Pulling Out All the Stops

How the Government Can Go for Growth and Cut the Cost of Living

By John Macdonald, Maxwell Marlow and Charles Bromley-Davenport

BRIEFING PAPER

EXECUTIVE SUMMARY

- Britain has been plunged into a cost of living crisis. Inflation, energy prices, stagnant wages and an increasingly heavy tax burden have all combined to put huge pressure on household budgets—especially those on low incomes.
- There are a number of policy measures that the Government could take in the short, medium and long-term to alleviate the worst of these pressures, including:
  - **A one-off payment to those hit hardest**
    - The Government should consider proposals for one-off cash payments to millions of households, rather than pursue more complicated rebate methods to provide immediate relief to the cost of living crisis.
  - **End the moratorium on fracking**
    - Buying British businesses extra time to reach Net Zero by supplying this cleaner, cheaper, and more efficient form of energy, the Government can continue to champion domestic decarbonisation whilst permitting strong economic growth and lower inflation.
  - **Cancel the National Insurance Contribution (NIC) hike**
    - Setting a precedent for increasing the tax burden while real wages remain relatively stagnant would keep British taxpayers trapped in a low wage, high tax economy. Using the NIC hike to provide some short term relief in the current, acute situation risks keeping the country vulnerable to future spikes in the cost of living, given it means less money for saving and investment for the taxpayer. Short of cancelling the hike, the Chancellor should at minimum raise the threshold for paying employee NI.
  - **Eliminate fiscal drag by unfreezing tax thresholds**
    - Income tax thresholds should be indexed by inflation. In the immediate term, the Government should at least unfreeze the first income tax threshold, taking those on minimum wage out of income tax entirely, to help ease the cost of living.
  - **Reform student loans**
    - By removing the student loan write off period of 30 years, to allow rest-of-life liability for the loan, the fiscal burden is shifted onto the very individuals who undertook and directly benefited from their education. To allow a fair-deal for the taxpayer, the loans should be RPI-adjusted. However, the additional interest rate, in place to cushion the

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ballooning write-off costs of the loans, should be limited to a revised, lower figure to pay down the accumulated debt.

- **Deregulate child:staff childcare ratios to improve care and reduce cost**
  - Relaxing child:staff ratios to that of Norway (1:9), to more than halve cost, reducing the cost of living for single parent households in particular and affording them more opportunity to work.

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INTRODUCTION

Britain has been plunged into a cost of living crisis. This is being driven by inflation, stagnant wages, and an increasingly heavy tax burden. A greater percentage of pay is being spent on goods - not just because they are becoming more expensive, but also because the majority of taxpayers are retaining less of their money.

Come April, the British public are likely to be hit by a one-two punch of the 1.25 percentage point National Insurance Contributions hike, the peak of the inflation spike, and the energy price cap rise.

These forces have been in motion for some time. From 2009 to 2019, productivity has only risen by 0.3% a year.[1] Output per hour worked has only risen by 7% in 13 years[2], whilst inflation is predicted to hit 8% by Q2 2022.[3] Much of this can be blamed on the overheating of the economy during the pandemic, where services were closed for prolonged periods of time, yet demand was excessively stimulated across the economy. 'Treasury brain', regulatory missteps and geopolitical precarity have all contributed to a deadly combination of inflation and low productivity. YouGov polling found 85% of Britons have noticed an increase in the costs of groceries[4], and that 58% of those who can barely cover their costs expect their financial situation to worsen over the next year.[5]

Conventionally, inflation has been the primary concern of economists and central bankers. With more money chasing fewer goods and services, the pounds in our pockets lose their power, making us all poorer (unless you are repaying loans and mortgages). But inflation alone cannot account for the seriousness of the current cost of living crisis. Alongside rising prices, Brits must contend with the effects of higher taxes, regulations, and economic stagnation.

THE GOVERNMENT'S APPROACH

The Government is pursuing a 'high tax, high spend' agenda, with the tax burden rising to the highest level since the 1950s.[6] The state is set to account for around

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1 ONS, 'UK Whole Economy: Output per hour worked % change per annum SA', Jan 2022: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/timeseries/lzvd/prdy

2 ONS, 'UK Whole Economy: Output per hour worked % change per annum SA', Jan 2022: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/labourproductivity/timeseries/a4ym/prdy

3 The Guardian, 'Bank of England warns inflation could breach 8%, raises rates, condemns Russia's invasion of Ukraine – as it happened', February 2022: https://www.theguardian.com/business/live/2022/mar/17/bank-of-england-interest-rates-inflation-oil-markets-sterling-russia-bond-payments-business-live?page=with:block-62333e0c8f0832c62ade029b

