it's time for a new

Conservative Way Forward

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CONSERVATIVE WAY FORWARD

MESSAGE FROM THE CHAIRMAN

Steve Baker MP

Two and a half years ago, the Conservative Party celebrated our biggest majority at an election since Margaret Thatcher. Millions of people across the country were inspired by our message of hope and unity and they placed their faith in us – in many instances for the first time in a generation.

Yet today, across a range of issues, the Conservative Party is in the wrong place, heading in the opposite direction of conservatism, limiting our country's potential, contributing to the cost of living crisis and risking a Labour government. That's why we now need a new Conservative Way Forward.

Conservatism is about striving to pass a better future and our best policies on to the next generation, yet our current direction presents the very real and grave risk that the next generation will be the first to be worse off than their parents.

With taxes and government spending at their highest for more than six decades, we're grinding miserably into the future trying to meet unaffordable state spending commitments to fund my generation's day to day consumption, and expecting young people to pay for it with higher taxes on their work.

For years my generation has been living beyond its means with cheap credit, QE, and rigged planning rules, all of which have helped the asset rich and hurt the young, old and the poor whose savings have been eroded and the value of their labour diminished. This is unjust, wrong and fundamentally unconservative. Young people should be dreaming of buying their first home, and of a stable and prosperous future, as I once did.

Take today's cost of living crisis. It's not people's mortgages, rent, energy or fuel bills that are people's biggest monthly outgoings - it's their tax bill. The cost of running today's bloated state.

A better future is not going to come from more regulation, tax, debt or coercion. The current answer to every social or economic problem cannot be more Government, higher taxes, more spending. The Conservative Party should never find itself on this territory.

The British people need their freedom back – freedom to dream, to plan for a future, free from excessive political interference, and to be able to live a responsible life in their communities.

We have nothing to fear from the enduring wisdom of the British people. Individuals and families know best how to spend their own money, not Whitehall. Just as families have to budget every month, and live within their means, so too should the state.

We need a new vision of hope and optimism for the future – where Conservatives take pride in creating the conditions for community action, which is neither addicted to state control and spending, nor to individuals being left to fend for themselves.

Conservatives embrace and believe in community, but relationships are only high quality and virtuous when they're free. There is such a thing as society, it's just not the same thing as the state. Healthy societies are created by free people, living their best life in the right relationship with others.

The Labour party will never understand this. They will always turn to decree, coercion, compulsion, state collectivism, and privileging people like them, in power, over the hardworking men and women who pay their way.

Britain doesn't want Labour's extreme, politically-motivated ideology, which always leads to poverty, misery and failure. Only the Conservative party can form a government worth having – but it's time to rediscover who we are, and why people put their faith in us.

The Conservative Party stands for freeing people, unleashing their talents, and giving them the tools they need to deliver their own success.

Freedom will ensure that the UK becomes the most attractive and competitive place for investment in the world. Let's reduce taxes and regulation, as so thoughtfully set by Julian Jessop in this paper. Let's cut state control over the economy and our lives, and break down the barriers to private entrepreneurship. As this excellent paper by Julian Jessop makes clear, cutting taxes would be both right in principle and right in practice. It would encourage enterprise and investment, while allowing the hardworking public to decide how more of their own money is spent.

Let's unleash a renaissance of entrepreneurialism, where we can be proud of each other's successes, by reducing state spending, bureaucracy and debt so that we can lower taxes and the cost of living, giving people a greater a say over where their money goes, allowing businesses the space to reinvest, grow and create jobs.

INTRODUCTION

It is once again a time for choosing - between freedom or state control, and that's why I've decided to relaunch Conservative Way Forward, so that we can help the Conservative Party to lead with both humility and fierce resolve, making the case for policies that solve the real, practical difficulties in people's lives, in a way that prioritises freedom and responsibility.

Our movement will demonstrate to the Government that it is the talents and ingenuity of the British people that they need to trust to get us through this cost of living crisis, not the state's worst instincts to take people's money and plan their lives for them. And the pursuit of freedom shouldn't be put on hold during a cost of living crisis, it must be accelerated.

