

EMERGENCY RECOVERY PLAN



How to grow our way out of crisis

June 2022

Prepared in conjunction with
Walbrook Economics



EXECUTIVE SUMMARY – THE PROBLEM

- **GRAVEST ECONOMIC CRISIS SINCE END OF WW2:**
 - **Growth Crisis – lowest decade for 70 years**
 - **Tax Crisis – highest for over 70 years**
 - **Inflation Crisis – highest level for over 30 years**
 - **Productivity Crisis – public sector worst level for over 20 years & 5.3 million on out of work benefits, 12% of working age population**



EXECUTIVE SUMMARY – RISHI’S “CORBYN” SOLUTION

- **CLASSIC SOCIALIST MEASURES:**

- Raise personal taxes
- Raise corporate taxes
- Raise government spending
- Create subsidy culture

- **RESULT:**

- Lower growth
- Inflation remains high
- Disincentive to work – record 5.3 million on out of work benefits



EXECUTIVE SUMMARY – REFORM UK SOLUTION

- **BIG, BOLD, EFFECTIVE - £74 bn stimulus:**
 - Cut tax – zero income tax below £20k / year = save almost £1,500 / year per person
 - Cut cost of living by reducing other taxes:
 - Scrap VAT on energy bills = save £100 / year per household
 - Scrap environmental levies = save £160 / year per household
 - Reduce fuel duty by 20p / litre = save £240 / year per driver
 - Cut wasteful Govt spending – save £5 in £100 = £55 billion per year
 - Reduce VAT from 20% to 18% - save £300 / year per household
 - Unlock Shale Gas Treasure: £1 trillion + of levelling up, by drilling down - will cut bills
- **RESULT:**
 - Stimulate Growth - approx 0.5% higher per year
 - Reduce Inflation - approx 4% over next 12 months
 - Encourage work - extra personal incentive to earn



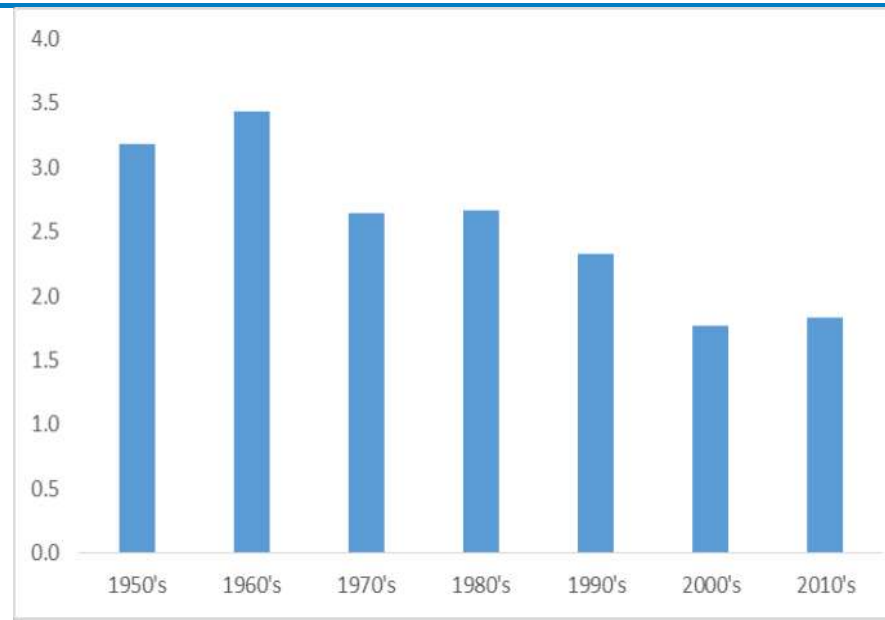
EXECUTIVE SUMMARY - FUNDING OUR PLAN

- Stimulus of £74bn, or 3.3% GDP; takes tax, as %age of GDP, back to pre lockdown levels
- Many households saving £5 in £100 (5%). Public sector saving 5% = £55bn per year (£25 bn in year 1, rising to £55bn year 2). Huge opportunities to cut waste & keep service levels.
- £18bn from increased borrowing in year 2 (0.8% GDP) after £46bn extra in year 1
- Self funding, on 3 year view, and accretive thereafter, as our measures will grow economy faster (0.5% pa). Increases tax revenues medium term and reduces inflation due to lower prices
- Unlock our huge hidden Asset Value:
 - Shale Gas Treasure: £1 trillion + under our feet = over £30,000 per household
 - Owned by us all – transforms our national finances



