognition in the academic literature that mixed economies have immense "inertial" features. We examine changes in government spending and taxation after 1979, alongside developments in monitoring, controlling and evaluating spending. The paper demonstrates that more headway has been made in the latter area than in reigning back spending and taxation. The paper also considers the source of the single biggest failure in the reform of UK public finance in the 1980s, the introduction of the Community Charge.

The broad conclusion of the paper is that the government scores high on rhetoric but much more modestly in terms of results. To date there has been little progress in introducing the most obvious test of value for money - the willingness of consumers to pay for the service.

I INTRODUCTION

The UK experience during the 1980s with regard to taxation and government expenditure is of interest for two general reasons.

First, this period of recent British history provides a decade-plus experience unmarked by the "swings and roundabouts" of democratic government. One political party (the Conservatives) and one Prime Minister (Mrs Margaret Thatcher) were in governmental power through the entire period[1]. The three successive Conservative governments have thus had ample time, and popular support, to enact and to develop their major thrusts of policy as regards government spending and taxing, and other areas of economic policy[2].

Second, these governments during the Thatcher Decade of the 1980s did have a clear and simple political objective regarding government spending and taxing, which can be summed up in the phrase "rolling back the state". Speaking in the mid-1970s - the years in which the Conservatives were to establish their "new Right", new edge in political rhetoric and policy prescription, breaking with the mixed economy "consensus" of the post-War years - the then Leader of the Opposition said:

> "My first call .... is for a defined role for government .... the present role and expenditure of government has produced unacceptable taxation and a horrendous borrowing requirement." (Thatcher, 1977, p 75)

Mrs Thatcher has been dubbed as "The Iron Lady". There is no disagreement amongst political commentators, of any persuasion, that she was the most dominant and tenacious British Prime Minister of any since Winston Churchill during the War. She was also a self-styled "conviction politician"; and her clear conviction upon coming to power was that the levels of British government spending and taxation

needed to be brought down. It is also relevant to note that Mrs Thatcher received her training in her pre-political career as a specialist tax lawyer.

But contemporary, complex systems of government spending and taxing in mixed economies have immense "inertial" features (Rose and Karran, 1987). What happens when a succession of governments, led by a determined Prime Minister committed to cutting government spending and taxation, runs up against the realities of inertness to change that characterises these systems?

This paper examines the answers to that general question with specific regard to the UK experience during the Thatcher Decade of the 1980s. Section II provides some background to the Thatcher Decade, against which the shape and pace of change during those years need to be judged. Section III then examines the main changes in UK taxation that ensued during the decade.

The scope for cutting the general burden of taxation must[3], however, ultimately depend upon (a) the level of government spending and (b) governmental objectives regarding the level of deficit finance. As the mid-1970s quotation from Mrs Thatcher above suggests, a further goal of Conservative economic policy was to be a considerable reduction in government borrowing to finance budget deficits - and indeed, the public sector borrowing requirement (PSBR)[4] was slimmed over the 1980s until, by 1987-88, the government started running a budget surplus[5]. Thus, ultimately, the scope for Thatcherite tax cuts depended upon the ability of her successive governments to rein in or back the level of government spending. We examine the extent to which this was achieved, and how it was done, in Section IV.

Section V briefly surveys developments in the monitoring, control, and evaluation of government expenditure in the UK that occurred during the Thatcher Decade. Although these developments achieved little notoriety, compared with the Community

Charge (Poll Tax), they are of significance from a long-run point of view and indeed may well outlast the more ephemeral fiscal developments that received at the time so much newspaper headline billing.

Section VI surveys the very recent British experience with the Community Charge introduced in Scotland in 1989 and in England and Wales in 1990. Although primarily a tax measure/change we survey this matter separately from other tax changes (in Section II) because of its recent (and controversial) introduction, and also because it relates only to local taxation, rather than to the main body of UK taxes. Moreover, although a tax measure, the rationale of the community charge is in part that it is an inherently (local) government-expenditure restraining device. Additionally, it undoubtedly led to more furore than all of the other fiscal changes during the Thatcher Decade added together. Indeed it may be seen as a salient factor in Mrs Thatcher's increasing troubles within the Conservative Parliamentary Party, leading to her stepping down as Leader, and thus the Premiership.

Section VII offers some conclusions on the experience detailed in the core of the paper.

II SOME BACKGROUND TO THE THATCHER DECADE

During the Nineteenth Century, British government spending as a proportion of national income seldom moved far from the "typical" ratio of 10 per cent, except in times of war (Buchanan, Burton and Wagner, 1978, Part II). The Twentieth Century's budgetary record in the UK exhibits a generally different pattern. There has been a rising ratio of both government spending and taxing, over the long haul of the century, punctuated in particular by two considerable upward jumps associated with the occurrence of the First and Second World Wars (Peacock and Wiseman, 1961).

The causes of this long-run historical transformation in budgetary behaviour, including the role of the discontinuities in the record associated with war in the Twentieth Century, have been much analysed by economists and political scientists, and will not detain us here. Suffice it to say that there is a variety of potential explanations, some of which emphasise developments on the demand-side of the political market-place, others which concentrate upon the supply-side of that market, and yet others which analyse the budgetary record over the long term as the result of the interaction of both forces[6]. It is also fair to say that there is no obvious "winner" in this contest of hypotheses; and it is, perhaps, that these aggregate, long-run phenomena are of complex origin that elude any simple explanation of the record.

The salient point is that, by the time of the 1950s and 1960s in the UK, the ratio of government expenditure to national income had - as in other Western democracies - risen to a sizeable fraction. In the UK, for those years, the ratio was of the general order of less than 40 per cent, varying according to the predilections of the party in power, the circumstances of the year in question and, indeed, the (unknown) errors in the computation of this ratio[7].

The 1970s, however, marked a further upward turn in the ratio, a development which was described in tense terms by the Treasury at that time:

> "In the last three years public expenditure has grown nearly 20 per cent in volume, while (national) output has risen less than two per cent. The ratio of public expenditure to gross domestic product at factor cost has risen from 50 per cent in 1971-2 to about 60 per cent in 1975-6' (HM Treasury, 1976, p.2)[8].

At the same time, by 1975, the PSBR was running at over 10 per cent of GDP at factor cost: a figure that dwarfs the contemporary size, and worries, about the government budget deficit in the USA (which has been more of the order of 3-4 per cent of American GDP). Moreover, by 1976, the British government found increasing difficulty in obtaining external loans to cover the deficit on the current account of the balance of payments. There was, in short, a budgetary - deficit/trade - deficit/government borrowing crisis. The Labour government of the time was eventually impelled (in 1976) to apply to the IMF for large loans, under the terms of which it accepted constraints upon the size of the PSBR, the growth of government spending, and the rate of growth of the money supply[9], for a three year period.

(TABLE 1 NEAR HERE)

This mid-1970s crisis was naturally utilised, and to considerable political effect, by Mrs Thatcher - the then recently-elected leader of the Conservative Party and Leader of HM Official Opposition - to pillory her Labour government opponents. In 1977 also, the Conservatives published a major economic policy document, **The Right Approach to the Economy**, containing nine main policy commitments, and

jointly authored by the major figures in the Conservative economic policy team. Two of its major pledges, under a Conservative government, were:

> "....Firm management of government expenditure, to reduce the burden on the economy and leave more in people's pockets."

> "... Lower taxation on earnings, capital and savings, to increase the rewards of skill and enterprise - paving the way to more jobs ..." (Howe, *et al*, 1977, p.7).

This policy document also contained the highly specific pledge that it was:

> "... Our intention *to allow State spending and revenue a significantly smaller percentage of the nation's annual output and income each year.* The reduction will thus be progressive ... (italics added; Howe *et al*, 1977, p.10).