We will show just how popular these conservative policies are, supporting ministers, reminding them of these timeless values and policies that got them elected and which will make us all so much more prosperous if we pursue them.

We will show that conservatism is about unleashing the power of a free people.

This country can become still more prosperous and successful under Conservative governments. And we still have a chance to ensure we hand on a legacy to our children that we can be proud of, as our parents and grandparents did for us.

But this will require Conservatives all over the country to rediscover firm principles grounded in the wisdom of the years, practically applied in a steadfast direction, however hard the road ahead may be.

Our launch event, in the historic Churchill War Rooms, is a reminder to us all of the strength and fortitude of the British people. They have risen to the moment in the past, and will do so again.

So I call on Conservative Party members and the wider public to join us as we begin to create a new movement for prosperity through freedom and to make it attractive to everyone.

We're at a crossroads for our Party and for the country. Let's consign state control and sluggishness to the history books, and start a new chapter together, with buoyancy and bulldoggish optimism, so that we create a freer, happier and more prosperous society which everyone wants to be a part of.

STEVE BAKER MP
Chairman of Conservative Way Forward

A CHARTER *for* TAX CUTS

by **Julian Jessop**

A Charter for Tax Cuts by Julian Jessop

EXECUTIVE SUMMARY

The change of Chancellor is a golden opportunity to rethink economic policy. The Government should do much more to lower the burden of taxation as part of a pro-growth strategy, including supply-side reforms and a return to sound money.

Done well, **'a dash for growth'** does not have to be inflationary and could actually help to reduce the upward pressures on costs and prices.

Other countries are facing similar economic challenges, but **the UK is one of the few to be actively tightening fiscal policy in the midst of a global crisis.** This is contributing to a significant increase in the burden of tax, which will soon be the heaviest since the 1940s.

The previous Chancellor recognised the need to slow the pace of fiscal consolidation and to provide more help to households. Nonetheless, the overall fiscal stance will continue to be contractionary. **The tax system is also becoming more complicated,** especially for businesses.

The arguments in favour of cutting taxes are straightforward. It is right in principle: people should be free to decide how to spend more of their own money. Many people are also now paying far more in tax than they – or the Treasury – had expected.

Cutting tax is also right in practice, especially now, when the UK needs to boost growth. This is not just about increasing disposable incomes. Tax cuts can also help the supply side of the economy by making work pay, and encouraging enterprise and investment.

There is still a danger that some people see tax cuts as the solution to any economic or social problem, in the same way as others might always want more public spending. Nonetheless, **many of the arguments against tax cuts are weaker than they might appear.**

It makes more sense to **focus on rolling back the state and cutting the price of government**, rather than taking a bigger role as a given. Tax cuts can also boost growth and therefore improve the public finances over the longer term.

Concerns about the debt interest bill and the overall level of debt are exaggerated. In particular, the impact of higher inflation on the cost of index-linked gilts will be spread over many years, and the real interest rates on these bonds are still firmly negative.

It is not clear that tax cuts would add to inflation. In fact, they could actually reduce it, both directly (such as cuts in VAT) and indirectly (by taking some of the pressure off wages). The overall impact on prices should therefore be small. The Bank of England has suggested that the recent cost of living support package might raise inflation by (just) 0.1 percentage points.

It would also be **no bad thing if we did end up with looser fiscal policy and tighter monetary policy.** Most economists agree that the UK has got this mix wrong. A shift in the balance here should support sterling too, which would help with inflation as well.

There are plenty of changes that the Chancellor could make, including revisiting some of the tax increases that have already been announced, and cutting existing taxes. The best way to do this will largely depends on what you are trying to achieve – whether it is to provide a quick boost to demand, target more support at the most vulnerable households, improve the supply side performance of the economy, or some combination of all of these.

My own priorities would be to **cancel or at least scale back the planned increases in corporation tax,** lower income tax by unfreezing the thresholds and bringing forward the cut in the basic rate, and doing a bit more now on the cost of energy (including cutting VAT on fuel). I would put these above cutting the standard rate of VAT on all goods and services.

But regardless of exactly how it is done, **the government needs to do more to reduce the tax burden** – and the sooner the better.

