COMMON SENSE POLICY GROUP

Spend to Save Britain

A Common Sense Approach to the 2024 Budget

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A Common Sense Budget in 5 minutes

The Chancellor of the Exchequer, Rachel Reeves, has described the UK economy as being in its worst state since the aftermath of WWII. But the Government's new fiscal rules mean that it has shied away from a Beveridge-style public investment package that made Attlee's administration from 1945 so successful. The change to the definition of debt announced at the Budget has freed up some space for borrowing for investment in infrastructure, though not enough to make up for the harm caused by cuts in the last 15 years. On the other hand, the announced 'stability rule' and a 2% productivity, efficiency and savings target mean that an austerity agenda that has clearly failed over the last 15 years will continue for current spending in most government departments.

Decades of reduced public spending in combination with a halving in the rate of corporation tax compared to the early 1980s and a slashing in taxes on income from passive wealth, have coincided with increased individual and regional inequality, low growth, productivity, wages and the tax base they drive. Since the Global Financial Crisis, wages have shrunk in real terms for the majority but wealth for the minority has grown. This continues a long-term trend towards reduced remuneration for work and increased returns on unearned income. The evidence base on which the austerity agenda and trickle-down economics were based has been thoroughly debunked, both academically and by the UK's economic performance since it was instituted.

Instead, we need to invest in Britain to rebuild the nation, and we show that it provides such large returns through productivity multipliers (£2.74 for the economy for every £1 of public funding invested) and savings to the public purse that it makes no economic sense to pursue cuts. To support that initial investment, and in contrast to the Government's political gymnastics in targeting complex and obscure mechanisms to meet ill-judged manifesto commitments, we also show that straightforward, fair and effective taxation on passive wealth, carbon production, luxury consumption and corporate profit is feasible, affordable and popular In addition to this macro analysis, this report uses complex, cutting-edge microsimulation modelling to show the impacts of these reforms on our everyday experience, providing an overwhelming economic argument for the policies we set out above. We underpin all of this with a set of comprehensive and sustainable economic rules that would secure the nation and the wellbeing of its people.

We assess public opinion on the tax programme from a January 2024 survey of 2200 voters. We find that our Common Sense Approach has an average approval rating of 73/100 nationally, and 60/100 among 2019 Red Wall Conservative voters. There are clear associations between risk of destitution and various other socioeconomic characteristics, health status and levels of support. The very small number of policy 'haters' can be persuaded with the right narrative. In sum, the public are far ahead of the politicians.

The Government has made some progress by redefining debt, but it must go much further with both infrastructure investment and 'current spending investment' that would save the public purse enormously downstream. It must also institute institutional reform to support this approach. As in the post-WWII period, the productivity and growth this creates is the only way to secure a decade of national renewal and bring down debt.

Our Common Sense Headline Measures

Replacing fiscal rules with new economic rules to break through short-term thinking, failed orthodoxy and minimal, misplaced growth.

1. **Poverty as well as income and wealth inequality (nationally, within and between nations and regions) must be falling by the third year of the forecast** until returned to historic lows through infrastructure and current spending investment as well as fair and efficient taxation.
2. **Public Sector Net Worth must increase by the fifth year of the forecast.**
3. **Public Sector Net Financial Liabilities must reduce sustainably and predictably by the tenth year of the forecast** by insulating the nation from international price spikes and economic crises via:
   a) **large-scale, public-sector driven investment in secure, low-cost and plentiful renewable energy.**
   b) **re-establishment of local manufacturing capabilities for products essential to national security**, including commodities like steel, and medicines, vaccines and personal protective equipment crucial to defending against future pandemics.

Institutional reform to drive economic success, growth and long-term debt-reduction.

4. **Operate the newly renamed National Wealth Fund as a National Investment Bank** with sufficient capital to make largescale investment in infrastructure and R&D projects that are essential to meeting the new economic rules.
5. **Recognise that the Bank of England is a political vehicle and take back democratic control over its policies.** This recognises that fiscal and monetary policy are inextricably linked and that the Bank's independence is so narrowly defined as to be meaningless. When crises hit, the Government should be able to use monetary levers directly and be subject to democratic oversight. There is nothing wrong with using monetary policy to achieve national economic success.

A return to public investment for the public good

6. **Take our house back.** Renting essential services and utilities from companies that obtained them through the public asset stripping of the 1980s and 1990s cannot be allowed to continue. It is baffling to rent services we require forever. We need an updated Treasury Green Book approach, and a clear set of criteria for National Wealth Fund investments regarding impact on climate change, health and social outcomes.
7. **Address the weaknesses in our economy** by investing in infrastructure, including gaining control over utilities and public transport, to support productivity, growth, inter- and intra-regional inequality and a broad, sustainable and fairer tax-base.
8. **Deliver 'current spending investment'** to produce exponential savings for the public purse downstream and productivity benefits that drive growth and bring debt down in the long-term. Borrowing to fund public health interventions that cost £3,800 per year in good health to enable reactive services that cost £13,500 to move beyond crisis, recover and bring down costs is just commonsense.

Tax reform to close the fairness gap, streamline the system and shift the burden from productive, socially beneficial work to passive wealth and environmentally harmful activity.

9. **Roll regressive employee National Insurance Contributions into Income Tax, raise rates by 3 points and equalise rates for dividends with those for Income Tax** to raise £58.1 billion per year. This is a hugely popular approach with the public.
10. **Institute a progressive annual Wealth Tax on household wealth above £2 million beginning at 2%**, with an additional tax on large financial transactions out of the country to deal with capital flight, to raise £43 billion after allowance for avoidance. Wealth sitting in the UK that distorts the housing and other markets, is enjoyed elsewhere or not spent or taxed at all is of no benefit to the nation.
11. **Establish a carbon tax of around £55 to £60 per tonne in 2024 as well as a permanent excess tax on fossil fuel companies and a redirection of current subsidies to fossil fuel producers,** to raise around £13 billion in current prices.
12. **Introduce a tax on frequent flyers and on private jets departing from the UK**, the latter set at £780 per passenger per flight, to raise a further £4.5 billion per year.
13. **Reverse fuel duty freezes since 2010 (accompanied by investment in making public transport more affordable than driving)** to raise almost £20 billion per year.
14. **Replace the outdated and regressive Council Tax with a Proportional Property Tax (PPT)** similar to that in Northern Ireland at a rate of 0.7% for primary residences (double for second homes and empty properties) in Scotland, 0.9% in Wales and 0.95% in England, while compensating any low-to-middle income households that lose out. This would raise approximately £9 billion per year..
15. **Remove 40 of the largest unnecessary or badly targeted tax reliefs and allowances** that enable the wealthy to avoid paying tax through avoidance schemes, which should raise just under £74 billion.

The impact: funding for a Common Sense whole-government domestic policy agenda to produce civic renewal, national wellbeing and economic success

16. **Implementing the policies from Act Now: A Vision for a Better Future and New Social Contract on the basis of this budget would**:
    - Drive down poverty and inequality to historic lows while driving up growth and secure, rewarding employment.
    - Rapidly transition to Net Zero, protect workers in carbon-intensive industries with a Quadruple Lock and provide cheap, abundant, secure energy.
    - Remedy our polluted and failed water supply and waterways.
    - Reduce the large proportion of crime associated with poverty and inequality.
    - Fully-fund and address the failings in the NHS and social care.
    - Build a strong and healthy foundation for all children and young people.
    - Address the funding crises in further and higher education.
    - Build high-quality, affordable public, social and private housing.
    - Deliver cheap, clean and effective transport.


A NEW ECONOMY FIT FOR PURPOSE
CIRCULAR
ETHICAL
SUSTAINABLE

1. Introduction

Chancellor of the Exchequer Rachel Reeves has described the UK economy as being in its worst state since the aftermath of WWII.[1] To address that period of crisis, Clement Attlee's Labour Government of 1945 implemented largescale reform of Britain's economy through a programme of capital investment in nationalisation of industry and infrastructure and ongoing redistribution through implementation of the Beveridge Report.[2] This provided decades of stability, growth and debt-reduction, broken only by internationally driven oil crises and a failure in monetary policy. The Labour Party of today, while in opposition and now in power, has vacillated between recognising the huge value of investment, for example through its now-scrapped commitment to providing £28 billion per year for the Net Zero transition,[3] and warnings of painful decisions and tough asks of the public which, they say, are needed to 'fix the foundations of the country'. The latter position and is strikingly reminiscent of the Cameron-Osborne narratives underpinning the austerity programmes that have caused the very damage[4] Labour now seeks to fix. The driving force for Labour's fear of being bolder appears to be a belief that only by imitating Conservative policy of recent times can it be seen as economically credible.

The change to the definition of debt announced at the Budget[5] from Public Sector Net Debt (excluding Bank of England) to Public Sector Net Financial Liabilities has freed up space for an additional £22.7 billion investment per year, of which the Government has chosen to use £7 billion leaving another £15.7 billion presumably for unforeseen contingencies.[6] While an increase is to be welcomed, given the harm caused by cuts in the last 15 years, this barely makes a dent. Meanwhile, the announced 'stability rule' means that an austerity agenda that has clearly failed over the last 15 years will continue for current spending in most government departments. This precludes the kind of 'current spending investment' that produces both productive returns and exponential cost savings to the public purse downstream.