4 YouGov, 'Cost of living crisis: four in ten Britons expect their finances to get worse in next 12 months', February 2022: https://web.vizblog.net/host-http-yougov.co.uk/topics/politics/articles-reports/2022/02/04/cost-living-crisis-four-ten-britons-expect-their-h

5 YouGov, 'Cost of living crisis: four in ten Britons expect their finances to get worse in next 12 months', February 2022: https://web.vizblog.net/host-http-yougov.co.uk/topics/politics/articles-reports/2022/02/04/cost-living-crisis-four-ten-britons-expect-their-h

6 BBC, Tax burden to rise by £3,000 per family, warns think tank, Oct 2021: https://www.bbc.co.uk/news/business-59074026

42% of GDP by the time of the next General Election, a relative size which has not been the case since the mid 1970s.[7]

The Government's spending commitments have thus put it between a rock and a hard place. It announced in September 2021[8] that the NHS was to be given an extra £5.4 billion over the next six months to deal with the backlog, and has since announced the 1.25 percentage point NIC increase to pay for it.

In his Mais lecture, the Chancellor, Rishi Sunak, argued that now is not the time to ease the tax burden—that doing so now would be to embrace a dogmatic belief that lower taxes always result in a better standard of living.[9] More recently, Michael Gove has suggested that calls for the April NIC tax rise to be scrapped will be ignored for the sake of paying for the NHS 'Covid backlog'.

The pandemic necessitated an enormous growth of the state, as an insurer of last resort. Freezing business activity, funding the furlough scheme and expanding the vaccination programme required unprecedented amounts of borrowing and spending. However, calls for a situation in which the state remains permanently enlarged at the expense of the taxpayer should be ignored. Fundamentally, the Government's goal should be a post-Covid transition to boosting growth, lowering tax and spend, and reform of inefficient institutions.

Growing the economy is the best means available for reducing the cost of living *and* reducing government debt. More economic activity means growing wages and more firms to raise revenue from.

Increasing the size of the state via tax and spend is incompatible with tackling the cost of living. A pro-growth strategy is essential. Not only will it help address the fiscal issues now faced by the state, but it is necessary to secure lives and livelihoods.[10]

ENERGY

Whilst sensible policies like building more nuclear power stations would bring down the cost of electricity, they would do nothing for the cost of gas or fuel. Likewise, an increase in gas storage capacity would improve our energy efficiency and resilience, but the cost of transport and logistics would not change. Thus, our debate surrounding energy policy must be sober and realistic, understanding that hyperbole will not save us from the hard and expensive choices we must make.

7 Wallace, Tim, 'Sunak using pandemic to justify spending tsunami, says IFS', Telegraph, Oct 2021: https://www.telegraph.co.uk/business/2021/10/28/sunak-uses-pandemic-justify-spending-tsunami-says-ifs/

8 BBC, NHS to get £5.4bn extra to deal with Covid backlog', Sept 2021: https://www.bbc.co.uk/news/uk-politics-58463493

9 Gov.uk, 'Chancellor Rishi Sunak's Mais Lecture 2022', February 2022: https://www.gov.uk/government/speeches/chancellor-rishi-sunaks-mais-lecture-2022

10 Lesh, Matthew, Adam Smith Institute, 'Winning the peace: how to safely unfreeze the economy and unleash british enterprise', May 2020: https://www.adamsmith.org/research/winning-the-peace

It is worth bearing in mind that energy from Russia only represents about 4% of the UK's energy imports.[11] While not an insubstantial number, the UK's dependence on Russian gas and oil is much lower than other European countries. However, it is still highly vulnerable to supply side shocks, meaning that energy prices will go up by 54% after April, making the average household bill £1,971 a year. This is equivalent to raising the marginal rate of income tax by six percentage points.[12]

For context, the wholesale price of gas was around 4 times higher at the start of 2022 compared to the start of 2021.[13] Between January and November 2021 domestic gas prices increased by 28% and domestic electricity prices by 19% - the highest level since early 2008.[14]

Despite 40.8 billion cubic metres of natural gas being produced domestically every year, the UK consumes 80 billion cubic metres, thereby leaving the country vulnerable to international energy markets.[15] The same can be said about other hydrocarbon uses, such as oil, petrol, and diesel. However, this over-exposure to volatile international energy markets can be cushioned by an increase in on-shore drilling, North Sea oil drilling, and through a Liquid Natural Gas (LNG) partnership with the USA.

Short term:

A one off payment to those hit hardest

The Government should consider proposals for one-off cash payments to millions of households, rather than pursuing more complicated rebate methods to provide immediate relief to the cost of living crisis. Simple cash transfers offer households flexibility in deciding how best to use funds according to their own needs. Households where no-one is a higher-rate taxpayer should get a cheque for £300, with an additional £200 for those on Universal Credit or legacy benefits, as suggested by the Social Market Foundation[16]. With the poorest 10% of households set to see their income fall 4.0% this April, a £500 cash payment would reduce this to an estimated 1.5%[17]. This would succeed in alleviating significant pressure from household bills.

