Changing Gear:

A Growth Budget to Drive the UK Economy

The Rt Hon Priti Patel MP

About the Author

Priti Patel is the Member of Parliament for Witham. Elected in 2010, she served as Exchequer Secretary to the Treasury from 2014 to 2015, and then as Minister of State for Employment at the Department for Work and Pensions. Promoted to the Cabinet by Theresa May in July 2016, she served as Secretary of State for International Development until November 2017.

Priti studied economics at Keele University, and went on to complete postgraduate studies at the University of Essex. Before becoming an MP she worked in the private sector with a career in corporate relations and public affairs for a number of major international businesses. She played a leading role in the 2016 Brexit referendum where she campaigned for Leave.

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Introduction

Recent Conservative governments faced enormous macroeconomic challenges in the wake of the financial crisis of 2008-09.

After forming the Coalition government in 2010 we prioritised stabilising the economy, restoring the confidence in markets and developing a plan to reduce the deficit. As a result, Britain's growth has been generally higher than other nations, and Britain has record numbers in work. Similarly, the fiscal deficit, which in 2010 was 10% of GDP, is now close to balance and the national debt, as a proportion of the national income, is broadly stable again.[1]

However, there can be no doubt that the UK economy needs a change of gear. As things stand, the UK risks falling into a pattern of moderate expansion, low productivity and income growth, along with limited savings and falling home ownership. This has created economic and social challenges which we cannot ignore. While some seek to blame Brexit for this state of affairs, other large economies such as Italy, Germany and France have all seen growth fail to consistently return to "normal" rates of between 2% and 3% a year. We are doing better than our competitors. Something deeper is at work.

Post-war GDP growth in the UK has drifted downwards over time, averaging 3.3% through the 1950s and 1960s, down to 2.5% from the 1970s through the 1990s, and only 1.8% since the start of this century.[2] The equivalent numbers in the United States are 4.5%, 3.2% and 2.5%.[3] On a per capita basis the pattern is similar – but the figures take a real downturn from 2000. Average annual per-capita GDP growth in the UK was 2.5% from the mid-50s to 1969, 2.3% in 1970-99 and only 1.2% in 2000-18.[4] Most Western countries have experienced a parallel decline in productivity. Total multifactor productivity growth in the UK between 2010 and 2018 was 0.9%, in Italy it was only 0.5%, and in the United States it was 1.5%.[5] By historical standards, all of these rates are low.

The original thinking of the Coalition government was that expansionary monetary policy combined with fiscal discipline would eventually result in growth taking off again and reaching more normal rates. Yet this approach has delivered underwhelming results, and appears to be insufficient to catalyse a return to robust economic growth.

Furthermore, ultra-low interest rates, even if initially necessary, appear to have helped create negative unintended consequences over time. These include weaker savings, the creation of zombie companies, and asset price inflation in the housing and equity markets that has widened the gap between asset holders and everyone else in society, damaging the dream of home ownership.

1 OBR, *Public finances databank*. Link.
2 ONS, *Gross Domestic Product: Year on Year growth*. Link.
3 Kimberly Amadeo, *U.S. GDP by Year Compared to Recessions and Events*. Link.
4 ONS, *GDP (Average) per head, year on year growth rate*. Link.
5 OECD, *Growth in GDP per capita, productivity and ULC*. Link.

The post-2008 economy increasingly resembles a medical patient who survived a near-death experience aided by some exceptional interventions (massive deficits, QE, and ultra-low interest rates) but is now addicted to the medication that saved them, and refuses to take the next steps toward recovery.

But just pushing up interest rates and expecting this to solve our problems would be as foolish as holding them down indefinitely. What we need is a budget for growth, consisting of a radical supply-side agenda in both the public and private sectors and pro-growth tax cuts to shift UK growth up a gear, allowing a steady normalisation of monetary policy.

This paper does not set out every detail of what such a budget for growth could look like, but it does outline some of the key areas for action:

- **Supply-side private sector reforms** that focus on free market regional policies, reducing legal and tax complexities, removing regulatory barriers to good childcare and housing, which taken together boost the rate of private sector growth.
- **Supply-side public-sector reforms** that focus on improving worker productivity, improving IT capacity in the public sector, and spending more on infrastructure – all more effectively and efficiently, in order to create a better state sector at lower cost.
- **Pro-growth tax cuts** focused on improving incentives to work, invest, and increase housing mobility.
- **Normalisation of monetary policy** through changes to the Bank of England remit that would encourage it to take into account wider financial considerations.

I believe that Britain's current economic and political malaise must be addressed immediately by a reforming free-market Conservative government. The anger people feel over Brexit is compounded by the sluggish growth we have seen in recent years, and the negative consequences that low rates are having on savers, productivity and those who want to own their own home.

Without a bold growth agenda, the public will be susceptible to the siren song of free money and big state solutions offered by the radical Left – which, as history has shown repeatedly, will end in economic disaster. The goal of this paper is to explain why we so desperately need a budget for growth, and outline some of the specific policies such a budget should include. I believe that the time for bold action on the domestic front is now, and hope this report helps catalyse support for such action.

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Executive Summary

Part One: Back from the cliff edge

- The Coalition government stabilised the UK economy from 2010 onwards.
- The recession in 2008-09 was the deepest since the Great Depression with a fall in output of 6.3%, real wages falling by nearly 6%, and unemployment rising to 8%.
- The Coalition government had limited fiscal room for manoeuvre due to borrowing by the previous Labour government worth nearly 3% of GDP in each of the two years before the recession.
- Since the financial crisis, we have racked up deficits totalling £1 trillion, trebling the National Debt, which rose as a share of GDP to over 86%.
- This occurred alongside ten years of the lowest interest rates in history, as well as quantitative easing, a new uncharted policy that saw £435 billion in government debt purchased by the Bank of England with freshly-printed money.
- These measures appeared to have had positive effects. Employment rates rose to the highest levels ever recorded.
- Growth too rose from 1.6% in 2010-12 to an average of 2.5% across 2013 and 2014. It appeared that the economy was not just on the mend as we entered the middle of the decade but moving toward a period of strong and robust growth.

Part Two: Stuck in low gear

- Expansionary and extraordinary monetary policy has continued, alongside heavy deficit spending throughout this decade.
- Yet growth remains anaemic and the burst of solid growth has tapered off. Far from this being a result of Brexit, growth has been slowing since the end of 2014 – well before the referendum result.
- Compared to other developed economies, both over the period 2008-18, and more recently, the UK has fairly high growth rates. It appears that there are deep-seated structural issues at play across developed economies.
- The argument from Labour that we did not borrow enough is a strange one. The Coalition government's deficit reduction strategy largely followed the path set out by Alastair Darling, and as noted, resulted in tripling the National Debt.
- Productivity growth has been particularly disappointing – productivity was just 2% an hour higher in 2018 than in 2007. Other issues include low wage growth, falling levels of home ownership, and inadequate saving rates.
- It is impossible to blame very low interest rates for all of this, but the hoped-for positive behaviours from very low rates have not materialised. What's more, these very low rates do not seem to be stopping some negative behaviours. For example:

- o SME lending fell by 7% while consumer lending rose 30% from 2013-17.
- o Construction has seen only a small uptick to 160,000 homes a year.
- o R&D spending largely continues to fall, while business investment has stagnated since the end of 2014, after only a moderate rise in the period to then.
- o Large corporations are flush with cash but hesitant to invest. Instead cash holdings have grown substantially since 2010 along with higher dividend yields, more share buybacks, and greater merger and acquisition activity.
- o The number of zombie firms, which cannot operate without access to low interest debt, has grown. According to studies by the Bank for International Settlements and Bank of England, this acts as a drag on the economy.

- The current approach has also had negative distributional impacts. A study by McKinsey found that the main winners from contemporary monetary policy were government, corporations, and those who had large debts against assets – as well as those who owned assets – whose prices were boosted.
- Those who lost out heavily were savers – who missed out on interest income of £70 billion from 2012-17 alone, and who have seen negative real interest rates year after year – and potential home owners (since prices rose, making ownership harder, with the 1981-2000 generation seeing the lowest ownership rates for their age since 1926).
- Now, rather than simply redistributing income, we need to eliminate the bottlenecks and distortions in the economy to allow it to expand – and in doing so provide robust real income growth.

Part Three: A Growth Budget to Drive the UK Economy

- Britain needs a pro-growth agenda – and, indeed, a "budget for growth". This would consist of the following elements:
    - o Supply-side reforms in the private sector
    - o Supply-side reforms in the public sector
    - o Pro-growth tax cuts
    - o Normalisation of monetary policy
- Taken together, these policies should shift the UK to a higher rate of growth. They should also be self-reinforcing: producing a virtuous cycle of higher growth, more efficient government, and fewer economic distortions.
- Private sector supply-side reforms include:
    - o Regional free market policy, focusing on Free Ports at the border and Special Economic Zones in deprived inland areas. Over 75% of our main ports are in the least affluent half of the UK; eliminating tariffs and cutting red tape would make importing and exporting easier, and drive development. Special Economic Zones would be able to try a range of regulatory, planning, and tax changes to see what works to boost growth in poorer parts of the country.
    - o Reduced tax and legal complexity. A start here would be a Simple Consolidated Tax for SMEs that would replace business rates, VAT, employer NI, and corporation tax with straightforward turnover tax for companies that opted-in.
    - o Childcare. By benchmarking our regulations to other European countries, we could bring down the cost of childcare from 55-64% of wages (compared to 27% across the OECD), saving families and the state £3 billion a year each.

  - Housing reform. We should increase the supply of homes through better use of infrastructure, better design, and most of all a major release of land through planning reform. If the planning rules in the South-East were only as restrictive as those in the North-East, we would cut prices by 25-30% over time. This is not about abolishing the planning system, but reforming it to deliver the kind of homes that people want, at a price they can afford.
- Public sector supply-side reforms include:
  - Boosting employee productivity. From 2010-18, this grew by just 5.2% in total. All Departments must set out a plan for higher productivity as part of their Comprehensive Spending Review process. If NHS productivity matched the best five years of the last twenty, rather than the worst, it could deliver an efficiency gain equivalent to hiring an additional 150,000 nurses.
  - Better use of IT, through a more sensible, flexible approach. The over-centralised National Programme for IT cost £9.8 billion but had benefits of just £3.7 billion before being scrapped. By contrast, the e-prescription scheme of decentralised, interoperable IT meant 43% of primary prescriptions used this system by early 2016. Leveraging private sector expertise may be helpful here: Amazon's vast commercial operation grew six-fold from 2010 to 2018 and their sales are now comparable to the UK's welfare system – so we know that IT on this scale can be done.
  - Better targeted spending on infrastructure. The Government should learn from repeated assessments showing that investing in targeted smaller, higher return infrastructure programmes across the regions provide a stronger economic impact and return to taxpayers rather than grand projects such as HS2. The evidence and economic case for infrastructure spending requires a dynamic shift.
- Pro-growth tax reforms include:
  - Moving away from outdated static analyses which make tax cuts appear more costly, and tax rises more beneficial, to the Exchequer than they actually are. We should embrace dynamic scoring as a guiding principle for all future tax reform.
  - A £460 cut for all ordinary workers, brought about by raising the threshold for employee National Insurance Contributions to £12,500 per year – the same level as the personal allowance. This would reduce effective marginal tax rates for the lowest earners, especially second-earners in dual-income households.
  - Significantly raising thresholds for stamp duty land tax and dramatically cutting tax rates. This would encourage mobility and reduce deadweight costs – one assessment is that stamp duty land tax costs the economy £10 billion, while only raising £12 billion of revenue.
  - Simplify business rates, so that the burden falls on landowners, not tenants, and on underlying site values, rather than any improvements to the property that landlords or tenants decide to make. Business rates should also be cut significantly, both to reduce the overall burden of the state on business, and to ensure that any reform creates more winners and fewer losers.

- o Introduce a more generous treatment of capital investment in the corporation tax system. To boost business investment, this Government should – at a minimum – make the £1 million Annual Investment Allowance permanent, and introduce a broader, simpler, and more generous system of capital allowances beyond that limit. An even better approach would be to follow the United States' lead and make all investment in short-lived assets immediately and fully deductible against corporate taxes.

- Normalisation of monetary policy means:
  - o Trying to reverse the negative behaviour listed in Part 2 without raising rates so quickly that they are too much of a shock to those who have borrowed. This avoids the risk we go into the next crisis with interest rates pinned to the floor, and the Bank of England's balance sheet still bloated, meaning we won't have the tools we need at our disposal to get the economy back on track.
  - o Avoiding returning to elected politicians giving the Bank of England instructions about interest rates – we do not want to undermine its independence and credibility with financial markets.
  - o Therefore, changing the policy framework within which the Bank of England operates. The existing inflation targeting regime should not be seen as sacrosanct – it let monetary policy stay too loose for too long in the 2000s, sent misleading signals during the Global Financial Crisis, and frequently seems to have been ignored since then.
  - o The precise rule the Bank should follow in future must be the subject of further research and debate. What is vital is that any future monetary framework should take account of asset price inflation and the wider financial imbalances that expansionary monetary policy can have.
  - o Once a rule reflecting those concerns is in place, you would expect the Bank of England to gradually raise interest rates and downsize its balance sheet over the next few years in a way it thinks best.

