A New Conservative Economic Plan

Sajid Javid

FORWARD

This is a country of freedom and democracy, of institutions and enterprise, of decency and justice. We have a history to be proud of and a future to look forward to. But we now face an array of challenges, from the immediate cost of living crisis and backing Ukraine in its fight for freedom to longer term challenges such as stagnant productivity and rising pressures on an ever-growing state.

The cost of living is the single most important issue facing British families today and it is having a massive impact on those on low and middle incomes in particular. The global drivers of this inflation are largely out of our control and we must be honest that we will not be able to cushion this blow completely. However, we must take further action now to support families who are on the edge.

Over the longer term, higher productivity is the only way to deliver sustainable improvements in living standards. But since 2008, our productivity performance has been exceptionally weak. The reasons for this poor productivity performance are varied but we now need the most ambitious economic plan in decades to restore productivity growth, level up the country and reduce the rising demands on the state. We have been sleep-walking into a big state, high tax, low growth social democratic style model which risks us becoming a middle-income economy by the 2030s with a commensurate loss of global influence and power. **We must smash through this low growth trap** and seek to reach a higher growth equilibrium.

At the same time, we face a fundamental challenge to the legitimacy of capitalism and conservatism. Families who feel increasingly financially strained, locked out of home ownership and other forms of capital, are less likely to believe that their children's generation will be better off. They have seen a disintegration of their communities and have felt ignored for too long.

Social mobility has stalled in recent decades. Healthy Life Expectancy is 20 years higher in richer parts of the country than in poorer parts. The impacts of the pandemic on our children – from their educational development to their economic futures – are at risk of causing damage for decades in the absence of radical action. We have not yet fully seized the benefits of Brexit, our defence and foreign policies need renewal and the drive to reform and modernise public services must now have renewed focus.

The Conservative Party now faces some vital questions:

- Can we build a free enterprise, free trading, faster growing economy whilst also levelling up left behind places and strengthening community bonds? The answer must be yes.

- Can we improve public services and social mobility whilst also bearing down on the size of the state? The answer must be yes.

- Can we deliver on the problems of today as well as address the generational defining challenges of the decades to come from climate change and demographic change to the rise of China? The answer must be yes.

I believe we must continue our mission to level up the economy and now need a strong, competent, bold approach to see us through these tough times and address these great challenges. We need a plan for Britain over the next decade which has **freedom and opportunity for all people and places** at its heart – delivering a revolution in economic prosperity and social mobility.

We need a new conservative economic plan with the most far-reaching economic reforms since Thatcher, with help to tackle the cost of living now and a plan for growth which drives a new age of British prosperity.

Beyond this, we must revive the great conservative mission of public service reform to modernise the British state, expanding choice and shifting power from central bureaucracies to citizens, families and communities that have been ignored for too long.

We must build a stronger Global Britain, seizing the opportunities of Brexit, strengthening our defences, countering the threats from Russia, China and other authoritarian nations and extending our influence across the World.

We must also renew Conservatism, strengthening the Union, our institutions, family and community bonds, addressing deep seated injustices, increasing capital and ownership and face up to the great challenges of the coming decades. All the while being proud of the brilliance of our country and defending the fundamental tenants of a free society.

Post Covid, with new geopolitical realities, we need a bold agenda focused on growth, reform and renewal. I am convinced we can get through these challenges and transform the life chances and living standards of our people if we pursue this agenda with the ambition it requires.

Sajid Javid MP

A NEW CONSERVATIVE ECONOMIC PLAN

I believe in a free enterprise, low tax, sensibly regulated economy. Whilst it's impossible to identify an exact size of the State that maximises growth, freedom and other outcomes, my vision of the State is one that is small and strong; empowering not constraining.

However, there are many parts of the country where our economic potential is far from being realised. Productivity is the principal driver of economic prosperity but it has been poor over the last 15 years. Whilst it has also been weak over this period across the developed World it has been especially poor in the UK. The OBR now expects that trend growth is around 1.7% compared to 2.7% in the decade before Labour's financial crisis That would be a disastrous downgrade of living standards in this country.