11 Gov.uk, 'Russia-Ukraine and UK energy: factsheet', February 2022: https://www.gov.uk/government/news/russia-ukraine-and-uk-energy-factsheet

12 The Economist, 'Does Rishi Sunak have the stomach for what he must swallow?', March 2022: https://www.economist.com/britain/2022/03/19/does-rishi-sunak-have-the-stomach-for-what-he-must-swallow

13 Euractiv, 'Energy prices will 'remain high and volatile until at least 2023', EU Commission says', February 2022: https://www.euractiv.com/section/energy/news/leak-energy-prices-will-remain-high-and-volatile-until-at-least-2023-eu-commission-says/

14 House of Commons, 'Rising cost of living in the UK', March 2022: https://commonslibrary.parliament.uk/research-briefings/cbp-9428/

15 DEIS, 'Energy Trends: UK, July to September 2021', Dec 2021: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1043234/Energy_Trends_December_2021.pdf

16 Social Market Foundation, Sunak should give £300 cash cost of living bonus, Jan 2022: https://www.smf.co.uk/sunak-should-give-300-cash-cost-of-living-bonus/

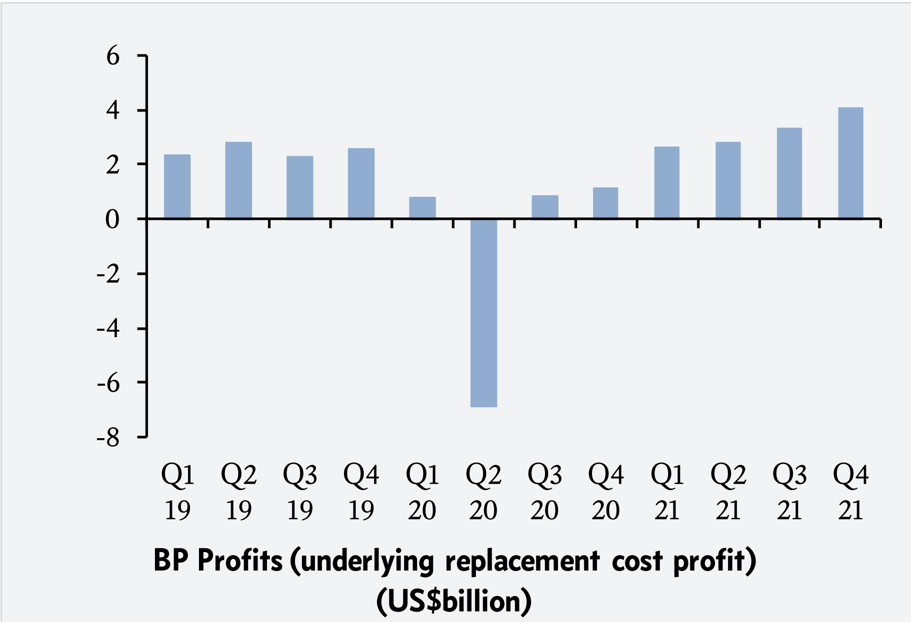
17 Bhattacharya, Aveek, 'A 'cost-of-living bonus'? The case for direct cash payments to help squeezed households', Social Market Foundation, Jan 2022: https://www.smf.co.uk/commentary_podcasts/a-cost-of-living-bonus/

This is a more efficient mechanism for delivering support than other policies under consideration, such as cutting fuel duty or expanding and reforming the Warm Homes Discount. This has the benefit of being a clearly delineated, one-off transfer, as opposed to a politically sticky ongoing subsidy. It is also better targeted than cutting fuel duty. Analysis from the New Economics Foundation finds the fuel duty freeze to be regressive, with only 7% of the savings from cutting fuel duty going to the poorest fifth of households – while one-third will go to the richest fifth[18].

Do not implement a windfall tax

To begin with, there is not much of a 'windfall' to tax on large companies like BP (see Figure 1) and Shell. While they may be making larger profits this year, both made significant losses through 2020 and 2021 due to the global collapse in oil prices. BP in particular has still been less profitable than projections pre-Covid, suggesting that calls for a windfall tax are politically motivated.

Figure 1: BP Profits



Source: BP p.l.c. Group results, 2019-2021

The French and Spanish Governments have implemented strong windfall taxes on the profits of energy providers; in 2013, the Spanish Government reversed subsidies to the energy industry, crushing investment in green technology in private markets. A windfall tax would do the same here - investors have two defining characteristics: a fundamental need for trust and a very long memory.

