

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

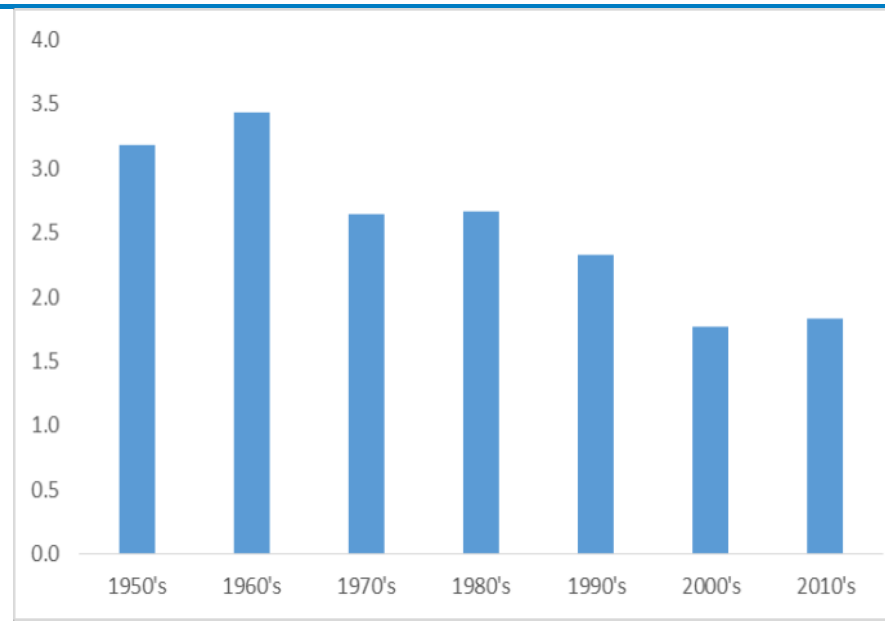


EXECUTIVE SUMMARY - FUNDING OUR PLAN

- 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



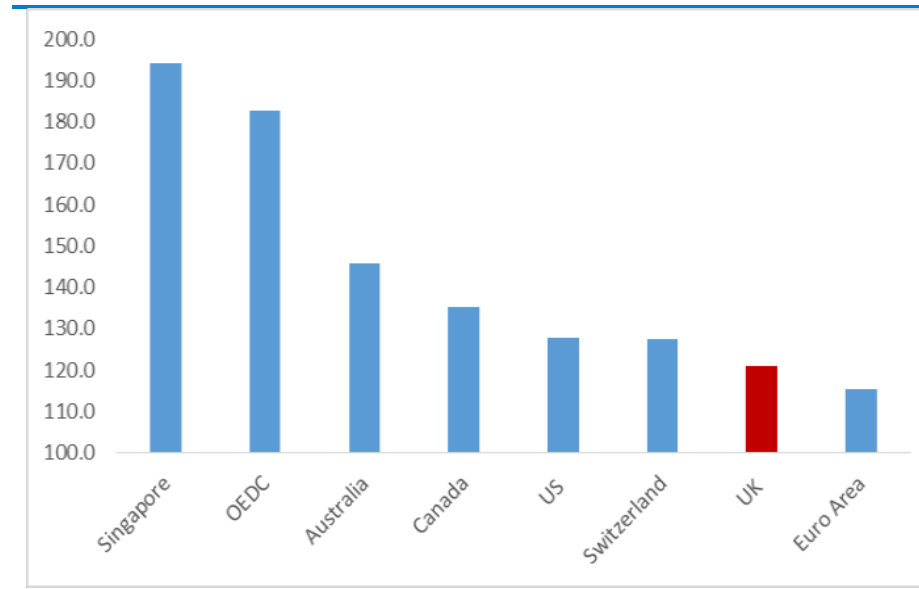
Source ONS

- 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

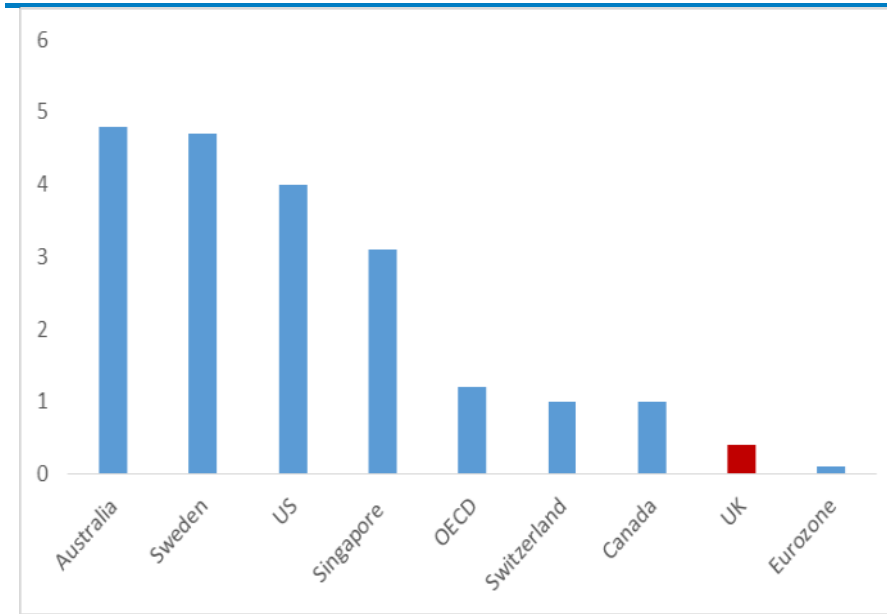


Source OECD

- 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