The problem is that, after around 15 years of intermittent austerity measures, on top of a further three decades of neoliberal reform, the UK is increasingly a poor country with a few rich residents.[7] Productivity growth, measured as output per worker, has declined from 2.9% per year in the 1960s to 1.9% in the 1980s to 0.7% in the 2010.[8] Growth by GDP per head of the population has reduced from 2.8% per annum in the 1950s to 0.5% in the 2020s (so far).[9,10] In assessing the Budget, the Office for Budget Responsibility forecasts growth of 1.1% to 2.0% in the years between 2024 and 2029,[6] well below the United States' just-announced 2.8% increase in July-September, and 3% the quarter before that, following their much more interventionist approach to the economy. In addition, the UK's high levels of inequality mean that average household incomes are some 10-12% lower than in Germany and France.[11] This is due to long-term underinvestment in public and private sectors,[12] poor infrastructure,[13] low-skilled workforce[14] and lack of innovation,[15] all exacerbated by inequality [16] and climate change.[17]

This all poses a real obstacle to Labour's proposed means of improving standards of living, since it needs to make up not only for the £540 billion of lost public spending between 2011-19, but also the damage that loss caused. This necessitates infrastructure investment and 'current spending investment' to ensure that, as Tees Valley Mayor Ben Houchen has argued,[18] infrastructure projects have the public sector staff to develop and deliver them and that services that people actually experience do not collapse. As Mayor of West Midlands Richard Parker put it, 'if our councils fail, the communities they support fall over'.[18] Without being bolder, Prime Minister Keir Starmer's promised decade of national renewal[19] will become another decade of national failure. The political consequence of the approach so far is clear in polling,[20] with the approval ratings of both the Government and senior ministers collapsing in just a few short months since the General Election.

The change to the definition of debt to enable additional borrowing recognises the all-pervasive penny-wise, pound-foolish delusion at the heart of British Government for decades. As Ben Houchen claims,[18] Treasury officials appear to 'have a very narrow view - they know the cost of everything and the value of nothing'. The change does not, however, take into account the huge value of non-financial assets as a benefit, not just a cost. The wider Public Sector Net Worth (PSNW) measure would do, and PSNW is a core part of New Zealand's much more enduring Fiscal Strategy.[21] PSNW would transform the valuation of taking energy, water and transport back into public ownership as a means of controlling costs, improving productivity and meeting Net Zero. It also recognises the economic and social good of an existing, and hopefully renewed, public sector estate, such as schools and hospitals.

Unfortunately, the Chancellor's decision will not address the damage caused by the decision to heavily publicise a '£22 billion black hole in the nation's finances', and the true costs of eliminating the universal winter fuel payment and cutting the vast majority of government departmental budgets, which are already too predictable, given the devastating effects of the 2010-19 cuts.[4] This pursuit of an illusory 'economic competence' has failed us for decades, with analysis by the Progressive Economy Forum showing that the debt-to-GDP ratio could have been 3 percentage points lower by the end of 2019 had public spending increased by 3% a year in line with increased tax revenues. Perhaps we would also not have experienced the unprecedented increases in child poverty[22] and child and working-age disability,[23] as well as losses in life expectancy gains.[24] Although the Budget announced a 2.0% per year average day-to-day departmental spending increase in real terms between 2023-24 and 2029-30,[5] given that health, defence and education appear to be receiving larger increases, this suggests significant austerity to a range of public services that have already been cut to the bone. Indeed, in tandem with a 2% productivity, efficiency and savings target that is unlikely to be met without service cuts, this will not save the public purse. Instead, the pressure on reactive services like the NHS, social services, the police and prisons will worsen and the costs will escalate sharply. This is not a 2010 and the economy and the British public do not want to wait any longer for the services they rely on. We need, also, to remember that cuts to public sector jobs produce very small paper savings and very considerable indirect damage to the private sector and economy at large.[25]

In this report, we set out an alternative Budget; a programme for economic reform which is designed to support highly progressive distributive outcomes, reducing poverty and inequality and investing in capital projects to repair Britain's infrastructure. The full programme covering each domestic policy area is outlined in *Act Now*,[26] but we set out here a full and updated economic reform programme and examine the problem that is often regarded as the fundamental reason for opposition to changes in tax: public objection. We report findings from a series of mixed-methods surveys conducted between November 2023 and January 2024 examining the nature and fluidity of public perception of transformative taxation reform to fund public investment and services. We outline a series of findings from this data that suggest high levels of support for progressive taxation reform overall, particularly where burdens are placed on wealth and corporate profits, significant impact from narratives, particularly on the small number who 'hate' the package, and clear associations between risk of destitution and various other socioeconomic characteristics, health status and levels of support. We also report moderately strong positive correlations with levels of support for key redistributive policies.

2. The context: An economy failing on its own terms requiring a bold response

There is good evidence that commonplace measures of economic performance are inaccurate and bear little relationship to people's day-to-day experience of the economy. Growth, for example, is only tangentially related to economic outcomes in many of our communities and regions and is largely disconnected from levels of poverty. The same is true of productivity. Increases in productivity, just as with increases in growth, are not passed on to workers. We are decades away from the future envisioned on Tomorrow's World of workers benefiting from automation in the form of increased pay and decreased hours. Those benefits are felt overwhelmingly in executive pay and profits.

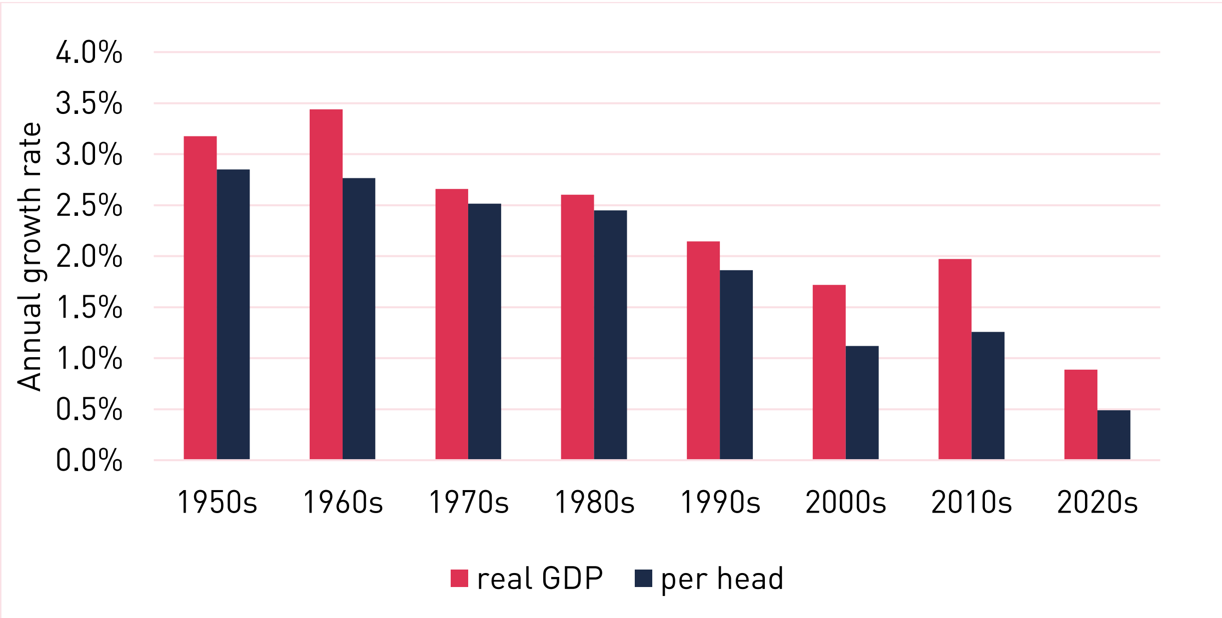

Figure 1. Annual UK GDP growth rate by decade, 1960s to 2020s (so far). Source: GDP data – Office for National Statistics;[27] UK population data – Office for National Statistics[28]

But even on neoliberalism's own terms, our economy is failing disastrously. As the *Financial Times* recently noted, the UK is increasingly a poor country with a few rich residents.[29] The figures are stark. The UK's performance on productivity in recent decades is, like its performance on inequality and child poverty, poor and declining vis-à-vis its own recent history and other countries. Figure 1 below shows that real-terms GDP growth in the UK declined from 3.4% in the 1960s to 1.9% in the 2010s. Performance so far in the 2020s has been even worse, at 0.9%. Correcting for population growth (using GDP per head of the population) the long-term decline is even more pronounced, from 2.8% per year in the 1950s to just 0.5% per year in the 2020s.

As figure 2 illustrates, an analysis of productivity growth (measured as output per worker) produces similar results, with productivity growth declining from 2.9% per year in the 1969s to 1.9% per year in the 1980s and then down to just 0.7% per year in the 2010s.