A windfall tax would completely undermine trust between the Government and energy providers, sending a signal to investors that their investments are not safe in Britain. This would greatly jeopardise our world-leading push for Net Zero and decarbonisation. With a cut into profits and a decreased incentive to improve infrastructure, it is possible that storage capacity, distribution networks and energy

18 The Guardian, 'The Guardian view on fuel duty cuts: expediency over the environment', March 2022: https://www.theguardian.com/commentisfree/2022/mar/21/the-guardian-view-on-fuel-duty-cuts-expediency-over-the-environment generation will receive less investment, ultimately pushing prices up further in the long-run.

Medium term:

End the moratorium on fracking

One contributing factor to increasing energy costs is supply pressures on the extraction, processing, and transportation of natural gas. Although China is currently the largest importer of Liquid Natural Gas (LNG), it is still the case that supply is restricted by bad-faith actors like Russia, Venezuela, and Iran. International pressures should be met with straight-forward domestic policy. Yet, the UK's Oil and Gas Authority has ordered fracking to cease in Lancashire, despite sitting on over 37.6 trillion cubic metres of cheap, clean natural gas.[19] By fracking, shale gas can be sold on the international and domestic market, reducing the cost for consumers, establishing market stability and developing a responsible international actor in energy markets. Furthermore, by permitting growth in this market, the Treasury can reap the tax revenue rewards whilst the Government can look forward to "levelling up" industrial jobs and incomes in the North and Midlands.

Buying British businesses extra time to reach Net Zero by supplying this cleaner, cheaper, and more efficient form of energy, the Government can continue to champion domestic decarbonisation whilst permitting strong economic growth and lower inflation.

Concerns have been raised about the safety of fracking. However, the evidence from the Royal Society's final report on Shale Gas Extraction and from Public Health England is clear: given fit-for-purpose and well-enforced regulation, *shale gas extraction proves a low risk to the public, environment, and other stakeholders*.[20]

Proper regulation would prevent concerns over flammable gas in the water supply or other safety concerns. Furthermore, the British Geological Survey and the US' National Research Council found that fracking does not pose a risk for disruptive seismic events.[21] The highest recorded fracking seismic event measured at 2.3 on the Richter Scale. There are over 1 million recorded instances of seismic activity that size worldwide each year with no damage to buildings or infrastructure.[22]

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19 Gov.uk, 'Government ends support for fracking', Nov 2019: https://www.gov.uk/government/news/government-ends-support-for-fracking; Cuadrilla, 'Government orders "plugging and abandonment" of Britain's shale wells in midst of energy crisis', Feb 2022: https://cuadrillaresources.uk/government-orders-plugging-and-abandonment-of-britains-shale-wells-in-midst-of-energy-crisis/

20 The Royal Society, 'Final report - Shale gas extraction', April 2021: ': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/329744/PHE-CRCE-002_for_website_protected.pdf

21 British Geological Survey, 'Hydraulic Fracturing and Induced Seismicity', http://www.earthquakes.bgs.ac.uk/research/FrackingInducedSeismicity.html#:~:text=The%20largest%20event%20with%20a,risk%20of%20inducing%20destructive%20earthquakes.

22 Michigan Tech University, 'Earthquake Magnitude Scale': https://www.mtu.edu/geo/community/seismology/learn/earthquake-measure/magnitude/

Long term:

Remove the energy price cap once wholesale prices come down

The price cap on the energy market has not prevented energy bills from rapidly increasing. Although a price cap has legally limited the amount that energy can be sold for at contract, the *force majeure* of international energy prices means supply is limited as demand overheats, causing an uncontrollable spiral in the price of each fuel contract.

What we're seeing at the moment are the consequences of a distorted and non-competitive market, in large part due to the price cap. Customers are trapped in a market where wholesale energy prices are high, and there are no competitive pressures on providers to offer much below the price cap. This has also had the effect of forcing smaller providers out of the market, given that they do not have the capital to sell near or at a loss.

Usually, the best way for customers to protect themselves against rising energy prices is to shop around for the best tariff, but having a cap means customers often believe there is no point in doing so.

In reality, this means there is no incentive for energy companies to compete on offering better prices, if customers are much less likely to switch to other providers. With almost half of energy companies going bust in late 2021, there now exists fewer market participants from which consumers can choose.[23] High regulatory barriers to entry, from brokerage limits to Ofgem's price cap, phases out competition for more affordable offerings for energy supply.

There is a wealth of evidence which shows that price caps reduce customer engagement, by creating a false sense of security that the government will protect them from price spikes, ultimately allowing energy companies to continue to charge as close as possible to the price cap.