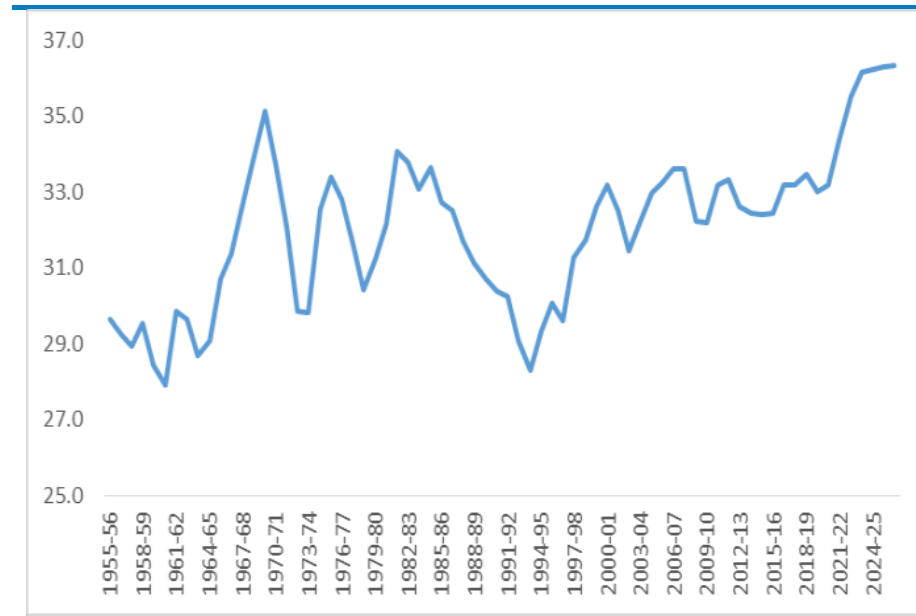


Source Central Banks

- 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

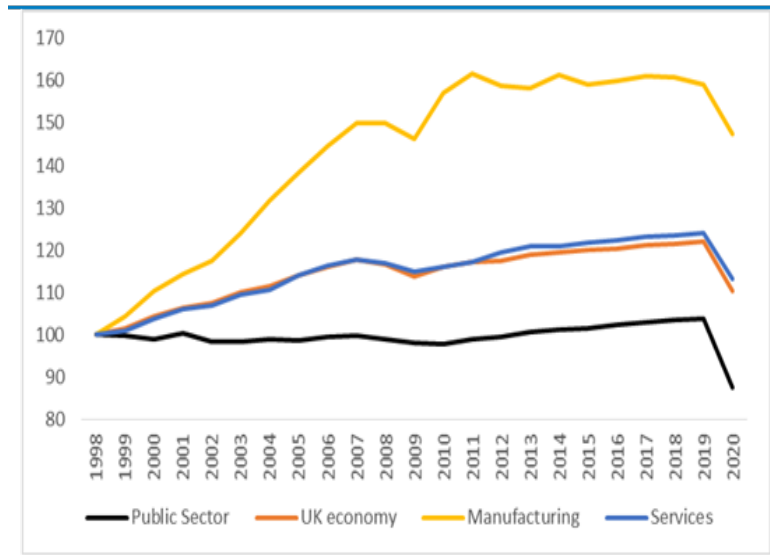


Source OBR

- 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



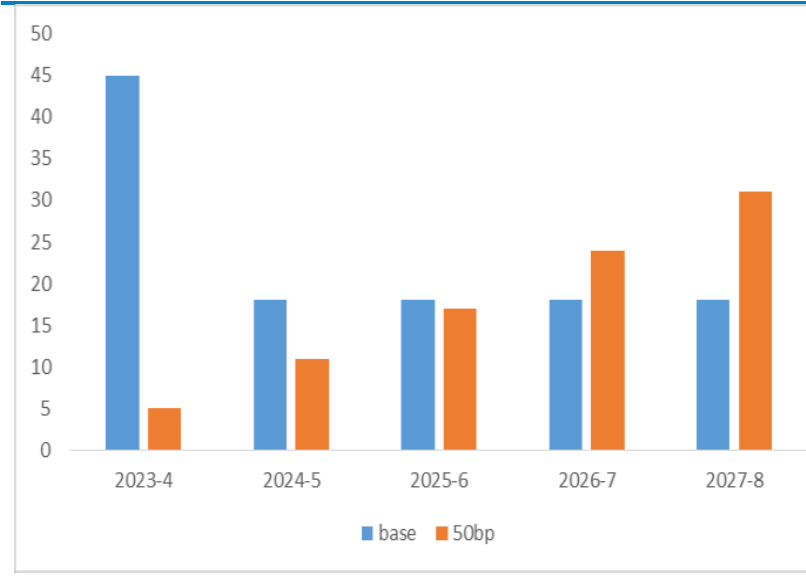
Big & Bold: More growth, less inflation, encourage work

- 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



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