The Budget Challenge

2024 Budget

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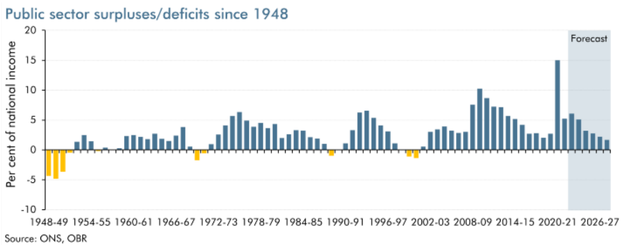
SECTION 1: Current economic outlook

Unemployment

As GDP growth rate reduces and spare capacity increases (due to an inefficient use of the factors of production), labour demand and vacancies for employees in firms in the UK decrease, leading to a rise in unemployment. The number of vacancies decreased from 1.3 million in May 2022 to approximately 960,000 in October 2023 (Economic and fiscal, 2023). This has led to a rise in unemployment rate from 3.7% in 2022 to 4.2% in 2023. As announced in the Autumn Statement by the Chancellor, national insurance is being cut. Although this may provide some relief in the short term, this will cause a rise in inflation as aggregate demand increases. Due to this predicted rise in inflation and decrease in labour demand, the British Chamber of Commerce forecasts the unemployment rate to increase to 4.7% in 2024 and then change to 4.6% in 2025 and the Office for Budget Responsibility (OBR) forecasts employment rate to fall from 60.7% in the 3rd quarter of 2023 to 60.2% in the 2nd quarter of 2025 (Economic and fiscal, 2023).

Balanced Budget

At the end of October 2023, the public sector net debt was around 97.8% of the GDP (Munro, 2023). The target for government debt is for the debt to decrease as a % of GDP by the fifth year of the OBR forecast. The UK's budget deficit was at a peak in 2020-21 of £312.7 billion. This has decreased to a deficit of £131.6 billion in 2023-24 (A brief guide, 2023). The measures outlined in the Autumn Statement, including the reduction of National Insurance Rates and improving the methods to collect tax debt, contribute an additional £0.2 billion to annual receipts throughout the forecast period. It is expected for the receipts to continue growing at a faster rate than government spending, which will lead the deficit to decrease in the upcoming years. The budget deficit or surplus depends on economic growth. Due to high interest rates, inflation and spare capacity in the economy, the economy is expected to only be 1.5% above normal capacity in 2023-24 but as economic activity revives by mid 2027, there will not be a budget deficit (A brief guide, 2023). Resolving



Economic Growth

In the last couple years following the pandemic our economy has maintained a cumulative growth rate despite high energy prices, inflation, and interest rates. This can be attributed to a modest degree of excess demand rather than excess supply. However, real GDP per person remains 0.6 % below its pre-pandemic peak, which is only expected to recover in 2025. The estimate of medium-term potential growth has been revised down from 1.8% in March to 1.6% due to a decrease in working population which is only partly offset by higher migration, stronger business investment, lower energy prices, and certain policy measures to boost supply. In the Chancellor’s policy package delivered in the Autumn Statement 2023 he plans to cut National Insurance Contribution rates, which is estimated to raise employment by 28,000 and total hours worked by 94,000 by raising the post-tax gains from work. Low business and consumer confidence points to weak growth in the second half of 2023. The ONS estimates only 0.1% real GDP growth in the 4TH quarter of 2023 as squeezed real wages, higher interest rates, and unwinding government support all weigh on economic activity. Real GDP growth slowed from 4.3 per cent in 2022 to 0.6% this year, and 0.7% next year. Growth is predicted to pick up to 1.4% in 2025 and an average of 1.9% between 2026 and 2028 as the squeeze on real wages eases and in interest rates fall back, closing the output gap.

Inflation

Over the past year inflation has been significantly higher than the target of 2%. This was because during the COVID-19 pandemic people spent a lot less. As the pandemic ended, people had a lot of money saved and spent more. Demand increased but supply didn't due to inflationary pressure. (UK Inflation Rate) Inflation reached its peak in October 2022 at 11.1%. Since then, there has been a trend decrease in inflation rate with the value hitting 4.6% in October 2023. The current target for UK inflation is 2%. This has not been achieved since July 2021.