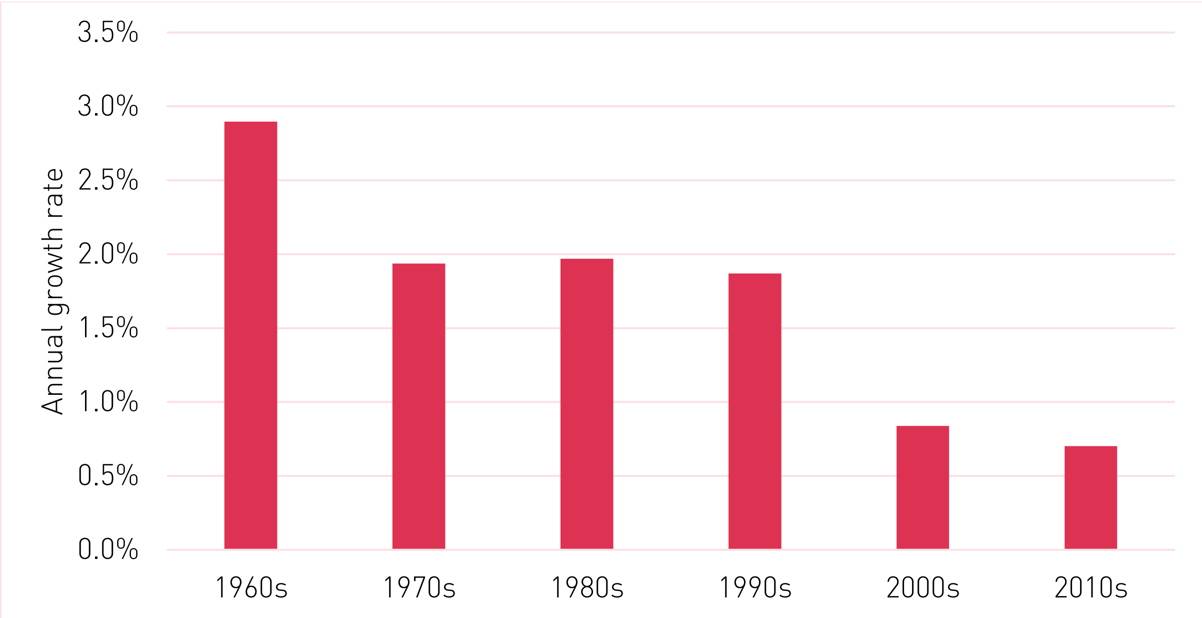

Figure 2. Annual growth in UK Productivity (output per worker) by decade, 1960s to 2010s. Source: Office of National Statistics[30]

International comparisons show that the UK's productivity performance compared with other leading industrialised countries is mediocre at best. Estimates from the National Institute for Economic and Social Research[31] show that between 2008 and 2019, UK productivity (measured in US dollars per hours worked at Purchasing Power Parity) grew by less than 0.3% per year compared to 1% per year in the US and 0.7% per year in France and Germany. The Resolution Foundation[32] reports that the UK's productivity growth rate in the 12 years following the Global Financial Crisis of 2007-08 was half the rate of that of the 25 richest OECD economies. They also point out that the UK's recent performance on average living standards is even worse than the productivity statistics would suggest, because the UK's high level of inequality by European standards means that the gap between median household incomes in the UK and those in Germany in France is around 10 to 12 points larger than the gap between mean household incomes between the UK and the other two countries. In other words, high inequality reinforces the adverse impact of poor productivity growth.

Progressive Economy Forum analysis of the effects of the austerity programme that dominated the 2010s, and played a role both before and after, highlights a key factor underpinning this failure. It suggests that public spending between 2011-19 was £540 billion lower than their counterfactual, a 3% increase per year that they evidence could have been covered by increased productivity and tax receipts. In that counterfactual, the debt-to-GDP ratio would have been 3 percentage points **lower** by the end of 2019.

Unfortunately, the proponents of austerity were able to build their claims on the now debunked study[33] by Harvard Economists Carmen Reinhart and Kenneth Rogoff which claimed that when government debt is above 90%, growth reduces. In reality, their data was found to be both incorrectly calculated and selectively used.[34] But having experienced the 15 years of austerity that their study indicated would lead to a growth boom, the UK is effectively a case study in its folly.

In reality, as figure 3 shows, debt to GDP has fluctuated enormously over time, peaking at around 250% in 1946-47, just as WWII had ended and the Labour Government was implementing a large-scale programme of infrastructure investment, nationalisation and ‘current spending investment' in public services. And as figures 1 and 2 show, it was the high growth in the ensuing period that brought debt down without the swingeing cuts experiences in the wake of the Global Financial Crisis.

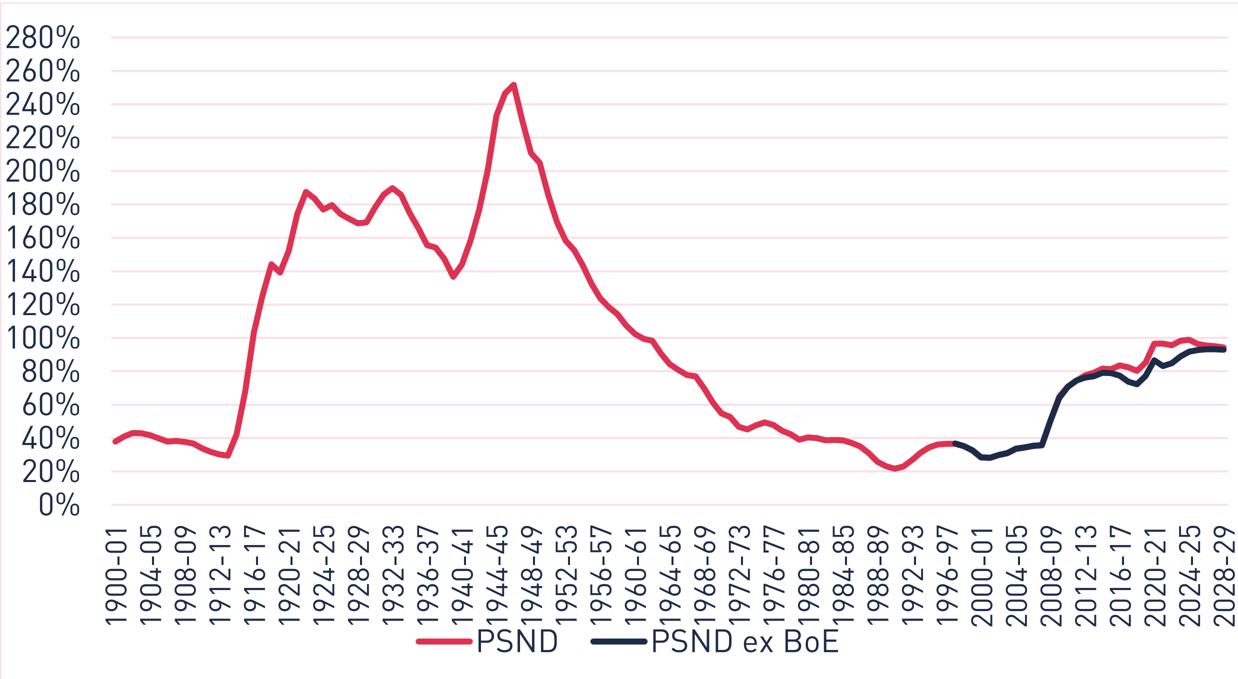

Figure 3. Public Sector Net Debt (PSND) and PSND excluding the Bank of England from 1900/01 to 2025/26. Source: Statista[35]

But the Chancellor, in spite of the switch from Public Sector Net Debt (excluding the Bank of England) to Public Sector Net Financial Liabilities, remains committed to a ‘stability rule'[5] to current spending that would have both its own productivity benefits and save the public purse downstream. For example, as a Health Foundation study found, each additional year in good health resulting from public health interventions costs just £3,800, compared with £13,500 from reactive NHS services.[36] But, when excluding time-limited additional funding for drug, alcohol and smoking services, funding from the public health grant is just £3.6 billion in 2024/25,[36] compared with £239 billion spent on health and social care in 2023 across the NHS, local government and other public bodies.[37] We do not suggest that public health spending needs to match the figure spent on health and social care, but we do need to recognise that it has been squeezed much harder than NHS funding over the last 15 years, reducing the capacity to engage in preventive programmes as a consequence.

