

Prosperity at Home and Abroad

Liberal Democrat Policy Briefing 9

January 2005



A stable, well managed economy

We advocated and welcomed the decision that interest rates should be set independently by the Bank of England, but there needs to be more independent scrutiny and discipline in monetary and fiscal policy. Rather than setting a specific inflation target, the government should set a framework, and the Bank itself should decide the most appropriate inflation measure to target, and the appropriate level to aim for. Similarly, Retail Price Index calculations should be independent of government, and there should be greater independence for the independent members of the Bank of England Monetary Policy Committee. We would enhance the government's fiscal rules by giving the National Audit Office the power to scrutinise the budget figures, including public borrowing, so no Chancellor can fiddle the figures.

The Problem of Personal Debt

The current level of personal debt and the related property market 'bubble' are signs that the economy could be heading back to the days of boom and bust. This cannot carry on. The government has to accept responsibility for reining in irresponsible credit expansion in respect of mortgages and personal loans. We will curb misleading advertising and anti-competitive practices by promoters of credit cards, hire purchase and loan insurance, end the tidal wave of unsolicited credit promotion, and crack down on loan sharks.

Fairer, Simpler Taxes

Under Labour ordinary hardworking families pay more as a share of their incomes in tax than the very rich; the elderly have to sell their homes to pay for their care; and rising Council Tax and university top-up fees are making the system even more unfair. Liberal Democrats want to make the tax system fairer and simpler. To this end we will axe the unfair Council Tax and replace it with a local income tax based on people's ability to pay. We will also ask the richest 1% of the population – the people who can most afford it – to pay 50% tax on that part of their income over £100,000 per year. This will allow us to deliver in England policies that people in Scotland already benefit from thanks to the Liberal Democrats in government there: no top-up and tuition fees, and no elderly people having to pay for their care.

Tough Choices in Public Spending

Liberal Democrats have different spending priorities from Labour. We believe that in order to concentrate resources in areas that are currently under-funded such as pensions, policing and early years education, funding should be switched from lower priority areas. These tough choices have to be made. That means reducing unnecessary subsidies to industry, and cutting wasteful new initiatives like the ID card – so we can spend more on the things that really matter.

The Case for the Euro

Liberal Democrats favour British membership of the euro at a sensible exchange rate, subject to a referendum to allow the British people to make the decision. Entry can make the UK substantially more prosperous by:

- Reducing uncertainty for importers and exporters, so increasing trade.
- Promoting competition in the economy, since trade increases choice for consumers.
- Raising the rate of growth, as innovative firms are able to expand more easily.
- Giving the UK more influence on single European market rules.

Greening the Economy

Environmental taxes and traded permits can be used to encourage people to act in an environmentally sustainable way. We will launch an Environmental Incentive Programme within the Treasury to advise government and Parliament on ways to reform taxes and incentives to encourage sustainable development. We will start by changing the Climate Change levy into a carbon tax. We would strengthen tax incentives to use smaller and less polluting vehicles, more energy efficient homes and energy efficient flights. We will also publish a 'Green Budget' every year. Green taxes meaning taxing differently – not taxing more.

This briefing contains Federal Liberal Democrat policies. The policies of the Scottish and Welsh Liberal Democrats and the Northern Ireland Local party apply on issues which are their responsibility within our Federal policy-making structure.

Printed by Liberal Democrats, 4 Cowley Street, London, SW1P 3NB Published and promoted by Chris Rennard, 4 Cowley Street, London, SW1P 3NB