COMMON SENSE POLICY GROUP

Count the Costs

A Common Sense Update for the 2025 Spring Statement

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A Common Sense Spring Statement Summary

Background and fiscal policy

On 30 October 2024, Chancellor of the Exchequer Rachel Reeves announced a raft of measures to raise revenue to fund increased public spending on infrastructure, health and defence. In *Spend to Save Britain: A Common Sense Approach to the 2024 Budget*, we described the measures, in particular the loosening of fiscal rules to enable greater infrastructure investment, as a step forward, though still well short of what is required to secure meaningful growth, improve living conditions and achieve a decade of national renewal. We made clear the need for the wholesale replacement of the fiscal rules with new Common Sense Economic Rules, to account not just for the cost of public spending, but also the huge returns on investment that would result. This broad and fair tax base and the productivity-driven economy it would support would provide the stable finances required to properly fund a Beveridge-style public investment package that made Clement Attlee's Labour administration from 1945-1951 so successful.

In the five months between the 2024 Autumn Budget and the Spring Statement on 26 March 2025, economic trends have worsened significantly, in large part due to US President Donald Trump's plutocratic policies, potentially deliberate misunderstanding of international trade, and apparent retreat from the post-war military order[1]. The Chancellor has lost the 'fiscal headroom' modelled by the Office for Budget Responsibility (OBR) that would have facilitated some additional public spending within her fiscal rules[2], and the party is languishing at around the same level of support as Reform UK[3]. While international factors have driven some of these issues, which have also given Prime Minister Keir Starmer the opportunity to pivot rather effectively toward international affairs, the situation demonstrates even more clearly the need for a full overhaul to deliver economic and national security against such headwinds.

Even in the absence of a deteriorating international context, the Budget failed to establish a clear strategy and narrative by seeking a low-risk middle option that ended up being the worst of both worlds. The tax options selected due to the manifesto 'handcuffs' the Government placed on itself raised nowhere near enough revenue, but disincentivise the kinds of activity that we actually need to improve living conditions and generate economic growth. The forecast growth reduction also indicates the danger of focusing not on simple, fair taxes but on National Insurance Contributions (NICs). For example, the changes to employer NICs– with the minimum threshold for liability reduced and the rate increased – places the burden on businesses as well as public sector and third sector organisations that provide employment in the UK[4]. Offshore companies with outsourced staff structures, on the other hand, gain an even larger advantage. Instead, something like a Corporation Tax increase is fundamentally affordable since it is charged on profits, while avoidance through reinvestment into the business should result in productivity gains. As it is, organisations can only avoid the increase in NICs by reducing the headcount, including potentially by offshoring services[5]. The Government should go beyond just increasing HMRC's funding to tackle non-compliance and focus more on addressing systemic tax evasion by large corporations and the extremely wealthy, which would have a far greater impact on revenue generation.

In effect, the economy has reacted negatively to the Government's fear of criticism from the representatives of the failed policies of the last 40 years. This fear resulted in measures that, in practice, feel like a burden to everyone with benefit to no-one. Largescale infrastructure investment and 'current spending investment' to make the population healthier and more productive can be sold to the markets. Much harder to sell are increases in taxes that harm business activity but do not make substantial inroads in addressing the compounding effects of 15+ years of austerity. Markets like certainty, but they also like common sense government spending. The Biden Administration in the US demonstrated this through the Inflation Reduction Act which was accompanied by large and enduring economic growth against the headwinds of the pandemic and war in Ukraine[6]. Although the US benefits from being in control of the international reserve currency, even conservative policymakers acknowledge behind closed doors that the austerity policies that many of their leading thinkers originally proposed simply do not work. The key means of avoiding ever having to face international headwinds again is by large-scale public investment in abundant renewable energy. The Government should return to its 2023 commitment.