The stagnation in productivity since 2008 has been driven in large part by the impact of the financial crisis on some of the most productive sectors such as the financial sector, diminished access to capital and weak investment. It is also likely that an overly rigid planning system, poor infrastructure, relatively low rates of investment in R&D and other intangibles as well as weak aggregate demand disincentivising innovation have contributed to weaker productivity levels.

A lack of the right skills in the labour market is a key driver of regional variation in productivity as well as constraints on the growth of cities outside of London which prevent them from fully seeing the gains from agglomeration effects and which mean they are less productive than cities of equivalent sizes in other countries.

Looking ahead, the size of the state is on an upward trajectory. Aside from significant emerging pressures this autumn and winter, the longer-term drivers of this include the impact of the pandemic, the costs of climate change and Net Zero, a decline in the proportion of the population that is of working age and the massive growth in likely health and care costs driven by an ageing population with increasing multiple long-term conditions. The OBR recently projected that debt levels will reach 320% GDP by the 2070s on the current trajectory.

This poses a fundamental challenge to a vision of a small state and fast growing market economy. We face a choice of managed decline and a perpetually growing state – the high tax low growth model – or a low tax high growth model of reform and renewal to smash through the slow growth trap and modernise public services so that the State is far more preventative and personalised, reducing costs over time. For example, we know that 40% of NHS spending is on preventable conditions – getting just a little bit better at preventing ill health from happening in the first place would deliver huge efficiencies over time. Public sector reform and bringing down cost curves is possible and will be essential to sustain a lower tax model.

As well as productivity, we know that social mobility in the UK has stalled and our position internationally is poor. Countries such as Australia and Canada are around 20% to 40% more socially mobile than the UK. A focus on improving social mobility will support faster economic growth but it will also demonstrate our values of equality of opportunity, hard work and social justice. Social mobility and levelling up are two sides of the same coin.

But we must be honest with the public about the difficulties that lie ahead. Much of our productivity growth pre-pandemic came from sectors such as the financial sector which, which though we must seek to boost with more competitive regulation outside the EU, are unlikely to return to their previous shares of the economy. Some efforts to improve productivity will take years to see the results.

Broad based tax cuts – whilst important and a boost to growth – will not just pay for themselves and there are risks in fuelling inflation further. Borrowing costs are sensitive to interest rate rises and so borrowing more is not risk free – even though the greater risk now lies in not seeking a new high growth equilibrium. Economic capital must also come with social, cultural and institutional capital.

In the short term we need a cost of living plan that helps hardworking families see through this bought of inflation, which is likely to be with us for some time. In the medium term we need a plan for growth that lifts productivity and puts us back on a path to pre-2008 trend GDP growth. .

COST OF LIVING PLAN

It is vital that we do more to support families dealing with the spike in inflation. These are one off costs to be announced in an Emergency Budget which build on the Government's existing support provided earlier this year and will have minimal impact on fiscal headroom in 2024/25.

1. Cutting Fuel Duty by 10p per litre – to take effect from the Emergency Budget to last until March 2023 on top of the existing 5p cut. We could expect this to have a one-off cost in the last half of this financial year of around £2.5 billion. We know that rural communities are particularly hit by high fuel costs so I will also look at what further targeted support we can provide beyond this.

2. Cutting Energy Bills – we need to go further to support struggling families this Autumn with prices due to rise substantially. I will set out details of a new £5 billion package to reduce energy bills and provide further support for the cost of living on top of existing support announced this year. The package will be split across increased generosity of the Energy Bills Support Scheme and the Cost of Living Payment for those on means tested benefits.

3. Controlling public sector pay – we must ensure that we prevent a damaging wage price spiral from taking hold by paying no more than the independent pay review body recommendations.

The cost of living crunch coming this Autumn will be particularly severe and millions of families will be affected as energy bills rise. We must be prepared to go further than these steps and leave no options off the table if conditions demand.