This specific commitment was to be repeated in the run up to the general election, and "... in 1979 Margaret Thatcher campaigned on a manifesto declaring that the state's share of the nation's income "must be steadily reduced" (Rose and Karran, 1987, p.14).

It is, however, usually much easier to promise to do things rather than actually to undertake them. This is particularly the case in the attempt to "roll back the state" in the contemporary era of Big Government presiding over a welfare state. Tax laws are not mere pieces of paper, but rather the product or accretion of a morass of many changes that have accumulated over many years (often centuries) of evolution. Likewise, the programmes of government expenditure and tax expenditures that are typical of the modern welfare state (although usually of more recent origin) are complex systems in which myriads of (voter-) beneficiaries are involved - and who assume that they are so entitled to remain. It is for such reasons that Milton and

Rose Friedman (1984) have diagnosed that contemporary governments - even if of a persuasion to "roll back the state", and with a popular mandate so to do - would, in the absence of a constitutional means of constraining government expenditure, prove incapable of doing so, being subject to the sort of inertial equilibrium in politics that they describe as "the tyranny of the status quo".

Mrs Thatcher has consistently shunned issues of constitutional reform, including, specifically, the constitutional disciplining of government spending growth as, for example, espoused by the Friedmans (1984, ch 9). Moreover, as a pragmatic matter, it is admittedly difficult, even if not totally impossible, to see how the Friedmanite prescription for restraining government spending via constitutional devices could in fact be put in place in the case of Britain. As the UK has no (or, rather, very little) written constitution, it cannot be rewritten by formal amendment, as in America. That which passes for the British Constitution is in fact largely nothing more than political convention; and the fundamental convention of the British Constitution is that no government can bind its successor[10].

Bereft of the constitutionalist route to the limitation of government spending and taxation, Mrs Thatcher had to strive via other means to achieve her objectives of budgetary retrenchment and tax burden reduction. How did these fare? The next three sections explore the answers.

III UK TAXATION CHANGES AFTER 1979

Before proceeding to describe the major tax changes in the UK since 1979, we note some general features of the UK tax system as a whole.

First, Britain's general structure of taxation, and the relative utilisation of different methods of tax exaction upon the populace, is not dissimilar to that of most other Western countries. Second, there is a considerable variety of taxes; the UK national accounts listing them under some 38 separate headings[11]. This complex system has evolved over centuries, as the result of a variety of disparate developments and amendments, and is lacking in consistency and overall integrity; or - as a standard reference text for accountants and tax lawyers describes the UK tax system - perhaps "... it is better described as a shambles" (Butterworths, 1984, p.11).

Third, however, the bulk of tax revenues in the UK comes from but a few main sources. These are five in number: income taxes; national insurance contributions; corporation (profit) tax; value-added tax; and local government taxation. In 1988, these five sources accounted together for 82 per cent of all tax revenues in the UK. Income tax was and is the single most important source of revenue, contributing around one-quarter of the total.

The decade of the 1980s thus offered the Conservative governments in successive power under Mrs Thatcher two major opportunities: to implement their pledge to reduce the burden of taxation in relation to national income in a steady fashion, year after year; and, at the same time to eliminate the "shambolic" features of the system. Indeed, **The Right Approach to the Economy** (Howe et al, 1977) had committed the Conservatives to precisely these two goals: to reducing the general tax burden and to simplifying the tax structure.

What, however, was done in reality? Abstracting from the morass of details in every Budget Statement, three major tax reform packages may be identified over the period 1979 to 1990.

The first was undertaken in 1979, and put into effect within one month of the Conservatives' election to power. This involved a considerable shift in the burden of taxation from direct to indirect sources. The basic rate of income tax was reduced from 33 to 30 per cent, whilst allowances were simultaneously increased substantially. The loss of revenue, however, was at the same time offset by an (almost) doubling of the standard rate of VAT, from 8 to 15 per cent. We note in passing that to shuffle the pack is not the same thing as cutting the size of the deck. Taxpayers may "feel the pain" of paying indirect taxation less so than with direct taxation. Nevertheless, to the extent that this effect operates, it is an illusion, arising from the often subsumed character of VAT within prices charged in the market.

Another round of tax reforms was introduced in the first budget of Mrs Thatcher's second term of office. The new Chancellor, Mr Nigel Lawson, unveiled in his first (1984) Budget Statement what he styled a "tax reform budget". The main feature of this was a phased reduction of tax relief on business investments (capital allowances) in return for a reduction in the rates of Corporation Tax.

Most commentators would, however, probably be sympathetic to the view that in the case of the "reformist" Budget of 1984, Mr Lawson's rhetoric "... proved to be more substantial than the reality" (Dilnot and Kay, 1990, p 154). For example, the structure of personal taxation was left alone, apart from the withdrawal of a few so-called tax expenditures (eg partial relief for life insurance contributions).

In presenting his fifth Budget (and the first of Mrs Thatcher's third term) on 15 March 1988, Mr Lawson was again to announce a "radical, reforming" package.[12] So far as the typical income-taxpayer was concerned, this proved to be far more accurate than in 1984. The basic rate of income tax was brought down to 25 per cent, and the higher rate bands - which previously had stood at 40 to 60 per cent - were consolidated into one higher rate of 40 per cent; simultaneously taxable allowances were raised by twice as much as the increase in the retail price index. Corporation tax on companies with low profits (known misleadingly as the "small companies" rate) was also reduced to 25 per cent to reflect the cut in the basic rate of income tax and in order to encourage enterprise[13]. Despite all of this "radicalism", however, Mr Lawson forecast in his Statement that the tax burden on the economy as a proportion of GDP would stay at the same level (there were, for example, some considerable increases in various elements of indirect taxation, also announced in the same Budget statement).

What then, happened overall to taxation in the UK during the Thatcher Decade of the 1980s? Presenting the general picture in the most amiable light, there have been some considerable, not to say spectacular reductions in rates of taxation over the period: from 98 to 40 per cent for the top rate of income tax; from 33 to 25 per cent as regards the basic rate (the only rate paid by around 93 per cent of income tax payers); from 52 to 35 per cent for corporation tax (and even lower, for "small companies"); and from 75 to 40 per cent for inheritance tax.

Yet, for the broad mass of UK taxpayers, there has been a considerable offset to these developments by increases in other rates of taxation; for example, from 8 to 15 per cent on transactions subject to VAT, and from 6.5 to 9 per cent as regards the ordinary rate of national insurance contributions (for all practical purposes national insurance contributions can be viewed as a tax in the UK). There was, in short, a

considerable amount of "swings and roundabouts" going on amidst all of this supposedly radical reform. The major tax changes are summarised in Table II.

(TABLE II NEAR HERE)

Indeed, in terms of the central objective for taxation as defined in **The Right Approach to the Economy**, the reform packages from 1979 onwards singly failed to achieve their central purpose. As we see from Table I, the tax burden in 1978 - the last full year of Labour Government office - stood at 37.37 per cent of UK GDP. But the tax burden then actually **rose** in subsequent years (see Table III), reaching a peak of 44.08 per cent of GDP in 1984. Thus, *for the first six years of "Thatcherism", the UK tax burden was going in completely the opposite direction* to that stipulated in **The Right Approach**: ie to make tax "... revenue a significantly smaller percentage of the nation's annual output and income in each year" (*op cit*).

(TABLE III NEAR HERE)

It is true that after 1984, as Table III shows, the T/Y ratio for the UK starts to fall, by the order of one-quarter a per cent per annum as a fraction of GDP. However, even the result of this very belated and modest exercise in tax burden-slimming was to leave the T/Y ratio in the UK at (just a sliver under) 43 per cent in 1989. Thus, at the end of the 1980s, the tax burden in the UK was higher than for any year in the 1970s, with the exception of 1970 - and even way above the levels of that for the "fiscal crisis year" of 1976 - by over 4 per cent of UK GDP!