Growth is key – but it is declining

UK average GDP growth % by decade



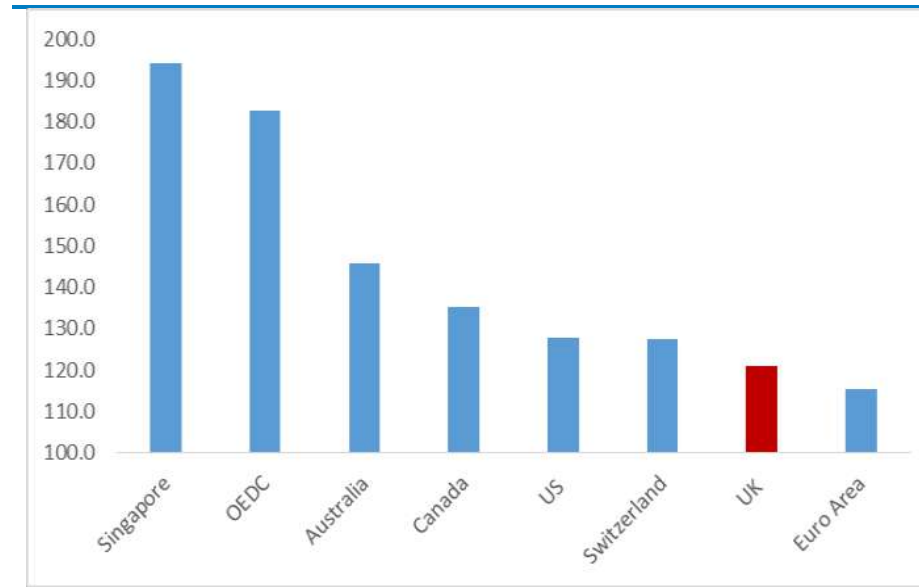
Source ONS

- British growth has declined relentlessly each decade since the 1960's
- The 2020's have been even worse: a growth disaster as a direct result of lockdown
- This really matters. If UK matches 1980's average growth, over next 5 years, it adds over £100bn pa to GDP & £35bn pa in taxes. At 1960's rate, adds £180bn pa to GDP & over £60bn pa in taxes
- Only solution is to grow the cake not to complicate, spend, regulate and tax it



Higher growth means more tax revenues

Core nation GDP Growth Indexed 2005=100

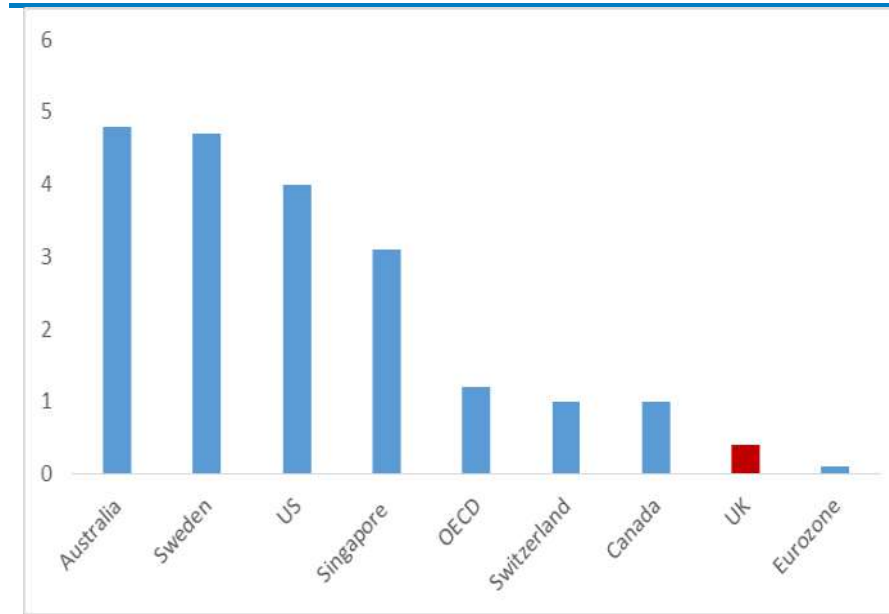


Source OECD

- UK has a range of strategic advantages – we should be amongst the best
- Why are we underperforming the US, Canada and Australia?
- Growth really matters = more personal income & major increases in investment in public services
- If UK matched Australia since 2005, GDP £410 bn higher & tax revenues £150 bn pa greater
- If UK matched Canada since 2005, GDP £237 bn higher & tax revenues £87 bn pa greater