PART 1
Back from the Cliff Edge

The Global Financial Crisis of 2008-09 is the obvious starting point in any effort to understand our current economic situation.

Many of the challenges we face stem directly or indirectly from our collective brush with a global economic meltdown. In the first phase of the response, emergency measures applied by the UK government and the Bank of England stabilised the banking system, and avoided a more serious economic collapse.

It fell to the Conservative-led Coalition government to rebuild the economy and repair the fiscal balance sheet. For the first few years things appeared to go well and by 2013-14 there were indications that we had reached a post-crisis economic recovery, similar to those in the mid-1980s and 1990s, albeit at a cost of massively increased government debts.

The situation in May 2010 when the Coalition government took power was the worst since the Great Depression. The UK had gone from moderate growth in the mid-2000s into a deep recession. The economy contracted by 4.2% in 2009 and output fell for five consecutive quarters with a peak to trough drop of 6.3%, wiping £91 billion off GDP.[6] By the time GDP returned to pre-crisis levels in Q2 2013, the cumulative economic shortfall from the pre-crisis peak totalled £309 billion.[7]

Not only was the output drop the deepest on record, the recovery was slow and the pre-recession output peak was not reached again for five years, longer than after the recessions of the early 1970s and 1980s (3 ¼ years), and the early 1990s (2 ¾ years).Real wage growth fell by 5.7% from its peak in February 2008 to May 2010 and unemployment climbed to almost 8%.[8] The magnitude of the fiscal challenge was exacerbated by the fact that Labour borrowed a cumulative £233.6 billion in the years prior to the Global Financial Crisis even as the economy grew by an average of 2.7% a year.[9] This was in stark contrast to the period leading up to the recession of the early 1990s, when Nigel Lawson was chancellor in a Conservative government. Then, the public sector was paying down debt just before the recession hit, with a net surplus running at over 1% of GDP.

The weaker fiscal position in 2008/09 meant that the UK's debt spiral was much steeper than in the 1990s, with the budget deficit reaching roughly 10% of GDP in 2009/10, compared to a peak of just 6.6% in 1993/94.

Public Sector Surplus as a share of GDP, pre-1991 downturn and peak[10]

Financial Year	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Public Sector Net Borrowing/Surplus	+1.1%	+0.1%	-0.9%	-3.2%	-6.4%	-6.6%

6 ONS, *GDP First Quarterly Estimate, UK*, February 2019. Link; OBR, *Fiscal Risks Report*, July 2017, p52. Link

7 ONS, *GDP: chained volume measures: Seasonally adjusted £m*, June 2019. Link, World Bank, Employment to population ratio, 15+, total (per cent) (modelled ILO estimate), April 2019. Link. ONS, Unemployment rate (aged 16 and over, seasonally adjusted), Link

8 OBR, *Fiscal Risks Report*, July 2017, p52. Link, ONS, Analysis of real earnings and contributions to nominal earnings growth, GB, July 2018, Link. ONS, Unemployment rate (aged 16 and over, seasonally adjusted), Link

9 ONS, *Public sector net borrowing, excluding public sector banks £m*, June 2019. Link

10 OBR, *Public Finances Databank, Aggregates (% of GDP)*. Link

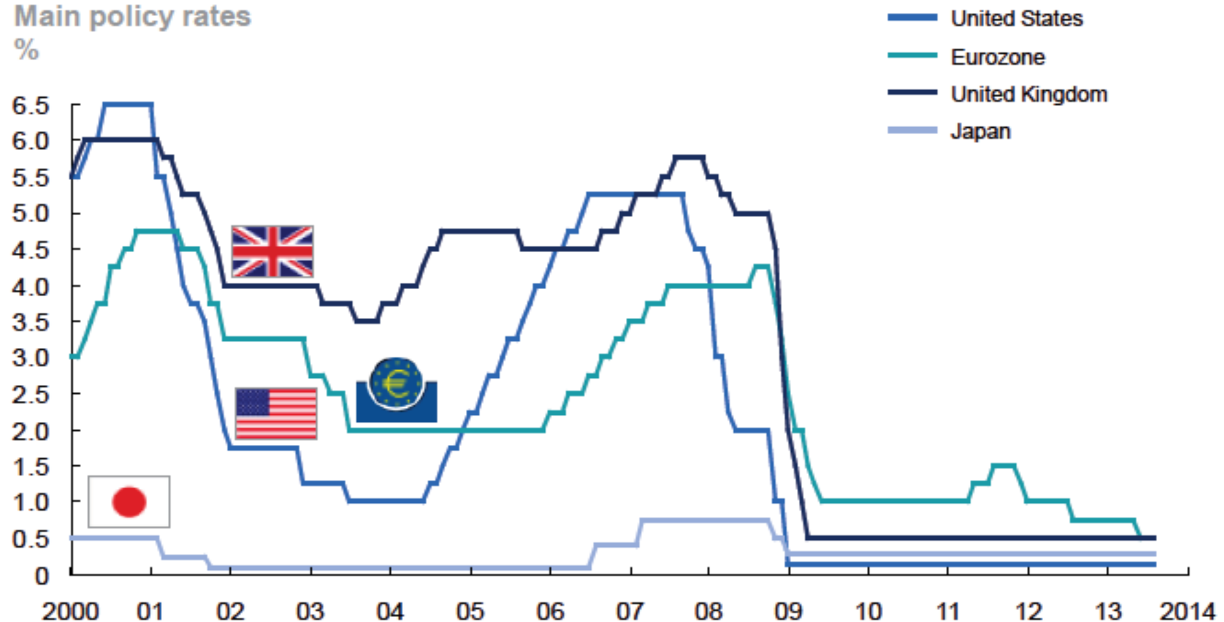
Public Sector Surplus as a share of GDP, pre-2008 downturn and peak

Financial Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Public Sector Net Borrowing/Surplus	-2.9%	-2.6%	-2.8%	-7.3%	-9.9%	-8.5%

This meant that there was far less room for manoeuvre on fiscal policy when the 2008-09 downturn hit. The legacy of pre-crisis borrowing in 2008 contributed to higher deficits for a longer period, despite the fiscal consolidation agenda pursued by the Coalition government and the significant monetary stimulus brought forward by the Bank of England.

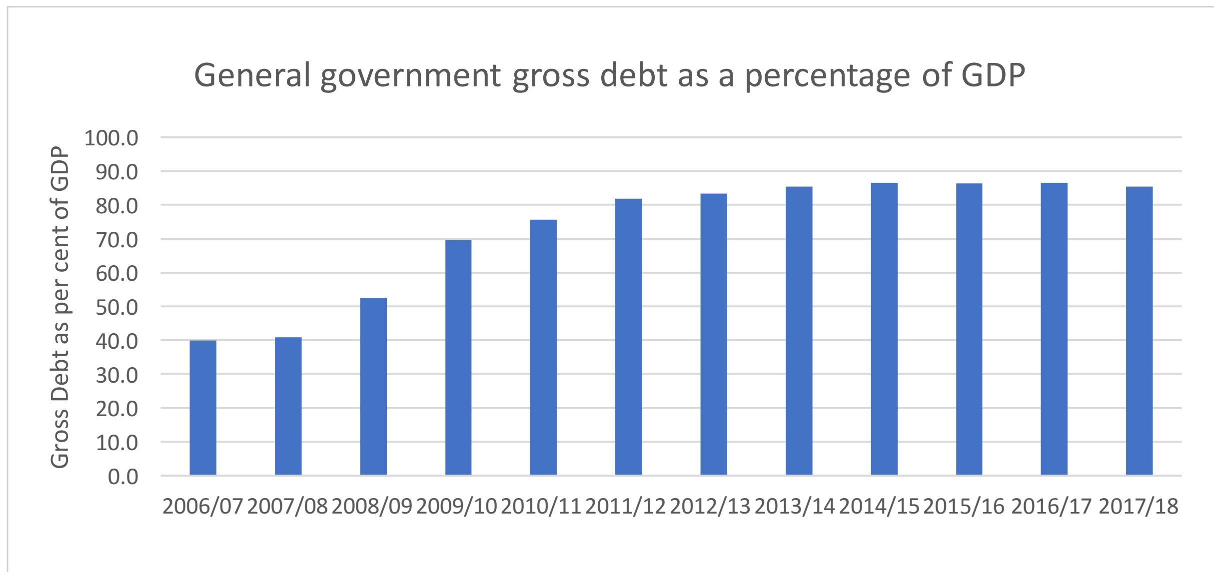
The interventions starting in 2008-09 to stabilise the economy were on a scale never seen before in peacetime. This entailed deficit spending totalling more than £1 trillion from 2008 to 2018; public sector net debt trebling from £557.2bn in 2007-08 to £1.8 trillion in 2018-19;[11] the lowest interest rates in over 300 years; and an unprecedented decision by the Bank of England to purchase £435 billion of new UK government debt in the open market as well as £9.6 billion of corporate debt. Critically, the initial emergency measures provided liquidity to a highly-stressed banking system and immediate support for the economy at the moment of maximum danger. In that sense these measures did the job in alleviating pressures in the short term.

Policy Rates Before and After the Global Financial Crisis



11 *OBR, Public Finances Databank, Aggregates (£bn).* Link

But there was a cost to the rescue effort. The high budget deficit has slowly fallen from the near 10% of GDP noted above to less than 2%, with borrowing currently at its lowest level in 17 years.[12] But the journey to get to this position has been far more protracted than during recoveries from previous financial shocks and crises. Despite a significant increase in tax receipts – from £542.1 billion in 2009-10 to £786.9 billion in 2018-19[13] – total government debt rose sharply from 41% of GDP in 2007-08 to 76% by 2010-11, peaked in 2014-15 at 86.5%, and has only now begun a slow decline.[14]



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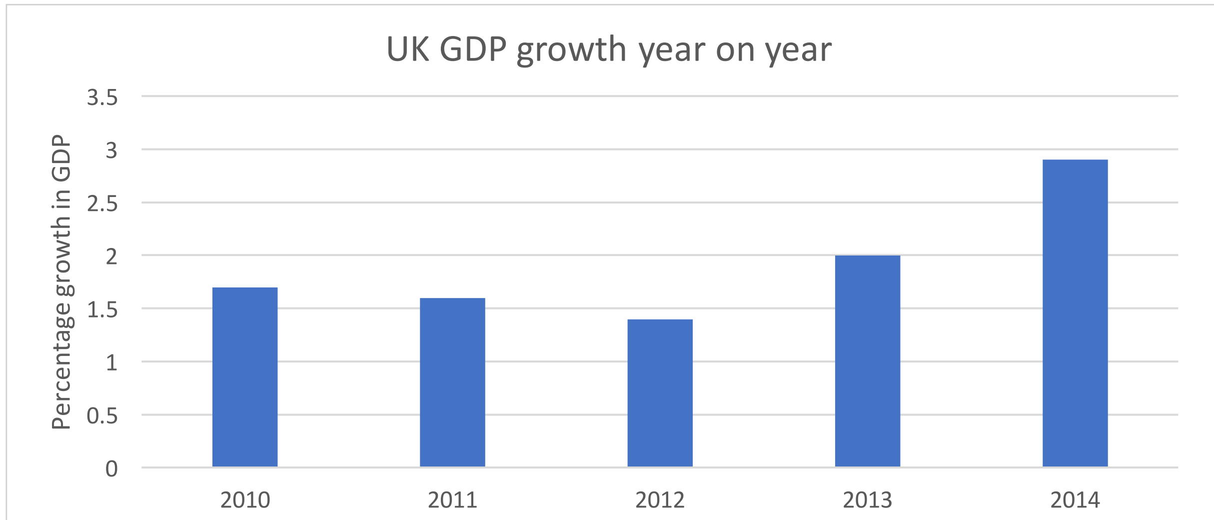
An apparent return to normality toward the middle of this decade

Despite continued ultra-low interest rates, economic growth has been disappointing, to say the least. Over the 2010-12 period growth ran at just 1.6%, which was unusually low given the severe downturn that had preceded it. But in 2013 and 2014, the average growth rate was around 2% and then 3%, apparently showing a clear upward trend.[15] This suggested that the UK economy was on the mend, and that it was moving into a new period of higher growth, just as it had after recessions in the early 1980s and 1990s. The average growth rate was 4.2% from 1983-88 and 3.2% from 1993-98, and expectations were that this pattern would repeat.[15]

UK GDP growth year on year

Percentage growth in GDP
3.5
3
2.5
2
1.5
1
0.5
0
2010
2011
2012
2013
2014

12 OBR, *Public Finances Databank, Aggregates (% of GDP).* Link
13 OBR, *Public Finances Databank, Aggregates (£bn).* Link
14 OBR, *Public Finances Databank, Aggregates (Treaty Debt Ratio) (£bn).* Link
15 ONS, *Gross Domestic Product: Year on Year growth: CVM SA.* Link



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Even more impressive was the recovery in the worker participation rate, which now stands at over 76% – the highest since records began in the mid-1970s, and 3.2% higher than before the recession. Indeed, this rate is one of the highest in the world.[17] Unemployment has steadily fallen as well, reaching 3.9% by January 2019 – the lowest level since January 1975.

Ultimately, the Government achieved many of its key economic and fiscal objectives following the financial crisis.