Somewhat counter-intuitively, price differences between Standard Variable Tariffs (SVTs) and cheaper fixed tariffs are not evidence of low levels of competition and extractive energy pricing. In fact, large price differences between similar products are frequently observed in highly competitive markets that offer the best value to customers. A high rate of customers switching providers are signs of a healthy market.

Evidence from Australia backs this up. In 2012 when Queensland's politics forced a lowering of the price cap, just over 45% were on the standing offer, and 40% on medium-level discounts; by 2015 the number accessing discounts had halved with the proportion on standard level rising by a corresponding amount. In contrast,

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23 Williams-Grut, Oscar, 'Almost half of all UK energy suppliers have now gone bust in the energy crisis - and more could go under', Evening Standard, Nov 2021: 'https://www.standard.co.uk/business/uk-energy-crisis-gas-cornwall-insights-omni-ma-energy-zebra-power-ampoweruk-bulb-ofgem-b964122.html' deregulated Victoria saw the proportion of standing offers almost halve over the same period as the proportion accessing high-level discounts increased rapidly.[24]

There are a number of alternative measures that would cut costs for vulnerable customers without reducing customer engagement and stifling innovation. These include opt-out collective switches and allowing competitors to target disengaged customers with direct marketing. Unfortunately, these are features of a dynamic energy market that we simply do not have at the moment.

TAX AND REGULATION

The tax burden is now at a 70 year high[25] and the British public is facing the worst squeeze on disposable income in recent years.[26] This has been justified under the auspices of paying for the pandemic and for paying for the health and social care of Britain's ageing population.

The first port of call for making the cost of living more affordable is to ensure the average British taxpayer keeps more of their own money. Ostensibly, the Government has justified higher taxation in order to pay down Covid-19 debt and to fund what it perceives as necessary increases in spending.

However, we are already reaching the maximum amount at which a government can effectively raise tax revenues. Using dynamic tax modelling to account for the impact of tax changes on the economy and wages, the Taxpayers' Alliance estimates that two-thirds of the Health and Social Care Levy could be lost to slower growth.[27]

Rather than trying to extract more tax revenue during a cost of living crisis, reducing the tax burden, leaving more in people's pockets and more for businesses to invest, and going for growth will allow the Government to boost tax revenue in the long term.

Short term:

Cancel the NIC hike

Throwing more money at the NHS backlog or the broken social care system will not properly address their structural problems. We need a serious discussion about systemic reform, not simply more cash and state involvement.

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24 Dumitriu, Sam, 'Capping Competition', Adam Smith Institute, Sept 2018: https://www.adamsmith.org/research/capping-competition

25 Wright, Oliver, 'Britain's tax burden will rise to highest in 70 years', The Times, Sept 2021: https://www.thetimes.co.uk/article/britains-tax-burden-will-rise-to-highest-in-70-years-qsrx0wxxw

26 Giles, Chris, 'Households face worst squeeze on disposable incomes for 30 years, warns BoE', Financial Times, Feb 2022: https://www.ft.com/content/ad06489e-0e72-4181-921f-a037488213b2

27 TaxPayers' Alliance, 'Dynamic tax modelling: Two thirds of health and social care levy could be lost to slower growth', March 2022: https://www.taxpayersalliance.com/dynamic_tax_modelling_two_thirds_of_health_and_social_care_levy_could_be_lost_to_slower_growth

Given stated commitments, the Government and Treasury should be focused on reducing the tax burden as a point of principle. Raising a tax paid by the entire working population during a cost of living crisis flies entirely in the face of this, leaving us approximately £12 billion worse off as prices rise.

Some have characterised cancelling the 1.25 percentage point NIC rise as £12 billion worth of Treasury spending on alleviating the cost of living *post facto*. This would not be the most efficient way of spending £12 billion in dealing with the crisis, given pensioners and those on the lowest incomes would get little to nothing returned to them (as they pay lower, or in the case of pensioners, no National Insurance), while £6 billion would be retained by the top 20% of earners who pay higher rates of National Insurance.

However, it is important to remember that this is a tax increase that has not taken place yet. Setting a precedent for increasing the tax burden while real wages remain relatively stagnant would keep British taxpayers trapped in a low wage, high tax economy. Fundamentally, National Insurance Contributions are anti-growth, anti-jobs and as such will cost the Treasury more in the long run. Using the NIC hike to provide some short term relief in the current, acute situation risks keeping the country vulnerable to future spikes in the cost of living, given it means less money for saving and investment for the taxpayer.

Raise National Insurance Contribution thresholds

The Government should consider raising NIC thresholds to boost growth and wages for employees and blunt the impact of the Health and Social Care Levy NIC hike for those on lower incomes, should it go ahead. While it would cost the Treasury £9.1 billion of the proposed £12 billion being raised by the NIC hikes[28], the Chancellor can still borrow extra funding for the NHS and social care while remaining within his fiscal rules, or raise funds through more progessive changes to the tax system.