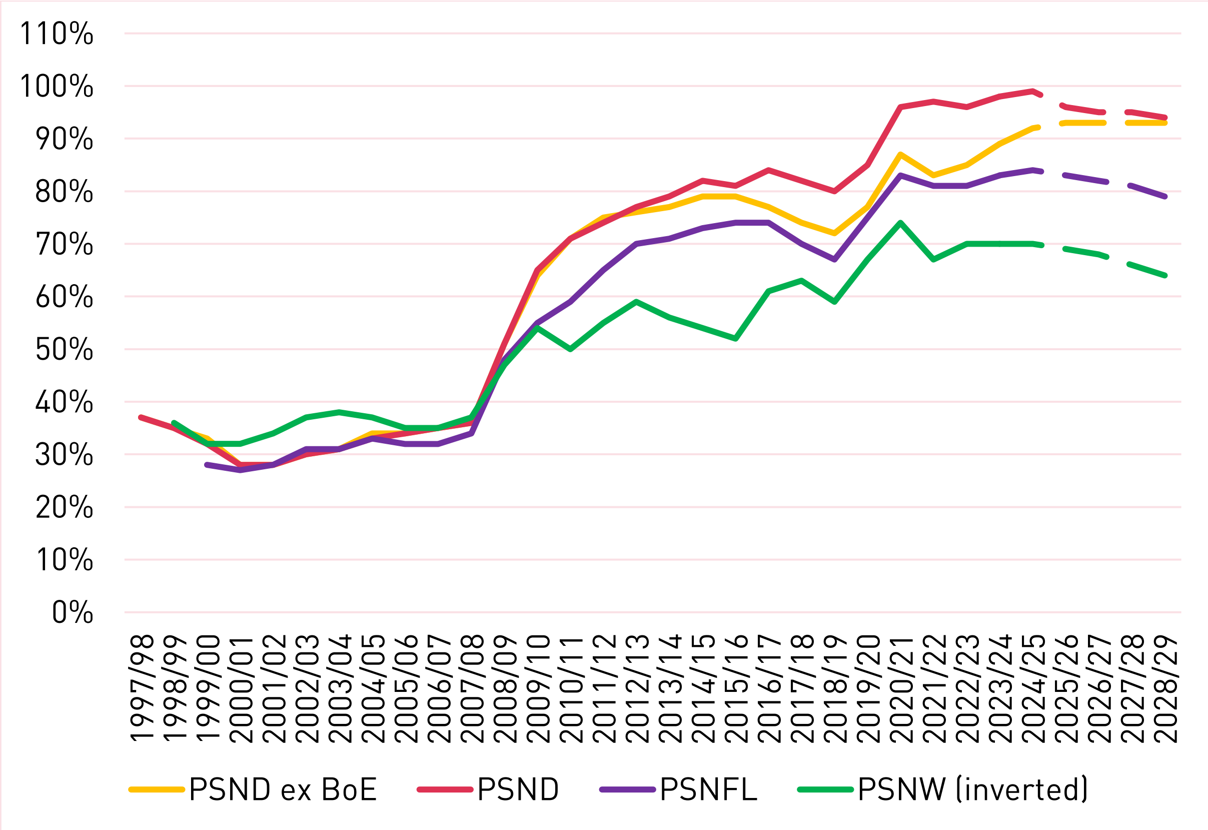

Figure 4. Public Sector Net Debt (PSND) and PSND excluding the Bank of England (PSND ex BoE), Public Sector Net Financial Liabilities (PSNFL), Public Sector Net Worth inverted (PSNW) and General Government Gross Debt (GGGD) as a proportion of GDP from 1997/98 to 2028/29. Source: Institute for Government[38]

The effect of redefining debt from PSND ex BoE to PSNFL is to provide more room for investment, still likely insufficient given the harm austerity caused, but better than the previous measure. However, this still does not account for the enormous public and economic benefit from non-financial assets, such as schools, council community centres and hospitals. Something like Public Sector Net Worth (PSNW), which is included in New Zealand's Fiscal Strategy, would. Figure 4 shows how different measures of debt to GDP would subtly or radically transform the economic image of the nation presented to markets and the rest of the world. The shape of predicted declines or increases in each measure also, perhaps unduly, affects whether a Budget meets fiscal rules as blunt as those used by UK governments and assessed by the Office for Budget Responsibility. The fiscal rules set out by the Chancellor[5] are:

- Stability rule: to move the current budget into balance, so that day-to-day spending is met by revenues.
- Investment rule: to reduce net financial debt as a share of the economy.

The target for both rules is initially 2029/30, with the stability 'balance' meaning a surplus, and net financial debt being PSNFL.

The former effectively rules out much more than stop-gap borrowing for 'current spending investment', while the latter sets a horizon for bringing down debt that remains unhelpfully short.

As such, while the redefinition is an improvement, we must move on from damagingly simplistic fiscal rules. They may have appeared to be working during the New Labour years, but they were brought crashing down along with the whole financial sector. Since that first set of rules which lasted for 12 years from 1997, there have since been eight further sets. Institute for Government analysis suggests that the UK has the shortest lifespan for fiscal rules among OECD countries.[39] While ours have averaged around four years, New Zealand's more comprehensive approach has resulted in an average nearer 14. The UK's 'rules' are not set in stone and never last in the modern economy because they are, quite simply, unsustainable. They are divorced from monetary policy, international economic conditions and crises, and fail to promote effective public spending and long-term thinking. Replacing fiscal rules with new economic rules is essential to breaking through short-term thinking, failed orthodoxy and minimal, misplaced growth.

From there, a comprehensive, effective, feasible and popular approach emerges. In the following section, we set out that approach while providing a more detailed analysis of the Government's Budget for comparison.

3. A Common Sense Alternative Budget

The Government appears clear that what it wants is greatly improved public services, national renewal and economic growth and improved productivity to fund those changes. The Chancellor's Budget speech proclaimed that:

> change must be felt. More pounds in people's pockets. An NHS that is there when you need it. An economy that is growing, creating wealth and opportunity for all... because that is the only way to improve living standards. And the only way to drive economic growth... is to invest, invest, invest.[40]

But the Government's thinking appears heavily constrained by inherited assumptions based on debunked analysis and a 15-year legacy of failure that those assumptions created. It has sought to break out of the failure to invest, but has left the majority of borrowing headroom on the table.[6] It has recognised the harm to public services, but produced a current-spending settlement that comes nowhere near to correcting the cuts made since 2010, and in fact may well represent a further cut to the majority of departments. Its tax changes largely continue the failed approach of pursuing obscure and unnecessarily complex reforms, with a few bright spots.

So what is the Common Sense Alternative Budget? We propose new, comprehensive economic rules, building on the principles outlined in *Act Now*[26] which are designed to address the social determinants of health and other outcomes upstream, at their source.

We propose institutional reform, to unify fiscal and monetary policy and drive the public spending we need to renew the nation. And we propose tax reform, to deliver fairness, improved productivity and a broader, more sustainable tax-base built on socially and environmentally beneficial activity.

3.1 Replacing fiscal rules with new economic rules to break through short-term thinking, failed orthodoxy and minimal, misplaced growth

The Chancellor's redefinition of debt as part of the new 'investment rule'[5] from Public Sector Net Debt (excluding Bank of England) to Public Sector Net Financial Liabilities is a positive development. In the context of 15 years of devastating cuts and the harm it has caused, however, much greater public investment is required. Given that debt has been much greater in historical terms during periods of national rebuilding, including after WWII, a five-year horizon for reducing debt is not just unnecessary, it is actively damaging to the growth and productivity gains that would actually bring down debt sustainably in the long-term. And in terms of the 'stability rule', which necessitates a current budget surplus by 2029/30, there is absolutely nothing stable about being unable to reverse and address the harm caused by austerity to, for example, transport, education, health and justice. 'Current spending investment' to save the public purse downstream and to improve productivity and wellbeing is as essential as infrastructure investment.

Instead of this renewed commitment to the types of rules that have lasted no more than a few years each, our proposed economic rules seek to return focus to the real job of government – to improve material conditions for the public. The rules are as follows, and some, over an extended period of time, can be achieved and replaced. They must never be used to diminish the nation, as the fiscal rules have proven so adept at doing.

1. **Poverty as well as income and wealth inequality (nationally, within and between nations and regions) must be falling by the third year of the forecast** until returned to historic lows through infrastructure and current spending investment as well as fair and efficient taxation.
2. **Public Sector Net Worth must increase by the fifth year of the forecast.**
3. **Public Sector Net Financial Liabilities must reduce sustainably and predictably by the tenth year of the forecast** by insulating the nation from international price spikes and economic crises via:
    a) **large-scale, public-sector driven investment in secure, low-cost and plentiful renewable energy.**
    b) **re-establishment of local manufacturing capabilities for products essential to national security**, including commodities like steel, and medicines, vaccines and personal protective equipment crucial to defending against future pandemics.

3.2 Institutional reform to drive economic success, growth and long-term debt-reduction

3.2.1 Operate the newly renamed National Wealth Fund as a National Investment Bank

There have long been calls for creation of a National Investment Bank.[41] The UK Infrastructure Bank, was a good first step toward this and its renaming as the National Wealth Fund (NWF) gives scope to be bolder. But the NWF's overall capital of £27.8 billion,[42] with apparent further spending announced at the Budget of just £300 million by 2029/30 (with £135 million of that coming in the final year),[5] is simply insufficient, especially in contrast to the ditched commitment to £28 billion per year in public funding for the transition to Net Zero made by Labour in Opposition.[3] The Infrastructure Bank's scope was too limited, capital too low and relationship with public sector too diffuse.[43] Put simply, the National Wealth Fund that has replaced it needs to have a much larger capacity to fund and manage wealth creation from a much broader variety of activities, including the National Pharmaceutical Service proposed in *Act Now*[26], and needs to play a much more concentrated role in guiding publicly funded activities with clear scope for commercial exploitation.