Emergency measures helped avoid a far deeper recession and possible deflation, while the trajectory of the budget deficit was brought under control. Overall, a measure of confidence returned to the country, economic growth picked up, the employment picture improved, and we appeared to be on the path to recovery. By the end of 2014 it seemed as if the UK economy had turned a corner, and that a brighter future was on the horizon. But it turned out to be a false dawn.

16 ONS, *Gross Domestic Product: Year on Year growth: CVM SA*. Link
17 World Bank, *Employment to population ratio, 15+, total (per cent) (modelled ILO estimate)*, April 2019. Link

PART 2
Stuck in Low Gear

Emergency fiscal and monetary policy successfully prevented a depression following the financial crisis.

But ten years on, despite the continuation of extraordinary, expansionary monetary policy, economic growth remains anaemic, suggesting at least that loose monetary policy alone is insufficient, and that we need an alternative growth policy. Initially it was hoped that low interest rates and what was actually a fairly slow deficit reduction would stimulate growth. This has not worked. Moreover, this is not a Brexit issue – the UK economy is not an outlier and, indeed, had slowed down well before the 2016 referendum. There are clearly wider forces holding the UK back which must be tackled.

Additionally, there is some evidence that monetary policy might, perversely, be contributing to poor growth, and creating other economic ills. While it is impossible to directly link low interest rates to some of the behaviours we outline below, it is clear at the very least that low interest rates do not seem to strongly support the positive goals – such as higher business investment – that we are aiming for or prevent the negative behaviours (such as excessive short-termism in the corporate world) that we want to avoid.

Extraordinary Monetary Policy

Few would deny that expansionary fiscal and monetary policies were necessary in the immediate aftermath of the financial crisis. But fewer still would also have predicted that, ten years on, while fiscal policy has been relatively normalised, monetary policy remains extraordinary. At the time of writing, the Bank of England's base rate is 0.75% and safe assets like government bonds have negative real yields. The £435 billion of government bonds that the Bank purchased as part of its Quantitative Easing programme (just less than a quarter of the total stock of outstanding government debt) remain on its balance sheet, as do £10 billion of corporate bonds.

Monetary policy remains extraordinary globally. In the US, Federal Reserve asset purchases increased its balance sheet from $0.8 trillion in 2008 to $4.5 trillion in 2014, equivalent to 25.7% of US GDP,[18] it has sold-off only $0.7 trillion since, so that its balance sheet is now $3.8 trillion.[19] The European Central Bank purchased €2.5 trillion in European Union government and corporate debt from 2015-18, equivalent to around 30% of GDP,[20] and has only just stopped expanding its balance sheet. At present around $10 trillion worth of government bonds globally yield negative real rates.[21]

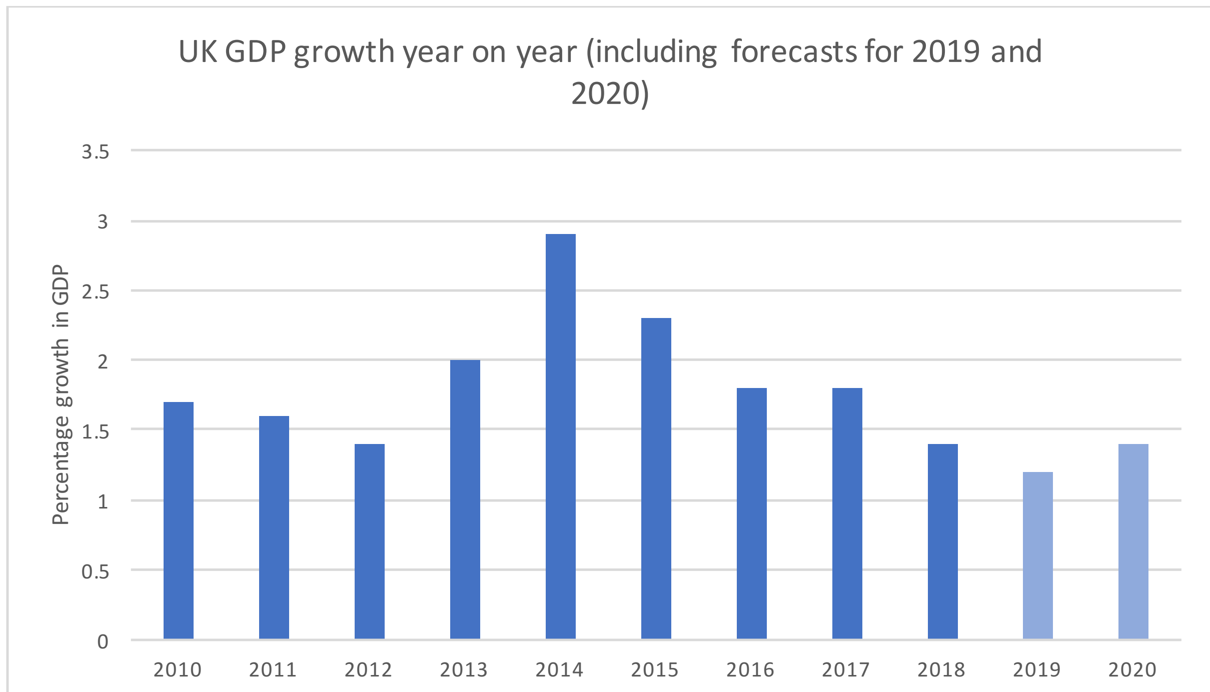
18 US Federal Reserve, *Credit and Liquidity Programs and the Balance Sheet.* Link
19 US Federal Reserve, *Credit and Liquidity Programs and the Balance Sheet.* Link
20 European Central Bank, *Asset Purchase Programmes.* Link
21 Cecile Gutscher, *The $10 Trillion Pool of Negative Debt Is a Late-Cycle Reckoning.* Link.

Nonetheless: Economic Failure

In spite of this extraordinary monetary expansion, economic growth remains poor ten years on from the financial crisis.

What looked like a return to healthy growth rates has been seen to be a mirage. As the graph below shows, the UK's growth spurt in the middle of the decade has ebbed away.[22] It began to do so before the Brexit referendum, heading back more toward the lower growth seen at the start of this decade. It looks like the UK's trend-rate of growth has fallen.

Italy



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In addition, this slow growth is common across developed, Western economies for whom Brexit is barely a factor. If anything, UK economic growth from 2008 compares reasonably well internationally, but poorly historically.

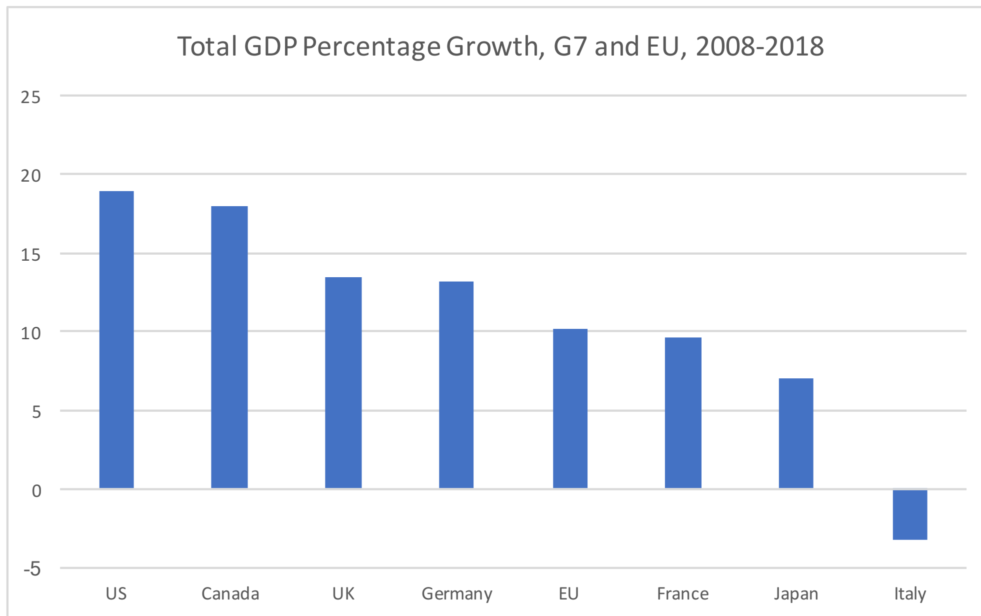
The UK has grown slightly faster even than Germany, considered the European powerhouse, and faster than France, Italy, Japan and the EU average.[23]

UK GDP growth year on year
3.5
3
2.5
2
1.5
1
0.5
0
Percentage growth in GDP
2010
2011
2012
2013
2014

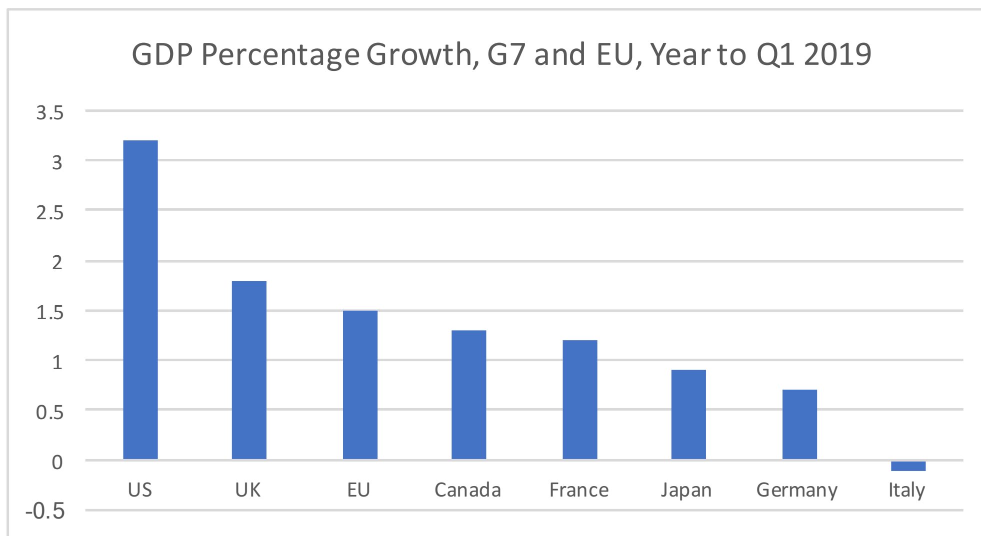
22 Source: ONS, Gross Domestic Product: Year on Year growth: CVM SA; OBR, Economic and Fiscal Outlook, March 2019 link

23 World Bank, *GDP growth (annual %)*. Link.

Total GDP Growth (Percentage), G7 + EU, 2008 – 2018



World Bank, *GDP growth (annual %)*. Link.



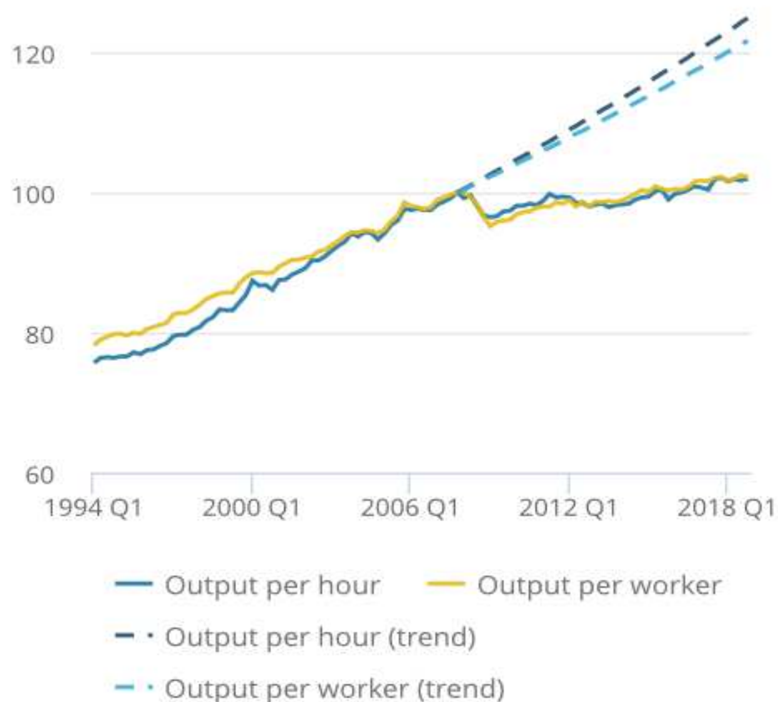
Source: OECD, G20 GDP growth Quarterly National Accounts, June 2019 link

In addition, "despite Brexit", the most recent data make clear that the UK is growing fast than most other economies (see chart) – indeed, better than all similar, large, and developed economies except for the USA.

UK productivity growth, the main determinant of economic growth in the long run, has been particularly poor, despite cheap capital being available for investment and research and development. Output per hour was only 2% higher at the end of 2018 than at the end of 2007, such that it was 18% below trend – that is, below where it would have been if it had continued to grow at its pre-crisis rate.[24]

24 ONS, *Labour Productivity: UK*, April 2019. Link

Labour Productivity[25]



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Nor can slow growth be blamed on overly-rapid deficit reduction. The Coalition and Conservative governments largely followed the path that Alistair Darling, then Labour Chancellor, mapped out in 2009-10. As noted, the UK's national debt has more than doubled as a share of GDP, from 42% in 2007-08.[26]

This was hardly going against the typical Keynesian advice, as by 2009 the economy was out of the recession and there was a need to slowly reduce the deficit. But according to the original plan, by now, the Government and the Bank of England should have eased off the accelerator and taken a victory lap. That was the hope across all Western economies, but it has not worked.