National Insurance is also a drag on employment. Employees currently pay National Insurance at the following rates on their earnings: for the first £7,605 they pay 0%, for the next £34,870 a rate of 12% is levied, and a further 2% is levied foramounts over £42,475. Employers pay 13.8% on every pound the employee earns over £7,488 with no cap, pushing the cost of employment higher.[29]

If the Government wants to protect people from the rising cost of living and boost employment they should immediately raise the bottom threshold for National Insurance to £12,500, as they committed to doing in the 2019 Manifesto.

NICs and income tax should also be merged, as per the 2019 Manifesto. While this would do nothing to reduce the real rate of tax paid, it would make clear to people

28 Clougherty, Tom & Colvile, Robert: 'National Insurance: A Plan to Blunt the Pain', Centre of Policy Studies, March 2022: https://cps.org.uk/wp-content/uploads/2022/03/National-Insurance_A-plan-to-blunt-the-pain.pdf

29 Parliament, 'Written evidence submitted by Adam Smith Institute', Jan 2021: https://committees.parliament.uk/writtenevidence/21800/html/

just how much of their money is taken via taxation. If this were to happen it would become evident that the Basic Rate is more than twice its nominal 20% and actually closer to 50%. For higher rate taxpayers it would be seen to be almost two-thirds of their incomes.[30]

Eliminate fiscal drag by unfreezing tax thresholds

Freezing income tax thresholds effectively works to drag more and more people into higher tax brackets. For example, the current first income tax threshold is £12,500, which is what the full time minimum wage per annum was back in 2010/11. On that basis, the personal allowance should now be £17,374.50 a year, the equivalent of 37.5 hours a week on the minimum wage of £8.91. Instead, it has remained frozen for the last 10 years. With wages increasing in line with inflation and thresholds frozen, individuals find themselves in higher marginal tax brackets, paying higher rates on their income.

As such, income tax thresholds should be indexed by inflation. In the immediate term, the Government should at least unfreeze the first income tax threshold, taking those on minimum wage out of income tax entirely to help ease the cost of living.

It is important not to underestimate the impact of fiscal drag. By committing to freezing tax thresholds until at least 2026, the Treasury is significantly increasing the tax burden under the cover of doing nothing, taking an extra £19.18 billion from the public.[31][32]

Medium term:

Remove sin taxes

Nudge-based taxes on our diets have been paid most by lower income households (see Figure 2). Since its introduction in 2018, the Soft Drinks Industry Levy, or Sugar Tax, has raised over £878 million with very little evidence of its effectiveness in health-terms.[33]

The Treasury collected £301 million in 2020-21 from the Sugar Tax. Most of this cost can be expected to have been passed on to consumers[34], adding an estimated

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30 Pirie, Madsen, 'National insurance doesn't deserve its dishonest name nor the money of the poorest', CityAM, Jan 2022: https://www.cityam.com/national-insurance-doesnt-deserve-its-dishonest-name-nor-the-money-of-the-poorest/

31 Gov.uk, 'Income Tax Personal Allowance and the basic rate limit from 6 April 2022 to 5 April 2026', March 2021: https://www.gov.uk/government/publications/income-tax-personal-allowance-and-the-basic-rate-limit-from-6-april-2022-to-5-april-2026/income-tax-personal-allowance-and-the-basic-rate-limit-from-6-april-2022-to-5-april-2026#summary-of-impacts

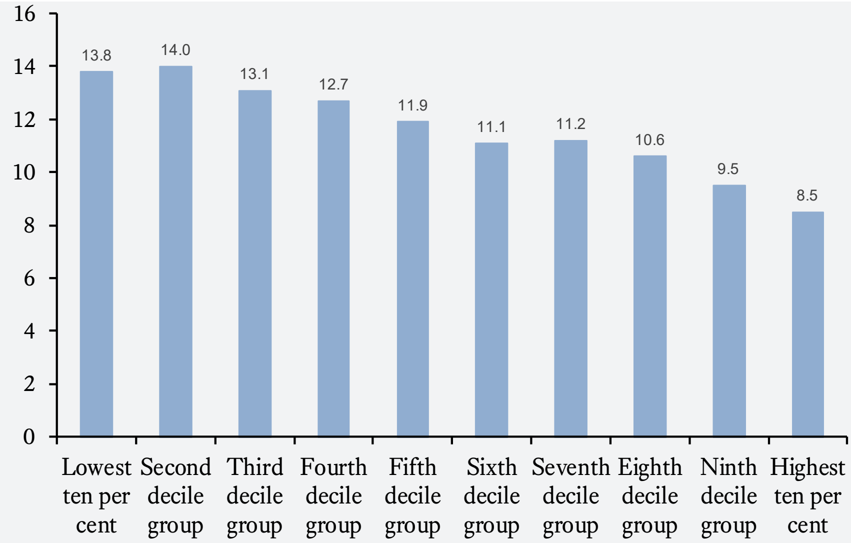
32 AJ Bell, '10 big personal finance changes coming in April', March 2022: https://www.youinvest.co.uk/articles/investmentarticles/241869/10-big-personal-finance-changes-coming-april