Welfare

Unfortunately, instead of revisiting these decisions from the Budget, it appears that the Government is returning to a policy area that failed to generate savings for any administration over the last 20 years: welfare (social security). Tightening of eligibility criteria for health- and disability-related benefits and much more frequent reassessments have only increased administration costs while coinciding with an increase in the caseload above even the modelled counterfactual trend used to justify the introduction of the reforms. There is a large body of evidence to demonstrate that cutting benefits results only in a shifting of costs to other areas of public spending, including health and social care, education and the criminal justice system, alongside harming long-term economic growth by diminishing education and training outcomes. The OBR's own modelling shows that welfare cuts will not generate significant additional spending power for the Government[7]. Even with deeper cuts than originally planned, projected savings are still unlikely to materialise. So in addition to never having achieved the direct welfare savings anticipated, such approaches only cause even greater costs downstream, resulting in even greater need for an effective social safety net in future. Welfare benefits are upstream of health, not the other way round, and it is essential to treat security of income, reduction in inequality, and elimination of poverty as the key means of improving outcomes. Our Common Sense Approach indicates that this can be provided while also eliminating the perverse incentives to be economically, physically and socially inactive that the Government speaks of by implementing a Basic Income, beginning at a small starter scheme and ramping up until it reaches Minimum Income Standard level.

But there are many ways of improving the benefit system in the interim, including by removing the two-child limit on benefits, increasing the rate of benefits like Universal Credit, and by giving the benefit of the doubt to recipients who engage with work. On this point, the Government's plan to enshrine the 'right to try' work without having to reapply and be reassessed for health and disability related benefits[8] is a real step forward, and its focus on supporting rather than forcing disabled people into employment should be applauded. But those who cannot work, including at a sufficient level, or who cannot find work must be protected through benefits that lift them beyond the 'desperation threshold' below which outcomes are disastrously worse. As shown in Figure 1 below, there has been a huge increase in the incidence of mental health problems among the working age population, surpassing the rate of physical disability both for people in work and those not in work. Between 2012-13 and 2022-23, the incidence of mental health problems increased 6.5 percentage points, compared to a 2.7 percentage increase for physical disability. Figure 2 shows that the incidence of mental health problems increased markedly for all working age groups between 2012-13 and 2022-23 in the Family Resources Survey, with the largest increase (10 percentage points) for the youngest adults (those aged under 25). The Government's large real-terms cuts in the rate of the Universal Credit health top-up will only leave people with already poor health even closer to, or even further below the desperation threshold with deterioration in conditions and impairments and greater costs to the public purse. Ironically, its move to increase the standard rate of Universal Credit is the right approach, but at only £7 per week, this will not offset losses.