In addition, growth is not our only problem: real wage growth has been sluggish and – despite low unemployment – ten years on from the financial crisis real wages are lower than they were before it, despite the recent uptick in early 2019.[27] Direct tax cuts have supported disposable incomes throughout the period very strongly, with incomes growing between 2012-17 faster than they did between 2002-07.[28] However, while reductions in the tax burden to support disposable income and take home pay are welcome, sluggish and stagnant wage growth has harmful consequences to household incomes.

In addition, home ownership has fallen back (more on this below), with the youngest seeing their home-ownership rates halved. Savings, too, are at an all-time low: in the 1990s, the household savings ratio moved between 10% and 15%; from 2000-2015 it moved between 5% and 10%; and since 2016 has been below 5%.[29]

25 ONS, Labour Productivity: UK, April 2019. Link

26 OBR, *Public Finances Databank, Aggregates (Treaty Debt Ratio) (£bn)* Link

27 ONS, *The 2008 recession 10 years on*, April 2018. Link. GB only. Regular pay excludes bonuses.

28 IFS, *Five years of recovery in living standards: middle incomes rise by more than for higher or lower income households*. Link.

29 ONS, *Households' saving ratio (per cent)*. Link.

Monetary Policy and economic failure

a.) Unproductive Activity Versus Productive Investment

The economy appears to be stuck in a low-growth, low-ownership, low-savings trap. And in many areas, low interest rates and loose monetary policy, which were seen as key to economic recovery, have not had the anticipated positive impacts. Nor do they seem to have impeded some negative behaviours across a series of areas. I do not mean to claim, of course, that ultra-low interest rates are the only, or even largest factor in some of these negative behaviours. But it is hard to see, given the record so far, how continued low or even lower rates can achieve the goals we want and stop poor or negative outcomes we wish to avoid.

i.) Bank Lending: Production Versus Consumption

Goal: to increase lending to businesses and companies and increase construction

Current behaviours: limited lending to business and small increase in construction

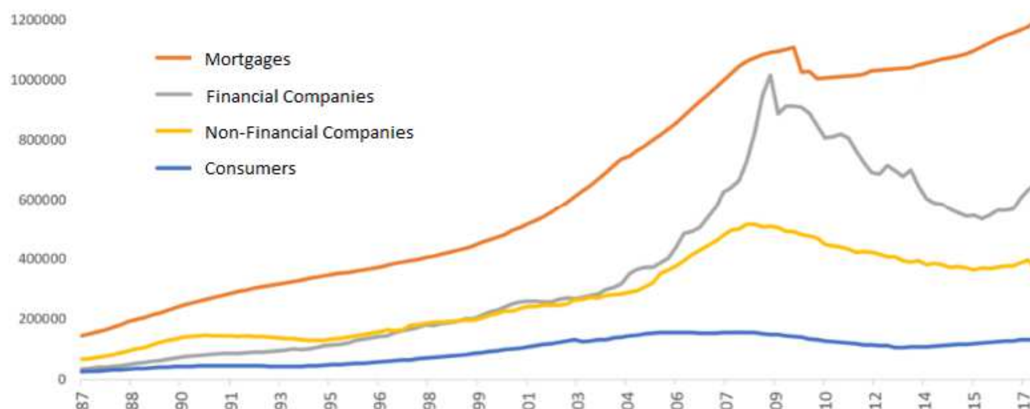
A key goal of low interest rates was to substantially boost lending to business, particularly smaller businesses, and increase construction.

The small business sector accounts for 20% of UK GDP and one third of private sector jobs. But while from 2013-17 total lending outstanding to consumers grew by 30%, and to large businesses by 11%, total lending outstanding to SMEs actually declined by 7%.[30] For micro and small businesses the situation is even worse. In evidence submitted to the Treasury Committee on SME Finance, annual bank lending approved to micro-and-small businesses dropped by 39%.[31]

These developments are troubling: the banking system ought to be backing young, small businesses to disrupt and innovate, but instead the recipients of the new money created by our expansionary monetary policies appear to be a small number of large and established firms – and, even more so, consumers.

Even more troubling is the banking system's move away from lending to business as its primary activity, and towards lending to consumers to buy houses instead. In 1928, mortgage lending accounted for only 16% of total bank lending; by 1970 it was 52% and by 2007 it was 63%. Since the financial crisis, mortgage lending has continued to grow faster than other lending, as the graph below shows.

Bank Lending



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30 Treasury Select Committee, *Written evidence submitted by iwoca, SME Finance Inquiry, March 2018.* Link.

31 Treasury Select Committee, *Written evidence submitted by iwoca, SME Finance Inquiry, March 2018.* Link.

The historical evolution might be partly a result of financial regulations which have relatively underrated mortgage risk and overrated business risk (the Basel system), and which have been recently amended but may still bias lending decisions away from business and toward mortgage risk.[32]

Similarly, it was hoped that lower interest rates might stimulate housing supply, since they make purchasing a home easier. But while current expansionary policy has resulted in a growth in mortgage lending and so housing demand, housing construction and so supply has failed to respond, as supply has been constrained by the unreformed planning system. Housing completions in 2018 were just over 160,000 – still below the pre-crisis level, and very low by historical standards.[33] Today, by stimulating demand but not supply, low interest rates have mostly inflated prices, which has serious distributional impacts, as I discuss further on.

ii.) Corporations

Goal: To increase business investment

Current behaviours: Cash stockpiling and high dividend pay-outs as well as zombie firms

The hope was that corporations would increase their investment if interest rates were held at low levels. But they appear to have instead increased cash piles and dividends. In addition, there has been a rise in so-called 'zombie firms.

Despite historically low borrowing costs, business investment has been weak, and barely grown since 2015: for all four quarters of 2018, it declined.[34] There did appear to be growth in the period up to late 2014, but again, well before the Brexit referendum, this trailed off.

Business Investment

34

32 Data from Bank of England Table A.4.3. Sectoral Analysis of M4 lending. To add, the Basel Two system that was in place until at least 2013 had a standardised asset risk-weighting approach that weighted residential mortgages at 35per cent and loans to unrated corporations (small and medium sized firms are likely to be unrated) at 100 per cent. Basel Three, the updated regulations implemented in stages after 2013, takes a more complex approach than the standardised one, but has tried to correct for this underrating of mortgage risk. It remains to be seen whether this will decrease the relative size of mortgage versus business loans on bank balance sheets.

33 MHCLG, *House building; new build dwellings, England: March Quarter 2019*, July 2019. Link

34 ONS, *Business investment in the UK: January to March 2019 revised results*, June 2019. Link

In addition, low interest rates do not appear to have rescued research and development: economists Erixon and Weigel note that "*the growth of real R&D spending in the US is on a declining trend… Europe's R&D intensity has been following the same direction*".[35] While this trend was discernible before the crash, low interest rates since have failed to reverse it.

UK non-financial corporation debt as a proportion of GDP was 58.2% in 1990, reached a peak of 101.8% in 2008, and is now 83.6%[36] – still high by historical standards. Corporations cut debt back slowly, rolling much over, despite benefitting from a significant reduction in headline corporation tax rates. They have also accumulated large cash reserves. Bank of England economists estimated non-financial corporate cash reserves at £500 billion in 2014, about 26% of GDP at the time.[37] Deposits by non-financial corporations in UK banks have grown by 57% since 2010.[38]

The existence of these large cash reserves is evidence that financing constraints are not holding back the corporate sector, and instead it must be reluctant to invest for other reasons – low interest rates, as such, are proving insufficient in encouraging the sector to spend.

Corporations have, however, been paying large dividends to shareholders. UK company dividends have grown at an annualised rate of 7.8% since 2010, almost four times the average growth in GDP.[39]

Some of the UK's largest corporations now play a quasi-banking role in the provision of steady income streams when traditional bank deposit rates are at rock bottom. In 2018, FTSE companies provided an average dividend yield of 4.8% compared to 0.7% for a one-year bank deposit or 0.82% for government bonds.

Corporations have also rewarded their shareholders by buying back their own shares, so increasing their price. In 2017 UK companies spent close to £15 billion doing so, a new high, according to research by Goldman Sachs. A 2014 OECD paper argues that low interest rates encourage buybacks: combined with preferential tax treatment, they make debt financing much cheaper than equity financing.[40] A 2016 NBER paper found that buybacks are preventing capital from being allocated to the highest-growth-potential industries,[41] with negative implications for efficiency and economic growth – though some other economists contest how strong an impact this is.[42]

iii.) Zombies

One issue that is less contested is the undesirable results of the growth of so-called 'zombie firms', a term which first entered the economic lexicon after the asset collapse in Japan in the late 1980s and an extended move to low interest rates by the Bank of Japan in the 1990s. Zombie firms are generally defined as mature companies (10+ years) that would never be able to repay their debts, and so cannot usually

35 Frederik Erixon and Björn Weigel, *The Innovation Illusion*. Yale University Press, 2016.

36 BIS, *Total credit to non-financial corporations (core debt), as a percentage of GDP.* Link

37 *Katie Farrant and Magda Rutkowska, Are firms ever going to empty their war chests*, July 2015. Link

38 Bank of England, *Monthly amounts outstanding of UK resident monetary financial institutions' sterling and all foreign currency deposits and repos from non-financial corporations (in sterling millions) not seasonally adjusted (RPMB2H9)*, March 2019. Link

39 Link, *UK Dividend Monitor, Issue 36, Q4 2018*, p5. Link

40 Adrian Blundell-Wignall and Caroline Roulet, *Long-term investment, the cost of capital and the dividend and buyback puzzle*, OECD Journal, August 2013. Link

41 Dong Lee, Han Shin, René M. Stulz, *Why does capital no longer flow more to the industries with the best growth opportunities*, NBER, December 2016. Link

42 Joseph W. Gruber and Steven B. Kamin, Corporate Buybacks and Capital Investment: An International Perspective, Federal Reserve Discussion Paper, April 2017. Link

invest or grow, but can in a low-interest-rate environment manage to repay the interest on their loans. Thus they are not quite dead or alive- they can't grow but also do not need to liquidate or restructure. Since the liquidation of unviable companies would lead to layoffs, zombie firms help artificially suppress the rate of unemployment, but at the cost of keeping people trapped in unproductive employment. Of course, they also lock in credit resources.[43] The percentage of zombies in the economy and the interest rate have a strong inverse relationship.[44]

Research by the Bank for International Settlements shows, using data from 14 advanced economies, that zombie firms have a negative impact on private sector productivity. Zombies are unlikely to invest in new technology or productive capacity or provide significant wage increases for workers. A recent study by the Bank of England on lending to zombie companies across the EU, which they believe accounted for around 10% of all firms in the immediate aftermath of the financial crisis, estimated that without such 'forbearance lending' aggregate output would have been higher, along with investment and productivity.[45]

b. Distributional impacts

Even if radical monetary intervention was necessary, it has created winners and losers, which has had difficult political consequences, and the longer intervention continues, the more these impacts grow. A 2013 study by the McKinsey Global Institute analysed the distributional impacts of ultra-low interest rates, by considering changes in net interest income and asset prices.[46] The winners are governments, who can take on more debt at lower cost, corporations who can do the same, and consumers with secured assets, such as houses, who can obtain mortgages at historically low rates, and the wealthiest, who tend to own assets outright and so benefit from higher asset prices.

Amongst the losers are those who rely on interest income, such as older savers: McKinsey estimates that UK households missed out on almost £70 billion in interest income between 2007 and 2012 alone.[47] As an illustration: £1,000 saved in a one-year fixed-interest-rate cash ISA beginning in January 2011 and rolled over each year until withdrawn in January 2018 would have yielded a nominal £1,129, but in real terms would have been worth only £943 – or less than the original sum deposited.[48] Likewise, pension funds and insurance companies who need relatively safe long-term income sources and so prefer bonds to equities have suffered, as acknowledged by the Bank of England itself.[49]

Furthermore, as discussed above, by stimulating the monetary demand-side whilst the supply-side has been unresponsive due to the planning system, monetary policy has contributed to house price inflation. Since 2013, average UK house prices have risen by 30%, much faster than consumer price inflation or nominal incomes.[50] Prices have grown fastest in London and have increased by almost 100% from the bottom of the market in 2009-17.[51]

43 Joseph W. Gruber and Steven B. Kamin, *Corporate Buybacks and Capital Investment: An International Perspective*, Federal Reserve Discussion Paper, April 2017. Link

44 BIS, Panel remarks by Claudio Borio, *A blind spot in today's macroeconomics?* p9. Link

45 *Bank of England, Staff Working Paper No. 783, The real effects of zombie lending in Europe, Belinda Tracey, March 2019. Link*.

46 *QE and ultra-low interest rates: Distributional effects and risks.* McKinsey Global Institute Report, November 2013.