PLAN FOR GROWTH

We have to smash through the low growth trap facing this country over the coming years by addressing the root causes of this country's poor trend growth. That means a much more radical approach to raising productivity and taking some calculated risks to do it. We have to unleash free enterprise and the economic potential of people and places all across the country from the Red Wall, to our big cities to the South West.

From life sciences and financial services to AI, aerospace and advanced manufacturing, there are so many sectors with the opportunity to achieve breakthrough productivity growth and create new jobs especially in parts of the country that have not benefited from such growth in recent years. But we also know that in lower paid service sectors such as retail or hospitality, the potential for productivity growth, for example from digital transformation, is huge too.

A new plan will mean a **supply side revolution** in the form of tax reform, skills policy, regulatory reform as well as modernising the State so that public spending does not remain on an unsustainable trajectory. We cannot simply just hope for growth to return or think that we are owed a prosperous future. We have to make it happen and our ambition should be to return to pre-financial crisis trend growth over a decade.

A **new economic plan will need a new fiscal policy** which will allow us to support a pro-growth package as well as face up to the post pandemic geopolitical realities. The government's fiscal rules which are largely those that I established as Chancellor and set out in the 2019 Conservative Party Manifesto are still based on the right principles – keeping debt at sustainable levels and not borrowing over the long term to fund day to day spending.

But we will need to review the rules to ensure that our overall fiscal policy is compatible with the approach we must now take and the global economic and geopolitical crises we now face. Ultimately, a faster growing economy more able to deal with the international challenges we face will be more likely to be fiscally sustainable over the long term.

This is a clear choice that we must make and it is not without risk. Borrowing implies an opportunity cost in debt interest and we must be careful not to stoke inflation yet further. However, the counter-factual is riskier. If we are unable to address the challenges we face and boost growth then we face an inexorable decline in our prosperity relative to other developed economies.

The fiscal headroom under the current fiscal rules is already estimated to be £31.6 billion with respect to the target to achieve a current budget balance in 2024/25 – although this will obviously fluctuate.

The hard truth is that cutting public spending through direct cuts will not be easy. But waste and inefficiency always creeps in across government so we should look to find a further £8-10 billion by 2024/25 on top of this through setting a 1% efficiency and savings target across government which would be equivalent to just £1 in every £100 the government spends.

The biggest reductions in public spending will ultimately come from reduced demands on the state through reforming health and care, welfare and education systems which will mean we're healthier in old age, more likely to stay in work, innovate and thrive. Broad based tax cuts – whilst necessary – will not just pay for themselves even though they will boost growth.

With the tax burden rising to a 70 year high – we need sweeping pro-growth tax reform as part of a new economic plan to revive productivity and prosperity. This is a fundamentally different and Conservative vision of the economy from the high tax, low growth trap we are at risk of falling into.

My tax reform agenda would include:

4. Scrap the National Insurance Levy – given the new economic and fiscal position, the health and social care levy is no longer needed to pay for the necessary increase in health and social care spending announced last year – especially in the light of the cost of living challenges that families now face. We should scrap this jobs tax from April 2023. OBR estimates suggest this would cost around £18.2 billion in 2024/25 – although the figure is sensitive to a number of variables.

5. Bring forward the cut in the basic rate of income tax – bringing forward the basic rate of income tax cut from 20% to 19% so that it takes effect from April 2023. HMRC estimates suggest that in 2024/25 this would cost £6.4 billion.

6. Scrap the planned rise in corporation tax – scrap the planned rise in the main corporation tax rate from 19% to 25% due in April 2023. We must do everything possible to boost investment as a key driver of productivity and living standards. Scrapping the forthcoming rise will not only flow through to higher investment and wages than under current plans but will be an important signal of intent that the UK is the place to set up and run a business.

The impact on revenue is subject to considerable uncertainty, especially given factors such as the impact of changing rates on reliefs. OBR estimates are that this could cost around £15.8 billion in 2024/25. The true cost may well be lower given a potential impact on growth greater than that which is already expected by the Treasury.

What matters most is the effective tax rate so we need to consider the evidence of the impact of capital allowances such as the Annual Investment Allowance. I intend to go further if conditions allow with a longer term ambition of reducing the rate to 15% in the most pro-growth way and consistent with international agreements.