Britain's lamentable lockdown performance

Core nation cumulative GDP growth Q1 2019- Q4 2021



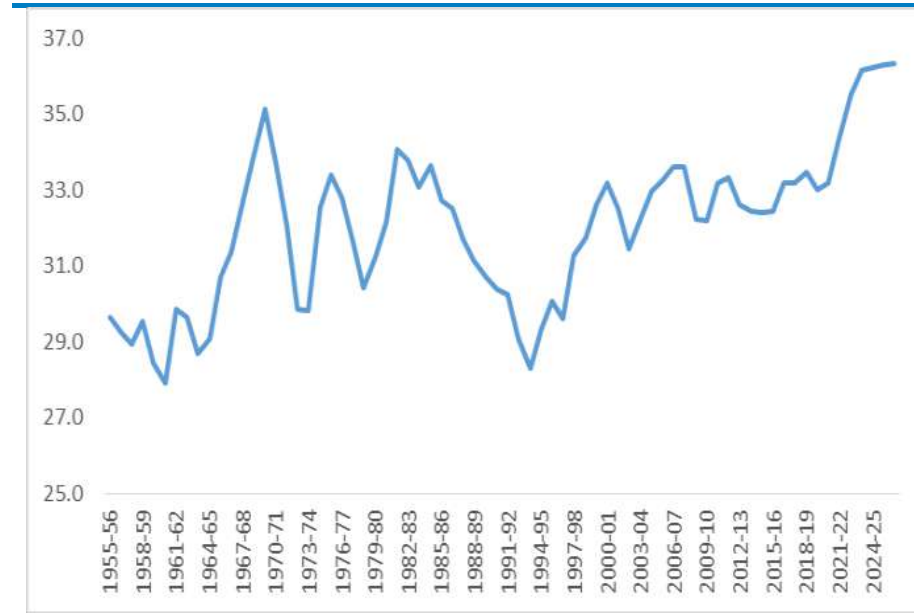
Source Central Banks

- UK GDP performance since beginning 2019 is close to bottom of the class
- Cumulative GDP growth of 0.4% since 2019 contrasts with most of our core competitors
- That is despite £370bn+ of public money spent on very little during lockdown
- The 4.3% underperformance v Sweden resulted in £74bn pa lost opportunity since 2019 alone.



Higher taxes = slower growth

UK Tax as a proportion of GDP

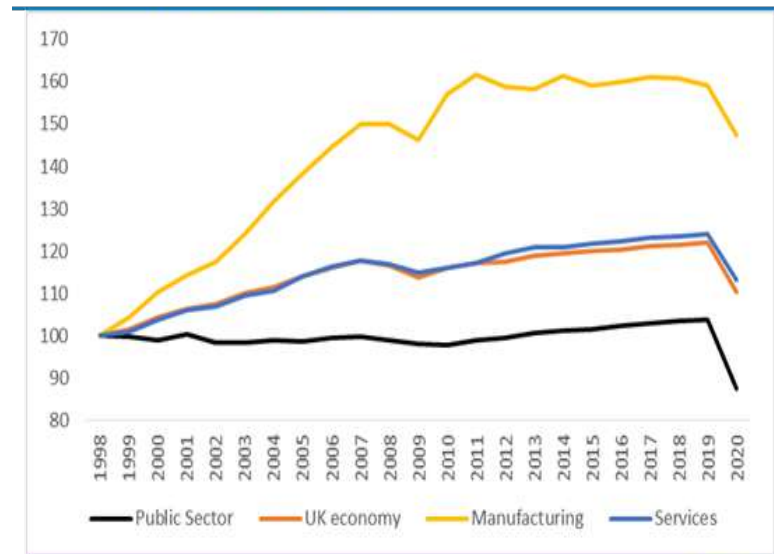


Source OBR

- Government compounding their inflation crisis with highest taxes in a lifetime
- Chancellor's stealth tax raid resulted in greatest tax hike in memory. Even Jeremy Corbyn dared not propose what Rishi Sunak has done: huge tax increases to fund failure
- Freezing allowances, with inflation at 9% has added some £13bn to VAT receipts, £24bn in income tax & NIC receipts, added £1bn in IHT tax, £1bn in stamp duty & £4bn in other duties. Lost indexation totals some £44bn. That has cost the typical household over £1,500
- Government squeezing as inflation erodes incomes = Sunak's Double Whammy