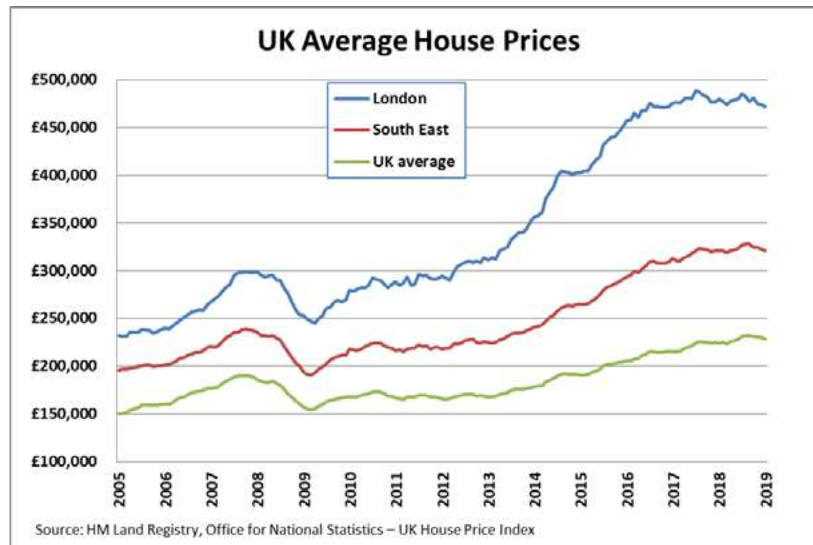
47 Ibid.

48 Own calculations using Bank of England, *Statistical Interactive Database – interest and exchange rates data.* Link; Bank of England, *Inflation calculator. Link*.

49 Bank of England. Staff Working Paper No. 714. Growing pension deficits and the expenditure decisions of UK companies by Philip Bunn, Paul Mizen and Pawel Smietanka. February 2018. Link.

50 Nationwide, *House Price Index*. Link.

51 UK Land Registry data used by ONS in *UK House Price Index*. Link.



This high level of house price inflation has made it difficult for ordinary earners to become first-time buyers in large parts of the country. The UK now has the fourth-lowest rate of homeownership in the European Union,[52] and the generation born between 1981-2000 currently have the lowest home-ownership rate of any generation since 1926.[53] The proportion of owner-occupiers among households led by a 16-24-year-old was 25% in 2006 and 10% in 2016; for those led by a 25-34-year-old the proportion fell from 60% to 39%; and for those led by a 35-44-year-old the proportion fell from 72% to 58%.[54] Many of those who do buy houses rely on their parents to provide funds for the deposit. In 2017, had the 'Bank of Mum and Dad' been a commercial lender, it would be the ninth-largest mortgage lender in the country.[55]

Real Growth and More of It

At the very least, expansionary monetary policy cannot be relied on as the sole vehicle for delivering long-run economic growth. By now, it may even be holding the economy back. This view is not as controversial as it once was, and even the former Governor of the Bank of England Mervyn King has argued that current policy is failing to deal with underlying failures: "*If all you do with painkillers is keep taking them but never deal with the underlying symptoms you do not get better.*"[56]

The Government since 2010, has navigated the most treacherous period of economic instability in living memory, and avoided a collapse of the banking system and with it, the UK economy. It has brought down public spending from unsustainable levels and managed a recovery of GDP to pre-crisis levels, while unemployment has fallen and consumer price inflation has normalised. But now, economic growth is anaemic, productivity growth is likewise, and both business investment and research and development are too low. Ownership is moving in the wrong direction and the savings rate is at record lows. The British economy, along with other large economies, is trapped, and needs radical action to break out. Voters will not accept permanent stagnation in living standards.

52 Figures for EU/EEA countries (including UK) taken from latest available Eurostat data: Distribution of population by tenure status, type of household and income group - EU-SILC survey, 2018. Link.

53 Adam Corlett and Lindsay Judge, *Home affront: Housing across the generations*. Link.

54 *House of Commons Library, Home ownership and renting: demographics*. Link.

55 UK Finance, *Largest mortgage lenders 2017 – challengers and specialists lead the way*. Link; Legal and General, The bank of mum and dad. Link.

56 This Is Money, '*If all you do with painkillers is keep taking them, you do not get better': Mervyn King warns on permanent low interest rates*. Link.

PART 3 - A Growth Budget to Drive the UK Economy

At the heart of our current recent economic, fiscal challenge is a lack of any positive vision from our political leaders.

As we have seen, in the initial aftermath of the 2008-09 crash, the UK government was understandably in 'firefighting' mode, with extraordinary monetary measures bringing stability to the banking system, helping to pull the economy out of recession, and warding off the threat of deflation. Unprecedented levels of deficit spending were embraced by the UK government to help the economy weather the immediate storm.

While there was subsequent action on the deficit, there was no concerted effort to boost the growth rate of the economy. Indeed, it may be that the spurt of growth in 2013 and 2014 was even unfortunate as it led to overconfidence about the underlying strength of the economy. At the same time, a decade after the Global Financial Crisis, there has still been no real attempt to normalise monetary policy.

Governments since 2010 deserve credit for stabilising the UK economy and removing the drag of the deficit. But the current rate of growth is not sufficient, and in the long term ultra-low interest rates may have caused more harm than good. At the very least, the positive side effects of expansionary monetary policy are overestimated and the negative ones underestimated.

What we need now is a budget for growth, consisting of four elements:

1) Supply-side reforms to the private sector.

2) Supply-side reforms to the public sector.

3) Pro-growth tax cuts.

4) Normalisation of monetary policy.

Taken together, these policies should shift the UK to a higher rate of growth. They should also be self-reinforcing. Supply-side reforms to the private sector should boost growth. This, combined with public sector reform, should support pro-growth tax cuts. These in turn should allow the normalisation of monetary policy, which should itself then boost growth further.

A gear shift of this sort would fundamentally raise our growth rate to a healthier and more acceptable level, ameliorating the corrosive political environment that has taken hold in recent years. We could create a virtuous cycle that would lead to a higher trend rate of growth over the coming decades. This paper does not provide every detail of this four-part scheme, but it does sketch out some of the reforms that would be necessary, as well as a few thoughts on how they might be undertaken.

1. Supply-side reforms to the private sector

Supply-side reform can boost the rate of growth of the economy. Some of the key areas here are regional free market policy, reducing tax and legal complexities, childcare, housing, and infrastructure. This list is not meant to be exhaustive, but rather to show where and how reforms can boost growth and incomes. It should also be clear from what follows that such reforms are well within the realm of political possibility.

Regional free market policy

Free Ports – as advocated by Rishi Sunak MP in a previous paper for the CPS – offer a perfect example of free market regional policy.[57]

A Free Port is a defined geographical location deemed to be outside a country's customs territory and therefore not subject to its customs policy. The primary advantage for domestic producers is that they can import inputs without tariffs, use them to produce final goods, and then export those final goods tariff free. The Free Port can also be made a deregulated zone, with easier planning laws, and lower rates of corporation, employment, and property taxes. In the UK, creating such zones around our sea ports makes sense, as they handle 96% of all trade by volume, are privately owned, highly productive, and geographically dispersed.

Indeed, turning some of the UK's sea ports into free economic zones would have a huge impact on regional regeneration. Only 9% of freight tonnage came via London in 2013, but 35% came via the north of England. Of the UK's 30 largest ports, 17 are located in the bottom quartile of the government's deprivation index, with three quarters located in areas below the median. A Free Port initiative could help spur a "renaissance of the regions", and encourage trade and economic growth beyond London and the south of England. What's more, Free Ports are likely to encourage growth in manufacturing, where productivity and wages are usually higher than in services.

Two substantial economic clusters already exist in the north east of England: the automotive industry served by the Port of Tyne, which exports 80% of its output, and the chemical industry served by Teesport, which exports over 75% of its output but pays tariffs up to 6.5% on its imported inputs. Senior executives from both industries have spoken in favour of free zones.[58]

In addition, Special Economic Zones inland could be trialled with a range of different powers over planning, taxation and business regulation, across multiple different deprived areas. Such an approach has been trialled elsewhere: China's Special Economic Zones combine most of those elements and today account for 20% of China's GDP – as well as roughly half its foreign direct investment.[59]

We will not know in advance which policy changes will have the greatest impact – Special Economic Zones make it possible to trial a series of approaches across different deprived areas, find out what works, and then replicate it elsewhere. In the long run, of course, we could apply any particularly effective policy changes across the whole economy.

Reducing tax and legal complexities

In recent years, businesses' administrative costs have risen significantly. Of course, lawyers and accountants have always been necessary to a smoothly functioning market economy, and some business spending on such services is inevitable and, in many cases, welcome. However, we must not lose sight of the fact that such professional services are a means to an end – and not an end in themselves (unlike, say, the production of consumer goods, or even the provision of public services like education or healthcare). Unfortunately, as our legal and accounting frameworks have become ever more complex, the cost of these services – as well as the scope for arbitrage – has grown. This slows the economy by diverting resources away from satisfying the wants and needs of consumers.

57 Rishi Sunak, *The Free Ports Opportunity: How Brexit could boost trade, manufacturing and the North.* Link.
58 Rishi Sunak, *The Free Ports Opportunity: How Brexit could boost trade, manufacturing and the North.* Link.
59 *Ibid.*

Writing for the CPS, Jim Diamond documented an enormous increase in the price of legal services that has occurred in recent decades.[60] In real terms, average hourly rates for partners at top commercial law firms increased by around 50% between 2003 and 2015. Diamond identifies increased complexity as the single biggest factor: "*the primary cause of the escalation in rates [is] the increasing complexity of the UK tax and legal systems.*"[61]

The legal framework underpinning the tax system offers a good example of this phenomenon in action: Tolley's Yellow Tax Book, the standard reference guide since 1916, was 759 pages in 1965-66 but grew to 15,686 pages by 2017-18.[62] Similarly, Finance Acts have more than doubled in size since the 1970s and today often exceed 500 pages.[63]

The Government needs to create a regulatory environment in which compliance is simple. Yet the escalating cost of tax administration places a heavy burden on the economy and dampens productivity. In 2018, research by the British Chambers of Commerce showed that 75% of UK businesses believe the cost of complying with the tax system has escalated in recent years.[64]

The current Government's Making Tax Digital programme will be a step in the right direction, but ministers should look favourably upon calls to delay its full implementation until 2020-21 to make sure that small businesses, approximately 500,000 of whom use non-compliant spreadsheets or manual recording, are not unduly hurt financially by the need to invest in compliant software and become familiar with its processes.[65]

Another recent report by the CPS, "Think Small", made the case for reducing the burden of legal and taxation administration on the vast majority of small businesses, which make up 99% of all businesses in the UK.[66] Specifically, it proposed a Simple Consolidated Tax (SCT) that would replace Corporation Tax, Employer's National Insurance, VAT and business rates with a simple levy on turnover – available to businesses with annual revenue below £1 million, if they decided to opt in. The revenue-neutral tax rate was estimated at 12.5%.

Crucially, the SCT would reduce the burden of compliance associated with the present system: polling of small business owners and managers by the CPS found that 75% found the current system too complicated while 75% said they would sign up to the SCT if it meant paying the same amount of tax.

Childcare

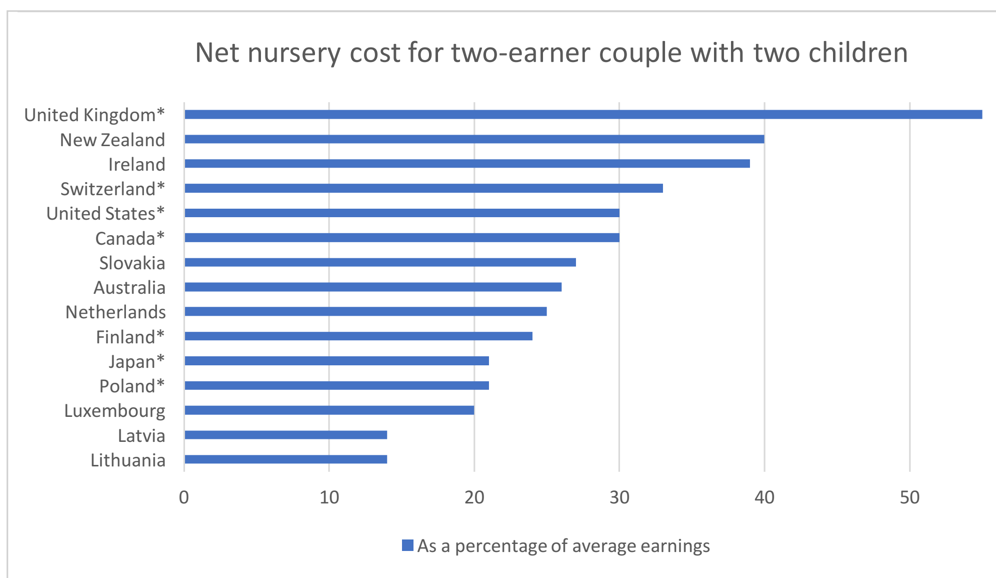
Childcare represents a major cost to the economy because it makes it harder for parents who want to return to work to do so. Very often, parents end up working fewer hours than they would like, and earning less as a result, because they cannot afford childcare or rely on family members beyond a certain point.

