POLICY THUMBNAIL

TAXPAYER NET WORTH

Centre For Small State Conservatives

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THE PROBLEM

Government fiscal rules are supposed to make sure politicians follow 'sound money' principles, so they don't spend money we haven't got. But the traditional rules only cover some taxpayer-funded spending and debt; they leave out important long-term commitments embedded in our welfare-state National Insurance schemes (for example the future costs of the state pension, which are spiraling because of our ageing population) which any commercial insurance company would have to include; and they also omit changes in the values of publicly-owned assets (like railways, roads etc) which can decline if they are mismanaged or underinvested too. By ignoring these costs, successive Governments of all political stripes have painted a very lopsided and artificially-optimistic picture of the true costs and liabilities which taxpayers must ultimately pay.

The Government has taken a small step in the right direction, by updating the fiscal rules to include a new National Balance Sheet which recognizes the value of (some) publicly-owned assets. But they still exclude the enormous public liabilities embedded in the National Insurance schemes, so the new Balance Sheet's surplus of assets over liabilities is a very rose-tinted picture. Including the missing liabilities will show the true position is a large deficit instead, so using a misleading surplus to justify extra borrowing and a bigger national debt will make things worse rather than better: interest rates will rise, hobbling economic growth as companies find it harder to invest, while pushing up the cost of living by making mortgages more expensive too.

THE SOLUTION

The answer is to publish updated figures which include the missing costs, to paint a more accurate picture of taxpayer-funded finances, and then update the fiscal rules so Governments have to improve them each year. In practice this will mean:

- The Office for National Statistics should publish annual reports of Taxpayer Net Worth (TNW); a wider version of the National Balance Sheet which would including the missing liabilities of the welfare state's social insurance schemes like the State Pension. ONS already publishes narrower versions of these figures such as Public Sector Net Debt (PSND), Public Sector Net Financial Liabilities (PSNFL) and Public Sector Net Worth (PSNW), so this would be a new, broader and more complete measure of the costs which taxpayers will ultimately be required to pay.

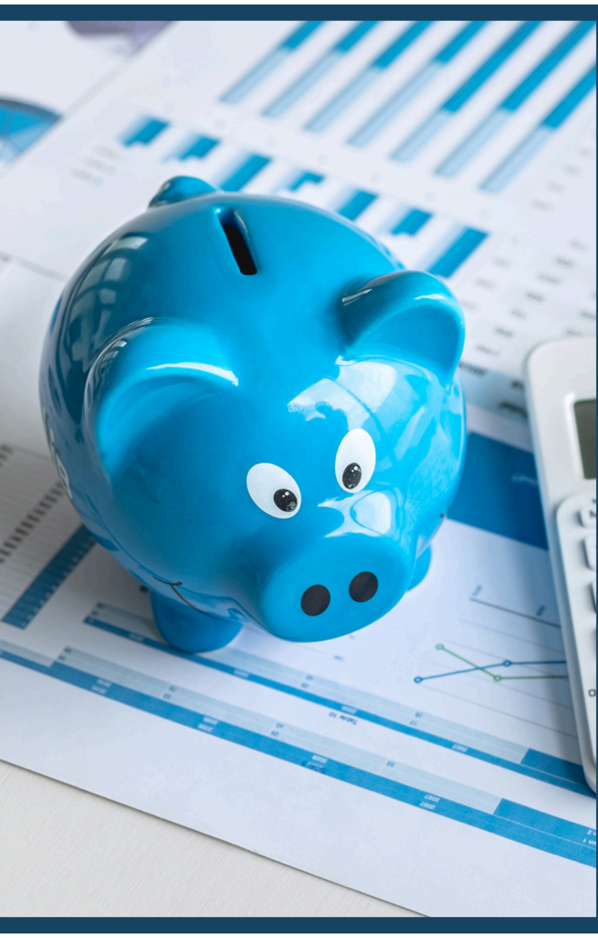
- The value of these missing liabilities is very large: the State Pension alone is over 220% GDP[1], without including any of the other working age & retirement benefits in the National Insurance system. Reporting them accurately will show that the net Balance Sheet surplus of 60% - 100% implied by narrower measures like PSNW is, in reality, a net deficit (ie more liabilities than assets) of significantly more than 160% GDP. Rather than creating fiscal headroom to justify extra Government borrowing and debt, an honest National Balance Sheet will reveal the exact opposite instead.

- Balance sheets must balance, so the newly-revealed net deficit will automatically be matched by an asset representing the amount of extra taxes which will have to be raised in future to pay the promised State Pensions and benefits embedded in the National Insurance system.

- Having reported accurate figures which reflect the real financial position, Ministers should update their existing fiscal rules, so they must also reduce the net deficit (or the size of the matching 'future tax revenues' asset) by a preset amount each year (eg ¼% or ½% GDP) until it shows a net surplus.

- ·ONS will make clear whether any changes to the TNW net deficit are just technical adjustments to the way they are measuring and reporting the figures, or are real rises and falls in taxpayer debts and liabilities caused by changes in Government policy.

