PAYING FOR A DECADE OF NATIONAL RENEWAL

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Compass

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About this report

The government claims that rebuilding Britain depends on growth. But will the growth strategy work? And even if it does, how much difference would it make? This report shows that a strategy for recovery needs other levers to mend the broken economy and crumbling public services inherited by Labour. It argues that by harnessing the nation's abundant, but often misused, resources, it has the capacity to launch a faster programme of renewal than would come from growth alone.

About Compass

Compass is the pressure group for a Good Society, a world that is much more equal, sustainable and democratic. We build alliances of ideas, parties and movements to help make systemic change happen. Our strategic focus is to understand, build, support, and accelerate new forms of democratic practice and collaborative action that are taking place in civil society and the economy, and to link those with state reforms and policy. The meeting point of emerging horizontal participation and vertical resource and policy we call 45 Degree Change.

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Introduction: there is an alternative to austerity

This week, the Chancellor, Rachel Reeves, will set out details of planned cuts in non-protected public spending, including the budget for disability benefits. Inheriting a dismal economic situation that has gradually worsened, Labour claims that to meet its rigid rules on borrowing, raise defence spending and avoid further tax rises, they have no choice. With 'no money left', the government insists that renewing crumbling public services depends on faster growth. This is to be achieved through a boost to public investment aimed at 'crowding in' more private sector activity.

This report sets out the argument for an alternative strategy that would lead to faster economic renewal while avoiding austerity and the over-reliance on private and market activity for social and public progress. The evidence is that austerity, an overused and unnecessary strategy for cutting public spending during economic crises, would slow growth and deepen the crisis in public services. Labour's strategy is too dependent on longstanding Treasury thinking that ignores Britain's economic bias to inequality, the excessive reliance on markets, and the power over resource allocation seized by capital.

These economic dangers then feed a political crisis, which could accelerate support for the populist right. Labour forced off course by economic crisis and resorting to cuts and deregulation feels all too familiar.

Instead, Labour needs to embrace an alternative pro-equality and tax-reforming strategy aimed at economic reconstruction and faster social progress. The paper argues that:

- Faster growth alone, even if it is achieved, is only a small part of the solution.
- Making the private sector take the lead in recovery risks, as with the Private Finance Initiative, allowing excessive private returns and restricting the progressive capacity of the state. Now that Europe is turning to a state-led strategy of expansion, and ending its long attachment to rigid rules on debt, Britain needs to relax its own borrowing rules to finance a higher level of public investment. The aim should be to at least double the planned additional public investment of £5.8 billion, for green investment and infrastructure, over 5 years. This would boost growth and social recovery.
- Such a plan for expansion could also be reinforced by a number of other levers.

Other levers:

- Ending years of stagnation needs a strategy for demand by boosting social spending on vital areas, from apprenticeships to stronger social protection, such as raising child benefit. Such measures would cut poverty, now close to a post-war high, and help kick-start a weakened economy. Cuts in social spending are not the way to boost economic activity and lower the national debt because they act as a drag on recovery. Adding the goal of reducing inequality and poverty to Labour's missions would help to build a more sustainable economy by strengthening social resilience.

- More resources could be released through a restructuring of the tax system, by a gradual shift of the tax base towards assets. Britain is a wealthy nation. Personal wealth holdings have risen from three in the 1970s to six times the size of the economy today. Yet wealth is taxed at a rate of around 4%, making only a tiny contribution to the public purse.
- The tax system has failed to catch up with the surge in the importance of wealth over income in the way the economy operates, and does little to dent the growing, and destabilising, concentration of wealth holdings at the top. Measures could include equalising the rates of income and capital gains tax, raising around an extra £14 billion a year. Doubling the tax rate on wealth holdings would add £40 bn a year to state revenue. And, as introduced in Spain, a new 'solidarity tax' on the largest wealth holdings could raise around change to £20 billion annually.
- A significant, negative effect of the current mix of extreme wealth concentration (the top tenth own 45% of all wealth), and an over-reliance on private and market activity in the way resources are used, has been a hike in spending on low social value activity. Britain has an over-supply of luxury housing, increasingly bought for speculative purposes and left empty. It is one of the highest users of private jets, contributing a fifth of related emissions across Europe. It hosts a vast and lucrative tax avoidance and lobbying industry used by the wealthiest to ensure economic policies that serve their interests. Over-consumption by the rich and under-consumption on the everyday goods that sustain our daily lives is a primary driver of the decline in the country's capacity to meet essential needs - from children's services to social and health care.
- Steering scarce resources into socially productive areas needs new breaks on the consumption patterns of the wealthiest and a more equal sharing of the gains from growth. This can be driven by a more egalitarian social strategy aimed at closing the income and wealth divide in part through a reset of Britain's model of increasingly anti-competitive, predatory capitalism. This has empowered a small elite to use their companies as private fiefdoms and as cash cows for their owners and executives, in ways which have also weakened economic capacity.
- Far from there being 'no money left', the report shows that even modest boosts to capital taxation and resource restructuring could add billions of additional resources to pay for social renewal. On current predictions, as shown in the table below, growth would add around £75 bn a year to tax revenue after five years. Modest extra taxes on wealth and a process of resource redistribution could add