In recent years, childcare costs have been pushed up by domestic regulations on staff-to-child ratios and staff qualifications that are far stricter than in most EU countries.[67] This has resulted in a big expansion of expensive formal care and a contraction of cheap informal care. The number of registered child-minders has fallen by over 60%, from 103,000 in the mid-1990s to 39,700 in 2018 – markedly decreasing competition in the market.[68]

60 Jim Diamond, *The Price of Law.* Link.
61 Ibid.
62 Office of Tax Simplification, *Length of Tax Legislation as a Measure of Complexity.* Link.
63 Ibid.
64 British Chambers of Commerce, *BCC: Cut tax complexity and 'red tape' holding back businesses.* Link.
65 Ibid.
66 Nick King, *Think Small: A blueprint for supporting UK small businesses.* Link.
67 Department for Education, *More great childcare: Raising quality and giving parents more choice.* Link.
68 Liz Truss, *Affordable quality: new approaches to childcare.* Link; Ofsted, *Childcare providers and inspections.* Link.

According to the OECD, average childcare fees for two children in the UK are 55% to 64% of the average wage, compared to an average of just 27% across all OECD nations.[69] Yet having created a regulatory failure, the Government has until now papered over the mistake with cash, rather than pursuing regulatory reform that would lower prices. In 2019, the taxpayer had to stump up £6 billion for childcare.[70]

Other EU countries all enjoy much cheaper childcare – without any noticeable difference in the educational outcomes or child safety. Bearing this in mind, I believe the Government should commit to substantially reducing UK childcare costs by adopting similar standards to other European countries. Doing so could potentially cut UK childcare costs in half – down to 32% of the average wage – leading to a substantial saving for families (around £3 billion) and a similar saving for the British taxpayer.



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Housing policy

Perhaps the biggest failure of governments in recent years on "supply-side" policy relates to housing. As discussed above, the unprecedented drop in mortgage interest rates after the Global Financial Crisis helped spark a rapid rise in the price of housing but also a decrease in house construction and house sales, which have yet to recover after over a decade.

Significantly higher house prices have negative economic, social, and political implications. In London and the south east, in particular, housing costs have an impact on labour mobility and make it difficult for workers to move from lower priced parts of the country to take up unfilled jobs in more expensive areas.[72]

69 OECD, *Childcare support*. Link.

70 Department for Education, *30 hours free childcare launches*. Link.

71 Adapted from OECD, Childcare support. Link. Data for countries marked with an asterisk are based on estimates for a specific region or city, rather than for the country as a whole.

72 London Chamber of Commerce and Industry, Getting our house in order: the impact of housing under supply on London businesses, (2014) Link.

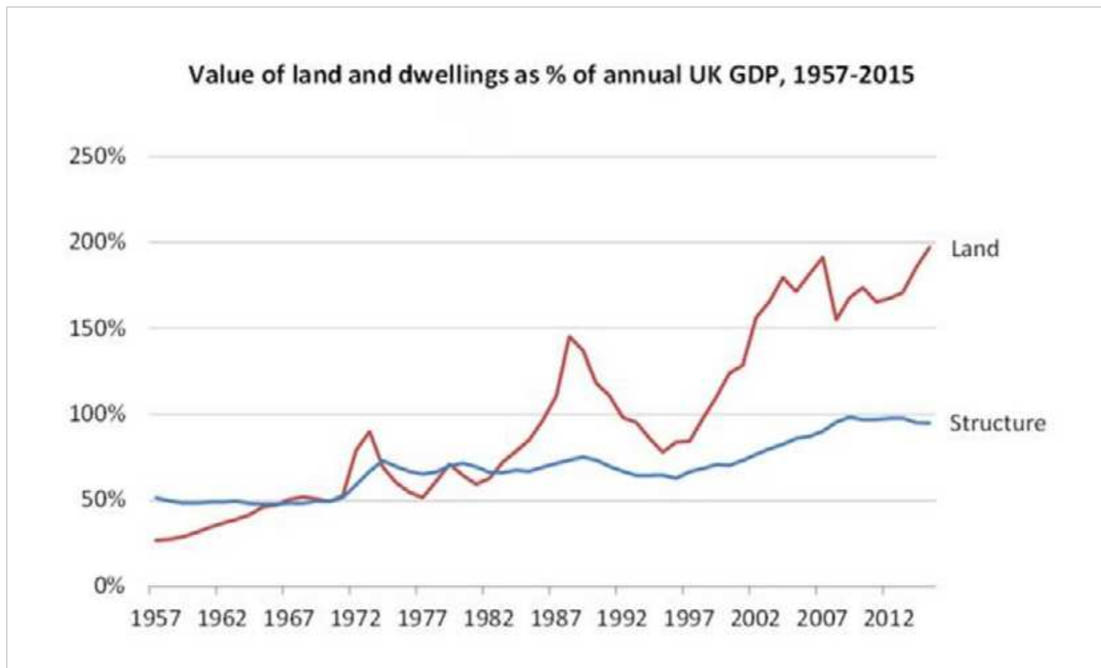
Higher house prices put upward pressure on rents and thus disposable income and have had a detrimental effect on the ability of younger generations to buy their first home.

Not surprisingly, the benefits of low mortgages and high prices fall largely to existing home owners. In the latest analysis of the distribution of wealth covering the period June 2014 to June 2016, the ONS estimates that the net value of median housing in London increased by 37% over the previous two years, while mortgage debt only increased by 8%.[73]

As touched upon earlier, the principal reason for the lack of any price response in housing construction goes back to yet another decades-long supply-side issue: the lack of suitable land. When the government opened the liquidity spigot without ensuring an adequate supply of land, the result was inevitable: higher prices for existing houses and much higher land prices, which does little to boost the overall economy.

Land use regulation is significantly more important even than any genuine land scarcity. Removing all planning constraints is neither practical nor desirable, but if just the Southeast (the most regulated region) adopted the regulatory restrictiveness of the Northeast (less regulated but still highly regulated from an international perspective) it would make a considerable impact on house prices.[74]

As a percentage of the overall cost of building a house, as of 2015 land costs comprised around ⅔ of overall costs, with only ⅓ linked to the actual structure – an almost complete reversal of the ratio in 1957.[75]



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73 ONS, Wealth in Great Britain Wave 5: 2014 to 2016. Link.
74 Christian Hilber and Wouter Vermeulen, *Regulation is to blame for England's surging house prices.* Link
75 James Gleeson, Historical housing and land values in the UK. Link.

Perhaps it is therefore more accurate to say that rapid inflation in the housing market since the early 1990s has been in the price of land more than it has been in the price of houses themselves.

Even if you adjust for the rise in wages over time, the total value of housing land versus housing structures as a percentage of GDP shows this same land price acceleration.[76] Land accounts for 50% of the country's net wealth of over £10 trillion, the highest amongst G7 countries.[77]

Two of the key factors driving land cost are the system of planning permission and the rules by which property, especially farmland, comes into the market. Local and national restrictions, including access to the Green Belt around London, and the slow process of approval increase the time required for new development, leading to complexity and higher costs.

The rules regarding changes in land use, which are at the heart of the issue, reach back to the Attlee government's Town and Country Planning Act of 1947 and the New Towns Act of 1946. Under these Acts, local authorities could acquire land for development at "existing use value." For example, even though land was worth substantially more when used for new housing, the landowner was compensated only for its value as farmland. The difference in value was pocketed by the local authorities who, it was hoped, would use the "profit" to provide the new services required to support the new homes. Thus, the immediate post-war building boom relied on cheap land.[78]

After pressure from landowners this came to an end during Macmillan's Conservative government, with the Land Compensation Act of 1961, which mandated that the landowner should be paid for the value of the land and any "hope value" if developed. This essentially constituted a windfall for the property owner and gave nothing to local authorities, and led to a more speculative land environment. By some estimates, a hectare of land approved for development is currently worth 100 times more than land used for farming.[79]

Clearly, a balance should be established between the needs of the local community – for land in which to expand and the cost of associated infrastructure – and the commercial rights of the landowner. We need something in-between the near-confiscatory legislation of the post-war years and the speculative free-for-all we have seen more recently. Given the current dysfunctional nature of the housing land market, this relationship and the associated legislation needs to be reviewed to determine whether it is still fit for purpose.

76 ONS, *The UK national balance sheet estimates: 2018*. Link.

77 Gavin Jackson, *More than half of UK's wealth is tied up in land*. Link.

78 Daniel Bentley, *The Land Question: Fixing the dysfunction at the root of the housing crisis*. Link.

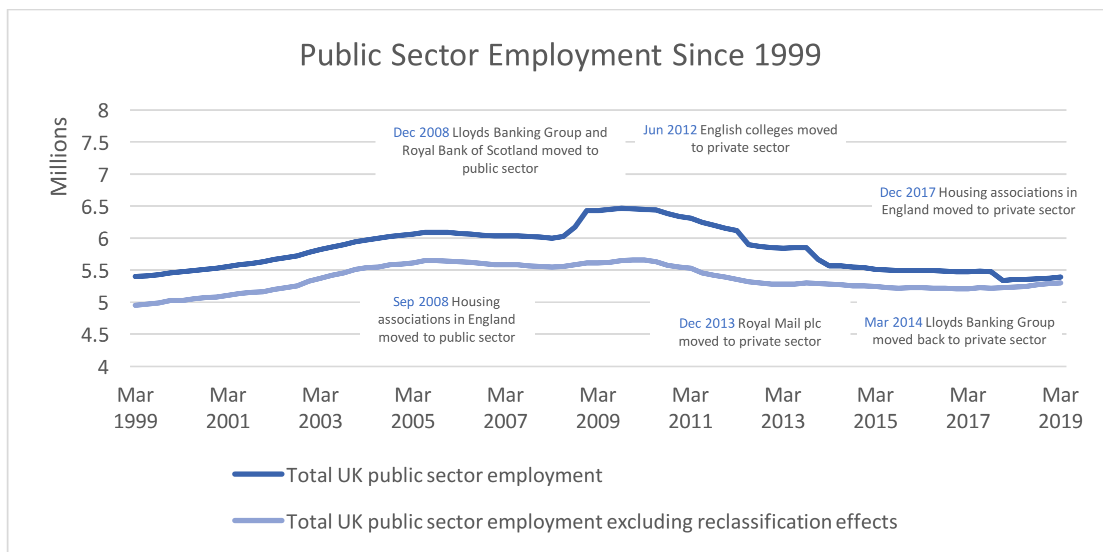
79 Land Value Estimates for Policy Appraisals 2017, MHCLG, Link.

2. Supply-side reforms to the public sector

We also need to reform the public sector. This means focusing on boosting productivity per worker, improving the integration of IT into public service delivery, and increasing the efficiency of public sector infrastructure spending. If these three objectives can be met, it would allow public spending to grow at a lower rate than the economy as a whole, thus freeing up money for tax cuts – even while improving the service that is delivered to the public.

Public sector productivity

The Conservative and Coalition governments deserve credit for reducing the overall size of the public sector, but also for reviving public sector productivity. In terms of overall numbers of public employees, there has been a steady decline since the high-watermark reached in 2009-10 – around 6.5 million, which was spurred by an expansion of almost 700,000 workers under Labour after 1997.[80]



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Under the Labour governments from 1997 to 2010, public sector output per worker fell; productivity dropped by 0.6% in total over those 13 years. By contrast, from 2010 to 2018, public sector productivity improved by 5.2% (0.7% per year) as the number of public administration workers fell by 17%.[82]

Despite these recent gains, it is absolutely critical that we continue to push for greater efficiency in the public sector, since the cumulative impact of these gains is so powerful. For example, NHS productivity grew at 0.8% annually between 1995 and 2015 according to the ONS.[83] Yet productivity fluctuated quite significantly over that period. CPS research suggests that if we could replicate the highest five-year productivity gains from that period, we could increase NHS output by 73% in the next decade. But if we were only to match the weakest five-year productivity period, output would only grow by 20%. The difference is equivalent to the cost of 150,000 additional nurses.[84]

80 ONS, *Pubic sector employment, UK: March 2019*. Link; Jonathan Cribb, Richard Disney and Luke Sibieta, *The public sector workforce: past, present and future*. Link.

81 *Adapted from ONS, Public sector employment, UK: March 2019.* Link

82 ONS, Public service productivity: quarterly, UK, October to December 2018 (Experimental Statistics). Link.

83 Centre for Policy Studies, Why the Health of the NHS Depends on Growth and Reform. Link.

84 Ibid.

Unfortunately, there is no magic bullet for improving public sector productivity. Nevertheless, as part of the next Comprehensive Spending Review process, all Departments should be required to set out a plan for how they will improve output per worker, using lessons learned over the past few decades. Without such measures, there is a real risk that productivity will slide backward again.

Reforms to improve public sector IT

Public sector inefficiency is especially apparent in its struggles with large IT projects. This has been the case for the past two decades, unfortunately spanning Labour, Coalition and Conservative governments.