Taking taxes in general, and in relation to the level of national income, the "Thatcher Decade" of the 1980s were years of even-more burdensome taxation than were the 1970s. If we ignore the changeover year of 1979 - when the incoming Conservative government cannot be fully held responsible for the tax situation, due to the inertial

features of taxation and the budgetary process - and average experience for the two periods of nine years 1970-78 and 1980-88, the distinction stands out. For the first period, 1970-78, the UK average annual tax burden, as shown in the first column of Table IV, was 39.06 per cent. For the latter period, 1980-88, the corresponding figure was 43.57 per cent - more than four and a half percentage points of UK GDP higher.

So much, then, for the Thatcher experiment in rolling back the tax burden of the state! For the first half of the 1980s, this particular stone was rolling in the "wrong" direction when compared to the announced central objective of policy, and the modest subsequent movement in the "right" direction failed to return the UK economy to the less burdensome levels of taxation generally experienced throughout the years of the 1970s.

(TABLE IV NEAR HERE)

Is there any saving grace to the taxation side of Thatcherite budgetary policies arising from the much touted reforms of the structural incoherence of the tax system? Here, the general picture is disappointing. The changes to the income tax structure are largely to be welcomed - for example, the higher-band tax rates of the past were widely judged to be penal, *and* of insignificance in overall revenue terms[14] - but "... improvements to the income tax schedule have been more than eroded by the increasingly convoluted structure of national insurance contributions, which is now a tax of almost equal significance" (Dilnot and Kay, 1990, p 175).

Moreover, whilst Mr Lawson (1988) announced that the government's objective was "... to see that, as a general rule, people's choices were distorted as little as reasonably possible through the tax system", it may be argued that the tax regime in 1989 regarded savings just as incoherently as previously. On the plus side, the

distortionary effects arising from the interaction of the tax and benefit systems have, however, been lessened.

We return to the further issues for discussion and analysis arising from local tax matters in Section V, but at this point move on to an examination of the Thatcher record on government spending.

IV GOVERNMENT EXPENDITURE IN THE 1980s IN THE UK

The Public Expenditure White Paper of 1980, unhesitatingly and clearly reiterated the commitment to reining back government expenditure expressed in the pre-election **Right Approach to the Economy** of 1977, and in ringing terms:

> "The government is determined not merely to halt the growth of public spending but progressively to reduce it" (HM Treasury, 1980)

The White Paper then went on to announce a *real increase* in government expenditure for 1979-80, the first year of office! It was not, as we shall see, a propitious start towards the announced goal of reducing government expenditure.

The rising volume of government expenditure for 1979-80 was written off with two alibis. First, as the government had been elected only in May, the budgetary process was in full swing, and the trajectory of public expenditure, inherited from the previous (Labour) government, was difficult to deflect in such a short space of time. Second, in the run-up to the election the government had given certain pledges that would require an initial rise in government expenditure, notably to honour the recommendations of a wide public sector pay inquiry, chaired by Professor Hugh Clegg, that involved large increases.

After this "blip", cuts in government expenditure as a proportion of national income were planned for the remainder of the planning horizon after 1981/82 up to 1983/84 - amounting eventually to around 2 per cent of GDP.

Behind this aggregative programme to cut the ratio of government spending to national income lay divergent plans with regard to the composition of the former. These fall into three categories (Smith, 1988, ch 3): programmes which the new

Conservative government intended to bestow significantly enhanced real volumes of spending upon (defence, law and order); those where they did not intend actual real cuts, but where they aimed to reduce the planned (and actual) rate of growth of expenditure (eg the National Health Service; social security); and, finally, some areas where they intended real (sometimes considerable) volume cuts (eg overseas aid; lending to the nationalised industries; support for private industry, the arts, and local authority housing).

The record of what actually happened is shown in Table III. Government spending as a proportion of national income did not fall as originally planned. In fact, it rose into the greater-than-50 per cent range, peaking in 1982/83 at 53.79 per cent - a ratio higher than the "fiscal crisis" year of 1976 (which had driven the Labour government of that time "cap in hand" to the IMF)[15].

How was the first Thatcher government "blown off course"? A number of factors are cited by observers. First, those areas of spending which were planned to grow in any case (in real terms), turned out to require more expenditure than had been forecast; this was particularly the case with defence re-equipment in the early 1980s. Second, in those areas where the government planned to cut back on the *growth* in spending, they found that control was out of their hands, in the sense that they had badly underestimated client take-up of benefits and services (eg due to unemployment rising to over 3 million) or due to rising costs (eg the rising real cost of health care). In the third area, where real cuts were planned, the actual cuts often led to offsetting increases in public expenditure. For example, extra funds had to be provided to those nationalised industries undergoing "rationalisation", to provide for redundancy compensation to large numbers of laid-off workers[16].

Whatever the causes - or excuses, as some might say - "if the Thatcher Government had ever hoped to cut total spending, that aim was soon abandoned" (Brittan, 1988, p.

246). By the mid-1980s, of the 14 main sectors of public expenditure categorised in the official (annual) Public Expenditure White Papers, only two had seen real cuts (ie "trade and industry"; and housing expenditures, due primarily to reduced local authority building programmes).

By (at least) the Spring of 1984, a second phase of the Thatcherite approach to government spending during the 1980s had emerged, known as the "consolidation strategy". This abandoned the target of the previous phase - to achieve a real 4 per cent cut in the volume of public expenditure over the period 1979/80 - 1983/84 - but retained the goal enunciated in **The Right Approach to the Economy** of reducing government spending as a proportion of GDP. This target, however, was now hopefully to be achieved by holding the volume of public expenditure *roughly constant* over the planning horizon of the 1984 White Paper on Public Expenditure (see the white columns in Figure I for 1984/85 to 1986/87) whilst making the (plausible) assumption of ongoing economic growth[17].

(FIGURE I NEAR HERE)

The outcome, during this second phase in the mid-1980s, was a fall in government spending as a proportion of GDP, from 52.86 per cent in 1983 to 49.54 per cent in 1986. Although this reversed the earlier rise in the ratio and brought it back close to the level of 1979, the actual volume of public expenditure in real terms had in each year considerably outstripped the totals that had been "planned" in 1984.

Smith (1988, p 33) detects a third phase in this aspect of the Thatcher Decade, from 1986-7 onwards, which he describes as "realism" in public expenditure planning. This was an underlying official assumption that whilst public spending *would grow in real terms* - holding it constant (the target of the second phase) proving too difficult

to achieve - that it might be held to less than the growth of GDP, so that the G/Y ratio would decline.

This actually happened, as we see from the figures in Table III, the G/Y ratio declining to under 45 per cent by 1989. But the underlying "story" is more complicated than Smith diagnoses. In 1987 the Treasury planned for a falling volume of public expenditure in real terms for three years; but the planning total was significantly exceeded in the final year.

The overall Thatcher record on government spending during the 1980s is thus both patchy and full of twists and turns - which were often conducted and announced somewhat *sotto voce*. What might we say about that record in general?

First, despite the intentions clearly announced in **The Right Approach to the Economy** in 1977, the government presided over a *rising* ratio of government spending to GDP over the four-year period 1979-1982. Second, even its later "consolidation strategy" of holding total public spending constant in real terms was eventually abandoned in favour of a semi-fatalistic attitude of "realism" towards the growth of public spending.

Fourth, nevertheless, it can be argued on the basis of figures that, by hook or by crook, the Thatcher government did *eventually* succeed in achieving some gradual year-by-year fall in the G/Y ratio. Taking 1982 as the peak (at 53.79 per cent), G/Y had been reduced to 44.5 per cent by 1989.

Supporters of Mrs Thatcher would generally applaud this - admittedly belated - reduction in G/Y by 9.3 percentage points. Is this not, they say, a signal achievement?