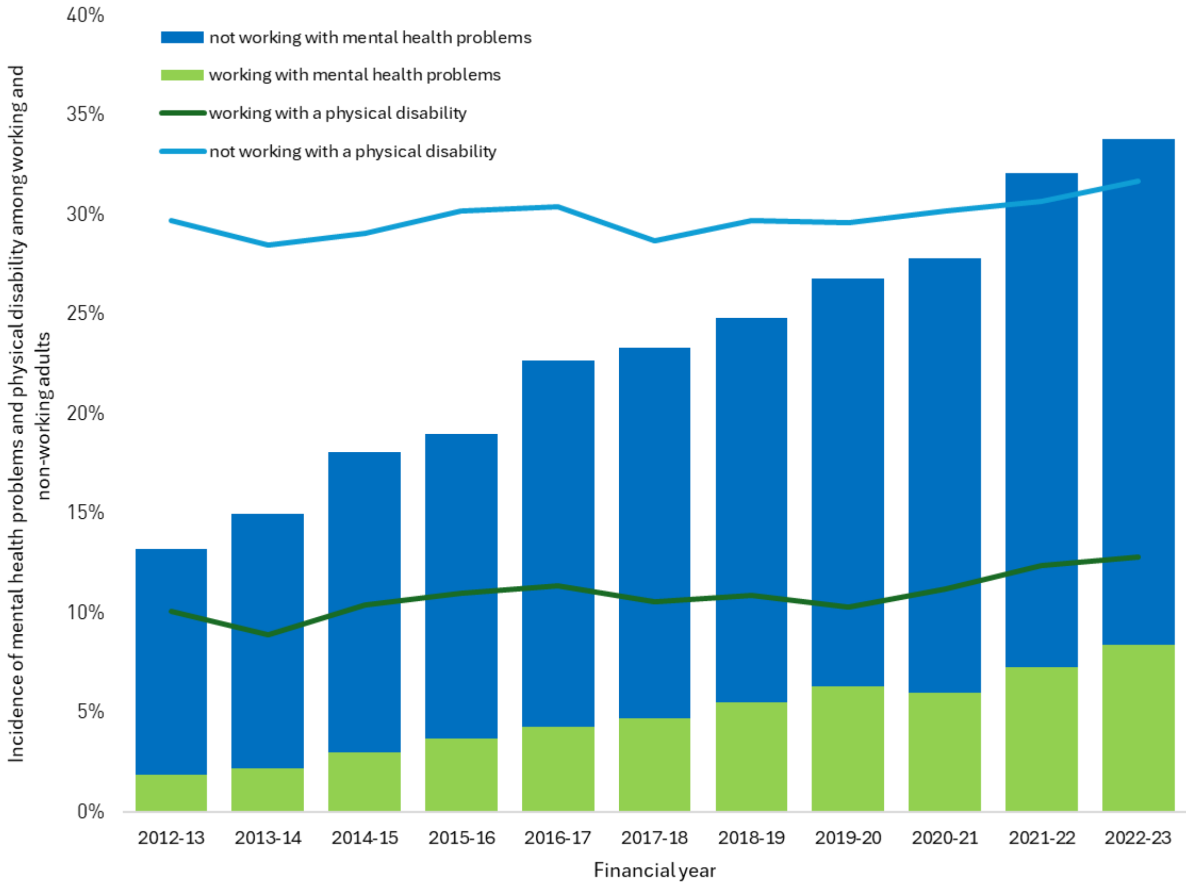

Figure 1: Trends in Physical Disability and Mental Health Problems Among Working and Non-Working Adults
Source: Family Resources Survey