Julian Jessop is an independent economist with thirty five years of experience gained in the public sector, the City and consultancy, including stints at HM Treasury, HSBC, Standard Chartered Bank and Capital Economics. He now works mainly with thinktanks and educational charities, including the Institute of Economic Affairs, and is a regular commentator in the media.
All views here are his own.

1. SETTING THE SCENE

The UK economy has struggled for many years – going back at least to the Global Financial Crisis of 2008-09. Productivity growth has been weak, limiting the growth of real wages. The economy did rebound more quickly than most had predicted after the pandemic, thanks in no small part to the success of the furlough scheme and the vaccine programme. But the recovery has been hampered by labour shortages (total employment is still lower than in 2019), and now by the surging cost of living.

Other countries are facing similar problems. Despite claims that Brexit has crippled the UK economy, cumulative GDP growth since the 2016 referendum has been similar to that in Germany, France, Italy and Spain.

Nonetheless, the UK does stand out in one respect: the relatively early tightening of fiscal policy. The easing of the pandemic has allowed the Government to phase out the most expensive Covid support measures, notably the furlough scheme. This is clearly welcome.

But the UK Government has also raised taxes, including the 1.25 percentage point increase in both employee and employer National Insurance contributions, the freezing of tax-free allowances and higher rate thresholds for personal income tax (until 2025-26), and a planned increase in the main rate of corporate income from 19% to 25% (from April 2023).

This has contributed to a significant increase in the tax burden. On the usual 'national accounts' basis, tax revenues are expected to rise from 33% of GDP in 2019-20 to more than 36% in 2023-24, which would be the highest ratio since the late 1940s.

The previous Chancellor had recognised the need to slow the pace of fiscal consolidation and provide more help to households as the cost of living crisis has worsened. In particular, there has been a significant tax cut in the form of the increase in the National Insurance threshold.

The Government has also announced an additional cost of living support package, including one-off payments of £600 to households on means-tested benefits, £300 to pensioners, and £150 to people on disability benefits. The planned £200 repayable discount on domestic energy bills has also been doubled to £400 and turned into a grant.

What's more, the Government has committed to lower the basic rate of income tax by 1 percentage point, from 20% to 19%, by the end of the parliament.

It is therefore wrong to suggest that the Government has done nothing to ease the cost of living crisis, or that the Treasury (let alone Rishi Sunak himself) is fundamentally opposed to tax cuts. But despite these changes, the overall fiscal stance will continue to be contractionary on current plans, and the overall burden of taxes will continue to increase. The tax system is also becoming more complicated, especially for businesses.

There is therefore a significant risk that the UK becomes trapped in a vicious cycle of rising taxes, weaker economic growth, higher government borrowing – and ever higher taxes.

2. THE CASE FOR CUTTING TAXES

The arguments in favour of cutting taxes further are straightforward. For a start, it is right in principle: people should be free to decide how to spend more of their own money, rather than have the government do it for them.

Many people are also now paying far more in tax than they – or the Treasury – had expected, mainly as a result of higher inflation. Rising nominal incomes mean that more people are being pulled into higher rate tax bands, which is known as 'fiscal drag' . Higher prices are also increasing the revenues from indirect taxes, notably VAT. Many will agree that it is only fair that the Treasury now gives some of this 'windfall' back.

But tax cuts are also right in practice – especially now, when the UK needs to focus on boosting economic growth both in the short and longer term. Tax cuts can help here in two main ways. One is via the demand side of the economy – increasing disposable incomes and spending power.

The other, which is at least as important, is via the supply side. In particular, tax cuts can ease labour shortages by making work pay, and they can encourage enterprise and investment.

The international context is important, too. It has not gone unnoticed that the UK is one of the few countries that is now raising taxes, particularly on businesses. Some of our major competitors (notably the US) have already scaled back their own plans to increase corporation tax, while others (even France) are actively lowering the burden.

3. THE ARGUMENTS AGAINST

As ever, there are arguments on both sides. There is a danger that some people see tax cuts as the solution to any economic or social problem, in the same way as others might always want more public spending. The Government – and especially the Treasury – sometimes needs to take "tough but responsible decisions".

Nonetheless, many of the arguments against further tax cuts are not as strong as they might appear. Here is a selection of the most common – and some rebuttals.