Currently, the Bank of England predicts that the inflation rate will continue to steadily decrease until reaching the target of 2% in late 2025 (When will we get back to low inflation?). While this is a good sign, many prices will have risen dramatically increased the cost of living and making it much more difficult for many UK families to survive.

Distribution of Income

According to the equality trust (The Scale of Economic Inequality in the UK), the top fifth control 36% of total national income, while the bottom fifth only control 8%. This shows a vast difference in the amount of income earned by the same number of households showing the still relatively high levels of income inequality in the UK. Additionally, in 2022, incomes for the poorest 14 million people fell by 7.5% while the incomes of the richest fifth saw an 8% increase once again showing the income inequality still present in the UK.

SECTION 2: Economic goals

Economic Growth

Our first economic goal to be pursued in this budget is economic growth. Economic growth is important for many reasons. Firstly, economic growth is key to reducing poverty. The OECD estimates that a 10% increase in a country's average income will decrease the poverty rate by 20-30%. During a study by the OECD on 14 different countries in the 1990s, it was found that in the 11 that experienced significant growth, poverty fell and in the 3 that experienced stagnant growth, it did not. On average, for every 1% increase in per capita income, poverty fell by 1.7% Department For International Development (2008). A reduction in poverty is vital to an economy as it increase the quality of life meaning the average happiness increases making people more productive at work therefore increasing economic growth. Furthermore, reducing poverty reduces tension between social groups creating a more cohesive and productive society. Also, economic growth provides more employment opportunities. This is important as it means more people are working to grow the economy and it means more people are paying tax meaning increased government revenue and therefore better services provided to the public. This in turn increases average happiness leading to a more productive workforce growing the economy.

We plan to achieve economic growth in several different ways. We want to stimulate investment and consumer spending in the economy. The first way we plan to do this is through boosting employment. We will do this in two ways. First through a scheme called the additional employment scheme which will help the currently unemployed get a temporary job until they find a good job. The second thing we will do is boost manufacturing in the north especially in the automobile industry which is currently our largest import. We also plan to increase economic growth through the use of green energy. The UK imports a lot of oil and natural gas. We believe increasing our green energy output is important as not only is it better for the planet but also, it reduces our imports of oil and gas meaning we have more money available for other things. Finally we plan to improve state education as we believe the children are the future and by improving education we can ensure they get better and higher paying jobs increasing future government tax revenue. Furthermore, with more funding, more teachers can be hired so the government will be earning more in tax immediately.

Inflation

The government of the UK has given a target of maintaining 2% CPI inflation by 2025 to the Bank of England (A brief guide, 2023). Keeping a low and stable inflation is crucial for economic agents to plan ahead: firms to set prices and plan for borrowing and investing, households to plan their spendings, and governments to set taxes. Because taxation is done in nominal terms, and there is not complete indexation or adjustments made from inflation, high inflation can result in unfair and distorted taxes on households and firms (Benefits of price stability, 2021).

The inflation rate also impacts other macroeconomic objectives significantly:

- High or very low inflation impacts distribution of income negatively. For example, high inflation is especially adverse for households with a lower income.
- In the short-run, inflation means lower unemployment as individuals have a higher purchasing power, and there is an increase in demand. Higher inflation leads to a higher cost of living and may also lead to unemployment if individuals

are not able to afford enough, or if firms reduce their capital investment and do not require as many workers (The Relationship between Inflation and Unemploment).

- Moderate inflation represents a growing economy as individuals demand more, there is a sustained rise in overall price levels and individuals spend more as their income rises.

It is important to maintain a moderate inflation rate to prevent the cost-of-living crisis and ensure a sustainable economic growth.