We need something much more akin to a National Investment Bank to manage those research and development activities with clear capacity for returns on investment and with scope for retention of stakes in any subsequent spin-off enterprises, equity in which should be recognised in the new definition of debt. Our holding a public interest in enterprises formed by our innovation is absolutely central to recognising the role of government in creating wealth via research funding and to ensuring that our private sector invests in our country. Likewise, only a National Wealth Fund operating in that way and financed by the state can channel resources effectively to the wholesale programme of building and our transition to renewables that we require to secure our society. These programmes require investment in land, materials and workforces with scope for longer-term and socially diverse returns than those generally funded by commercial banking.

3.2.2 Recognise that the Bank of England is a political vehicle and take back democratic control over its policies

We also need to revoke the independence of the Bank of England and place its control back in the hands of The Treasury. The notion that independence means objectivity has been shown to be false over the course of 15 years of Bank-led policymaking. The Bank has used Quantitative Easing in ways that have failed to address the fundamental crises across and between our regions[44] and has actively contributed to a cost-of-living crisis that could not possibly be addressed by raising interest rates. The key causes of this particular crisis have been the increase in global energy costs due to geopolitical conflict and climate change. The consequence has been to exacerbate the cost-of-living crisis among those on low-to-middle incomes who do not own their own home outright.[45]

We should be clear that the Bank of England has always and will always act as a policymaker driven by a narrow and fundamentally problematic understanding of how economies work. Governors have made repeated policymaking interventions, with Andrew Bailey, paid £575,000 per annum, calling for workers facing the choice of heating or eating to exercise wage restraint.[46] Politically, the Bank played a role in ensuring Liz Truss' resignation as Prime Minister by deploying monetary policy in opposition to fiscal policy.[47] Our era of ultra-insecurity is one that can only be addressed in ways that resemble the Post-War economic environment:[48] monetary and fiscal policy need to be deployed in tandem, rather than in opposition to one another, and that requires recognition that both are political and both should be governed by elected representatives.

Only The Treasury can direct those two economic measures toward ending our crises by deploying People's Quantitative Easing in the form of our *Act Now* social safety net and investing in the critical infrastructure around our Green New Deal[49] transition to enable us to control energy prices over time. As such, we need a Bank of England that serves as a direct instrument of government with the capacity to fund directly the bolder National Wealth Fund through Quantitative Easing and bond production.

3.3 A return to public investment for the public good

3.3.1 Take our house back

The policies we need to rebuild Britain's infrastructure, secure our utilities and improve outcomes across health, education, employment and crime carry a high upfront cost. The point is that, just in 1945, there are no cheap means of addressing our era of crisis and ultra-insecurity. Over decades, we have gone, as a society, from owning our assets to renting and being at the whim of service providers whose service levels have consistently failed. The Coalition Government of 2010-2015 was wont to use household economic models to justify state asset stripping. Put simply, it argued that we need to sell off assets and reduce spending and, though a plan was never really established, get out of debt. We have sold our houses, sold our cars and sold our tools and are incapable of getting out of debt by being incapable of building up our wealth and spending all of our resources on renting, often from hostile landlords. Unlike the average household, however, the Government has the power to buy the assets back from the hostile landlords, and controls its own income through taxation. Britain could never be run successfully using a household model, it should always be run as a business.

But while we think of Britain as a house, we must ask ourselves, who would choose to sell their house in order to rent, while under no pressure to do so, and who would choose not to take on a mortgage of £300,000 knowing that their house would be worth £400,000 in just a few years' time? Moreover, who would assess their financial status solely with regard to their mortgage of £300,000 without also bearing in mind their asset which is necessarily worth more? No reasonable person would think like this, yet Government has told us that it is the only way to think for the past 15 years. It is nonsense and it looks more unreasonable the more we consider our current social situation.

Age-old assumptions that education and hard work lead to property, family and success no longer hold true. Those under 40 are likely to be poorer, less happy, less healthy[50] and live shorter lives than their parents. Many of those[51] exposed to poverty and the most extreme levels of insecurity are, in fact, currently in full-time, insecure and low-paid employment or nominal 'self-employment', with many others in previously comfortable jobs exposed to fuel poverty.[52]

The cost to society will only be fully known in years or decades to come, since today's pressures will contribute to increases in the number and complexity of short, medium and long-term health conditions.[53] This is creating a planning and budgeting crisis that will exacerbate challenges for population health over many years, with healthcare expenditure across the UK in 2022 estimated at £230 billion,[54] adult social care in England alone at £26.9 billion[55] and across the whole UK costs to society associated with poor mental health at £117.9 billion.[56] We cannot afford to persist with the same failed ideological experiment.

The cost-of-living has risen considerably and it has become clear to many Britons that the threat to standard of living is no longer unavoidable tax increases, but unavoidable costs for essentials in energy, food and housing. The only way we can become secure as a society is through investment in our productive capacity to control our essentials. If we do this, as with if we take on mortgages for our houses, our wealth increases over time and we have an asset that is ours to control. This creates trans-generational wealth that provides stability and security to our communities.

It is in this longer-term context that our programme of fiscal and monetary reform has to be understood. Although the Government announced four 'guardrails' for public investment at the Budget, these make the mistake of focusing solely on the finances and not the outcomes. We need an updated Green Book approach within The Treasury and a clear set of criteria regarding impact on climate change, health and social outcomes are required within the National Wealth Fund to evaluate the investments we need. Fundamentally, we need a combination of radically updated social security with radically enhanced health, educational, housing and infrastructural services[57] alongside significant investments in manufacturing and renewables.

We adopted such an approach in *Act Now* and we provide there a projection on their impact across 10 years. This represents cutting-edge microsimulation of our tax and benefit system and sets out a comprehensive, but conservative, projection of what our economy will look like if we take this coordinated approach to investment. Recent research by the think-tank Demos[58] shows that increased economic democracy in 'purpose-led' businesses can deliver clear benefits in enhanced productivity. There is substantial evidence for this from a number of countries across the world. The more we understand why we are in the condition we are in, the more those up-front costs and the more the shift to a more democratic economy appear shrewd.

3.3.2 Addressing the weaknesses

Explanations for the UK's poor economic performance include chronic underinvestment in the public and business sectors,[31] inadequate transport infrastructure,[59] a relatively low-skilled workforce,[60] an inadequate policy framework for encouraging innovation[61] and relatively high inequality.[62] In the specific context of the period leading up to and following the Financial Crisis of 2007-08, the growing dominance of the finance sector in the UK economy[63] meant that the crash hit especially hard, and the misguided and counterproductive emphasis by post-2010 Governments on austerity meant that growth performance since 2010 has been abysmal even compared to the UK's mediocre pre-2008 trajectory.

Furthermore, a factor which has been known of since the mid-20th century, but which is now urgent is the need to limit global heating to no more than 1.5 degrees Celsius relative to pre-industrial temperatures.[64] This complicates matters considerably, since to achieve 'net zero' – an economy where the UK's total annual greenhouse gas emissions are equal to or less than the emissions the UK removes from the environment each year – the UK needs specific kinds of decarbonising development. High-carbon, non-green economic growth invites a global heating catastrophe, in the UK as in other countries. Even on neoliberalism's own terms, that is a catastrophic cost that has to be mitigated. There is no good economic argument for inaction.

To deliver increased productivity – and the right kind of (net-zero) increased productivity – we need to address all the UK's economic weaknesses simultaneously with a programme of reforms that are radical and transformative, but also feasible and carefully costed. We highlight some of those, with full detail in *Act Now*,[26] and demonstrate their huge potential through an innovative new model of the relationship between infrastructure investments and productivity (measured as Gross Value Added). We also show that policies like Basic Income can make an enormous impact on poverty and inequality, with significantly less complexity and cost than is assumed or is possible under alternatives. The package of reforms is designed to address several of the reasons cited above for the UK's poor economic performance, on the grounds that, while it's impossible to know which explanation is quantitatively the most important, it seems very likely that some – and perhaps all – of them have a part to play. This is a 'belt-and-braces' approach to boosting economic performance.

3.4 Tax reform to close the fairness gap, streamline the system and shift the burden from productive, socially beneficial work to passive wealth and environmentally harmful activity

Britain needs an expanded tax base in order to address our crises of poverty and inequality, which impose huge burdens on society. We recommend a range of reforms to the tax system to help fund the productivity-enhancing policy interventions detailed below while also reducing inequalities. While income inequality remains important, unequal distribution of illiquid assets is of far greater importance and lies at the heart of many aspects of the cost-of-living crisis, with those who own homes outright protected from rapidly rising mortgage costs due to rising interest rates. Indeed, in historical terms, income tax in the UK is a relative aberration, with permanent introduction only taking place in 1842 and application only to the very highest earners until the early-middle part of the 20th century. We should no longer believe that revision to marginal income tax rates associated with paid employment is the key means of funding reform. It isn't and it can't be because the relative value of pay from work has been reduced so significantly in recent decades.

While progressive income tax rates can close some of the inequality gap, increases in all but the highest marginal rates are unpopular and politically unfeasible as a consequence. However, the relatively recent focus on income tax as the core of our tax base means that financially fairer alternatives are overlooked. Our recent conjoint experiments, adversarial co-production and microsimulation modelling suggests that, while many of us feel that we cannot bear increases in income tax rates beyond 3p,[65] there are high levels of support for redistribution through wealth, carbon, corporation and land taxes.