The answer depends on which measuring rod we want to scale the success. On the one hand, the Thatcher governments of the mid-to-late 1980s have been more successful than governments in other countries in cutting the G/Y ratio:

> "... it was impressive in international terms: of the other six leading industrial economies, only Canada and West Germany have significantly reduced the public share below its all-time peak (during the 1980s). Only two of the big seven, the Americans and the Japanese, now spend less of their income publicly than the British. In 1980 the Canadians and Italians did too; in 1970 so did the French and Germans" (**Economist**, 3 February 1990, p 29).

Taking the average G/Y ratio over the years 1980-1988 and comparing them to 1970-78 (see Table IV), however, reveals that the average ratio in the 1980s was *higher* (at 50.63 per cent) than the 1970s (at 48.62 per cent).

In general, then, whilst the Thatcher government did eventually (after four years) get the great ball of government spending rolling in the direction it wanted, their average performance in this endeavour was not as stunning as international comparisons suggest, though admittedly the record is depressed by high unemployment in the 1980s.

Moreover, as Figure I records, the projected totals for public expenditure in the early 1990s show planned and significant growth. In short, this is a ball that is set to start rolling the other way.

It is against this factual background that the decade-long debate about "cuts" in government spending in the UK needs to be judged. The newspaper headlines and editorials over the 1980s emphasised the announcement of, and provided sermons on, "cuts" in government spending. In the main, however, the successive Thatcher

governments avoided cuts in real government spending on a programmatic basis. Only one major programme saw genuine "slashing": local government housing expenditure came down by 67 per cent between 1979-80 and 1989-90.

The Thatcher governments of the 1980s mainly avoided significant cuts in major programmes - and indeed was already planning for considerable growth in the "big spender" areas of social security, health, and education in the early 1990s, even well before Mrs Thatcher's departure from Office in November 1990. The avoidance of politically-painful and sizeable cuts in major programmes during the Thatcher decade, however, meant that government efforts were mainly directed at controlling, and eliminating, waste in those programmes: the basic existence of which was taken as sacrosanct. Whilst these efforts could be dismissed as largely marginal in total impact on the trajectory of government spending, we review them below in order to provide a rounded picture of developments during the 1980s. Moreover, the long-run significance of these developments may well be of greater measure than the headline-grabbing, yet largely mythical, "cuts" of the Thatcher Decade.

V DEVELOPMENTS IN THE MONITORING, CONTROL AND EVALUATION OF GOVERNMENT SPENDING IN THE UK

The evolution of techniques of control, monitoring and appraisal for the public sector during the Thatcher decade may in fact be of more long-lasting significance than the attempt to "target" the ratios of enormous magnitudes, such as T/Y or G/Y. Such macroeconomic aggregates are inevitably difficult to control - whatever the political enthusiasm for so doing - in any finely-tuned way. The developments that we briefly review here, concern the *underlying* control and evaluation mechanisms in government spending. Advances of this sort, to the extent that they are successful in practice, offer the prospect of improving the efficiency and effectiveness of public spending if not changing its overall magnitude.

Public spending is incremental and thus, unless checked, snowballs. This year's spending is last year's plus whatever new programmes ministers and their departments have managed to steer past the suspicious eyes of the Treasury. The idea of zero based budgeting, starting with a clean sheet of paper each year and thus requiring spenders to justify the whole of their spending, has made little or no progress in UK public finance.

Although the Government failed in its main objective in 1979, to cut public spending, major strides have been made in improving value for money. These include new forms of financial and resource management, new attitudes in auditing and the spread of competitive tendering. Conservative governments also exploited the system of "cash limits" on spending introduced in April 1976 which replaced the setting of spending levels in volume terms. Stricter cash controls were experienced as the Government attempted to reign back spending, linking fiscal policy through the "public sector borrowing requirement" (PSBR) to its monetarist Medium Term Financial Strategy (MTFS). Consequently, real resource planning gave way to

financial control, and the Public Expenditure Survey Committee (PESC) planning system, dating back to the Plowden Report of 1961, became a principal means of controlling spending.

Cash limits on the spending budgets of government ministries coupled with "external financing limits" for the nationalised industries meant that pay awards and price increases during the year were no longer funded by the provision of additional monies. Either the volume of spending had to contract, which focussed attention on priorities within budget levels, or (where levied) charges to consumers had to be raised. At the same time the Government appeared to succeed in introducing a fundamental change in attitude within the public sector towards spending without which technical changes such as cash limits and efficiency audits would have foundered.

One of the earliest initiatives was the appointment of Sir Derek (now Lord) Rayner, from the highly successful retailer Marks and Spencer, to a new Efficiency Unit of the Prime Minister's Office. Here Sir Derek pioneered a high-profile set of studies into waste and inefficiency within government aimed at cutting costs. Alongside this early and *ad.hoc.* series of scrutinies, aimed at unearthing obvious (and sometimes bizarre) cases of government profligacy, from May 1982 the new Financial Management Initiative (FMI) provided a system of devolved budgeting for central government departments. It required each department to develop the management information systems (MINIS), first introduced with much success at the Department of the Environment in 1980, so as to clarify departmental objectives and outcomes. More generally, pushing cost or budget centres down the organisation gave management at all levels within government a clearer picture of what activities cost. Although government has remained hierarchically organised at a time when the private sector has sought efficiency gains through "flatter" management structures, there appears to be much greater accountability and cost control within government

today compared with a decade ago and this has been matched by more recent initiatives aimed at introducing similar forms of accountability into the NHS and education (eg. local management of schools).

To underpin such organisational changes the Government has reformed public sector auditing. Previously, concerned with unearthing fraud and blatant waste, auditors are now also charged with assessing service effectiveness. As part of the reorganisation of auditing in favour of seeking out value for money, the National Audit Office was established in 1983 and a new Audit Commission was set up to monitor spending by local authorities. The latter has spearheaded the drive for better financial systems in local government and experimentation with competitive tendering. However, audit in government still tends to be an audit of *systems* rather than *policies* (Bovaird and Nutley, 1989, p.77).

To assist audits and as a consequence of the FMI, a vast array of performance indicators has been developed within government to measure the economy of service delivery (the cost of inputs), the efficiency with which public services are provided (inputs related to outputs) and their effectiveness (achievement of goals). Performance indicators are not new. In 1980 a Treasury survey found widespread use of output measures in government departments to assist policy formulation and planning and to monitor achievement and efficient use of resources. But they were mainly used in day-to-day management rather than in wider strategic policy decisions relating to total public spending.

In the 1980s performance measurement has mushroomed in all areas of the public sector so that the government boasts around 1800 output and performance measures in its public expenditure White Papers alone and department annual reports are peppered with references to performance. A NIESR report in 1985 concluded that "best practice" in performance measurement within government, "probably compares

favourably with much practice outside". The productivity measurement systems for large clerical operations were found to be very similar to those in the private sector, but the private sector was found to have more investment in systems for cost and related analyses (H.M. Treasury, 1986, 1987). Financial incentives (other than promotion) for good performance exist (eg. in the HMSO) but remain underdeveloped compared with private firms and continue to sit uneasily alongside continued security of employment in government.

The introduction of competitive tendering for government contracts is of a different order to the other initiatives. Traditionally, private sector firms have been invited to tender for government contracts, for example in defence and major construction projects, and since 1980, local authorities have also been required to put out to tender most building, highways and maintenance work. The 1988 Local Government Act, however, extended compulsory competitive tendering to a wide range of services (details in Table V) supplied previously in the main in-house by public sector employees or what are now usually referred to as "direct service organisations". At the same time, competitive tendering in place of public monopoly provision has also been extended in central government departments and the National Health Service.