[1] For example ONS calculated it as 224% GDP in 2018 [Pensions in the national accounts, a fuller picture of the UK's funded and unfunded pension obligations - Office for National Statistics]



THE BENEFITS

Recognising Government debts and liabilities more honestly and transparently, and then controlling them effectively, will:

- Keep interest rates lower, improving economic growth as companies find it easier to invest and reducing the cost of living by making mortgages cheaper too.
- Reinforce the UK's reputation as a safe, stable, predictable and commercially-attractive place for jobs, investment, wealth-creation and business growth.
- Force politicians to be more honest and transparent by making it harder for them to hide costs or postpone bills for future generations to pay, for example by introducing unfunded changes to the benefits system; selling strategic assets to pay for day to day spending; or failing to maintain infrastructure (eg roads, railways etc) properly so they lose value over time.
- Be generationally fairer, for the same reasons.
- Make Britain greener, because the new TNW balance sheet will reveal how extracting natural resources (eg by mining or logging) reduces Government assets, requiring Ministers to choose sustainable or environmentally-positive solutions instead.

THE SOUNDBITES

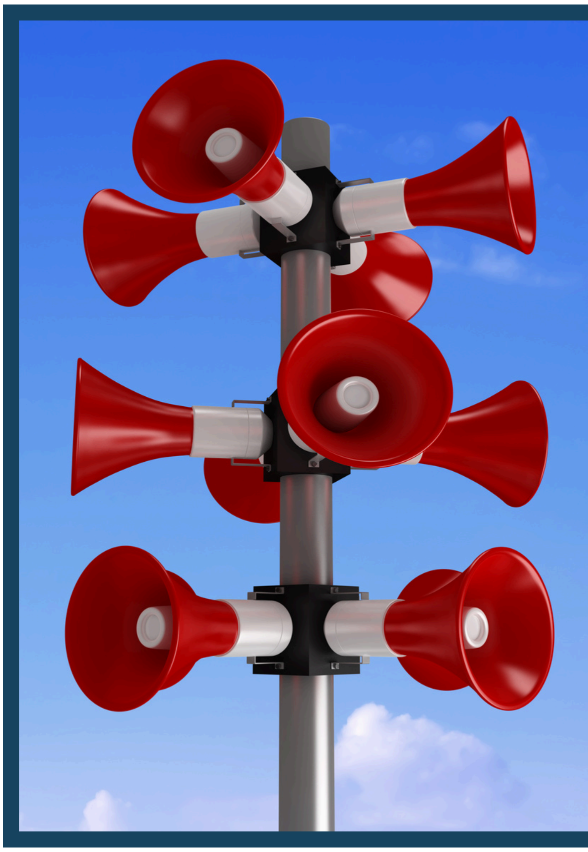
"Every time we dig a mine or drill a well we are reducing the store of long term environmental capital that nature has given us. So we ought to invest the proceeds in things that will last just as long, and which are worth the same or even more than what's been taken. Otherwise we're just selling off the family silver, and our grandchildren won't have anything to show for it."

"It isn't right or fair for Ministers to expect our children and grandchildren to pay the bills for our lifestyles today. If we want a better standard of living, we've got to pay for it ourselves."

"An ageing society where more and more pensioners have to be funded by fewer and fewer working-age taxpayers isn't financially sustainable forever."

"If we don't update and reform the system soon, it will go bust. If the welfare state was an insurance company like Aviva or the Prudential, the regulators would be closing it down already."

"Politicians like to talk about 'investing' money. But usually they're spending it on something that won't last. This new rule will force everyone to be that bit more honest with taxpayers about what's really going on."



THE REBUTTALS

1. Isn't this all impossibly complicated? How can Governments create a Balance Sheet?

Not at all. The Office for National Statistics already publishes several versions of these figures, so this is simply a better version of what's already there.

2. Why are these debts and liabilities suddenly such a problem? We've been managing fine for years – why are you only mentioning it now?

I'm afraid lots of people have been worried about the effects of our ageing society (or the 'demographic timebomb' as some call it) for years, including the Office for Budgetary Responsibility and the Office for National Statistics too. The problem is real and, like all debts, ignoring them only means they get bigger.

3. Is this just code for saying a Conservative Government would slash disability benefits / state pensions / unemployment benefits? Aren't you just condemning more people to poverty?

No it isn't and no we aren't. This is a long-term, cross-party problem where we've got to start by being honest and transparent about the problem so we can face it squarely together. It affects everyone in all parts of Britain, rather than just one specific group like sick & disabled people / pensioners / the unemployed.

4. Won't it be really easy for politicians to fiddle the figures?

No, because the figures will be independently produced and audited by the Office for National Statistics, in the same way as all our other economic data. And because ONS will make clear whether any changes are caused by real rises and falls in the value and size of our debts and liabilities, or just by technical updates in the way the figures are gathered and reported.

5. Why are you pretending that Governments are the same as insurance companies when they clearly aren't?

You're right that Governments can pay their debts and liabilities by levying taxes, which insurance companies can't. But that doesn't change the size and value of the debts themselves, which are still worth the same no matter how they will eventually be paid. Nor does it justify allowing politicians to hide the true costs of the promises they've made from the taxpayers who will ultimately have to foot the bill.

6. Aren't there international accounting standards which say that Government Balance sheets don't have to include these figures? Why are you saying you know better than them?

You're right that politicians and Governments have created a convenient double standard for themselves, so they don't have to be nearly as straightforward or transparent about the size of their debts and liabilities as the companies they regulate. It clearly isn't right to let them carry on this way, because this isn't just about accounting technicalities; it's about whether politicians are being honest in telling taxpayers about the true size of the bills which they and their grandchildren are ultimately going to have to pay.