33 Gov.uk, 'Soft Drinks Industry Levy statistics commentary 2021', Sept 2021: https://www.gov.uk/government/statistics/soft-drinks-industry-levy-statistics/soft-drinks-industry-levy-statistics-commentary-2021, The Guardian, 'English consuming more sugar despite tax and anti-obesity drive', Sept 2019: https://www.theguardian.com/society/2019/sep/20/britons-consuming-more-sugar-despite-tax-and-anti-obesity-drive

34 Gov.uk, 'Soft Drinks Industry Levy statistics commentary 2021', Sept 2021: https://www.gov.

quarter of a percentage point to inflation[35] and adding further unnecessary weight to the cost of living. Likewise, banning Buy One Get One Free offers will significantly reduce access to affordable food for Britain's lowest income households; families will increasingly be forced to choose between eating and paying rising bills.

Figure 2: Spending on food & non-alcoholic drinks



Percentage of household expenditure on food and non-alcoholic drinks by income decile group

Source: ONS, 'Family spending workbook 1: detailed expenditure and trends', March 2021

Reform student loans

The Graduate Tax, currently framed as a student loan, is an immensely expensive policy, especially considering that many degrees do not provide value for money. Although there are tangible demonstrated benefits of an expansive and dynamic higher education sector for the economy, society, and the world, there still remains a question-mark over the costs for the taxpayer under the current system.

By 2040, it is estimated that the stock of student loans will reach 20% of GDP[36]; this is completely unsustainable and it requires immediate reform to address fiscal concerns. In pure tax-take terms, the increase in taxation to pay off this soaring debt will create further cost-of-living issues in the long run.

By removing the student loan write off period of 30 years, to allow rest-of-life liabil-

uk/government/statistics/soft-drinks-industry-levy-statistics/soft-drinks-industry-levy-statistics-commentary-2021

35 IG, 'The UK Soft Drinks Levy: what's the impact of the 2018 'sugar tax'?', Feb 2018: https://www.ig.com/uk/news-and-trade-ideas/commodities-news/the-uk-soft-drinks-levy--whats-the-impact-of-the-2018-sugar-tax--42387-180226

36 ONS, 'Student loans in the public sector finances: a methodological guide', Jan 2020: https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/methodologies/studentloansinthepublicsectorfinancesamethodologicalguide ity for the loan, the fiscal burden is shifted onto the very individuals who undertook and directly benefited from their education. To allow a fair-deal for the taxpayer, the loans should be RPI-adjusted. However, the additional interest rate, in place to cushion the ballooning write-off costs of the loans, should be limited to a revised, lower figure to pay down the accumulated debt. Furthermore, the proposed lowering of the threshold for repayment of the student loan, from £27,295 to £25,000 per annum, should not go ahead, as analysis from the Institute for Fiscal Studies demonstrates that graduates will need to use 9% of their annual income to make instalments.[37] For students short of capital, this policy will cause the Government more pain than it is worth, despite the proposed reduction in the student loan deficit to be £6.3 billion.[38]

Reform childcare regulation

The cost of childcare in the United Kingdom is the greatest in Europe. Families have to dig deep into their pockets each month to pay childminders and nurseries, totalling upwards of a third of net household income.[39] Many families are forced to regularly pay more for childcare than they do their mortgage. Unsurprisingly, this significant burden is widely felt, with 97% of families reporting that childcare costs are too high.[40]

It is clear that the cost of childcare in the UK is too high and is in need of reform. Besides saving households considerable sums of money, it would address gender inequalities. Single mothers partially base their decision about whether to seek employment or apply for welfare on the price of childcare.[41] Research has found a significant link between unaffordable childcare and single mother unemployment – with a 1% increase in costs being associated with a 0.3%-1.1% rise in single mothers out of work.[42] This is a key reason why single parents are two and a half times more likely to be out of work than the national average.[43]

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37 Waltmann, Benn, 'Sweeping changes to student loans to hit tomorrow's lower-earning graduates', Institute for Fiscal Studies, Feb 2022: https://ifs.org.uk/publications/15953

38 Ibid.

39 OECD, 'Out-of-pocket childcare costs for a couple family: full-time care at a typical childcare centre', July 2016: https://statlinks.oecdcode.org/812016131P1G014.XLS