(TABLE V NEAR HERE)

Most recently, the Government has embarked upon a programme ("The Next Steps" initiative) which involves transferring work previously undertaken by government departments to quasi-independent agencies with their own managements (significantly, often headed by a "chief executive" rather than a "permanent secretary") and their own budgets (HMSO, 1988). Already the Employment Service, the DVLC and the Land Registry, for example, have been placed under these agencies. By mid-1990, over 80,000 civil servants had been transferred to agencies and the Government had outline proposals to extend the scheme to a further 200,000;

thereby reducing the core or traditionally structured civil service by almost 50 per cent. The objective of this reform, like enforcing competitive tendering for contracts, is to achieve better value for money (Kemp, 1990). A review of the evidence suggests that competitive tendering reduces costs by the order of 20 per cent or more and usually without a noticeable fall in service effectiveness (Parker, 1990).

New monitoring and appraisal methods alongside compulsory competitive tendering and the injection of new, more commercially orientated management has led some commentators to judge that there has been a fundamental shift in attitudes within government. "Over the past ten years a cultural change has taken place in Whitehall and in the town halls of local authorities. Civil servants are now regarded as resource managers rather than administrators." (Brown and Jackson, 1990, p.207). Such commentators can point to the increased use of performance related pay schemes in place of the incremental salary scale (automatic annual pay rises rarely linked to true performance) and fixed-term employment contracts replacing the life-time employment traditionally associated with public sector jobs.

Nonetheless, and while not wishing to minimise the extent and significance of the changes which have occurred, it would be wrong to exaggerate them. Much remains to be done. For example, performance related pay has been introduced tentatively and mainly on an experimental basis. It mostly affects professional jobs (the top ranks of government) rather than technical and manual staffs. The same comments apply to the adoption of fixed-term employment contracts. Also, it would be surprising in an organisation as vast as government if waste or "x-inefficiency" did not continue to exist and the risk exists that where inefficiency was rooted out in the 1980s, without continued vigilance it will return. To what extent there has been a major cultural change in those large areas of government still isolated from market forces remains especially questionable.

There has also been little change in the principles by which spending decisions and tax receipts are matched (or not, as the case may be). Despite numerous papers by academics in the last ten years pointing out the advantages to the public finances of relating public expenditure plans more closely to the means of financing them (so that spending decisions take more cognisance of available tax revenues), there is still no structure by which this *must* happen. Under Conservative governments in the 1980s, public spending was held back to allow for tax "cuts", but this was dependent upon political will at the highest level. Mrs. Thatcher took a particular interest in government spending remaining tightly controlled. There can be no guarantee that policy will not now revert in favour of deficit financing, especially in the face of an economic recession. Public monitoring of spending and taxing decisions would be enhanced by the simple administrative procedure of announcing them on the same day. Public spending plans continue to be set-out in the Autumn Financial Statement in November and taxes in the Budget the following March. This method reflects a state of mind, dominant in the Keynesian era, that spending and taxing are best assessed separately with excess spending financed through borrowing.

The central problem facing management of the public finances remains the same now as when Adam Smith launched his fundamental critique of the state two centuries ago - how to get value for money. Although government is more accountable, more performance orientated and for all we know better managed today compared with 1979, in the absence of market prices it is difficult (impossible?) to judge the efficiency and effectiveness of Government. To take a couple of obvious examples, how can we know whether the school teacher or surgeon, let alone the Foreign Office diplomat, is value for money when the output is intangible and maybe even incorrigible? How can we relate inputs to outputs when the outputs cannot be measured or even, sometimes, defined or agreed. Despite the Government's belief in the market economy and privatisation, the introduction of charges for government services has lagged well behind the development of "efficiency audits" and the

appointment of the officials to man them. Where "price signals" or their proxies have been introduced, eg. in bidding for higher education resources, implementation has been slow and faltering in the face of determined opposition from public sector managers and their employees.

VI THE COMMUNITY CHARGE

Although the Conservative Governments of the 1980s failed to trim both the volume of public spending and the tax to GDP ratio as planned, it was one specific fiscal measure rather than the Government's programme as a whole which led to Mrs Thatcher's fall in November 1990 - the introduction of the Community Charge (more popularly known as the "Poll Tax").

Historically, local government in the UK has been financed by a combination of domestic and business rates, central government grants and (to a much lesser extent) through charges for services.[18] Restrictions on central government grants alongside the government's failure to curb local government expenditure meant substantial rate increases in the 1980s of which a large proportion fell on local businesses. Of rate revenues, on average 60 per cent came from commercial ratepayers and the remainder from the domestic sector.

The rating system had been criticised for many years; the problem, however, was always one of finding a more acceptable local tax to replace it. There was a general perception that rates were unfair. Attention was drawn to the widow paying the same rates as the household next door with three breadwinners. In so far as larger properties tended to have high rateable values and those on high incomes or large wealth tended to live in bigger houses than the poor, there was in fact a crude correlation between rates paid and ability to pay (although there were undoubtedly cases of hardship, despite "relief" for those on low incomes). More authoritatively, the Layfield Committee inquiry into local finance which reported in 1976, concluded that rates were broadly progressive in incidence for those on low incomes, proportionate over the middle range and regressive at high incomes. Rates paid also did not reflect benefits received from local expenditures. Despite much political rhetoric, the Thatcher governments did little to transfer the burden of financing local

services from taxation to prices, so that marginal benefits received by local households could be equated with the marginal costs of supplying services to them (Banham, 1986).

To make matters worse, there was a divorce between the local franchise and the financing of local services, ie there was "representation without taxation". To lessen the regressive nature of rates, around 17 per cent of households, but a much higher percentage in inner-city areas, did not pay domestic rates in full. This meant that high spending (Labour) councils ran a smaller risk of being ejected by their electorate.

In 1986 the government announced the replacement of domestic rates with a Community Charge and the establishment of a Uniform Business Rate (UBR). The Community Charge - a flat rate tax paid by most adults in full and by those on low incomes at 20 per cent of the flat rate level replaced domestic rates in Scotland on 1 April 1989 and in England and Wales on 1 April 1990. Given its almost universal incidence, it widened the tax base compared with rates

No other developed country uses or has seriously considered using a Poll Tax to finance local government, not least because of its perceived unfairness and rarely in the history of taxation has a tax whipped up so much emotion and political opposition. The name the Community Charge was intended to conjure up the idea of a payment for services consumed. Also, like any lump sum tax, it avoids the problem of "excess burden". But the relationship between benefits received (services consumed) and amounts paid remains crude. The Community Charge is not a charge in the true sense, it does not reflect a market price, it remains a tax. Moreover, a tax based on the principle of (almost) everyone paying the same amount is clearly going to be inequitable on ability to pay grounds. Indeed, as the details in Figure 2 demonstrate, the Community Charge is more regressive than the old rating

system even though 6 million people on low incomes pay only 20 per cent of the full charge.

(FIGURE 2 NEAR HERE)

Critics of the Community Charge have focussed on its perceived "unfairness"; though most economists would remind us that it is the overall tax system rather than individual taxes that should be assessed in terms of equity (eg Kay and King, 1990). Perhaps more worrying therefore, especially given the Government's commitment to "cut taxes" is the fact that: "In relation to household income there are at least three times as many households paying more in local taxes in real terms in 1990/91 compared with 1989/90 than households paying less" (Ridge and Smith, 1990, p 49).

The growth in the local tax burden - completely contrary to the intention when the Government proposed the Community Charge - is associated with a sharp rise in local authority spending. In estimating the average level of the Charge in England and Wales for 1990/91, the government anticipated that councils would spend £32.8 bn. In fact spending rose to £36 bn and given that the Charge typically raises only around 15 per cent of a local authority's total revenue, to fund the spending overshoot, local tax bills exceeded the government's target figure (an average charge of £256) by 35 per cent. Matters were made much worse for some local authorities by a complex "safety net" scheme intended to lessen the impact of the new tax on those areas which would lose out. The scheme involve redistributing money from councils that would gain from the new tax to those that would lose. A more detailed estimate of the effects of the introduction of the Community Charge for different local authorities is provided in Table VI.