The National Programme for IT in the NHS was certainly ambitious, including "a broadband network, electronic appointment booking and prescription services, and a local care records system".[85] Before it was abandoned, the programme ran up costs of £9.8 billion, but only yielded benefits of £3.7 billion.[86]

Similarly, in 2007 the UK Border Agency launched its e-Borders programme, which included a new integrated system with the ability to check passport information in advance, with completion initially scheduled for 2010. Over the course of the work the Major Projects Authority issued e-Borders seven warnings as costs rose from £600 million to over £1 billion and completion was pushed back to 2019.[87] The National Audit Office criticized the project on a range of issues including "Over ambitious and poorly understood complexities …" and an "ill-conceived procurement strategy."[88]

There is obviously a direct cost to these IT failures, but they also prevent good policy being implemented. For example, Universal Credit is based on sound and popular principles. By reducing the complexity of the benefits system and making sure that work always pays, it will significantly improve welfare provision in the country. Yet the construction of the IT necessary to roll Universal Credit out has come under significant pressure. Eight years after the start of the project in 2010, only 10% of all potential claimants were enrolled.[89] Now, Universal Credit is not expected to be fully rolled out until 2023 – five years behind schedule – due to "a series of problems with managing the programme and developing the necessary technology."[90]

IT makes for a useful comparison between the private and public sectors, because often those who defend large government departments argue that they have to manage projects on a scale that the private sector does not. But this does not ring true. Amazon, for example, sells 12 million products, generating 5 billion transactions per year in 16 countries. Its revenue grew by 580% between 2010 and 2018[91] to a total of $232 billion – more than the size of the UK's welfare budget outside of the state pension.[92] Amazon has 647,000 employees, making it almost twice the size of the core UK Civil Service, and operates 61 interconnected data centres in the US and 14 in Europe.

85 Committee of Public Accounts, *The dismantled National Programme for IT in the NHS.* Link.
86 Ibid.
87 Ibid and Committee of Public Accounts, *e-Border and successor programmes.* Link.
88 National Audit Office, *E-borders and successor programmes.* Link.
89 National Audit Office, *Rolling out Universal Credit.* Link.
90 Ibid.
91 Statista, *Annual net revenue of Amazon from 2004 to 2018 (in billion U.S. dollars).* Link.
92 OBR. *An OBR guide to welfare spending.* Link.

This Government needs to learn from successful tech companies like Amazon, and apply the lessons learned to the public sector. But we should also learn from those parts of the public sector that had the greatest IT success in recent years. Take e-prescribing for pharmacies as an example. This saw the Department of Health drive change without trying to control the process. The centre managed standards, pushed timescales and ensured interoperability, but it also used multiple suppliers and did not try to run every single aspect of the project. Unlike other NHS IT programmes, this one has been broadly successful, and by 2016 e-prescriptions were running at 43% of primary care prescriptions and growing rapidly.[93]

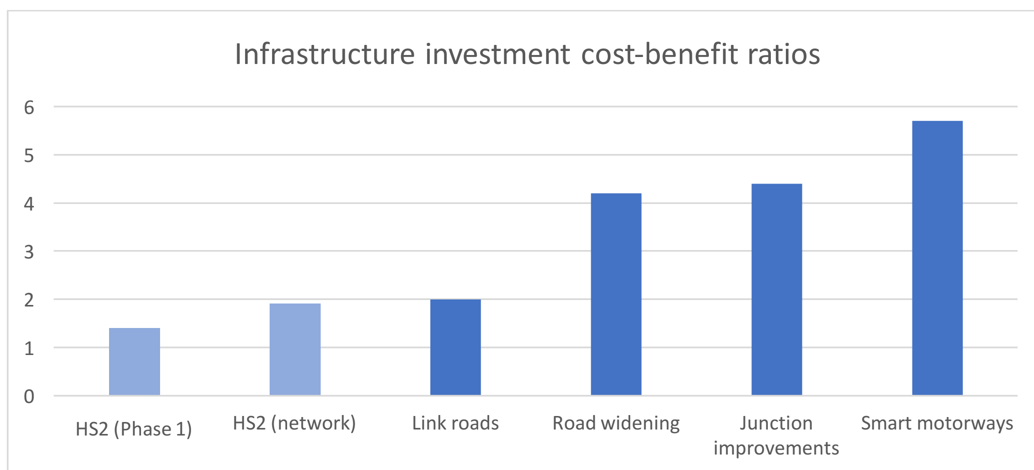
Improving public sector infrastructure spending

In 2018, the World Economic Forum ranked Britain 11 for the quality of its infrastructure, which meant that it trailed behind five other European countries.[94] The British Chambers of Commerce have urged the Government to support growth by speeding up progress through the "long list of business-boosting infrastructure projects".[95]

In 2006 the Eddington transport study was published. It offered the then Labour government the following advice:

"*Smaller projects which unblock pinch-points, variable infrastructure schemes to support public transport in urban areas, and international gateway surface access projects are likely to offer the very highest returns, sometimes higher than £10 for every pound spent. However, large projects with speculative benefits and relying on untested technology are unlikely to generate attractive returns.*"[96]

Alas, recent governments have failed to heed that advice, and have pursued headline-grabbing grand projets, such as HS2, with low benefit to cost ratios. Indeed, recent analysis by the National Audit Office and the Department for Transport show that it is the smaller projects that have the highest return on investment.[97]



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93 Ulrike Deetjen, *European E-Prescriptions: Benefits and Success Factors.* Link.

94 World Economic Forum, *Global Competitiveness Index 4.0.* Link.

95 Reuters, *UK must speed up infrastructure plans to cope with Brexit hit – BCC.* Link.

96 Department for Transport, *The Eddington Transport Study.* Link.

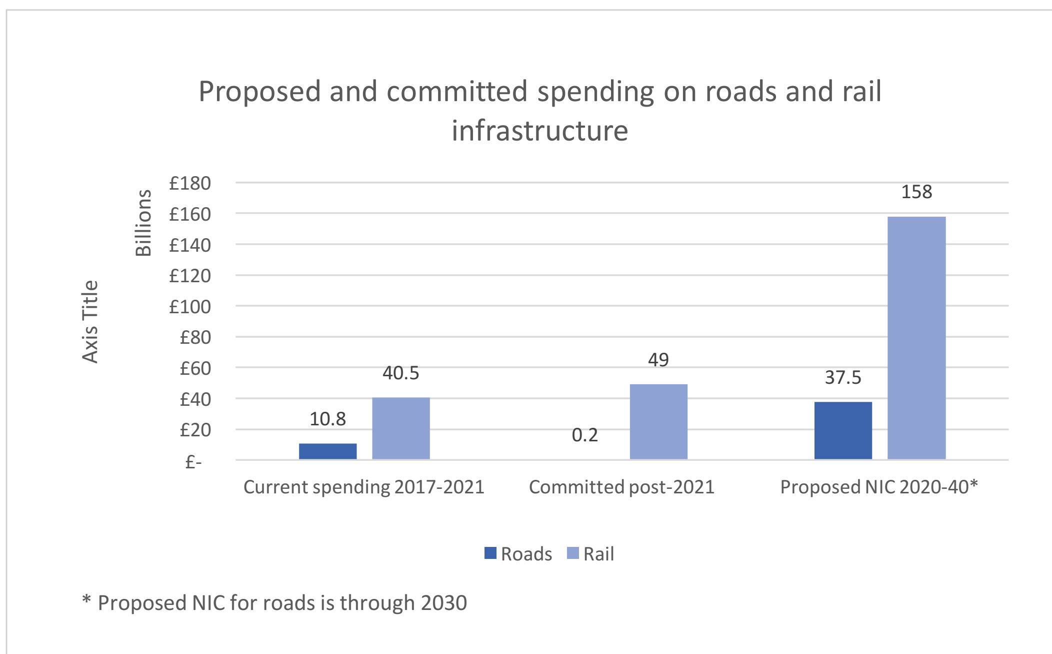
97 National Audit Office, *High Speed 2: A review of early programme preparation. Link; Department for Transport, Road Investment Strategy: Economic analysis of the investment plan.* Link.

98 *Adapted from National Audit Office, High Speed 2: A review of early programme preparation.* Link; *and Department for Transport, Road Investment Strategy: Economic analysis of the investment plan.* Link.

The data illustrated above is from a 2013 assessment of HS2 with a top end cost estimate of £17.3 billion for Phase 1 (to Birmingham). This was increased to £27.2 billion by the end of 2018 and is likely to go higher still.[99] Rather than concentrating on mega-projects, there is no shortage of productive work to be done on improving road and rail efficiency throughout the country. The National Infrastructure Commission believes that over £37 billion in additional funds need to be committed for work on the country's road system and over £100 billion more on the rail system.[100]

Looking longer term, I recommend that the National Productivity Investment Fund continues to be expanded. Beyond transport, this fund has supported schemes like the 5G Testbeds and Trials Programme, which encourages innovative pilots to improve digital connectivity.[102] I also welcome the establishment of the National Infrastructure Commission and the publication of its inaugural National Infrastructure Assessment and look forward to the Government publishing its National Infrastructure Strategy in response. The Government should take this opportunity to develop an evidence-based, growth maximising infrastructure strategy, in place of the ad-hoc, headline-driven approach of the past.

Indeed, it may even be that once we have put in place a better model of infrastructure investment, we should aim to spend more. However, this should be done if possible in partnership with the private sector – and only done at all once we have developed a better way of getting value-for-money from our infrastructure spending.



101

99 *High Speed Two (HS2) Limited, HS2 Phase One: High Speed Rail (London to West Midlands) Bill.* Link.

100 Institute of Civil Engineers, *State of the Nation 2018: Infrastructure Investment.* Link.

101 Institute of Civil Engineers, *State of the Nation 2018: Infrastructure Investment.* Link.

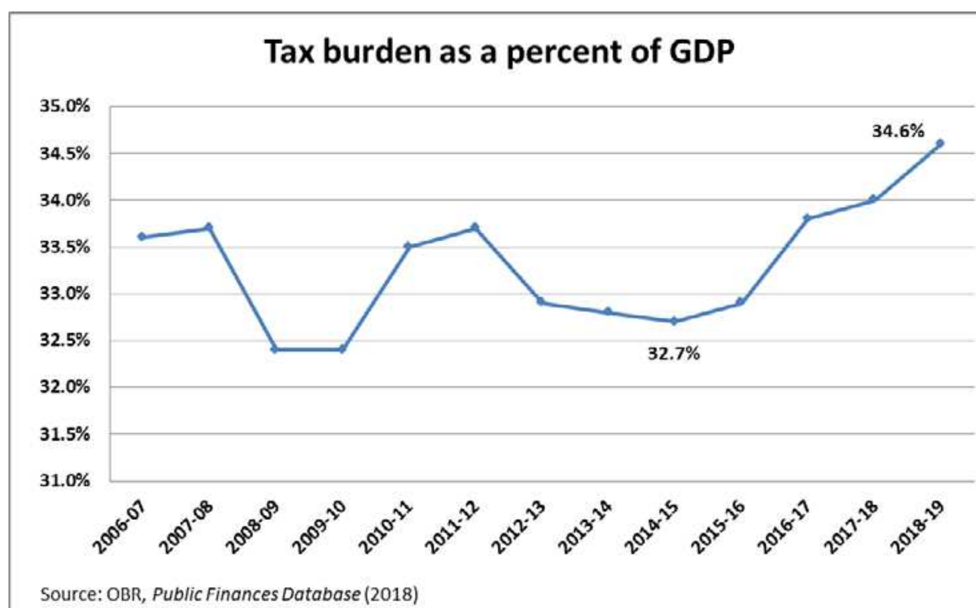
102 Department for Digital, Culture, Media and Sport, *5G Testbeds and Trials Programme.* Link.

3. Pro-growth tax cuts

Reforms that boost growth in the private sector and which make the public sector more efficient are, of course, extremely welcome in their own right. However, they also come with a secondary benefit – that they create fiscal headroom for tax cuts. With the UK tax burden at a five-decade high, and many of our citizens struggling to make ends meet, it is absolutely right that we seek to directly reduce the tax burden on ordinary households. At the same time, we should also pursue a tax reform agenda aimed squarely at making the UK more competitive and boosting economic growth.

The rising tax burden needs to be reversed

One problem in recent years has been a constant increase in the level of taxation. Even with targeted reductions in some areas of taxation, the overall burden as a share of GDP has risen to a 49-year high. Research by the TaxPayers' Alliance in 2018 showed that the bottom 10% of wage earners have a total tax burden of 49.5% of their income.[103]



Source: OBR, *Public Finances Database* (2018)

The consequences of being over-taxed are serious for our economy and our politics. Given the current situation, those taxes that should be cut in the short term are those which are likely to have clear incentive effects, and to increase investment, effort, and mobility – all of which both have the greatest dynamic effects and will boost growth.

Too many of our political leaders are blind to the underlying truths of economics and human behaviour. They are stuck with models which predict that cutting rates by, say, 25%, will reduce revenues by an equal and opposite amount, or that raising taxes by 25% will deliver correspondingly higher revenues. In reality, cuts tend to cost less, and raising taxes tends to raise less, than a simple static analysis would suggest.