Public sector productivity woeful

UK productivity by sector 1998=100



Source: ONS

- The public sector grown significantly: now accounts for almost half our entire economy
- Public spending highly inefficient & service quality declining. Public sector productivity fallen to 20 year low. Whilst manufacturing productivity grown by over 40%.
- Like many households saving £5 in £100, so Government should do same. 5% saving = £55bn, to bring public spending and productivity back to pre lockdown levels.
- After these cost savings, public spending, as %age of GDP, still be well over 40% of UK GDP, high by historic standards



Inflation - largely self inflicted

Our high inflation predates Ukrainian war and sanctioning of Russia

What has led to inflation?

- A decade of interest rates at near zero percent and QE
- The impact of extended lockdown and furlough causing labour shortages
- The huge cost impact of Net Zero on our energy prices
- Governments failure to provide cheap energy security and plan ahead
- Average family utility bills have risen from £1,277 in 2021 to £1,971 now. When cap lifts again in October, forecast to rise to £2,800
- The impact of War in Ukraine and subsequent sanctions on Russia
- Rising oil & utility prices ripple affect many products, especially food

The Result?

- Bank of England forecasts inflation of 10% this year
- Without urgent action 2023 may see even higher inflation



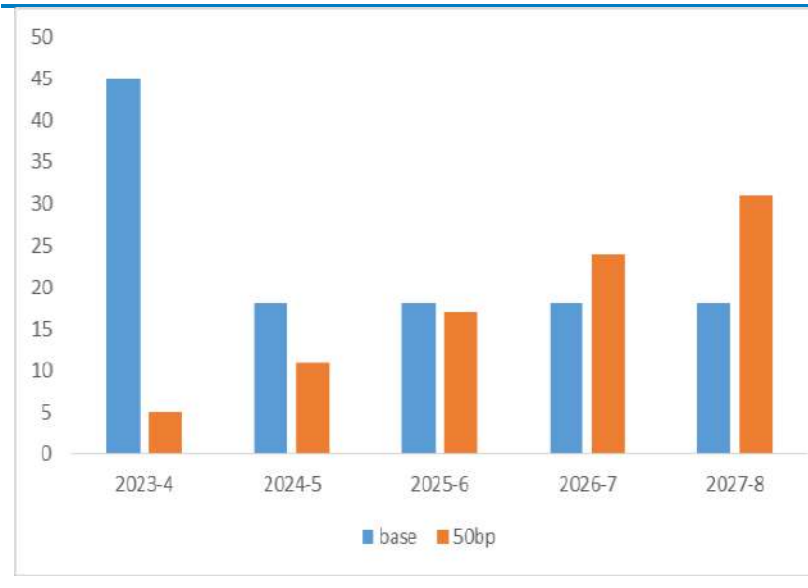
Big & Bold: More growth, less inflation, encourage work

- Raise income tax threshold from £12,571 to £20,000. All taxpayers benefit by £1,485 per year. Freeing up £37bn for families to deal with cost of living & spend in economy
- Abolish Green environmental levies on energy bills, saving average family approx. £160 per year. Lower cost benefits consumers by £3bn
- Abolish VAT of 5% on domestic energy bills, saving average family approx. £100 per year. Lower cost benefits consumers by £2bn
- Reduce fuel duty on petrol and diesel by 20 p per litre, saves average driver £240 per year. Lower cost benefits consumers by £10bn
- Reduce VAT from 20% to 18%. Lower costs, benefits consumers by approx. £300 per year
- Index link all tax allowances & thresholds from now onwards
- These plans will reduce the cost of living, as a one off, by over 4% (almost half the OBR's inflation forecast) while providing a circa £2,100 per year average saving for all households earning over £20,000
- Our plan will help grow the economy, stave off recession, create jobs and increase net wages, so raising medium term tax revenues. It's a win, win