(TABLE VI NEAR HERE)

The new tax has also added to local bureaucracy; on average local authority departments handling the tax have doubled their staffing levels. Therefore, it is at least twice as expensive to collect the Charge compared with the domestic rates. Also, because it is a tax on (mobile) people, whereas rates were levied on (fixed) property, the scope for evasion is that much greater. Hence, a Government committed to enhancing "individual freedom" has had to impose compulsory registration for the tax. Also, the level of non-payment of the Community Charge has far exceeded non-payment of rates, leading to a shortfall in receipts which in turn has triggered higher than expected levels of local authority borrowing. Kay and King concluded, after reviewing the introduction of the new tax: "The administrative problems of making this system work seem to lie somewhere between the formidable and the overwhelming" (Kay and King, 1990, p 138). In so far as economy in administration is desirable for any tax, and should be desired by a government keen to reduce the size of public bureaucracies, the Community Charge fails the test.

Businesses too, while initially welcoming a nationally set business rate, thus removing the pernicious effect of control by high spending councils, are now having second thoughts. The UBR is an earmarked national tax which is pooled and then distributed by central government to local authorities on a formula basis as a *per capita* grant (it is not, therefore, a local tax). Initially it was set so as to raise the same amount of revenue from businesses as commercial rates under the old system and the intention is that each year it will rise by the national inflation rate. By this formula the government intended keeping the *real* rates burden on businesses constant. However, this has not prevented major rate rises for many firms. The reason lies in the "uniform" nature of the tax, which has led to a redistribution of the rate burden amongst businesses. Overall, and despite a five year phasing in period, the Inland Revenue has estimated that around 500,000 English businesses will experience rate rises in each of the next two years of 20% in real terms. Of these,

200,000 are likely to see their rates increase in real terms for a further three years. Translated into national trends, as a broad generalisation industry and businesses in the north of England and Wales, under (ironically) predominantly Labour controlled councils will gain, while those in retailing and the south, mainly under Conservative authorities, will pay more. The effects of the uniform business rate on the distribution of the local tax burden are summarised in Table VII.

(TABLE VII NEAR HERE)

The Community Charge singularly failed to make many friends outside the government and there were reports of splits within the government especially over the way its introduction was managed. Ironically, Mrs Thatcher, who did much to pioneer tax reduction and reform, fell foul of this one botched reform. Political opposition to the Community Charge inside and outside the Conservative Party was instrumental in undermining her position as Prime Minister. There was no surprise when her successor, John Major, shortly after taking office announced that the new tax was to be replaced.

VII CONCLUSIONS

The single biggest failure in the reform of UK public finance in the 1980s was undoubtedly the introduction of the Community Charge. Whether on balance the introduction of the Charge was sound in principle but badly executed is a matter for continuing debate. The government should not, however, have been surprised by the political costs which resulted from its introduction. No-one likes a "new" tax and people quickly forget the inequities of the old one it replaces. Moreover, chaos and ill-feeling have accompanied previous attempts in Britain to raise revenue through Poll Taxes. In 1380 the attempt led to the disastrous Peasants Revolt; while in 1641 a further try produced fiscal chaos, popular discontent and, at the end of the day, very little extra revenue.

Away from the Poll Tax, the main thrust of government policy has been towards controlling costs and increasing accountability within government for decisions taken. This offers, over the longer-term, the prospect of a more efficient and effective public sector with (possibly) savings for taxpayers. But to date there has been little progress in introducing the most obvious test of value for money - the willingness of consumers to pay for the service.

Progress in "rolling back the state" in terms of cutting public spending has also been limited. Few areas of government spending have been cut in real terms and "success" must be gauged in terms of restraining the rate of increase in total government spending, so as to reduce its share of GDP, alongside a major programme of privatisation of state industry and the introduction of more competitive tendering for public sector contracts.

Each year has seen a voluminous and formidably complex set of new tax legislation, which has introduced numerous "tax breaks" to encourage saving and investment

(BES, PETS, TESSA, etc) while closing off others (eg relief for life assurance premiums). But apart from Lawson's reforming budget of 1984, which reduced Corporation Tax rates in return for much less generous capital allowances for business investment, there has been no systematic attempt to simplify the overly-complex tax system; a system which remains an enigma to the vast bulk of taxpayers and which continues to distort economic activity. Moreover, the government has singularly failed to reduce the overall burden of taxation in the economy. Those on the highest rates of tax gained as the top marginal rate of tax fell from 93 per cent to 40 per cent. But the reduction has been much more modest for the vast majority who pay only the basic rate (down from 33 per cent to 25 per cent), which moreover has been at least in part offset by higher NIC contributions and an almost doubling of the VAT rate on goods and services. Expressed as a percentage of GDP, the tax "burden" by the end of the 1980s was higher than when the government took office a decade earlier and (less well known) higher than in any year of the 1970s, with the exception of 1970.

FOOTNOTES

1. Mrs Thatcher first became Prime Minister after the general election of May, 1979. She and her Conservative Party were re-confirmed in government, with very substantial majorities, in the general elections of 1983 and 1987. She resigned from Office in November, 1990.

2. Even though Mrs Thatcher was to declare in late 1989 that there was much on her "unfinished agenda", and that she would seek a fourth term of Office.

3. Assuming that the economy is not on that portion of the Laffer Curve whereby the depressive effect of a cut in tax rates on total tax revenues is more than offset by the increase in those revenues resulting from the induced buoyancy of economic activity.

4. The PSBR is a "uniquely British" statistic; as a measure of the budget deficit it is wider than the indicators deployed in most Western comparator nations. The PSBR is a measure of the gross amount of new borrowing that the government has to undertake in money terms over a period of time in order to cover the difference between its total expenditure and its total receipts.

5. The target PSBR surplus for 1990-91 was £7 billion, but due to the slow down in the economy it was not achieved. The outcome was a £1 billion deficit. A deficit of £8 billion is now projected for 1991-92. The PSBR is - even at the best of times - a fairly "erratic" statistic.

6. See Burton (1985), chapters I and II for a survey of these hypotheses.

7. British national income accounting, as elsewhere, is not an exact science. There are, in particular, considerable residual errors between the expenditure-based and income-based measures of UK GDP, the sign of which changed over the 1980s. Until the early 1980s, the expenditure estimate of GDP was typically larger than the income-based statistic: a difference which some took as a measure of the size of the black economy. In the 1980s, however, the income estimate moved ahead of the expenditure estimate of UK GDP. It is "most unlikely" that the UK black economy disappeared into a black hole during the Thatcher decade!

8. The figures quoted in the text of this Treasury document differ from the figures shown in our Table I due to changes in the definition of government spending. Such was the "public spending crisis" in the UK in the mid-1970s that the radically smaller definition ("general government") was adopted for 1977, and this achieved an immediate, and large, apparent drop in British government spending (Treasury, 1977). There have been other, smaller changes in the definition of public expenditure in the UK since (as in 1982). The figures given in Table I are the most consistent and up-to-date of those available.

9. Defined in terms of domestic credit expansion (DCE).

10. Lord Hailsham (1978) has consequently labelled the present British constitutional system as one of "elective dictatorship".

11. We note in passing that the UK national accounts - as with other national accounting systems - ignore the source of real revenue to government arising from the inflation tax. In 1990, with the UK once again experiencing a double-digit inflation, this was not an insignificant omission.

12. One notable tax change before this budget involved the replacement in 1986 of Capital Transfer Tax (introduced in 1975 as part of the Labour Government's attack on the wealthy) with an Inheritance Tax. The effect of this was to remove taxation on gifts of most assets *inter vivos* with the main exception of those occurring within 7 years of death. The threshold at which the tax becomes payable was also increased and the graduated banding greatly simplified. Overall the result has been a significant reduction in the incidence of capital taxation on gifts and estates.