"We cannot afford to cut taxes"

The argument: the government has already had to spend vast amounts of money during the pandemic and on cost-of-living support. There are huge spending pressures in the pipeline, including public sector pay, pensions, health and social care, and defence. Cutting taxes further now would therefore add to the burden on future generations and be fiscally irresponsible.

This is a narrow view. As a starting point, it makes more sense to focus on controlling spending and cutting the price of government, rather than taking a bigger role for the state as a given. Even before the pandemic, UK public spending was around 40% of GDP, which is surely more than enough to fund high-quality public services and a decent welfare system. The Covid crisis has also demonstrated that the government is not actually that good at spending huge amounts of money well.

Tax cuts can also help to pay for themselves, by improving both the demand and supply sides of the economy, and therefore contributing to the health of the public finances over the longer term. If done well, tax cuts now could therefore ease the burden on future generations, rather than saddle them with a weaker economy and higher bills.

'We are already paying too much in debt interest'

The argument: the independent Office for Budget Responsibility (OBR) is already forecasting that debt interest payments will cost the government over £87 billion this year. A figure nearer £100 billion is now plausible as inflation rises. This leaves no room for tax cuts.

This is misleading. Note first that most of the jump in debt interest is due to the RPI uplift on the 'principal value' of inflation index-linked gilts (which is the amount that holders will receive when the bonds are eventually redeemed).

This is money that will only have to be paid out when the individual bonds mature, an average of around 18 years in the future. In the meantime, the real interest rates on these gilts are still negative.

For example, in May, the RPI uplift on index-linked gilts contributed £5.0 billion (or roughly two-thirds) of the £7.6 billion in central government debt interest costs. It is therefore more accurate to describe the £7.6 billion as the interest 'payable' (on an accruals basis), rather than the amount actually 'paid out'.

It is also unhelpful to compare the projected debt interest bill of £87 billion (or £100 billion) to annual spending on, say, defence and justice – or education. These figures are not the same as the budgets for departmental spending in a single year.

This is more than just nit-picking. The fact that these higher debt interest payments will be spread over many years undermines the argument that the government cannot afford to cut taxes now. Looking instead at actual cash flow, higher inflation will still provide a windfall to the Treasury, as rising nominal incomes and higher prices feed through into higher tax receipts.

Indeed, despite the bad news on new borrowing, the public debt to GDP ratio of 95.8% in May was actually 0.1 percentage points below the latest OBR forecast. In other words, higher inflation is still reducing the real burden of government debt.

Rising inflation and debt interest costs therefore pose a much smaller challenge to the public finances than they do to family budgets. In particular, the government's income rises automatically when inflation increases, because the tax base is larger. The government is also much better able than households to spread the cost of interest payments over time.

What's more, the RPI uplift will have relatively little impact on the government's cash requirement (known in the jargon as 'CGNCR ex') in 2022-23. This is the amount that actually has to be raised from the markets to cover the gap between cash inflows and outflows. Put another way, there will still be plenty of cash to spend on other areas, without having to issue loads more new gilts.

It is also wrong to obsess about debt levels anyway. The ratio of UK government debt to GDP is still well within a manageable range – and lower than many of our peers.

'Most people don't need the money'

The argument: many households have built up large savings during the pandemic (the ONS has estimated that forced savings amount to over £140 billion, or around 10% of annual household disposable income), and other households are already receiving plenty of support from the Government. There is therefore no need to do more.

The savings accumulated by households during the pandemic will allow some people to maintain spending despite falling incomes. But these savings are unevenly distributed, with many lower-income households and the 'squeezed middle' missing out.

The changing context is also important. Even those who have already received a lot of support may still need more help in the autumn, when energy bills are likely to jump again.

Of course, some tax cuts (and also some of the additional cost of living payments) may go to households 'who do not really need the money'. However, there is always a trade-off between targeting support at particular groups (which is administratively difficult) and making sure that as few people as possible fall through the cracks.

Above all, tax cuts are not just about supporting demand in the short term. They can also improve the supply-side performance of the economy for the longer term.

'Now is the wrong time...'

