

Policy Discussion Paper No.4

The National Credit Card (NCC)

Introduction

Libertarians believe in freedom of choice, yet unless we are very rich we are constrained to using the public sector monopolies for our essential services such as health, education and care for the elderly and disabled and so on. All monopolies become hopelessly inefficient through lack of competition. They also profiteer. Public sector monopolies profiteer by reducing their costs and quality of service.

The problem

So the problem is how do you give ordinary people access to the private sector both so that they can have a value-for-money choice between sectors and so that the public sector monopolies can be challenged by competition? There is bound to be subsidy involved to some degree for most people but this must not undermine competition. The difference is that the subsidy should go to the customer not to the supplier.

Some have suggested insurance but there are several problems with this. For education and social care the claims would have to be made by everyone at some point in their lives, which just means the premiums would have to fully cover the cost of the claims plus the insurance companies' administration and profit, so it would just end up more expensive. Insurance only makes sense if claims are rare. Illness is certainly rarer, but with health insurance the companies simply segment the market so that the poor, who are more likely to make claims, just get charged higher premiums. And we have all heard stories about how insurance companies like to get involved in the delivery of service, even pulling the plug mid-operation, allegedly, as anyone who has ever had a car repaired under insurance will know. It just creates a conflict of interest.

Other countries have tried education vouchers with some degree of success, but they are not available for other services.

The burden of taxation and the nature of privilege

A further concern is the burden on taxation if these services are exclusively public sector. Education shows us that there is always demand for the higher standards that the private sector can deliver, but if only rich people have access to these services then that leaves them open to the accusation of privilege. As a result we have the absurd situation where our independent schools, which are amongst the best in the world, are persecuted rather than celebrated. If everyone had access to the private sector on a means-tested basis this would both increase the non-tax funding for these services as well as remove the taint of privilege.

The solution

The key is to make sure the customer is still making a value-for-money decision on purchase by having a financial interest in the price being charged. This must therefore be done proportionately to income and savings. So a cost of £10 to a person earning £1,000 is no different at 1% of their income to £100 for someone earning £10,000. It is that purchase decision which drives efficiency, availability and quality of service in an open competitive market. The level of supply will automatically rise to and just exceed the level of demand to ensure no shortages or delays, whereas in the public sector it is always 'taxpayers money' and therefore in short supply. The issue of a national credit card restricted to the purchase of such services is just a more modern and more general form of the education voucher.

How would it work?

Suppliers would be able to take payment for their qualifying services just like with any credit card and would be paid within the same time frame. There could be a national website as a one-stop reference point for all such suppliers enabling users to give ratings and the government to check the validity of advertising claims. Barriers to entry by new suppliers should be minimal so that new less experience entrants can compete at lower prices.

As far as the customer is concerned the taxman would advise privately what proportion of the cost they can expect to have to pay themselves. It is that percentage that puts the customer in a position to evaluate value-for-money. They would not have to pay off the balance on the card, but at the end of the tax year the taxman would do their tax assessment in the normal way, look then at how much they have spent on the card that year, put the two together and recover from the customer their share of the cost by adding it to their tax bill for the following year. For most people that would mean an adjustment to their PAYE code. The balance on the card for that year is then just written off.

Some people would make more frequent use of these services than others. The percentage should not change but there would have to be tapers, caps and carry-forward arrangements to accommodate high usage rates.

Funding

Clearly such a scheme would demand a high level of working capital as the suppliers would be paid immediately while customers may not actually settle their liabilities for up to two years later. It therefore makes sense to introduce the card in conjunction with the Sovereign Wealth Fund which would issue and administer it.

The SWF requires a minimum 5% return, so this would have to be added on to the card monthly. However customers can avoid some or all of this by paying on account.