40 Topping, Alexandra, 'UK government rejects request by thousands of women to examine childcare costs', The Guardian, March 2022: https://www.theguardian.com/money/2022/mar/08/uk-government-rejects-request-thousands-women-examine-childcare-costs

41 Connelly, Rachel and Kimmel, 'The Effect of Child Care Costs on the Employment and Welfare Recipiency of Single Mothers', Jean Southern Economic Journal', Jan 2003: https://www.jstor.org/stable/1061691?seq=1%22%20%5CI%20%22page_scan_tab_contents

42 Connelly, Rachel and Kimmel, 'The Effect of Child Care Costs on the Employment and Welfare Recipiency of Single Mothers', Jean Southern Economic Journal', Jan 2003: https://www.jstor.org/stable/1061691?seq=1%22%20%5CI%20%22page_scan_tab_contents

43 HRD, 'Are 1.6 Million Unemployed Single Parents The UK's Untapped Resource?', Dec 2018: https://www.thehrdirector.com/business-news/employment/unemployed-single-parents/

The United Kingdom has an enforced average child:staff ratio of 1:4.5 between the ages of 0 and 4 years old.[44] This is one of the most stringent mandatory ratios in the world.

In maintaining such a strict ratio, the cost of childcare is inflated, with an estimated 77% of childcare costs in the UK going towards staff wages.[45] Relaxing the ratio would have consumers paying reduced rates through economies of scale; the high administrative costs of childcare centres would be spread across a wider range of consumers, reducing the burden on each individual. If regulations were relaxed to that of Norway, which has a child:staff ratio of 1:9, childcare costs could more than halve.[46]

Some object to relaxing child:staff ratios due to concerns about the resulting quality of the service. The simple reasoning is that smaller groups will allow for staff to give closer attention to each child, in turn leading to greater individual care and safety.

However, evidence suggests the most important factor towards quality isn't in child:staff ratios but the education of the care provider. For example, Perlman et. al concluded in a meta-analysis of 29 different studies that 'variations in [child:staff] ratios have small, if any, associations with concurrent and subsequent child outcomes'.[47] Tighter regulations have been found to reduce overall quality, through forcing poorer households into other types of childcare, such as nonrelative home-based care, which consistently fall short of centre-based care.[48]

For lower income households, the main concern is often simply being able to afford childcare at all. Allowing the market to provide more affordable options through lower staff:child ratio centres would increase choice for parents otherwise unable to access childcare.

There are some calls for an increase in public spending to tackle the burden that childcare costs place on households. However, this proves to be a costly and ineffective method. A wide range of countries—including Spain, Portugal and Poland—spend a great degree less on childcare than the United Kingdom, relative to GDP, yet are able to deliver childcare for around a seventh of the cost to consumers. They take great advantage of their more lenient child:staff regulations – with Portugal and Poland at around half the UK's level, and Spain around a quarter.

44 Bourne, Ryan, 'Getting the State out of Pre-School & Childcare', Institute of Economic Affairs, Feb 2017: https://iea.org.uk/publications/getting-the-state-out-of-pre-school-childcare/ (median average)

45 Day Nurseries, 'Childcare: How the UK compares to rest of Europe', May 2014: https://www.daynurseries.co.uk/news/article.cfm/id/1563511/childcare-how-uk-compares-europe

46 Dumitriu, Sam, 'Deregulate Childcare to Make It Affordable', Adam Smith Institute, April 2017: https://www.adamsmith.org/blog/deregulate-childcare-to-make-it-affordable

47 PlosOne, 'Child-Staff Ratios in Early Childhood Education and Care Settings and Child Outcomes: A Systematic Review and Meta-Analysis', Jan 2017: https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0170256#sec023

48 Thomas W. Diana & Gorry, Devon, 'Regulation and the Cost of Child Care', Mercatus Center, August 2015: https://www.mercatus.org/system/files/Thomas-Regulation-Child-Care.pdf

CONCLUSION

In the short term, support must be given to those that need it most in the most efficient way possible, to help them weather the April spike in inflation, energy price rises and potential tax hikes. This should be done through a simple, one off cash transfer - it is fast, effective and avoids the political challenges around tax tweaks and subsidies.

Calls to raise taxes must also be resisted. Attempting to collect extra tax receipts during a cost of living crisis in which all households will experience significant impact to their finances is a fool's errand, and will likely result in less revenue for the Treasury in the long term. As the Chancellor has said, his priority is putting money back into people's pockets as soon as he can. If not now, as the nation's wallet is being squeezed, then when?

Above all, the Government must pursue a 'growth first' agenda. This means reducing both the cost of living for taxpayers and reducing the cost of doing business. By pursuing a high spend agenda funded through heavier levels of taxation, the Government risks pushing the nation further into stagnation.