

A health tax is an idea whose time may have come



Peter Wilby

We rail against general taxation yet clamour for more and more from the NHS. What's needed is a bold solution

The NHS is a monster. Its capacity to consume public resources is without limit. That is not just because of an ageing population or developments in expensive medical technology. It is also because of rising expectations. Nobody ever considers themselves to be in perfect health: there is always a wart to be removed, an irritable bowel to be explored, a sex drive to be restored.

Proposals to charge for visits to GPs or for hospital stays are never met with anything less than public outrage. Failure to supply expensive drugs that give, at best, an extra few months of life are denounced by newspapers that otherwise rail against high taxes. Any evidence that a hospital fails to strain every sinew to keep alive an ailing 95-year-old is branded "age discrimination".

The insatiable growth of the NHS's demands for cash have never been more graphically illustrated than under the present government. Though "ring-fenced" from the coalition's spending cuts, the NHS is widely believed to be deteriorating to the point of collapse because it needs an annual budget

increase of at least 4% (in real terms) to meet rising expectations. It probably needs more, as cuts in care services put extra burdens on GPs and hospitals.

Though Tory leaders insist they can be trusted with the NHS, the right's answer is clear: accept the service is unsustainable and replace it with an insurance-based system in which, while basic treatment remains free, patients otherwise get what they pay for in premiums. What is Labour's answer? It appears to have none. Proposals for a 1% national insurance surcharge dedicated to the NHS were floated, only to be disowned instantly by Labour leaders. Last month, calls from Lord Warner, a former health minister, for a £10 NHS "membership" charge were dismissed as the ravings of a discredited Blairite.

But a credible idea for preserving Labour's most enduring achievement is desperately needed. An earmarked health tax may be one whose time has come, and perhaps a model for financing other strained public services and modifying voters' resistance to taxation.

Gordon Brown introduced a 1% national insurance health surcharge in his 2002 budget. The trickier question is how far the idea can be extended. Should all health spending come from specific revenue sources - the total proceeds of NI, say, or a general sales tax? Should older people's care bills be financed from an enhanced inheritance tax? Should corporation tax go to in-work benefits - which, in effect, subsidise inadequate wages?

Hypothecated taxes, as economists call them, are usually opposed by



finance ministries because they reduce central control. But they are not new. Originally, the proceeds of vehicle duty went to a fund for the building and maintenance of roads. NI itself started as a “contribution” to fund social security including pensions (though not the NHS). Several countries dedicate “sin taxes” on tobacco and alcohol to health promotion.

Such earmarking can reconnect voters to the purposes of taxation. Even Labour politicians now refer routinely to the “tax burden”. Tax is portrayed as a disincentive to enterprise, investment and hard work. In the public mind, tax is something “they” spend, probably on “wasteful” luxuries. Almost nobody connects the amount of tax they pay with the quality of their children’s education or how long they wait to see a GP.

Nor is taxation connected to, say, transport infrastructure or the skills of the workforce, which may make Britain a better place to do business. We need a more adult conversation which makes voters ask if what they gain in lower taxes will be outweighed by what they lose in inferior services - while also understanding that if they demand, say, expensive drugs or shorter hospital waiting lists, they must pay higher taxes.

British interest in hypothecated taxation peaked in the early 1990s after the Thatcher government’s popular tax cuts; the Demos thinktank and the Fabian Society were among the supporters.

Several objections emerged. First, governments tend to raid earmarked funds and use them for other purposes, as they did with NI and the road fund. They are also apt, if the earmarked tax is intended to meet only part of a service’s costs, to reduce general expenditure on that service leaving it no better off.

Second, tying spending on vital services to the yields of particular taxes may make those services dependent on the business cycle. Third, sections of the public - the childless or those who use private education or health insurance, for example - would clamour to opt out of particular taxes. Fourth, the opposition to general taxation may become even more intense, and the pressure to cut unpopular spending items such as benefits or overseas aid irresistible. The temptation in an election campaign

would be to promise 1% higher health tax and a 2% cut in general taxes.

These objections are not insuperable - the first and second, for example, could be overcome if revenues for health or education were paid into separate funds. And if hypothecated taxes have drawbacks, general taxes - which are opaque to many voters - have more.

Like every other centre-left party in Europe and America, Labour battles against its opponents’ propaganda success in casting taxation in a wholly negative light. New Labour tried to implement its promises without the taxes to pay for them. It failed. It is time for something new, and the bolder the better.

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