a further £92 billion for reconstruction, more than doubling the contribution from growth.

Such measures would avert the plans for a series of further cuts to public services. Fifteen years of rolling austerity have already brought immense damage to the economy, ordinary living standards and the public accounts.

Potential contributions to national renewal from different sources

	By year 5
Extra tax revenue from growth	**£75bn**
An additional £40 bn a year from capital taxation	**£40bn**
Resource transfer from low to high value activity	**£52bn**

A cold climate

> *'Assuredly we can afford this and much more. Anything we can actually do we can afford.'*
>
> **JM Keynes, 1942[1]**
>
> *'The money isn't there.'*
>
> **Keir Starmer, 2024[2]**

There's nothing new about Labour winning power in the coldest of economic climates. This was true of 1945 and 1974 as well as 2024. The government has inherited a nation torn by economic sclerosis, stagnant living standards, and near record levels of poverty. The public realm has been stripped of its strength, struggling to meet mounting social needs after years of destabilising budget cuts.

The big question is can Britain be rebuilt from its broken base? Can Labour seize the opportunity, missed after the 2008 financial crisis, to deliver economic recovery, a better society, and a fairer, more enterprising country? During the election campaign, Keir Starmer attempted to lower expectations of what was achievable. As he put it, 'The money isn't there'.[3]

Labour faces no shortage of hurdles including the dismal state of the public finances. The level of gross public debt stands at 101% of gross domestic product (GDP), much of it from the cost of the 2008 financial crisis and the Covid pandemic. The fiscal account has a deficit (public spending less tax revenue) of 6% of GDP.[4] This gap is met by borrowing. Because of a sharp decline in the size of public asset holdings, Britain (Chart 1) is one of only a handful of countries with an overall deficit on their public finance balance sheet (assets less debts), a situation that limits the room for manoeuvre.

Chart 1: Britain is broke[5]

Publically owned assets less debts, % of UK economy, 1970-2020

1 JM Keynes, Collected Writings, vol XXVII, Palgrave Macmillan, 1980, p 270.
2 S. Huskisson, 'Keir Starmer blasts Tory plan as Jeremy Corbyn-style manifesto', Mirror, 11 June, 2024.
3 S. Huskisson, 'Keir Starmer blasts Tory plan as Jeremy Corbyn-style manifesto', Mirror, 11 June, 2024.
4 Office for National Statistics, 'UK government debt and deficit', 30 April, 2024.
5 World Inequality Lab, World Inequality Report, 2022, fig 3.2, p 77.

The international situation is increasingly perilous, made more so by the power of global finance, the risk of growing protectionism and the rebirth of plutocracy. Labour leaders have also boxed themselves in by excessive political hesitancy, including a pre-election pledge not to raise the rate of VAT, income tax and employee national insurance. Despite some extra flexibility allowed in Reeves' first budget, Treasury rules governing the level of borrowing and debt repayment, there to stabilise financial markets, are still over restrictive.[6]

As a result, the government is set to impose a further wave of public spending cuts. Yet the evidence of a decade and a half of rolling austerity shows that cuts bring lower growth, worse public finances and deteriorating public services.[7] As the former chief economist at the Bank of England, Andy Haldane, has warned, such a move would generate a 'deeply counterproductive' doom-loop.[8]

Another to inherit a dire economic situation was Clem Attlee's 1945 Labour government. Yet, despite a shattered economy and record levels of debt, Labour embarked on a remarkable and transformative programme of social reform and reconstruction. Attlee's response to a threadbare economy was to find new ways of managing the country's limited resources to meet the priorities of reconstruction.[9]

On 2 April 1942, the distinguished economist JM Keynes, the leading architect of post-war economic strategy, was asked to address a war-torn nation on BBC radio. It was the low point of the war. Yet, as Keynes told the listeners, planning for a better future was not just a daydream.