The costs of these three tax cuts is therefore estimated to be **around £40 billion in 2024/25** although there is clearly uncertainty on the precise figures given variables such as the size of the tax base and the impact of inflation. The true costs are likely to be lower and will broadly match the fiscal headroom and new efficiencies even under the current fiscal rules of around £40-42 billion. Any further spending measures would need to be funded through a moderate loosening of the fiscal rules which reflect the new realities. The tax system needs more fundamental reform and tax reform is more than just tax cuts. So the tax reform agenda will not stop here.

7. Infrastructure Revolution – we must revive the Infrastructure Revolution that we planned in the 2019 Manifesto. There is considerable scope within even the existing fiscal rules to go further on capital investment and new fiscal rules should allow us to go further – including in vital and often neglected areas such as bus networks and other transport projects including a commitment to Northern Powerhouse Rail.

We need to go much further to digitise the State, refurbish schools, early years settings and hospitals. We should further review the Green Book to ensure that infrastructure investment is particularly supporting areas that have been ignored for too long.

The impact of Russia's invasion of Ukraine has demonstrated the fragility of our long-term energy policy. Building on the British Energy Security Strategy, we should set up a PM led taskforce to accelerate the energy revolution and push for new sources of energy supply including going further on new nuclear.

Russia's actions and the increasing threat posed by China reflects a substantial change in threats to our defence. The Treasury needs to see defence as an economic opportunity in itself – with sectors such as aerospace and cybersecurity having high growth potential – as well the ultimate insurance against catastrophic risk. Capital investment in defence will contribute to this infrastructure revolution. Given the new geopolitical realities, we must increase defence spending in total – reaching 2.5% of GDP by 2025 and an ambition to reach 3% of GDP in due course too.

We therefore need a comprehensive plan which allows the British State to make a once in a century upgrade to our infrastructure over the next ten years. This would improve efficiency across the public and private sector as well as support new ways of delivering services. There are supply constraints on people, materials and regulation – but these can and must be mitigated. Reinvigorating this agenda will boost the supply-side capacity of the economy placing downward pressure on costs over the long term.

8. Launch a Long Term Plan for Skills - Human capital – in other words the skills, training and ideas of our people, is the primary driver the variation in productivity across regions. The measures the Government has introduced so far in areas such as the Lifelong Learning Entitlement are laudable but there is a very real risk over the coming decade of a lost generation in the absence of greater radicalism.

Severe and persistent absence in schools has increased to 124,000 and 1.7 million children respectively in the wake of the pandemic and there is a very real risk of a lost generation being created with a host of profoundly negative consequences down the line. Even before the pandemic, we had become stuck in a low social mobility and low productivity trap for years.

Reversing the progress in closing the attainment gap between children from richer and poorer areas would be an economic and social disaster. It is already the case that children from England's poorest areas are 27 times more likely to go to a school rated 'inadequate' than those in the most advantaged areas. We will need to recruit more Attendance Advisers to work with schools and families to return these pupils back to school and prevent this disaster from happening.

We must apply the same zeal for reform that was applied in the early Coalition years in the expansion of free schools and academies to early years education, further education and adult education. We could foster a social mobility revolution with a new wave of FE colleges with new leadership models, industry partnerships and improvements in recruitment, retention and governance.

We should launch a major new apprenticeship offer and turn the lifelong learning entitlement into a proper right to retrain for adults. In the wake of the pandemic, we need a renewed focus on small group tuition, mentoring and tutoring as well as backing new free schools and academies across the country.

We also know that childcare costs, quality, access and attractiveness as a profession are all major barriers to economic growth – especially for women. However, the UK system is both expensive for families and more expensive for taxpayers compared to comparable economies. We must take a much more ambitious approach to reforming childcare including through backing regulatory reform of ratios but also through a fundamental review of the structure of the market, funding and workforce. This should encourage new entrants into the childcare market, new innovative models of delivery, lower costs, support parental employment, and child development. Going further, we should conduct a review of how the tax system can be made more family friendly.