3.4.1 Equalisation of Income Tax rates from employment and passive wealth to close the fairness gap and abolition of Employee National Insurance Contributions

Having tied itself in knots in opposition to ensure that it could not be accused of raising taxes on working people, the Government Budget instead continued the post-2010 Conservative-led governments' approaches that sought to exploit political loopholes at the expense of a streamlined, transparent and progressive tax system. The Chancellor announced that the freeze on thresholds for Income Tax and Employee National Insurance rates would remain until after 2027/28, after which they would be uprated with inflation.[5] This, in itself, may constitute a breach of its manifesto commitment, in that members of the public will be dragged into paying tax or paying higher rates by virtue of inflation-level pay rises that will offer them no material improvement in their day-to-day finances. But if we accept, as many even relatively fiscally conservative voices and organisations do,[66] that the commitment was impossible to keep, it is simply not the best means of achieving the objective the Government has. As our public opinion work (see '5. Public opinion', below) and that of others shows, the public realises that small increases in rates of Income Tax, for example, are worth it if incomes are made more secure, poverty is reduced and public services improve. Public trust in tax will never be won if government takes the least transparent, least rational approach to tax regimes.

Instead of this demonstrably failed approach, we recommend changes to the Income Tax system associated with previous work on introduction of a starter Basic Income scheme.[67,68] This consists of converting the existing personal allowance into a cash payment, reducing the Income Tax free allowance to £800 per year to ensure that small payments do not require declaration, and raising by 3 points the basic, higher and top rates in England, with equivalent changes in Scotland and Wales. Alongside this, employee NICs ought to be bundled into Income Tax rates, producing the following rates: basic 35%; higher 45%; additional 50%. This simplifies the system and reduces administrative costs.

We also believe that Income Tax rates have to be equalised for income from dividends and other passive forms of activity. This removes the unfairness in the current system in which those in active work are charged a much higher rate than those who live from wealth.[69] Instead, the Government's approach has been to increase the Capital Gains lower rate from 10% to 18% and the higher rate from 20% to 24%, paid, broadly, by people whose income would be within basic and higher/additional rates respectively. An increase is to be welcomed, but these are still not sufficient to close the fairness gap with income from productive work. It also appears difficult to justify a reduction in a progressive difference in rates from 10 points to six.

Together, the abolition of employee NICs and replacement with Income Tax and the equalisation of Income Tax rates for income from dividends raises £58.1 billion in additional revenue per year.

3.4.2 Wealth tax

The Budget announcement covered several wealth-related, if not directly wealth, taxes. In addition to Capital Gains changes mentioned above, the Chancellor confirmed that the 'non-dom' regime that allowed a very wealthy minority to shield their overseas income from UK taxation by declaring themselves to be domiciled overseas for tax purposes, even when residing in the UK effectively permanently in practical terms. Replacing this with a system based on residence closes a damaging and ridiculous loophole. This also includes eliminating the use of offshore trusts to shelter assets from Inheritance Tax, which is paid only by a wealthy minority anyway. Other changes, such as the inclusion of unused pension funds and death benefits in the value of estates used to calculate Inheritance Tax liability are to be welcomed as an intermediate step, as is the freezing of thresholds until 2029/30, given a need for fairness in relation to Income Tax. However, this is a system prone to complexity and loopholes, and does little to address the larger issue of wealth inequality in the UK.

Instead, we recommend introducing a tax on household wealth levels above £2m – essentially a more progressive version of the scheme recommended by Reed for the Scottish TUC.[70] The tax would be an annual levy at marginal rates of 2% per year for wealth between £2 million and £5 million, 3% for wealth between £5 million and £10 million and 4% for wealth between £10 million and £15 million, with progressively higher rates for wealth above £15 million. Allowing for avoidance, we estimate that this tax would raise around £43 billion per year. The £2 million threshold sits above any possible context in which someone depends upon that level of wealth simply to live. To deal with the possibility of capital flight, we recommend imposition of a tax on large financial transactions to tax money on the way out commensurate with the wealth rates above. This would mean that £20 million sent overseas across a 12-month period would incur a 6% tax. The offshoring of wealth has had a distortionary and damaging impact on our economy and it needs to be disincentivised. Introducing the tax would reduce the assumed avoidance rates of 5% for property wealth, 20% for pension wealth and 40% for financial assets and physical wealth based on the Wealth and Assets Survey QMI.[71]

3.4.3 Taxing carbon and fossil fuels

The Government's announcement of £3.9 billion of funding in 2025-26 for Carbon Capture, Usage and Storage[5] does little to address the environmental damage created by fossil fuel companies. Rather, it may be linked to lobbying by those same companies designed to main demand for their products long past the point at which such activity must end if we are to protect the nation and the world from the effects of climate change.[72] The increase in the rate of the Energy Profits Levy (EPL) from 35% to 38% and abolition of the EPL investment allowance except for decarbonisation expenditure and cut for the rate of decarbonisation allowance to 66% is better than the previous system, but none of this, including other small, specific public investments, approaches Labour's commitment in opposition to spending £28 billion per year on the transition to Net Zero.[3]

Instead, we recommend introducing a tax on carbon as recommended by researchers from the Grantham Research Institute on Climate Change in the Environment in 2020.[73] To be consistent with net-zero emissions by 2050k the carbon tax needs to be set at around £55 to £60 per tonne in 2024, rising to £75 per tonne in 2030, and should raise around £6 billion per year in current prices.

In addition to this, we also recommend the following taxes on fossil fuel companies as set out in recent research by Oxfam:[74] 1) a permanent excess tax on fossil fuel companies, and 2) a redirection of current subsidies to fossil fuel producers. Combined, these measures would raise just under £7 billion per year.

3.4.4 Luxury consumption taxes

We recommend introducing a tax on frequent flyers as suggested by the New Economics Foundation[75] which they estimate would raise up to £4 billion annually. In addition to this, a tax on private jets departing from the UK set at £780 per passenger per flight (10 times the previous highest rate of Air Passenger Duty for domestic flights), as recommended by Oxfam,[74] could raise up to £500 million annually. This is intended, not just to raise revenue, but to disincentivise socially and environmentally damaging activity.

The Chancellor announced in the Budget that there would be increases in Air Passenger Duty by Retail Price Index and adjustment for previous high inflation from 2026/27 as well as an additional 50% increase for larger private jets.[76] This is a positive development, though much more is needed to ensure that the ultra-wealthy pay for the environmental damage of their luxury consumption.

3.4.5 Reversing freezes in fuel duty

The Chancellor used a bait-and-switch approach to announce that rather than taking the difficult decision to actually reverse fuel duty for the good of public finances and services, including transport, the Government would instead continue to freeze fuel duty,[5] despite prices being lower than in recent years, the cost of public transport often being higher than driving,[77] and a simultaneous 50% increase in the cap on bus fares from £2 to £3 in 2025. This is economically and environmentally incompetent and will stifle productivity, with little benefit even for drivers who will continue to face traffic jams and potholes.

We take the opposite approach. Since 2010, successive governments have repeatedly frozen fuel duty on petrol and diesel in nominal terms, with the result that by the 2023/24 tax year, revenue from excise duty on motor fuels was almost £20 billion per year lower than it would have been if fuel duty rates had risen in line with RPI inflation for the past thirteen years (according to estimates from the OBR's Policy Measures Database).[78] We recommend reversing the fuel duty freezes, which would raise almost £20 billion per year of additional revenue. In *Act Now*,[67] we set out the reliable, affordable and efficient transport system that could be provided instead.

3.4.6 Corporation tax

The Chancellor announced that the Government would 'cap the rate of Corporation Tax at 25%, the lowest in the G7, for the duration of the parliament'.[5] This is despite the fact that Corporation Tax is fundamentally affordable, since it is charged on profits, not turnover, and that it can be avoided by inward investment – that is, directing would-be profits towards increasing productivity and activity within businesses – which is a means of ensuring sustainability of business and reduction of inequality within organisations. Instead, the Government instituted two changes to Employer National Insurance Contributions: the first is an increase in the rate is rising from 13.8% to 15% and lowering the per-employee Secondary Threshold at which Employer NI becomes payable from £9,100 to £5,000. This was balanced by increasing the Employment Allowance from £5000 to £10,500 of Employer NI and removing the eligibility threshold of £100,000. The Government claimed that 'more than half of employers with NICs liabilities will either see no change or will gain overall next year', but employers with large numbers of employees, which is surely to be encouraged, are likely to be in the half that lose out, including in public services like the NHS.[79]

Our approach focuses in on the fairness and fundamental affordable nature of Corporation Tax. In the year 2000, the headline rate in the UK for larger companies was 30%. This was reduced to 19% by 2017 before increasing to 25% in April 2023. We recommend increasing the headline rate of Corporation Tax up to 30% - the rate which applied in the early 2000s and in Germany today[80] – with a lower rate for small businesses and enhanced tax reliefs for research and development. Allowing for increased avoidance we estimate that the increase in Corporation Tax will raise around £12 billion per year.

3.4.7 Local tax

Reform of local tax in Britain is long overdue. In England, Wales and Scotland the main domestic local tax is Council Tax, which has two serious weaknesses. First, the system is regressive with households living in high-value houses paying far less as a proportion of their property wealth than households living in low-value houses. Second, Council Tax in England and Scotland is based on house price valuations from 1991 that are now more than three decades out of date.