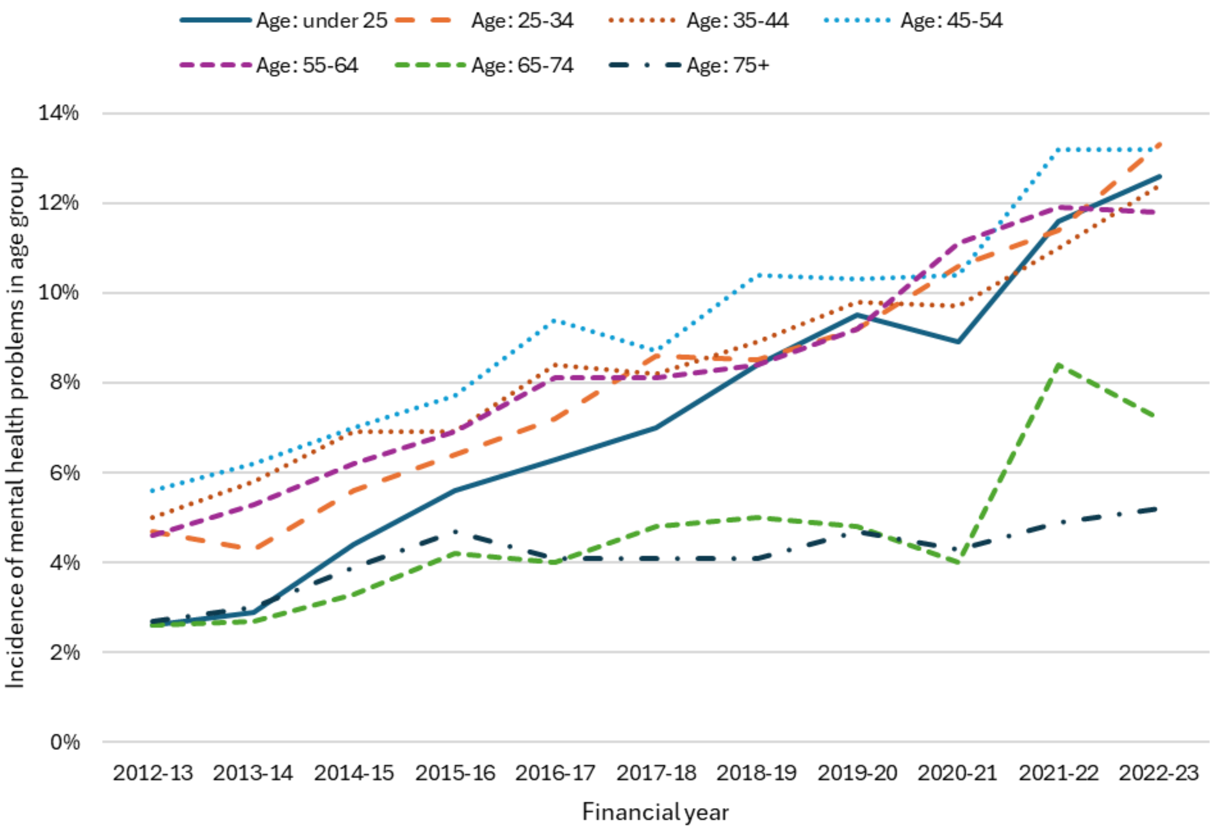

Figure 2: Trends in Mental Health Problems Among Adults by Age Group
Source: Family Resources Survey

The DWP's assessment of the benefit changes accompanying the Spring Statement[9] estimates that the cuts to PIP and Universal Credit support for disabled people will increase relative poverty by around 50,000 children and 250,000 adults. In 2023, research by Professor Donald Hirsch and colleagues for the Joseph Rowntree Foundation found that the cost of child poverty was around £39 billion per year in terms of lost earnings potential and increased expenditure on public services[10].

Uprating these figures to 2025 price levels and using the DWP's estimate of increased poverty, if the cost of poverty per adult were the same as the cost of poverty per child, the increase in poverty as a result of the disability benefit cuts could result in additional costs of at least £2.5 billion per year. This would wipe out around half the additional savings on the welfare bill by 2028-29 based on the OBR's policy costings of the Spring Statement[7]. This is a vivid illustration that the cuts announced in the Spring Statement are likely to cause a lot of pain for relatively small fiscal gain.

Health

Other recent announcements include the abolition of NHS England within approximately two years[11]. We endorse Government action that acknowledges the very substantial harm to national health and the public purse by the reforms enacted by Andrew Lansley as Health Secretary in 2012. Establishing hundreds of organisations and creating tens of thousands of posts dedicated to maintaining an artificial market has cost the NHS tens of billions of pounds and set back both the health service's efficiency and effectiveness, as well as the population's health. Re-establishing direct political control over the NHS simply acknowledges the reality: the Government's ability to set the budget and choose the leadership means that an organisation like the NHS, or indeed the Bank of England, can only ever be notionally independent. Given the potential for local decision-making through Integrated Care Boards (ICBs), there is little reason to retain a central bureaucracy like NHS England underneath a central bureaucracy like the Department for Health and Social Care. However, job cuts at ICBs just as many are finding their feet speaks to a Treasury imperative of meeting self-imposed fiscal rules rather than facilitating a more effective NHS.

The decision to abolish NHS England does mean that the Government cannot evade accountability for the performance of the health service. There is no agency in the way anymore, and that means the Health Secretary has a level of control that can be used to restore its effectiveness and position of national pride, or to continue down the path of ever-declining outcomes. Recognising that up-front investment is essential to reducing reactive costs over time, including through an appropriately large increase in social care funding for all who need it as well as a sharp increase in domestic training of healthcare professionals, is a key component of stabilising the NHS and returning it, finally, to health. Above all it is crucial that the NHS is not carved up and sold off to US private healthcare companies as part of a bilateral trade deal with the Trump administration in the United States.

Defence and other policies

The Government also recently committed to increasing defence spending to 2.5% of GDP from 2027 with an ambition to reach 3% in the next parliament[12]. While the Common Sense Policy Group focuses primarily on domestic policy, it is essential that such spending benefit manufacturing within the UK. Ramping up production within the UK and ensuring that investments in R&D benefit the public purse, not just private companies, is crucial. While acknowledging the international context is important, we must also recognise the critical need for internal investment, particularly in areas like abundant green energy, to ensure our long-term security.