13. Amongst other things, the then Chancellor also announced that the present system for taxing the incomes of married couples - and which had been in existence for 180 years - would be abolished as of April 1990. Prior to that date, a married woman had no independent status as a taxpayer, her income being aggregated with the husband's. They are now taxed independently of each other; but "... the most significant fact about the reform is that for almost everyone there will be no practical effect" (Dilnot and Kay, 1990, p. 164).

14. Also, in 1979 there were no fewer than 11 income-tax bands. The two-band structure, post March 1988, is thus a considerable simplification of the system.

15. A "fiscal crisis" was averted in the early 1980s by reduced resort to deficit finance (cf the mid-1970s), and the containment of the PSBR by a combination of rising tax revenues and a then-small, but growing, reliance upon privatisation proceeds (under current UK national accounting conventions, privatisation receipts are counted as "negative public spending", and thus directly reduce the PSBR, *ceteris paribus*). Independent calculations

suggest that over the period 1978/79 to 1983/84, UK public expenditure rose by nearly 8 per cent in volume terms - compared to the planned fall of 4 per cent on that basis (Ellis, 1985).

16. The nationalised industries were also hit by the recession of the early 1980s, leading to additional redundancies to those which would otherwise have occurred.

17. The figures for public expenditure given in Figure I do not conform to those we utilise in Tables I, II and III for two main reasons: first, we utilise cash, not real (inflation-adjusted) figures to record the actual growth of government spending; and second, our figures refer to general government expenditure and not to the "planning total for public expenditure" (a narrower UK measure of government spending).

18. Rates were a tax on property, both domestic and commercial. Each local authority would calculate its expected expenditure for the financial year and, after deducting the amount to be received in grants and from charges, the remaining expenditure was met from the local rate. The amount paid by each household and business was based on the rateable value of their properties. Rateable values were supposed to represent the amount which a property might reasonably expect to earn if let from year to year on a tenant's repairing lease. In practice, however, a combination of high inflation and infrequent revaluations (the last in England and Wales occurred in 1973) meant that the rateable value bore no resemblance to the amount that could be received in rents.

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TABLE I THE 1970s UK FISCAL RECORD

Year	Y £ million	T £ million	G £ million	T/Y %	G/Y %	PSBR £ million
1970	44,209	19,090	20,897	43.18	47.27	-51
1971	50,366	20,163	23,494	40.03	46.65	1,320
1972	56,316	21,413	26,409	38.02	46.89	1,950
1973	65,805	24,055	30,496	36.55	46.34	4,093
1974	76,412	29,968	39,165	39.22	51.26	5,451
1975	96,718	38,439	51,470	39.74	53.22	10,161
1976	115,070	44,487	58,496	38.66	50.84	8,899
1977	130,672	50,639	61,790	38.75	47.29	5,419
1978	150,639	56,289	72,105	37.37	47.87	8,340
1979	173,484	67,414	84,342	38.86	49.19	12,551

Notes: All annual data are for the fiscal year in UK 1 April to 31 March

Y = Gross Domestic Product at factor cost (current prices)

T = General government Receipts, from tax, national insurance 'contributions', etc.

G = General Government total Expenditure.

PSBR = Public Sector Borrowing Requirement.

Source: *Datastream*

TABLE II MAIN TAX CHANGES 1979-89

	1979	1989
Income tax:		
basic rate	33%	25%
top rate	98%[1]	40%
Corporation Tax:		
main rate	52%	35%
small companies	40%	25%
Capital Gains Tax	30%	40%[2]
Value Added Tax	8%	15%
Capital Transfer Tax/ Inheritance Tax:		
at death	10% to 75%	40%
life time transfers	5% to 75%	- [3]

Source: *Inland Revenue Statistics 1990*, HMSO.

Notes:

1. 83% on "earned income" ie. wages and salaries.
2. Now taxed at the individual's income tax marginal rate.
3. See footnote 12 for a brief explanation.

TABLE III THE 1980s UK FISCAL RECORD

Year	Y £ million	T £ million	G £ million	T/Y %	G/Y %	PSBR £ million
1980	201,870	82,549	104,060	40.89	51.55	11,786
1981	220,348	96,053	116,813	43.59	53.01	10,507
1982	239,002	106,434	128,557	44.53	53.79	4,868
1983	252,335	115,290	138,680	43.94	52.86	11,574
1984	279,887	123,377	146,752	44.08	52.43	10,300
1985	306,975	134,765	156,815	43.90	51.08	7,445
1986	326,873	143,954	161,936	44.04	49.54	2,499
1987	358,832	156,439	168,360	43.60	46.92	-1,434
1988	399,075	173,908	177,042	43.58	44.36	-11,595
1989	437,854	187,851	194,825	42.90	44.50	-9,130

Notes: See Notes to Table I

Source: *Datastream*

TABLE IV THE UK TAX AND GOVERNMENT SPENDING "BURDENS"

THE 1970s AND 1980s COMPARED

Time Span	T/Y % Annual Average	G/Y % Annual Average
1970-1978	39.06	48.62
1980-1988	43.57	50.63

TABLE V SERVICES SUBJECT TO COMPULSORY COMPETITIVE TENDERING UNDER THE 1988 LOCAL GOVERNMENT ACT

Service	Description
Refuse collection	Household and commercial waste
Building cleaning	Excludes cleaning of dwellings, old people's homes, children's homes and police buildings.
Other cleaning	Covers street cleansing - including gully emptying; removal of litter from any land, not just streets; emptying litter bins; and the cleaning of traffic signs and street name plates.
Catering	Covers all catering activities except school and welfare catering and catering at institutions of further and higher education. Also, specifically excludes the delivery of "meals on wheels" and the preparation of meals and refreshments in special and residential establishments and day centres provided that the meals and refreshments are prepared on the premises.
Maintenance of ground	Including plant nursery work but excluding work primarily in the nature of research or plant survival.
Repair and maintenance of vehicles	Excludes repair of accident damage and the repair and maintenance of police vehicles and fire service vehicles.
Sport and leisure management	

Note: Sport and leisure management was added to the list of defined activities under the 1988 Act by Order of 1 July 1988. Competition for this activity will be phased in after the main programme is completed, ie. not before 1 January 1992. The Act empowers the Secretary of State to add further activities, subject to Parliamentary approval.

Source: *Department of the Environment (1988)*

TABLE VI COMMUNITY CHARGE LEVELS 1990/91

	Average charge £	Govt forecast £	Difference %	No of authorities
All authorities	345	256	35	248
Conservative	338	260	30	118
Labour	358	256	40	70
SLD	363	269	35	23
Independent/other	301	218	38	37
Inner London	290	240	21	7
Outer London	338	286	18	11
Metropolitan Areas	374	273	37	18
English Shires	355	259	37	180
Wales	233	172	35	32

Source: *Phillip Ramsdale, IPF Ltd*, for the BBC Today Programme

TABLE VII CHANGES IN BUSINESS RATES IN ENGLAND

Region	Factories	Warehouses	Shops	Offices
W Midlands	-47	-40	-15	-24
North-west	-47	-44	-16	-36
Northern	-49	-50	-15	-38
Yorks & Humberside	-38	-36	-5	-27
East Midlands	-35	-24	-3	-22
East Anglia	-12	-7	+29	+5
South-west	-16	-10	+32	+10
Inner London	+5	+13	+72	+22
Outer London	-20	-15	+24	-1
Rest of south-east	-13	-2	+31	+28

Source: *Financial Times*, 4 January, 1990.