Poor managerial skills in the UK have been directly linked to the UK's overall productivity. However, many employers fail to offer and fund adequate training options for their employees We should explore what more support we can provide to encourage businesses to invest in workforce training including considering how to use the Lifelong Learning Entitlement to support a major improvement in training.

9. Science, Research and Regulation – The development, procurement and roll out of the covid vaccine was a remarkable feat combining science, enterprise and public services. This was made much faster because of the speed and effectiveness of the MHRA – a very tangible benefit of Brexit – and the Vaccine Taskforce model. The vaccine programme was also an economic policy, allowing the country to open up and preventing millions from catching covid and remaining in work.

We have seen what's possible and now we must apply these lessons to other conditions as quickly as possible – creating vast new sources of growth for the British life sciences and advanced manufacturing industries. This will also have a profound and permanent improvement in productivity as new treatments and cures are developed and rolled-out helping us live longer, healthier and more economically active lives.

I will apply the Vaccine Taskforce model to a series of challenges such as cancer, dementia and mental health. By cutting through bureaucracy, marshalling public and private research spend, galvanising researchers and industry and with clear leadership, we can bring forward new treatments, vaccines and cures much faster than we had ever previously thought possible. The results for economic growth, health and wellbeing could be transformational.

The success of this model is also an essential part of a long term plan to reform public services. The growing burden of disease, especially in old age, is the primary driver of rising demand on the State in the coming years. If we are able to find treatments to dementia which prevent its onset by a decade or more or find new ways to prevent and diagnose cancer or cardio vascular ill health much sooner, we will radically reduce demands on health and care spending. We can already see a future in which we entirely eliminate cervical cancer thanks to the vaccine; with the right approach we can see that ambition applied elsewhere.

We should consider the Irish model for attracting inward investment and building on the success of projects such as the Moderna deal bringing MRNA technology to the UK we will identify and encourage firms with breakthrough technologies to set up and operate in the UK. We will look at how planning reform and innovative financial mechanisms can facilitate such inward investment and radical innovation.

We will need to provide a new settlement for researchers building on existing measures to make the UK more attractive for breakthrough research. We should also **review research funding bureaucracy** including the Research Excellence Framework to ensure that it more effectively promotes innovation. We should go further to unleash the potential of patient capital and back innovative models of innovation diffusion and partnership between universities and industry, especially in areas outside of London.

We should minimise the costs of transition to Net Zero – although the costs of climate change and biodiversity loss are likely to be far higher as the Dasgupta Review has shown. Ever more drought, widespread flooding, threats to food security and mass migration flows would be an environmental and economic disaster. So we must take a reinvigorated approach to seize the huge opportunities of new industries and renewable technologies. Using the COP process and international collaboration we should aim for a market, science and technology driven approach which can protect the environment and enhance productivity.

We must continue to maximise the new freedoms to tax, regulate and trade differently and more nimbly outside the EU – with a five year sunset on EU retained legislation to ensure every set of rules is examined, and where it cannot be repealed, replaced with a reformed pro-enterprise UK version. We should also explore more nimble investment and subsidy rules to make sure we have maximum flexibility to invest in new technologies, energy transition and in our left behind areas and consider extending the tax and regulatory benefits currently available in free ports.

10. Solve the Housing Crisis – Unaffordable housing reduces social mobility and is a barrier to economic growth. To stay the party of opportunity and home ownership we must be the party of housebuilding. Governments for decades have simply been unable to address this issue. I am determined we solve it.

This housebuilding can only be done with consent, and our planning policy must reflect that to ensure new housing is welcomed by communities not seen as a burden. That means a massive **new programme of Garden Villages and New Towns**, with beautiful design as standard, liberalised rules for building and the necessary infrastructure around new houses funded through capture of the land value uplift created by planning permissions and the use of publicly owned development corporations. I support proposals for Street Votes to enhance community support for new housing as well as the vision of the Oxford Cambridge Arc to create a new hotbed of growth.