The Government's focus on planning reform is welcomed as a positive step towards increasing future growth forecasts however, this can be increased further through public investment in the Net Zero transition and initiatives such as a National Building Service[13] would support green infrastructure and go beyond existing skills development plans.

A need to count the costs

In *Spend to Save Britain: A Common Sense Approach to the 2024 Budget*, we presented a programme of investment in Britain to rebuild the nation, and showed that this approach 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. In fact, cuts that have the largest impact on poorer households (such as the attempt to save £5 billion by cutting disability benefits) are especially likely to cause a negative feedback loop where the spending multiplier goes into reverse: a round of cuts shrinks the economy, which will then reduce fiscal headroom still further, creating a need for further cuts in a year or two years' time.

This negative "doom loop" is a consequence of the Government's self-imposed manifesto handcuffs and it must free itself from Treasury orthodoxy to prioritise public investment. Surveys show repeatedly that the public is not opposed to taxation that is fair and delivers effective public services[14], nor is it opposed to an effective social safety net that benefits everyone[15]. Straightforward, fair and effective taxation on passive wealth, carbon production, luxury consumption and corporate profit is feasible, affordable and popular. We underpinned our Common Sense Approach with a set of comprehensive and sustainable economic rules that would secure the nation and the wellbeing of its people, and they remain as important now, if not more so, than they were in October.

Crucially, we also showed that our Common Sense Approach had 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, and the very small number of policy 'haters' can be persuaded with the right narrative. Insecurity and inequality are only worsening, and our proposals are an ideal platform for change at the next election.

There are indications that the Government knows what needs to be achieved and that it is acting against its instincts. It is increasingly finding itself in a morass of mistaken understanding of public opinion and diminishing will to break-out of the failed and extremist dominant economic orthodoxy of the last 15 years. It still has an opportunity to change tack and allow itself to raise revenue, improve services, deliver national renewal, and defend the nation from growing external threats, all while supporting business to be more productive, driving economic growth, and satisfying financial markets by setting out a real plan for change. A key step in this is in remembering it has the power to change its rules, just as it and previous governments have done time and time again. But this time it needs to replace them with something more enduring and sufficiently flexible to acknowledge that changes in economic context require changes in short-term policy. This approach must prioritise long-term thinking, not short-term artificial 'balancing'. It needs to implement our long-term Common Sense Economic Rules.

Another part of this long-term thinking is to review and revise the OBR's modelling methodology. Not only are its methods unlikely to produce accurate estimates, with its forecasts recently described as 'flaky' by former Bank of England Deputy Governor Charlie Bean as he cautioned against making cuts in response[16], but the necessity of regular revisions to policy in response to events and to remain within unreasonable fiscal rules means that its five-year horizon never arrives. Recent research by the New Economics Foundation[17] shows that the OBR's multipliers "are applied too narrowly, limiting the perceived benefits of public investment. This is particularly so in areas essential for long-term growth like public services, green infrastructure, and social equity. This static, one-size-fits-all approach restricts the scope for targeted government intervention, reinforcing a cycle of low investment and low growth while undervaluing policies that address critical structural issues such as climate change, inequality, and economic resilience."

There are better alternatives to the options the Government believes it has. The Government must stop tying itself in knots, acknowledge the real costs of its decisions, remember how the nation got into its current state, and refocus on national renewal. It must count the cost of its cuts and commit to a real plan for change.

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.
6. Review the Office for Budget Responsibility and its ability to model accurate and meaningful long-term outcomes

A return to public investment for the public good

7. 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.
8. 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.

9. 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.

10. Roll regressive employee National Insurance Contributions into Income Tax, raise rates by 3 points and equalise tax rates for dividends with those for earnings and other forms of income to raise £58.1 billion per year. This is a hugely popular approach with the public.
11. 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.
12. 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.
13. 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.
14. Reverse fuel duty freezes since 2010 (accompanied by investment in making public transport more affordable than driving) to raise almost £20 billion per year.
15. 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.
16. 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

17. 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.

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