Maintaining a low and stable inflation rate can be achieved by reducing the aggregate consumption of the economy. The Bank of England changes interest rates by changing the UK's base interest rate (Bank Rate) in order to control consumption. A higher bank rate causes savers to get more return on savings and for potential borrowers it is more expensive to take out a loan, disincentivizing consumption and causing firms and businesses to rise prices at a slower rate. However, utilising interest rates to control inflation is not a fault proof method and can have other negative impacts within an economy (e.g. high mortgage payments and increasing unemployment. The UK government has committed to increasing defence spending by £5 billion over the next two years and has set an ambition to increase defence spending to 2.5% of GDP in the longer term despite already meeting target set out by NATO. Changing government policy to increase subsidies to industry and business will help the UK increase the supply of goods and slow down the increase of price.

Increasing food prices due to inflation is one of the biggest financial threats to families in the UK. In March 2023, the 12-month rate of UK CPI inflation was among the highest across advanced economies, second only to Germany, this contrasted with the recent decline in global food commodity prices, reflecting how there were lags before price shocks to filter through the supply chain. Taking milk prices as an example, the average retail price has increased from about £0.45 per pint in 2019 to £0.70 per pint in March 2023. Diverting government funds into farming subsidies could facilitate cost reductions for businesses, enabling them to pass on lower prices to the consumer.

With a major shortage of housing, houses in the UK become increasingly unaffordable. With growing demand for housing from an increase in population and migrants and incomes, stagnant supply has led to inflation of house prices. In 2022, the median yearly income for a full-time worker in England and Wales was £33,400 and so an affordable home would cost about £100,000, but the house price was £270,000. The mortgage rates also rose from 0.1% to 5.25% from 2022 to first half of 2023 (Howard). The main problem for housing has been unresponsive supply in the UK. House prices increased by 441% between 1970 to 2022 in the UK, but construction fell by 46%. The government has invested in housing in recent years. The Prime Minister and Secretary of State for Leveling Up, Housing and Communities planned to regenerate 20 cities in 2022. In July 2023, the government promised the allocation of £800 million to open up 56,000 new houses on brownfield sites. They also invested £550 million to Homes England and landmarks of up to £250 million (Long-Term Plan for Housing).

SECTION 3: The Proposed Budget

VAT for Demerit Goods

The first way we plan to fund government investment and spending for economic growth and reduced inflation is by increasing VAT on demerit goods from 20% to 30%. Demerit goods have negative spillover effects. An example is individuals who smoke cigarettes. They also harm others due to passive smoking. The deteriorating health also requires the government to spend more on healthcare. An additional 10% VAT on demerit goods will therefore increase government revenue and allow us to fund our other policies. An average household in the UK spends 2% of their budget on demerit goods such as alcohol and tobacco. The total VAT receipt for 2024 is expected to be about £162.0 billion. With about 28.5 million households, each household's VAT receipt is estimated to be £5700 (VAT). If 2% of the goods (demerit goods) contributing to a £5700 VAT have an additional 10% VAT on them, an average household VAT receipt will increase to £5757. This will lead to total government revenue from VAT rising to £164.0 billion. While demand may decrease due to increased prices, we believe the overall effects of this increase will still be positive for government revenue.

Education

Another sector which is currently struggling a lot is the education sector. This is because it is underfunded and funding in real terms is reducing every year. Teachers' salaries are incredibly low at an average of £37000. Also, the facilities for schools are ageing and most are poor condition. As we have seen recently in the news, many schools can't afford heating and due to poor insulation, children are going cold. This is not an appropriate environment for a child's education. We propose that, as the Labour Party are planning on doing, we introduce VAT for private schools. It is estimated by www.schoolguide.co.uk that if this were introduced, it would generate more than £1.6 billion in additional tax revenue. However, we want to ensure this additional tax revenue is being utilised for the correct purpose which is to fund state schools. So instead of this money going directly to government, it would be passed from the private schools to the local councils which are expected to share it proportionally to state schools in their area. How much money is provided to each state school will be dependent on the number of pupils attending, the number of staff they have and require and the age of their infrastructure and other facilities. To ensure the right sum is provided official records should be kept by each council to show exactly where the money is going and how much. These records will be regularly reviewed by the ministry of education and inspections of schools will be done regularly by department members to ensure the money is being used to benefit the children. We believe this is incredibly important to achieve economic growth as the children are the future of the economy. A better education system with better standards of teaching and facilities will allow children to have higher paying careers in the future boosting the economic output of the country.