The Chancellor announced no changes to this outdated and unfair system. Instead, the main change to local funding was to increase the Local Government settlement £11.4 billion in 2024/25 to £14.3 billion in 2025/26, which includes '£1.3 billion of new grant funding for local authority services including at least £600 million in new grant funding for social care', and a new 'multi-year settlement' from 2026/27[5] Funding to support Special Educational Needs and Disabilities provision and homelessness reduction is also to be encouraged, even if it is nowhere near sufficient to make a dent in the damage caused by the austerity years. The reduction in Right to Buy discounts on council houses and allowing local authorities to retain full receipts is also an improvement.[5] In addition, although receipts do not go local authorities at present, of relevance to housing is an increase from 3% to 5% for the Higher Rates for Additional Dwellings (HRAD) surcharge on Stamp Duty Land Tax (SDLT), and an increase from 15% to 17% for corporate bodies purchasing dwellings costing more than £500,000. In the overhauled system of local tax we propose below, there is a case to be made for rolling SDLT into the main rate, meaning that people who have to move regularly, for example due to work or relationship breakdown, do not end up paying far more than those who stay put.

We recommend replacing Council Tax with a Proportional Property Tax (PPT) as recommended by the campaigning group Fairer Share[81] for England, and by Reed[70] for Scotland. Setting the PPT at a rate of 0.7% for primary residences in Scotland, 0.9% in Wales and 0.95% in England would increase overall yield by approximately the same percentage in each of the three countries. Combined with a double rate for second homes and empty properties (i.e. 1.4% in Scotland, 1.8% in Wales and 1.9% in England) the PPT would raise approximately £9 billion per year across the three countries and is substantially more progressive with respect to both household wealth and household income than the Council Tax. This, in effect, levels up to the situation in Northern Ireland, which has a domestic ratings system that resembles PPT. We recommend that around 20% of the gross yield from the tax be used to fund an enhanced compensation package so that low-to-middle income households do not lose out from the reform.[82] This additional yield, combined with the additional funding for integrating Social Care into the NHS as proposed in *Act Now* will be critical to addressing the crisis in Local Authority funding. The £600 million new grant funding announced at the Budget in the context of local authorities going bankrupt at an alarming rate,[83] in contrast, is little more than a sticking plaster.

3.4.8 Removing unnecessary or badly targeted reliefs and allowances in the tax system

The UK tax system includes a large number of reliefs and allowances. Indeed, over 1,000 are reported in a recent report by the House of Commons Treasury Committee.[84] Each of these reliefs and allowances has a cost to the Exchequer in terms of the tax revenue foregone. In the Budget, the Chancellor confirmed that VAT exemption and business rates relief for private schools would be removed. This is to be encouraged given the inequality in opportunity that such institutions have helped to create over centuries and the widening inequality in wealth that has afflicted the nation over the last 40 years. A large number of other, smaller changes were made within the Budget, some of which are referenced above.

However, we would go further. We have identified around 40 of the largest reliefs and allowances which are unnecessary and/or badly targeted. According to HMRC statistics,[85] abolishing these reliefs and allowances would result in a gain of just under £74 billion to the Exchequer. These rules and loopholes have developed over decades or even longer, and the logic that underpinned their introduction, if there ever was solid logic, can no longer be assumed.

3.5 The impact: funding for a Common Sense whole-government domestic policy agenda to produce civic renewal, national wellbeing and economic success

The Government's Budget raises £40 billion in additional tax revenue per year.[40] However, its complex changes are not sufficiently broad, affect the public sector as a large employer and fail to do enough to make the wealthy as well as environmentally harmful corporations pay their fair share. While additional funding is going to the NHS, for example, of £22.6 billion, some of this will immediately be eaten up by increases to Employer National Insurance Contributions and the pay settlements that have been agreed with staff. The additional few billions for capital investment for the NHS, schools and others are, again, to be welcomed, but they must be increased significantly, and they must not be cannibalised for current spending when the existing weaknesses in services and population wellbeing create even greater demand. A much more comprehensive approach is required to achieve the objectives the Government has set itself.

Overall, the tax increases set out in our Common Sense Alternative Budget would result in increased tax revenues of just under £340 billion. This is more than enough to afford a starter Basic Income scheme that would reduce poverty rates to their historic lows plus a range of other increases in current public expenditure that we recommend for health and social care, childhood and early years, education, housing, transport and other areas. Recognising that increases in capital expenditure to acquire assets mean that the nation's wealth increases is fundamental to our economic rules and why adopting Public Sector Net Worth, which includes non-financial assets and liabilities, would be so beneficial. In *Act Now*,[26] we set out a range of investments that would substantively increase national wealth, produce radical increases in growth, productivity and equality and could be financed by people's Quantitative Easing just as easily as conventional borrowing. The basic idea of this approach is that Government would fund investment 'at a stroke' using the same mechanism, electronic money creation, that was used to purchase private sector assets under post-Financial Crisis Quantitative Easing in 2009. However, unlike that Quantitative Easing, money would go directly to investments of national importance as well as to individuals to support social security. In order to avoid inflation, additional taxation at the higher end of incomes would be required.[86]

The full calculations for the tax reforms are available at https://osf.io/g7fb5. Using the Landman Tax Transfer Model, the Institute for Innovation and Public Purpose's (IIPP) central multiplier effect of capital investment of 2.74 over 5 years[87,88] and a conservative estimate of current spending impact on health and other public goods of one third of capital spending (0.91),[89] the overall programme is projected to raise £338.7 billion per annum in the first year, which is projected to lead to a £514.6 billion in productivity increases from spending commitments, to second round increases in tax yields of £205.9 billion by the end of the Parliament, meaning a total increase in tax yield of £544.6 billion per annum by year 5, sufficient to pay for largescale reform to social security through expansion of the UK pension to the entire adult population as well as a raft of spending commitments sufficient to address the UK's core infrastructural, climate change and social crises. This would significantly increase the income and wealth of ordinary citizens, secure individuals from the threat of international socioeconomic shocks by investing in Britain's social and economic infrastructure and make the tax system fairer by ensuring that income from work and passive wealth are taxed equally, rather than the current system in which work is taxed more than wealth.[26]

To emphasise how quickly and easily Britain's chronic insecurity could be addressed, the tax changes above combined with introduction of a small, 'starter' Basic Income payment of £75 per week to working age adults would radically reduce poverty and inequality immediately. The Government's announced increase in the earnings limit for Carer's Allowance and the rises in the National Minimum Wage and National Living Wage[5] are a step forward. However, the cliff-edge in earnings beyond which every penny of Carer's Allowance is removed remains, for now, and that is a significant source of anxiety and a work disincentive. The income insecurity that lower-paid workers experience also remains. Basic Income addresses all of these issues more effectively and efficiently.

Table 1. Comparison of poverty and inequality rates at baseline and under a proposed Basic Income

		2022 Baseline	**Basic Income**
Poverty (After Housing Costs)	**Children**	29.2%	13.5%
	Pensioners	16.6%	10.1%
	Working-age adults	15.0%	11.2%
Poverty (Before Housing Costs)	**Children**	20.1%	6.6%
	Pensioners	21.7%	14.2%
	Working age adults	20.2%	15.5%
Inequality (Gini, household incomes)	**BHC**	0.353	0.3
	AHC	0.394	0.331

In order fully to establish the full impacts on growth and productivity from current spending, we need to understand more effectively the different multiplier effects within each policy area. This is crucial, as investments in reducing inequality through current spending are likely to have considerable impacts on health and other areas. Conversely, current spending in the criminal justice system may actually have considerable negative impacts where, for example, the law is used to target self-regarding harms, such as personal drug use. The consequences of prohibition include an expansion in criminal networks and increase in judicial and health costs without actually reducing personal drug use itself.

This programme delivers, then, the outcomes to which the current Government is committed, but in ways that have been rejected in part for reasons of apparent lack of popularity. It is important, then, to demonstrate that claims of unpopularity is just wrong.

4. Public opinion

To understand public opinion of our Common Sense Approach, we followed established survey methods we have used in previous peer-reviewed studies.[90,91] These included adversarial co-production of narratives with opponents of policies – 'haters' – to persuade people like them to support tax reform. Narratives were then presented to a larger group of participants to establish levels of support for policies pre- and post-presentation of narratives. 'Red Wall' constituencies are those in the North and Midlands of England and parts of Wales that were traditionally Labour voting but switched to, or came close to switching to, the Conservatives. They played an important role in the outcome of the 2019 General Election and voters in those areas therefore received significant attention from political parties.[90,92,93] We then presented a description of tax reform, its impacts and the narratives to 2,200 participants from across Britain between 20-26 January 2024. We solicited demographic, socioeconomic status, health, political affiliation and voting history and intention data from participants to enable analysis. A full description of methods and measures is available here.