The argument: there is too much uncertainty to make any major changes to fiscal policy (including tax cuts) until we have more monetary stability (i.e. low inflation). This would make it even harder for the Bank of England's Monetary Policy Committee to do its job properly and get on top of the current inflationary surge.

This prompts the retort, if not now, then when? There is always some reason to wait before making any policy change.

It would also be no bad thing if we did end up with looser fiscal policy and tighter monetary policy. Most economists (from a wide variety of perspectives) agree that the UK has got this mix wrong. A shift in the balance here should support sterling, which would help with inflation as well.

Finally, now is actually a good time to be cutting taxes further. The economy is fragile and could do with some extra support. And the flipside of higher inflation is higher tax revenues, creating more room for cuts in tax rates.

4. TAX CUT OPTIONS

There are several approaches that the new Chancellor could take. One would simply be to revisit some of the tax hikes that have already been announced. It would have made sense in the spring to pause the increases in National Insurance contributions for at least a year, but that ship has already sailed.

However, there are two other large changes that have not yet been implemented in full. The first, on income tax, is the freezing of both the personal allowance and the basic rate limit at 2021-22 levels for five years. This measure is now likely to raise even more revenue, due to fiscal drag. It is time to rethink the freeze.

The second change is the planned hike in the main rate of corporation tax from 19% to 25% next year. Treasury thinking here (well explained by Rishi Sunak in his recent Mais Lecture) is that it is better to have higher rates of corporation tax, but offset, at least in part, by more favourable allowances for new investment. This thinking has already been reflected in the design of the new 'Energy Profits Levy', which is the windfall tax on the profits of energy companies.

Another option would therefore be to keep the 'super-deduction', which is a temporary tax break for spending on plant and machinery and certain other assets. This is currently due to expire in March next year, but could be extended.

However, there is little evidence that the 'super-deduction' has had much impact on business investment, where the UK continues to lag behind. The problems here go well beyond the tax system. But the mixed signals, unpredictability and additional complications of increasing tax rates, while tinkering with allowances, have not helped. With other countries, notably the US, rethinking their plans to raise corporation tax, the new Chancellor should now do the same.

Now would also be a good time to kill off the discussion of a new 'online sales tax' , which is a terrible idea anyway.

Of course, the Treasury will be reluctant to back down on any measure that has already been announced, even though economic conditions are now very different. Some will say there have been enough 'U-turns' already. But this might now be easier with a new Chancellor in charge.

There are good arguments too for cutting existing taxes. The best way to do this largely depends on what you are trying to achieve.

The former Chancellor was leaning towards reforms to business taxes which could raise investment and productivity. In turn, this should boost growth and real incomes via the supply side of the economy. But the approach here is muddled (the implementation of 'Energy Profits Levy' was a prime example of this, with even the Labour Party recently acknowledging that haphazard windfall taxes can threaten investment).

If the main aim instead is to 'put money back into people's pockets' and allow them to choose how to spend it, then cutting income tax is probably the most effective tool. Rishi Sunak had already recognised this by pre-announcing a 1p cut in the basic rate, but not until 2024. This could now be brought forward.

However, if the priority is to tackle the cost-of-living crisis by providing a quicker boost to demand, other measures might do more to help the lowest-income households struggling with their bills.

Here, Rishi Sunak deserves more praise for what he had already done. This includes the reduction in the Universal Credit taper rate, which is effectively a tax cut for low earners, and is much better targeted than the increase in the National Insurance threshold. The latter provides the same cash benefit to almost everyone that pays NI, whether rich or poor, even though this benefit is worth proportionately more to those on the lowest incomes.

But there are other levers that could still be pulled. One option (apparently being suggested by No.10) would be a temporary cut in VAT. This would be expensive – lowering the standard rate from 20% to 17.5% could cost the Treasury as much as £20 billion – and not particularly well targeted at those who need most help.

VAT is also one of the least bad taxes. It is less distortionary than most others, and many essentials are already charged at a lower rate or exempt.

Nonetheless, every tax option has pros and cons. Cutting VAT would be relatively simple and would provide an immediate boost to spending power. With energy costs still rising, there is now a stronger case for cutting VAT on fuel and suspending some of the policy levies from domestic bills, including the 'green' levies. This would be hard to square with the Government's 'net zero' agenda. But the Government could stress that these changes would only be temporary and that other countries are doing similar things.

