

Six messages to the new government for how to restore the UK

*The new Labour government faces an enormous task of restoring the wounds to the UK economy and public services caused by Brexit and the austerity years, among other things. **Nicholas Barr** offers six pieces of advice for how to make the job a little easier, including formulating a 10-year plan, not ruling out borrowing as part of a growth strategy, and designing mutually reinforcing policies.*

The UK [economy](#) grew 2.9 per year between 1997 and 2007. Between 2010 and 2021 [growth](#) was 1.2 per cent per year. And taxes as a percent of [national income](#) are the highest in 80 years.

The central plank of the new government's strategy – rightly – is economic growth, to bring about higher living standards and, through higher tax revenues, higher investment in public services, higher benefits and, over time lower taxes. Without growth, the UK will remain stuck with high-taxes, low-growth, low benefits and inadequate public services.

The new government faces an enormous domestic restoration job. It should address the greatest mistakes of the previous government – Brexit, public spending cuts, and a naïve belief that tax cuts are the answer; complement private investment with public investment; formulate a long-term (10-year) strategy; and include borrowing as an option for financing pro-growth investment.

Estimates suggest that without Brexit, tax revenues today would be about £40 billion higher.

Message 1: Don't shoot yourself in the foot

Poor UK economic performance is partly due to outside events – the 2008 economic crisis, the pandemic and the Russian invasion of Ukraine. There is no such excuse for two other causes: Brexit and austerity.

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[higher](#). The adverse outcomes of Brexit were both predictable [and predicted](#).

The argument that tax cuts increase economic growth is over-simple and wrong. Taxes that are too high harm growth, but so do taxes that are too low.

Second are public spending cuts since 2010 (austerity). The following recent articles, all from the BBC, portray a sorry picture: The town struggling to see a [doctor](#); [child death](#) rates on the rise; [crumbling schools](#) plagued by leaks and cold; BBC uncovers 6,000 possible illegal [sewage spills](#) in one year; north-east [child poverty](#) report “contains shocking truths”; [jails](#) to run out of space in days, governors warn; number of [rough sleepers](#) up by a quarter in England; [roads](#) in England and Wales at “breaking point”.

For both of these reasons (Brexit and austerity), new [Foreign Direct Investment](#) projects in UK fall to near 12-year low.

Message 2: Tax cuts are the wrong answer

The argument that tax cuts increase economic growth is over-simple and wrong. Taxes that are too high harm growth, but so do taxes that are too low. The lowest tax is zero, but then there will be no schools, hospitals or roads.

If the argument is right, countries with lower taxes would have higher growth rates. But countries like France, Germany, and Canada have higher taxation than the UK, but also higher productivity, faster growth and less inequality.

Message 3: Productive private investment needs to be complemented by productive public investment.

Here are few examples to illustrate the point:

- Long NHS waiting lists, in addition to the human costs, mean that workers requiring treatment are out of the labour force for longer.
- Failure to provide high-quality and adequately-financed training leads to skills shortages.
- In the longer term, there is overwhelmingly strong evidence of the huge payoff to investment in early child development. A baby born in England in August does less well in [school](#) than a child born in September, and the effects persists to university

entrance.

All these shortcomings end up having a negative impact on the economy and productivity.

Message 4: Reversing the decline needs a 10-year strategy

Working for the World Bank in Central and Eastern Europe after the collapse of communism, I suggested that countries should base reforms on where they wanted to be in ten years time. In doing so, I pointed out the distinction between two types of reform.

Type 1: policies that a government can implement immediately, e.g. abolishing the [two-child benefit cap](#).

Type 2: policies that need time to plan and implement. Restoring public services are mainly of this type, as exemplified by policies to restore the NHS and education.

In the case of the NHS, restoration needs a plan, time, [finance](#), and co-ordination to:

- Train more medical personnel;
- Plan and build more medical facilities – hospitals, polyclinics, virtual wards;
- Plan and test better use of IT and AI for health care;
- Restore GP capacity;
- Build the capacity of social services.

Some pro-growth policies don't need additional spending.

In the case of education and training, again, time, resources and co-ordination are needed to:

- Assist social mobility, both for its own sake and because technical change is driving up the demand for skills. The UK cannot afford to waste talent.
- Strengthen early child development: the two-child benefit cap creates child poverty which is morally wrong, and because failure to invest in the future workforce is batty.
- Restore [crumbling school buildings](#).

- Review secondary education, e.g. options like the [International Baccalaureate](#).
- Implement [reforms of tertiary education](#), in particular rebalancing finance, and breaking down the iron curtain between vocational and university education.

Other areas needing some public investment include development and regulation of AI, and research and a strategy for rollout for green energy and the life sciences, e.g. more widespread use of gene therapy.

Message 5: Don't rule out borrowing as a way of financing public investment

Some pro-growth policies don't need additional spending. The Labour manifesto promises reform of the planning system to facilitate new housing (and supporting infrastructure), and new commercial ventures.

Improving trade links, especially (but not exclusively) with the EU, includes easing restrictions for short-term work (e.g. musicians, consultants), and for [young people](#).

Though perhaps a vain hope, discussion of immigration should be more thoughtful. A line that won applause in one of the leaders' television debates was that if you came across an immigrant in the NHS, they were more likely to be treating you than ahead of you in the queue. Research by the [Oxford Migration Observatory](#) suggests that immigration is a net economic benefit to the country.

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More esoteric (and politically difficult) is replacing the tax concessions for corporate interest payments by tax concessions for investment in factories and machines to remove the incentive to [financial engineering](#) that actively militates against productive investment.

Extra resources: borrowing for a well-articulated investment strategy.

The [predictable](#) market reaction to the mini-budget of September 2022 was because borrowing was uncostered by the Office for Budgetary Responsibility (OBR) and primarily

to finance tax cuts. Borrowing to finance a detailed investment strategy that's costed by the OBR, would not evoke the same response.

In April 2024 [national debt](#) was 98 per cent of national income. That sounds bad (and is bad), but note that at the end of the Second World War the comparable figure was 240 per cent.

Politically, implementing plans with a ten-year horizon will require a steady hand.

Extra resources: the tax rate and tax base.

An election promise was not to increase the rates of income tax, national insurance contributions and VAT. However, tax revenues depend not only on tax rates but also on the tax base, e.g. the commitment to impose VAT on private schools. A more radical option is a carbon tax, using part of the large increase in revenue to compensate the less well-off.

Message 6: A strategy, not just a bunch of policies.

A strategy is a series of policies designed to be mutually reinforcing in pursuit of stated objectives. Growth will depend heavily on the size and quality of the current and future labour force, so examples of how the pieces need to fit together include:

- Making high-quality, affordable child care more available, both to allow parents to take on paid work and to enhance early child development.
- Expanding NHS capacity, both for the direct benefits and to allow workers with health problems to return to work more quickly. Expanding social care is part of expanding NHS capacity.
- Strengthening education and training. Hungry children don't learn well, so higher benefits are part of improving educational outcomes.

Politically, implementing plans with a ten-year horizon will require a steady hand both over time and in terms of content, i.e. avoiding past mistakes such as early termination of promised [subsidies](#) for solar panels.

A tough ask – but a great prize – higher living standards, readily-available health care,

social services that work, higher benefits, and education that builds on early child development.

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