4.1 Levels of support overall and following narratives

Nationally, average approval ratings on a scale of 0-100 was 72.6 overall, 48.6 among those intending to vote Conservative, 76 among those intending to vote Labour and 66 among those who didn't know who they would vote for or who did not intend to vote. In the Red Wall, overall support was 69.2, 60.2 among Conservative and 80.5 among Labour 2019 voters. Lower socioeconomic status, higher risk of destitution and worse health were all associated with higher levels of support. A large proportion (46.6%) of Britons were 'lovers' of the policy, expressing initial support of 70 or above. A small proportion (12.9%) were 'haters' of the policy, choosing a rating of 30 or less. 11.9% chose 100 on the scale, while just 2.7% chose 0.

The arguments that were most persuasive among those in the red wall and nationally were different. Voters in the Red Wall evaluated at 73.5% approval an argument based on direct redistribution from the wealthiest to the vast majority of citizens:

> The current tax system disproportionately benefits the wealthiest. They can avoid taxes by paying themselves through dividends, they pay a lower proportion of council tax on their properties and they pay less tax on passive wealth than those of us who go out to work do on our income. The reforms will ensure that the richest pay more to close the gap for workers and cannot hide their money overseas without being taxed, removing the benefits they currently have. There's only so much money anyone needs to live a comfortable life and we now have a small number of people who have endless luxury while the rest of us who work hard struggle. Imagine the impact of a billionaire for once being forced to pay a fair share of wealth into tax. It would make a difference where it matters: taxing the wealthy more will close the gap, bringing workers towards a good quality of life.

Nationally, an argument grounded in securing us as a society received the same 73.5% approval:

> As the COVID pandemic and impact of the war in Ukraine showed, Britain is exposed to global insecurity. We need to increase taxation on the highest earners and reduce the burden on low- to middle- income workers in order to secure our society and the resilience of our public funds. Having more money in the government pot will secure us against another shock to the country like COVID and the impacts it had on our economy. We need a reliable source of funding by increasing tax on corporations that currently don't pay their way. These reforms bring multinational companies like Amazon into line with UK companies by stopping them using offshore tax havens like Luxembourg. Introducing tax on large financial transactions also removes the insecurity of big corporations threatening to move their businesses overseas and sending money abroad without paying tax on transfers. Taxing businesses that contribute to climate change will also reduce floods, heatwaves and rising sea levels that are an increasing threat to Britain.

Throughout all of the narratives produced, there was consensus that reducing inequality and funding through taxation on wealth is key to our new settlement. Given that we have demonstrated the changes outlined in this report are affordable, knowing that Britons support taxation if targeted effectively ought to give us all confidence that change is possible.

Nationally, there was evidence of a statistically significant increase in levels of support for tax reform via the narratives, with support increasing by 3.7 points on average. As figure 1 shows, the average change in support by narrative was 3.8 for absolute gains, 5.6 for relative gains, 4.3 for security and 1.3 for reducing apathy. There was a significant 1.2 point (p .0176) increase in support among initial 'lovers' of the policy. There was a large and strongly significant increase in support among 'haters' of 6.1 points. This suggests that there is significant scope for policymakers to persuade Britons of the value of commonsense reforms.

Indeed, the more that voters support tax reform, the more they were likely to support highly redistributive reforms to social security through Basic Income, core health and social care investment and key capital investment in a Green New Deal to create jobs and achieve net zero.[94]

4.2 What does this mean for tax reform?

The narratives presented made people's material interests salient to their own circumstances. The more successful narratives presented circumstances that respondents could identify as affecting them directly. This provides further evidence that people's public policy preferences are influenced more by material circumstances and the prospective impact of policies on outcomes than by abstract values. This is why it is so important that politicians avoid constructing scare stories about £22 billion holes in the nation's finances. If the intention of such stories is to give credence to a new Labour Chancellor's fiscal responsibility against a backdrop of decades' old criticisms, not it is likely simply to constrain the Government's ability to improve outcomes that matter to people, it is also unlikely to gain favour among the public. It is wholly self-defeating and must stop.

The associations between perceived risk of destitution and other measures of socioeconomic status are particularly important in a post-pandemic and cost-of-living crisis context in which even higher earners have experienced how close the vast majority of us can be to sudden job and income loss. The world has changed, and public perceptions have shifted. The public is in favour of a larger public sector and more current and investment spending funded through a fairer, productive-work-supporting tax system. Politicians would do well to shift too. As the current Government were wont to argue in opposition, Britain needs pragmatism, not ideological dogma and further failed experiments in austerity.

5. Conclusion: The Government must tax and spend appropriately

The Common Sense Alternative Budget we have outlined has the necessary scale of ambition and is sufficiently targeted on those who can afford to pay as to produce the outcomes that the Government itself wishes to produce. If the Government is serious about security for workers, then it should begin the shift toward Basic Income – the only Beveridge-style reform capable of addressing the insecurity that workers increasingly face regardless of their salaries. This is the most obvious, effective and efficient means of dealing with the immediate crisis of unpredictability and insecurity that afflicts the vast bulk of Britons.[95]

We can also have secure, domestically generated, stably priced and, indeed, cheaper renewable energy powering electric heating and transport. Residents and businesses need never again be hit with massive spikes due to the actions of dictators and international commodities speculators. The Government's GB Energy can contribute to this, but only if it returns to the more ambitious £28 billion commitment that would enable the scale of investment in renewables generation and storage required. As we set out in *Act Now*, the Government and the Opposition have consistently misrepresented the cost of bringing our public utilities back into public ownership. To be clear, the market value of water and energy companies depends on the existence of Government licenses that can be revoked. As with Railtrack, once those licenses are revoked, the market value of companies disappears. Similarly, companies like Thames Water that are at risk of collapse due to their diverting income to dividend payments while increasing their debt become bankrupt once Government support is removed. One of the recurrent justifications for private sector engagement in infrastructure is its assumption of risk. There is no good reason for the Government to bail out failing businesses when it is a provider of last resort. It can merely take over the running of utilities and take over estates from administrators. Suggestions that the Government's commission examining the water industry may recommend forcing the sale of water companies to not for profits run for the public benefit[96] is an alternative to full nationalisation and would certainly be a step forward.

Our programme of research has shown that infrastructure spending by government has productivity returns of almost 3 times the initial outlay, through economic multiplier impacts, based on analysis of the effects of infrastructure spending across Europe in the last decade. Just that initial £28 billion investment would produce returns for the economy of almost £77 billion, by creating employment and enabling private sector economic activity through the supply chain of those infrastructure providers. If we think of the nation as a business, or even as a household as many Conservative chancellors have liked to imagine it, we simply cannot afford not to invest using public funds at a much larger scale than is currently being suggested by the Government. In the United States, in the first year following the Biden administration's Inflation Reduction Act, there had been $278 billion in clean energy investments, 170,000 new jobs, increases in renewable electricity generation and, crucially, the period was accompanied by a much steeper decline in inflation and much higher rate of growth than in the UK. Even though inflation is now below the Bank of England's target, we need our own mini-Inflation Reduction Act.

Penny pinching and austerity is economically and environmentally devastating. Largescale investment in a Green New Deal produces growth, jobs, significant additional tax revenues and, crucially, it provides energy and national security. It is, put simply, the only way out of our low-growth, low-productivity, high cost-of-living, insecure spiral. We have fully costed and demonstrated how these proposals, as part of a larger package of policies, are more than affordable through the huge returns on investment produced.

The Government cannot continue to engage in failed economic dogma. Four decades of an ideological experiment have produced outcomes that the Government itself regards as poor: low growth, low productivity, high inequality, high poverty. The answer is obvious and pragmatic: a return to 1945-style policymaking that views the state as the guarantor of economic development, investing in those social determinants of outcomes, such as size, security and predictability of income and costs of essential goods and services. This can only be achieved by a Common Sense economic approach including reform to tax to increase yield and promote inward investment. Decades of giveaways to business and prioritisation of importers and multinational companies have fostered offshoring of wealth and low levels of investment. It cannot continue.

Labour must remember why it was formed and who it is intended to serve. For too long, Labour figures have wholly misrepresented Fabianism. Fabianism as an approach took its inspiration from Fabius, the Roman leader tasked with defeating Hannibal. Having concluded that pitched battles were unsuccessful, he deployed tactics of harrying and denying of opportunity in order to succeed in the longer-term. The Fabians sought to adopt a similar strategy, with workers representing the Romans and entrenched wealth and capital representing the Carthaginians. New Labour figures have invoked the strategy to suggest a non-oppositional approach to interests of business and worker, with the current leadership claiming it is in the service of workers and of business and that the former's interests are dependent on the latter's. This is wholly misconceived.

All of the evidence from the past four decades, along with the impact of the Global Financial Crisis in particular, suggests that the vast majority of Britons have interests that are at odds with those of certain businesses, especially those that have been given public assets to run our natural monopolies and utilities. If Labour does not take the side of workers in reforming the economy, it runs the very real risk of handing over Government to the far right. Fabius never said that Rome should be dependent on Carthage or Hannibal and Labour should never suggest that workers' interests are the same as those of passive wealth or those who have lobbied consistently to erode the nation's tax base. The Government must act in the national interest and its own to reform Britain. While the Chancellor's recognition that financial assets are of benefit to the nation's finances, not simply debts, much more is required. The reforms we outline in this report do what the Government needs to do. They are feasible, affordable and popular. They are commonsense.

The Government must act now.

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