Employment

One way we plan to ensure economic growth is by reducing the unemployment rate as this increases the economic output of a country. We plan to do this in two ways. First, we are proposing a brand-new employment scheme called the additional employment scheme. Secondly, we plan to expand the manufacturing sector in the north of England, creating more, relatively low skilled jobs.

The Additional Employment scheme will be a government run scheme which companies can choose to sign up to. The way it works is that currently unemployed people such as university students waiting for a job in their desired sector will be given jobs at companies that sign up for the scheme. All of the jobs available will require either no training or limited training that takes no longer than a week. While at these jobs the people using the scheme will earn the same as a new hire for the company. In order to incentivise companies eligible for the scheme to sign up and accept as many unemployed as possible, the government will pay half of the salary if the employer is hiring on top of their required staff. To provide further incentives, companies that are eligible and do sign up will be the first considered for government investment as well as subsidies and grants. In order to help these people find unemployment in their desired sectors as fast as possible, a government careers advisor will be provided to the people part of the scheme.

We believe this program will be self-funding for a number of reasons. Firstly, there are currently (www.statista.com) 1.46m unemployed people in the UK. Assuming this scheme is a success, the number of unemployed could be reduced to 1m. If this were the case, the government would spend £2 billion less than they currently do on unemployment benefits. This can be used to pay for the salaries of the people who are hired as excess, but we believe this will be a small part of the total in this scheme since there are currently labour shortages in many sectors such as hospitality, accommodation and food services. These are relatively low-skilled sectors of the economy so unemployed people can fill these jobs relatively easily. Furthermore, assuming every new employee is paid the average UK salary of £38000, the government would receive an additional £3.1bn in tax revenue assuming the scheme has 460,000 members as we predicted. While the majority of new employees will be filling up vacancies, some will be additional hires on top of the required staff so government will have to pay 50% of their salary. As an upper estimate, we assume 230,000 people are additional hires. This would take the salary burden to £4.37bn. The government would also need to hire enough career consultants. The average salary of a career consultant in the UK is £39,000. If we hire one consultant per 100 employees, we need 4600 meaning £179.4m in salaries. This would take the total to roughly £4.5bn in salaries paid by government meaning we are still making a profit of £600m bearing in mind this is a high estimate. It is more likely around 20-30% of people will be additional hires due to the amount of job vacancies in the UK meaning the government profit margin will actually be higher than this.

Manufacturing

The other way we plan to increase employment is by expanding industry in the North of England. We plan to do this as we want to encourage investment in the North as well as reducing our imports to balance our books. Currently, it is estimated that there are 100,000 unemployed people looking for work in the manufacturing sector. While many of these people may live in other areas of England, it is likely there are a lot of people unemployed in other sectors who could do the less skilled jobs offered by the manufacturing industry. Currently, one of our largest imports is cars, which we spent £40bn on in 2023. By increasing the level of manufacturing capabilities in the UK we plan to reduce the number of cars we import by focusing the new facilities on car manufacturing. Assuming 70,000 people take jobs at the new factories, the government will spend £320m less on benefits and will earn an extra £170m in taxes. In order to facilitate investment and efficient movement of goods, we plan to use this additional income to refurbish railway lines from London and the South to the North to ensure trains can move without delay. We also plan to expand road networks to ensure cars and trucks can travel without problems. Following this improvement in transport links between the North and the South we believe investment will grow even further leading to an increase in jobs in many different industries. This will decrease unemployment even further leading to increased economic output. Furthermore, the expansion in industry can be used to produce goods required for future green energy schemes.