We must also be the party of renters. No one should have to live in substandard housing. That's why I would take steps to tackle rogue landlords, whether in the private or social housing sector, with a strengthened ombudsman to take action against bad practice, and adequate means of redress. Though we should recognize that most landlords are a critical part of the housing market. And to ensure rentals work for families I would introduce new incentives to offer longer-term tenancies giving them the security they need.

Fundamentally, our housing crisis is a supply-side problem. We cannot hope to improve affordability over the long term and extend the opportunity of homeownership to a new generation if we simply push up demand without increasing supply.

11. Unleash Britain's Towns and Cities – One of the biggest drivers of our wide regional disparities and barrier to levelling up is that our cities and towns have been held back from achieving their true potential. The Industrial Revolution was driven by the great cities of the North and the Midlands and the opportunities today from accelerating urban renaissance in Birmingham, Sheffield, Leeds, Newcastle, Glasgow and elsewhere are enormous.

We should go much further than the commitments in the Levelling Up White Paper and set up **a Great British Towns and Cities Commission to open the way for a new municipal bond market**, as in the US, and consider greater devolution of powers over housing and planning as well as considering **devolution of tax powers such as capital allowances and more flexibility over business rates**.

If we're serious about levelling up we need to consider devolving some tax cutting and borrowing freedoms. More housing, jobs, infrastructure and culture in our great towns and cities where people want it will help us create new global centres of growth and opportunity.

12. Increase Competition – Competition is a key driver of long run productivity growth and it is obvious that a series of industries need a wave of competition to drive new services, to support innovation and keep downward pressure on prices. We should explore new models of sector regulation such as new single economic regulator merging existing sector regulators or creating a new cross-sector sandbox authority that would work across all sectors of the economy and support new entities with new business ideas that are inhibited by existing legal and regulatory frameworks – as has successfully happened already with the FCA's sandbox.

We need to extend choice and competition across the economy and introduce a new Competition Act to simplify and modernise regulation and the regulators with the intention of improving long term growth rates. Brexit has also given us the ability to strike independent free trade deals. We must reinvigorate this agenda of free trade which is also an essential driver of competition and reject the siren call of protectionism which will only lead to worse living standards for our people.

13. Renew International Economic Policy Frameworks – The UK should lead a new Bretton Woods modernising the governing institutions of global economic policy. A new London Agreement could take three major steps to support global economic growth, ensure we remain rule makers not rule takers and advance the cause of democracy in the developing World.

Firstly, we need a new global debt architecture. Unsustainable sovereign debt and the knock-on effects of the Russian invasion of Ukraine threatens to create a new wave of crises in the developing World. But the global response has been unable to address the fundamental solvency challenges. We need to move towards pre-emptive not post-crisis debt restructuring, we need a debt for climate swap facility, more transparency and more collective action clauses. This will strengthen our alliances across the World too and provide an important alternative to China's Belt and Road and debt diplomacy initiatives.

Secondly, we need a new governing framework for cross border digital markets with a new **Global Digital Markets Authority**. Everything from competition and data privacy to the impact on local journalism and the use of AI is driven by Big Tech firms which cannot be regulated by one country alone. Given the economic dominance of these firms, it's vital we modernise our approach. Moreover, in 10 years, the Big Tech firms will be Chinese, Indian and Nigerian not just American so **we need to set the rules now before we get left behind.**

Thirdly, the pandemic and the invasion of Ukraine has shown once again the importance, and at times the precariousness, of global supply chains. We need a new way to broker agreements and sustain investment and trade in strategic commodities and materials at times of geopolitical stress and conflict to smooth out long term economic consequences. We could launch a **Global Strategic Reserves Forum** which would look at issues such as water supply and rare minerals with the intention of **warding off the threat of protectionism and also ensuring security of supply**.

14. Extend Ownership – We must reinvigorate the Tory mission **to extend mass asset ownership**. Beyond homeownership, we should explore what other means we can to create a wider base of asset owners. This could include using part of the proceeds of the privatisation of Natwest Group (formerly RBS) to create a new capital endowment for children from more deprived communities.