5. CONCLUSIONS

Everyone will have different ideas about which taxes to cut first. The table below provides some ballpark numbers for the direct costs (or benefits, depending on your point of view) of a range of options.

Table: Indicative costings of tax cuts

Measure	Cost (2023-24)
1p off basic rate of income tax	£5.3bn
£1,000 increase in personal allowances	£6.1bn
Suspend 1.25% Health and Social Care Levy (employees)	£7.8bn
Suspend 1.25% Health and Social Care Levy (employers)	£9.3bn
1pp off standard rate of VAT	£7.5bn
Halve planned increase in Corporate Tax (from 6pp to 3pp	£7.2bn
10p off fuel duties on petrol and diesel	£5.4bn

Source: author's calculations based on HMRC ready reckoners

My own priorities would be to cancel or at least scale back the planned increases in corporation tax, lower income tax by unfreezing the thresholds and bringing forward the cut in the basic rate, and doing a bit more now on the cost of energy (including cutting VAT on fuel). I would put these above cutting the standard rate of VAT on all goods and services.

But regardless of exactly how it is done, the government needs to reduce the tax burden – and the sooner the better.

CONSERVATIVE WAY FORWARD

AT A GLANCE

LORD DAVID FROST

History shows that the nation state is the best way so far developed to create prosperity and wealth, social cohesion, and solidarity for all who live within it. Put simply, people are richer, happier, and more fulfilled when they live in a successful country.

The British nation state, the United Kingdom, has been weakened from outside by the era of EU membership and from within by an increasingly complex set of economic, social, and political problems.

We need to get back on track. We are now free to do so as a country. And Conservative Way Forward can help make it happen.

We know the right formula for success. It's free markets, low taxes, and personal freedom. It's an effective state, not a large state, one that can do to a high standard the tasks only it can do - such as control the borders, fight crime, defend the country, support functioning and efficient public services. And it's a collective sense of common endeavour, a politics where our common identity as British and our investment in the success of our country is the most important thing for all of us.

These are fundamentally Conservative values which, I believe, are widely supported across the Party. That's why I am excited to work with CWF to put them at the centre of politics and make our country, once again, successful and admired.

GREG SMITH MP

Deputy Chairman

As a young Conservative in the aftermath of the 1997 General Election defeat, I knew the values and principles that underpinned Thatcherism would be our party's route back to electoral success. The standard bearer for those values was Conservative Way Forward under the Chairmanship of the late, great, Eric Forth MP - who had worked with Lady Thatcher to define the nine principles that continue to define the rebirth of this important organisation within the Conservative family.

Having served CWF in the late nineties and naughties - and now as MP for Buckingham - I am delighted to return to the organisation as Deputy Chairman, making the case for small state, low tax, free market, classical liberal economics and above all freedom.

Recent years have focused on the important matters of delivering a proper Brexit, and reasserting the United Kingdom as a sovereign country once more. But in that time we have seen a drift leftwards in domestic and economic policy, culminating in the highest level of taxation in 70 years.

I look forward to playing my part in making the positive case for a rediscovery of those values and principles, applying and updating them to the problems of today, and delivering conservatism in government.

BARONESS HELENA MORRISEY

Both Conservative Party members and Parliamentarians have been expressing dissatisfaction with government policies that seem far removed from Conservative principles, and which are reactive rather than strategic. At the same time, Britain's economic and social problems have become more acute and more complex.

We urgently need the best ideas to create solutions, ideas that are based on a renewed commitment to the principles of freedom, enterprise, community, equal opportunity and sound economic management.

Conservative Way Forward aims to develop strategic policies, removed from the fray of personal and reactive politics, with a series of parliamentary boards around themes such as energy, health and welfare, tax, education, skills and infrastructure. These will be chaired by MPs and peers who will work collaboratively with colleagues and subject matter experts.

It's an exciting and much-needed initiative that I hope will bring Conservatives across the worlds of business, culture and broader society together again.

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capitalism
deregulation
freedom
community
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nationhood
security
choice

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