Figure 1. Public Expenditure in the UK, 1980/81 - 1992/93, Plans and Outcomes

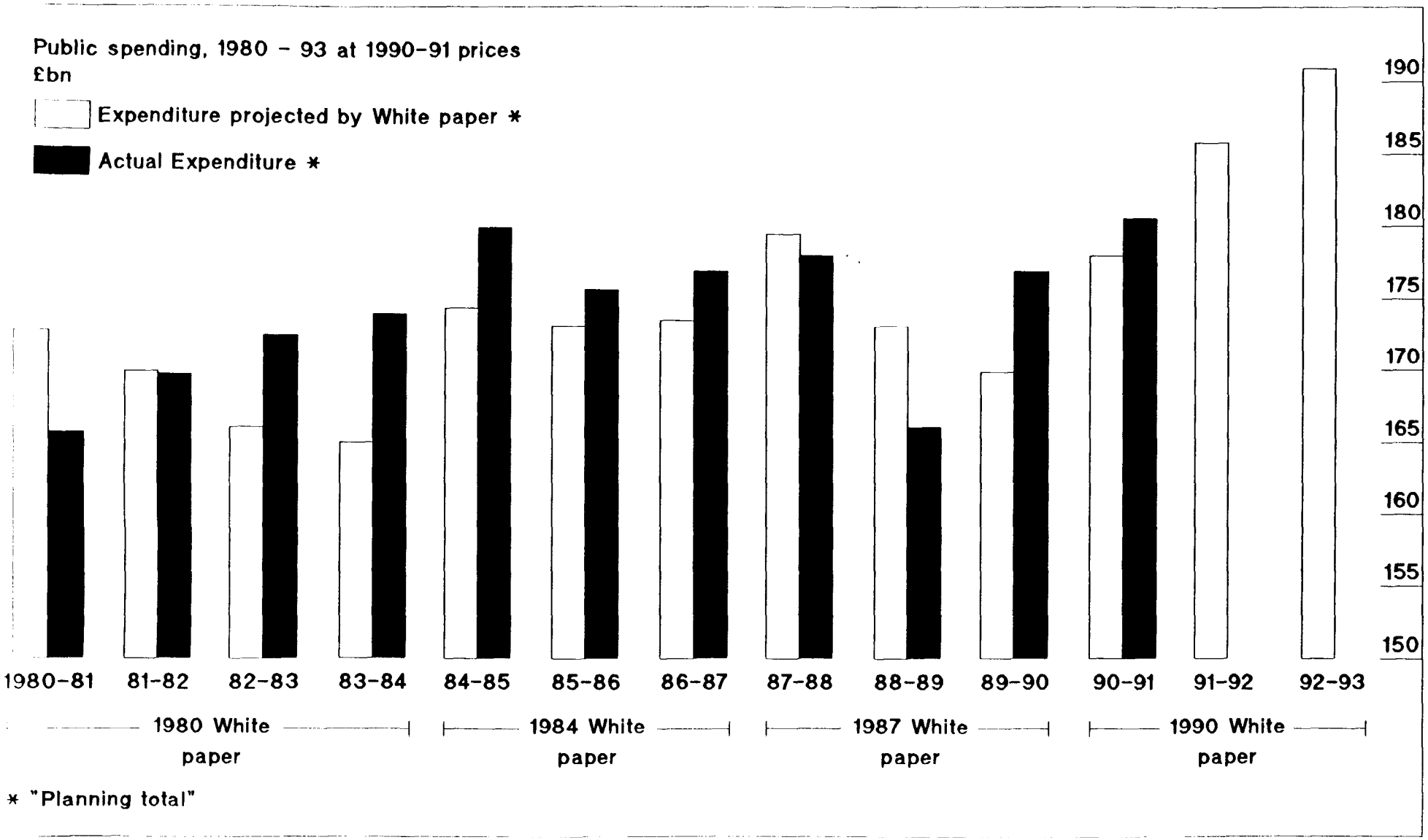
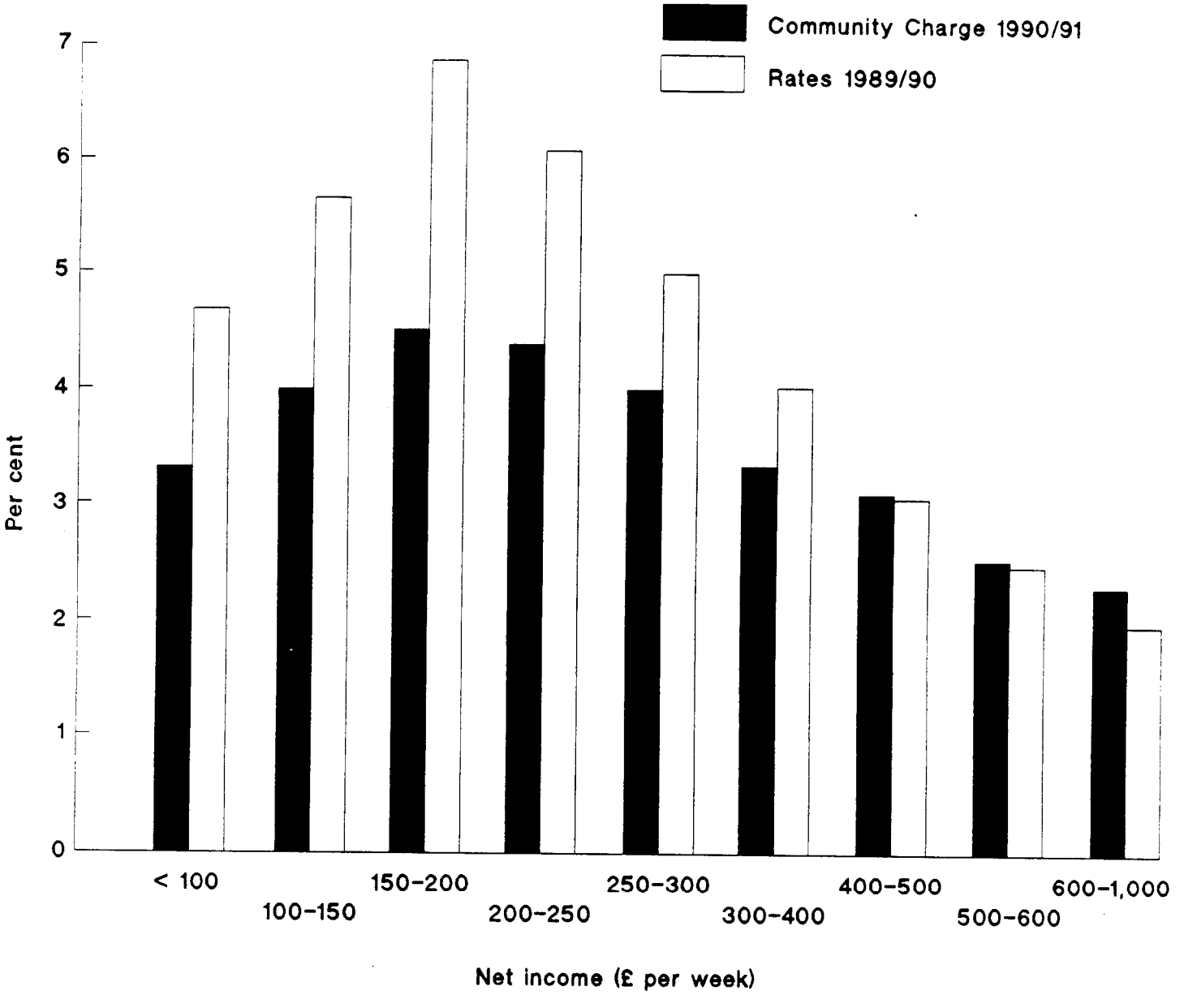


Figure 2. Net Local Tax as a Percentage of Income



Source: Ridge and Smith, 1990, p40.