103 TaxPayers' Alliance, *Tax burden at 50-year high, finds TaxPayers' Alliance*. Link.

To take one well-known example: in 2009, Gordon Brown announced a 50% income tax rate band for income over £150,000. Within a year, the number of truly high earners (those with a declared income of over £1 million) fell by 63%. The IFS estimate that the total amount actually raised was around £1 billion – compared to a static estimate of £2.7 billion.[104]

Similarly, after a series of corporation tax cuts starting in 2010-11, tax receipts from onshore companies increased by 46% by 2017-18, three times faster than growth in the economy and far higher than the gloomy predictions of the Treasury. There are many reasons for this revenue growth that are independent of the rate change, including growing corporate profits, anti-avoidance measures, and less generous capital allowances (more on this below). However, Treasury analysis does suggest that for a given corporation tax rate cut, within 20 years, 45-60% of lost revenue is likely to be recovered through higher receipts resulting from increased economic activity.[105]

A £460 tax cut for ordinary workers

One of the most successful policies pursued by the coalition and Conservative governments since 2010 is the rise in the personal allowance – the point at which earners start paying income tax – from £6,475 in 2010-11 to £12,500 today. That's a real-terms increase of more than 50%.

Indeed, between 2011-12 and 2016-17 there was average annual growth of 1.6% in median post-tax incomes – faster than the 1.2% recorded in the five years before the recession of 2008-09.[106] This was hugely helped by that increase in the tax threshold, which helped deliver rising incomes for almost all workers.

As Conservatives, we should always welcome measures that let ordinary people keep more of their hard-earned money. After all, it is much better that people get to spend money on themselves and their families than it is for government to spend the money on their behalf. We should also recognise that although wages are finally increasing again in real terms, Britain's cost of living crisis is hardly over. Many households still struggle, through no fault of their own, to make ends meet. Our priority should therefore be further measures to reduce the tax burden for ordinary workers. There is no point in prioritising tax cuts which will boost growth the most in the medium term only to find that the political ground has been lost to those, such as Jeremy Corbyn, who will raise taxes across the board and reverse any such positive effects.

The CPS proposed a good way of doing this in their 2018 report "*Make Work Pay*", which noted that there were 2.4 million people currently paying National Insurance even though they did not earn enough to pay income tax. We should fix this unfairness by raising the National Insurance threshold to the same level as the personal allowance – from the current level of £8,636 to £12,500 per year.

A tax cut of this magnitude would give everyone from a minimum-wage earner up an extra £460 a year after taxes. It would help to improve work incentives for the lowest earners – especially those trying to get off welfare and into work – and second earners who are considering increasing their hours. In short, it is the perfect starting point for a genuinely Conservative tax policy.

104 James Browne, *The 50p income tax rate*. Link.
105 Helen Miller, *What's been happening to corporation tax?* Link.
106 IFS, *Five years of recovery in living standards: middle incomes rise by more than for higher or lower income households*. Link.

Building a pro-growth tax system for business

By improving work incentives and boosting disposable incomes, you would expect raising National Insurance threshold to have a modest pro-growth effect on the economy as a whole, while also sending an important signal about the importance of work. However, if we really want to turbocharge UK Plc, we need to look at the taxes that are holding back investment and mobility, and therefore damaging our productivity and international competitiveness.

On this point, it's striking to note that the Tax Foundation's International Tax Competitiveness Index, which compares the 35 tax systems of the OECD, ranked us 23rd in 2018 – much lower than I think most people would expect.[107] It is particularly worrying 19 EU or EEA countries rank above us in the Index. With Brexit on the horizon, we really must do much, much better.

We score particularly badly on property taxes. In fact, we raise more as a percentage of GDP from property taxes than any other country in the OECD – and, worse, we do it in a way that seems almost calculated to inflict the maximum economic damage.[108] The big problems here are stamp duty land tax and business rates.

Stamp duty land tax is, to be blunt, a terrible tax. By significantly raising the cost of housing transactions, stamp duty gums up the market. People with too much space are discouraged from downsizing, while others find they can't afford to move where the best job opportunities are. As upcoming work by the CPS will show, the number of transactions in the housing market also tends to reduce the number of new houses that are built – which makes the rest of the housing stock correspondingly more expensive. The net effect of all this is that people's lives are less comfortable and less prosperous than they otherwise might be.

In fact, the Adam Smith Institute have found that the £12 billion stamp duty land tax raises from house-buyers every year is actually accompanied by £10 billion in deadweight economic costs.[109] That is an extraordinary figure that serves to underline how destructive stamp duty has become. Clearly, the best option would be to abolish the tax altogether – at least for primary residences (second homes and buy-to-let properties are less of an immediate priority).

If complete abolition of stamp duty land tax was considered too much, too soon, the Government could consider setting a much higher threshold – of at least £500,000, or even £1,000,000 – to take the vast majority of home-buyers out of the system. It should also look to reduce the very high marginal rates that were, rather ill-advisedly, introduced by George Osborne in 2015. The current top rate is simply much too high and has very distortionary effects on the market. Capping stamp duty land tax rates at 5% would be sensible. Indeed, we would do well to remember that the top rate back in 1997 was only 1%.

Business rates are also a problem. For one thing, the rates are too high, which makes them a very significant cost for many small businesses to bear. Secondly, business rates are a poorly designed tax, because they can discourage businesses from investing in and improving their premises.

107 Daniel Bunn, Kyle Pomerleau and Scott Hodge, *International Tax Competitiveness Index 2018*. Link.
108 OECD, *Tax on property*. Link.
109 Ben Southwood, *Beyond the call of duty: Why we should abolish Stamp Duty Land Tax*. Link.

We therefore need a two-pronged approach to reforming business rates. First, we should make it a tax paid by commercial landowners rather than tenants, and base it on the underlying value of the site rather than any structures, plant, or machinery that sit on it. Second, we should cut the burden of the tax, perhaps 10% or 20% overall. Taxing land in this way would mean that less prosperous parts of the country would likely face a lower overall tax bill. This would therefore be a good move for regional growth and economic rebalancing.

Finally, the Government should take another look at corporation tax. Since 2010, we have obviously made great progress on the headline rate of corporation tax, reducing it from 28% to 19% (with a further decrease to 17% scheduled for next April). This has been an enormous positive for Britain's global brand and has helped to attract high levels of foreign direct investment.

However, headlines can sometimes be misleading – and the Tax Foundation's "International Tax Competitiveness Index" suggests that this might be the case for Britain's corporation tax system. Despite having the second lowest rate among the OECD countries ranked by the Index, our overall position on corporate taxes is 16th – solidly mid-table. What lets us down is something called "cost recovery" – basically, the extent to which companies are able to write off capital investment against their taxes – on which we rank second-from-last.

What many people missed is that just as we were lowering the headline corporation tax rate, we were also significantly tightening up on capital expensing – the result being that the effective marginal tax rate on new investments fell by far less than headline corporation tax rate. This means that the corporation tax cuts did not have nearly as strong of a growth effect as they might have done.

To its credit, the Government began to address this at the last budget. Philip Hammond raised the Annual Investment Allowance (AIA) to £1 million and reintroduced a (still rather miserly) capital allowance for investment in buildings. But I think we should go further and faster. It's worth noting here that in the United States, President Trump's big tax reform allowed companies to write off all short-lived capital investments, in full, as soon as they were made – a policy usually referred to as "full expensing". We should follow that American lead.

At the very least, we should make the £1 million AIA permanent, and introduce a broader, simpler, and much more generous system of capital allowances outside that limit. Were it considered feasible from a fiscal standpoint, however, it would be best to make the AIA unlimited – as the CPS proposed in their "Budget for No Deal" earlier this year.

The great virtue of "full expensing" along these lines is that it essentially reduces the effective marginal tax rate on new investment to zero. This means it is perfectly targeted at addressing Britain's longstanding weakness when it comes to business investment and can be expected to have a significant, positive effect over time on productivity, growth, and real wages. It's therefore precisely the kind of reform we should be prioritising after Brexit.

4. Normalisation of monetary policy

Part 2 of this report showed that a decade of ultra-low interest rates and quantitative easing has failed to generate sustained economic growth – a role that, frankly, should never have been ascribed to it. Of

course, we cannot and should not pin the blame for our current economic malaise solely on the Bank of England. As this paper has shown, there are many factors at play.

However, what we can say is that expansionary monetary policy has failed to generate the positive behaviours we wanted – such as lending to SMEs and construction, business investment, and research and development – even as less productive economic activities have continued apace with the growth of zombie firms, borrowing for consumption and so on. The contemporary approach to monetary policy also has had unfortunate distributional effects, increasing the gulf between asset owners and the rest of society.

There are two further considerations that should push us towards normalising monetary policy, or at least making a start in that direction, as the other pro-growth policies I have outlined above begin to take effect.

The first is that we are now so far into the current economic cycle that another downturn – perhaps one driven by global factors – seems almost inevitable in the short- to medium-term. When that downturn arrives, we need to have some monetary tools left in our arsenal to ward off recession. The trouble is, with interest rates pinned to the floor, and the Bank of England's balance sheet in its current, bloated state, we will have little room for manoeuvre. This suggests that normalising monetary policy now is a prudent move that will help ensure our monetary policymakers aren't powerless at some point in the future when we really need them.

The second consideration revolves around what the Bank of International Settlements (BIS) calls 'financial imbalances'.[110] In a nutshell, their argument is that inflation does not provide a reliable guide as to whether interest rates are at their 'equilibrium level' – which ought to be goal of monetary policy.

Indeed, BIS's research shows that harmful financial imbalances often build up precisely when inflation is low and stable. What's more, "the hallmarks of these imbalances are booming credit and asset prices, particularly property prices".[111] This is what happened in the build-up to 2008, but also before the Great Depression, when consumer prices were sometimes falling, and in Japan in the 1980s and East Asia in the mid-1990s.

The implication of this analysis is that, far from driving growth, loose monetary policy is, even now, sowing the seeds of the next crisis.

But if we want to normalise monetary policy, how should we go about it? One option that should certainly be ruled out is a return to politicians dictating changes in interest rates, or the composition of the Bank of England's balance sheet. Even though the Bank of England sometimes gets it wrong, we mustn't undermine its day-to-day independence, or its credibility with the financial markets. What those of us in Parliament can do, however, is change the framework within which the Bank of England – and specifically its Monetary Policy Committee (MPC) – operates.

On this point, we certainly shouldn't regard the current inflation targeting regime, which has been in effect since 1997, as sacrosanct. On the contrary, inflation targeting let interest rates stay too low for too long in the run up to the Global Financial Crisis (cheap imports from a rising China kept consumer price inflation low, even as an enormous asset bubble built up). Then inflation targeting hampered the response

110 Bank for International Settlements 85th Annual Report, 2015. Link.
111 Ibid p14.

to the crisis, as temporarily high inflation made monetary policymakers wary of immediate easing. Since then, the inflation target has been honoured as much in the breach as in the observance, with the MPC tolerating persistent under- and overshoots. In short, inflation targeting isn't an effective guarantee of financial stability, or a reliable guide to good monetary policy. We need an alternative.

Precisely what form that alternative should take is something that needs further research and robust debate. Many economists think that nominal GDP – effectively total spending in the economy – would make a better, more comprehensive, and more symmetrical target for monetary policy than consumer price inflation. So that's one option we should consider. Others think we should pay more attention to monetary aggregates, as the famous "monetarists" did in the 1980s.

What I think is most important is that any new monetary framework takes account of asset price inflation and the financial imbalances that can take root even while the economy seems, on the surface, to be chugging along smoothly. We also need monetary policymakers to take a longer-term view: there's no point setting monetary policy to hit your targets tomorrow, if at the same time you are storing up trouble for the future. This means that our monetary framework should explicitly take account of private debt and asset price growth, and should require the MPC to tolerate deviations from inflation or output targets if they are necessary to keep those financial imbalances under control.

Were such a framework in effect today, I have little doubt that it would encourage the MPC to gradually raise interest rates to more normal levels, and to begin shrinking its balance sheet. In other words, the extraordinary measures taken to fight the Global Financial Crisis and subsequent recession would finally start to be unwound. Going forward, a monetary policy that was conscious of private debt and asset prices would be one in which interest rates were, on average, slightly higher, but which was also less prone to generating wild booms and busts. It may be in the immediate aftermath of Brexit rates should remain low, but they should slowly begin to normalise after this.

Taken together, supply-side reforms to the public and private sectors, pro-growth tax policy, and the gradual normalisation of monetary policy should help to shift the UK economy up a gear. More than a decade on from the Global Financial Crisis, it's high time we moved on from the policies and debates of those difficult years, and started fighting for a better, brighter future for Britain, its people, and its economy. Driving change isn't impossible – far from it – but it will require decisive, coordinated action across a variety of policy areas. As I said before, the proposals made in this paper are not meant to be comprehensive. They are simply meant to get the ball rolling – and perhaps provide the intellectual foundation for a radical budget for growth.

Conclusion

The Conservative party will soon have a new leader.

What it also needs is a new vision, one that builds on the stabilisation of the economy since 2010 without accepting the creeping stagnation that appears to be taking root.

To achieve this, what we need is a radical budget for growth. This is made more, not less urgent by the need to complete Britain's exit from the European Union by the 31st October.

This report is not a fully set out and detailed manifesto. But it does set out the four key areas that such a Budget would have to tackle and show some of the thinking and approach that are necessary for the UK economy to return to a healthy growth rate.

I have tried to ensure that the areas being proposed are all politically realistic, and that they are things that could be kickstarted as soon as possible.

We stand at a crossroads and if we are to thrive as a country and as a party, we need to be bold.

I hope this report can help start that journey to a successful Budget for Growth later this year.