Green Energy

We plan to increase government investment in green energy to prevent the UK lagging behind in net-zero plans and address our underlying vulnerability to international oil and gas prices by reducing our dependence on imported oil and gas. Net import dependency increased in 2023 from 36.3% to 37.8% with 20.8 billion pounds worth of crude oil imports. We plan to incentivise a surge in electrical infrastructure with government subsidies to both households and firms in order to update the power grid. Ofgem estimated that between 60% and 70% of high-voltage transmission schemes never connect to the grid. It found more than half of these schemes in the queue had to wait five years or more to be offered a connection date. By subsidising onshore and offshore transmission network infrastructure we will be able to meet the scale and pace of demand for electricity across the UK incentivising job creation and speeding up the UK's movement towards net-zero. This way we can ensure our power grid is as efficient as possible meaning less electricity is wasted meaning we can import less oil and natural gas to use for electricity. The money previously spent on this can be used to subsidise the revocation of electrical infrastructure especially in lines which transport the largest amount of electricity. Furthermore, we plan to expand our on-and-offshore wind networks as well as growing our hydroelectric capacity in the north and Scotland. We would look to receive the money necessary through investment from business owners. The incentive to invest is that currently, association with green energy schemes bodes well for businesses and paints them well in the public eye.

Furthermore, we will provide corporation tax cuts of 1% for the next five years allowing them to make more profit.

Housing

To increase the responsiveness of supply, the government will decrease supply constraints and continue with the Affordable Homes Programme 2021-26 that aims to deliver up to 180,000 new homes with an £11.5 billion investment which has already been made by the government (Affordable Homes Programme). The government will invest an additional £2 million to pay consultants that guide local authorities with housing plans. This will help increase the affordability of about 100,000 houses. Additionally, the government will introduce a new rural housing scheme. This scheme is a data gathering scheme where government consultants analyse rural land around existing settlements to determine the best suited land for new developments. This information will be made available for free on the government website. This can be used by housing developers to decide where to build homes. It will make construction of houses cheaper and easier since companies no longer have to pay for surveys and information gathering and can instead use this website which we will provide. This will reduce costs for developers therefore reducing the costs of housing. Continuing with the Affordable Homes Programme, and starting the new affordable rural housing scheme, will help meet the aim to build about 300,000 new homes in the UK this year. Not only will this increase the standard of living of the population, but it will also stimulate economic growth. Building houses requires labour and creates jobs, reducing unemployment and increasing economic growth. With at least 17,000 more construction recruits, there would be an additional £4 billion circulating in the economy. Furthermore, in order to ensure we have enough labour to build the homes, we will relax regulations on the Skilled worker visa for workers who can provide evidence of a background or training in construction or management. While it is important to have enough labour it is also important to have adequate management for the projects so resources can be as well allocated as possible. Through this, it will incentivise more workers to come from abroad since it isn’t as much effort and time to apply. This way we can ensure we have enough labour to complete our planned projects and the quality of management to complete them adequately.

Agriculture

Increasing food prices due to inflation is one of the biggest financial threats to families in the UK. Managing these costs where possible within the supply chain, and identifying where government subsidies can be introduced, will contribute to a decrease in food prices. Diverting government funds into farming subsidies could facilitate cost reductions for businesses, enabling them to pass on lower prices to the consumer. General labour shortages in the logistics and supply sector are directly affecting the supply of food. There are simply not enough drivers, logistics, procurement, shipping and warehousing staff nationally to meet existing or future demand. Finding, funding and facilitating workforce skills development to get the chain moving is critical to supply chain performance and overall costs. The main way we will look to facilitate this is by listing it as a priority job for our additional employment scheme. This means jobs in this sector will be prioritised when providing unemployed people with their temporary jobs. This will increase efficiency in the sector, reducing costs, allowing producers to reduce prices in order to combat the current cost of living crisis.

Budget Summary:

Sector	Education	Employment	Manufacturing	Housing	VAT on demerit goods	Total
Revenue	£1.6 billion	£600 million (minimum)	£170 million	More tax revenue due to high employment and incomes	£2.0 billion	£4.4 billion minimum
Spending	£1.6 billion	-	-£320 million due to reduced benefits	Additional £2 million	-	£1.5 billion minimum

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