Grow & simplify now = more tax revenues medium term

UK Tax base impact £bn. Base scenario and growth +50bp



Source Reform UK, Walbrook Economics

- Our measures will stimulate growth. Assuming a 50bp pa growth benefit they are self funding after three years and by 2027-8 are generating increased tax revenues of £13bn
- The Governments tax and spend plan reduces the cake, does not address the inflation crisis and makes families more dependent on Govt handouts & subsidies.
- Our plan grows the cake, reduces the increase in inflation and helps households every year.



Our ambition does not stop there

- Our proposals are designed to alleviate the inflation and cost of living crisis the Government has largely caused, but they are only a start
- We should aim to reduce tax as proportion of GDP from current 70 year high of 36%, which would fall to 33% post our measures, to 30% by 2030
- Modest goal, takes UK tax back to Blair Government in 2003. In 1995, tax was 28% of GDP
- This can be achieved by significant tax simplification with real cuts, aimed at benefiting many but proportionately lower earners will gain most. This encourages more back into work
- Growing the productive private sector provides a virtuous tax circle for public investment
- Tax should be clear, simple, equitable and fair



EXECUTIVE SUMMARY – REFORM UK SOLUTION

- **BIG, BOLD, EFFECTIVE - £74 bn stimulus:**
 - Cut tax – zero income tax below £20k / year = save almost £1,500 / year per person
 - Cut cost of living by reducing other taxes:
 - Scrap VAT on energy bills = save £100 / year per household
 - Scrap environmental levies = save £160 / year per household
 - Reduce fuel duty by 20p / litre = save £240 / year per driver
 - Cut wasteful Govt spending – save £5 in £100 = £55 billion per year
 - Reduce VAT from 20% to 18% - save £300 / year per household
 - Unlock Shale Gas Treasure: £1 trillion + of levelling up, by drilling down - will cut bills
- **RESULT:**
 - Stimulate Growth - approx 0.5% higher per year
 - Reduce Inflation - approx 4% over next 12 months
 - Encourage work - extra personal incentive to earn



Disclaimer

Walbrook Economics research and communications are intended to add to the understanding of economic and political policy and capital and investment markets. Walbrook Economics research and communications do not constitute a solicitation for the purchase or sale of any commodities, bonds, securities or investments of any kind. Although the information compiled in our research is produced to the best of our ability, its accuracy is not guaranteed. Any persons using Walbrook Economics material does so solely at their own risk and Walbrook Economics shall be under no liability whatsoever in respect thereof.

Users accept that all intellectual property rights (including copyright, patents, trade marks) whether registered, or not, on the communication shall remain the property of Walbrook Economics Ltd and no customer, or other person shall, or shall attempt to obtain any title to such rights. Information appearing on this communication is the copyright of Walbrook Economics Ltd and must not be reproduced in any medium without licence. Users are permitted to copy some material for their personal use as private individuals only. Users must not republish any part of the data either on another website, or in any other medium, print, electronic or otherwise, or as part of any commercial service without the prior written permission of a Director of Walbrook Economics Limited in writing or by email at the address provided on this site.

Neither Walbrook Economics Ltd, nor any of its suppliers, make any warranties expressed or implied, as to the accuracy, adequacy, quality or fitness for any particular purpose of the information or the services for a particular purpose or use and all such warranties are expressly excluded to the fullest extent that such warranties may be excluded by law. You bear all risks from any uses or results of using any information. You are responsible for validating the integrity of any information received over the internet.

Due to the number of sources from which Walbrook Economics Ltd obtains content Walbrook economics Ltd shall have no liability (whether in contract or tort) for any losses, costs or damages resulting from or related to use of or inability to use any information contained in the Site or the provision of the Site to the fullest extent to which such liability may be excluded or avoided by law and in no event shall Walbrook economics Ltd be liable to you for lost profits or for indirect, incidental, special, punitive or consequential damages arising out of or in relation to the provision of information on the Site.

COMPANY DETAILS

Walbrook Economics Limited
Registered office: 12 Sudeley Street London N1 8HP.
Registered in England No 8280110
VAT Registration 201 096 455