> *Where we are using up resources, do not let us submit to the vile doctrine of the nineteenth century that every enterprise must justify itself in pounds, shillings and pence of cash income, with no other denominator of values but this. I should like to see that war memorials of this tragic struggle take the shape of an enrichment of the civic life of every great centre of population. Assuredly we can afford this and much more. Anything we can actually do we can afford. Once done, it is there. Nothing can take it from us.*[10]

His message of hope was that economic recovery was perfectly possible if resources are used effectively. Financial constraints may be there, but it was a mistake to take accounting figures of debt and deficits as a lack of national economic potential. It was a message embraced by

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6 I. Stockton and B. Zaranko, Definitions of debt and the new government's fiscal rules, Institute for Fiscal Studies, 2024.

7 TUC, Lessons from a decade of failed austerity, October, 2019; Antonio Fatás & Lawrence H. Summers, 'The Permanent Effects of Fiscal Consolidations', NBER, 2016.

8 Sky News, Reeves Risks Economic Doom Loop, 22 January, 2025.

9 S. Lansley, 'Lessons from Attlee', History Today, June 2024.

10 JM Keynes, Collected Writings, vol XXVII, Palgrave Macmillan, 1980, p 270.

the post-war Labour government. Of course, the political and economic conditions were very different from today's. But Keynes' lesson – that success depends on maximising the value of resources – is still highly relevant.

Here the Treasury has a much more partial view of the way the economy works. As the department's former permanent secretary, Sir Nicholas Macpherson, described the priorities of economic policy: support for markets, scepticism of government intervention, adherence to 'sound money' (controlling inflation) and disciplined spending.[11]

Drawing heavily on pro-market neoliberal thinking, the promise was that these doctrines would deliver a more dynamic and competitive economy. Instead, they have delivered deep structural faults: an economic bias to inequality, over-marketisation, and the excessive returns seized by capital, each of which limits the resources available for social progress. Labour's overriding mission should be a reset of corporate capitalism that tackles these faultlines and releases more resources for renewal. Achieving this would need a range of measures. They include a restructuring of the tax system, a shift towards activity that boosts well-being through 'good growth', a plan for greater equality, and limits on corporate extraction. Yet these are mostly a long way from Labour's agenda.

Is growth enough?

The government's answer is that progress depends on a higher rate of growth. Given Britain's dismal recent record, growth of the right sort is necessary. But it is not the only lever available and will not be enough on its own. Although some of Labour's measures will boost the growth rate, independent forecasts suggest it will fail to reach 2% pa in the next few years.[12] Relying on growth alone risks a very slow rate of national renewal.

Even growth in excess of 2% pa would offer limited extra resources to meet multiple demands: raise living standards, rebuild the public estate and reduce the level of public debt. As history shows, growth has too often been both elusive and of the wrong sort.

Then there is the question of how to promote growth. The government has raised the target for public net investment from Jeremy Hunt's 1.9% to 2.6% of GDP through new infrastructural projects in areas from life sciences to energy supply. Yet, the extra public funds available are minimal - some £5.8 billion over 5 years - in an investment starved

11 Speech by the Permanent Secretary to the Treasury, Sir Nicholas Macpherson: The origins of Treasury control - GOV.UK.

12 HM Treasury, 'Forecasts for the UK_economy', November, 2024.

economy while the economic gains will be slow to arrive.[13]

Moreover, recovery is to be led largely by the private sector. If Starmer has a political vision, it seems to be to use private, especially overseas, capital to re-energise the economy. The strategy for growth is also heavily dependent on 'supply-side' measures that were prominent in Reeves' Mais lecture in May 2024, and draw on President Biden's economic programme.[14]

'Supply-side' economics originally emerged from the stable of right-wing thinking. A counter to a faltering Keynesian orthodoxy and belief in macro-economic management, the key to prosperity was seen to lie in greater market freedom and tax cuts at the top. New Labour embraced a variation of this model. Gordon Brown has never been allowed to forget his description of 'endogenous growth theory' – that micro- rather than macro-economics was the route to expansion. Yet neither have delivered the promise of sustained prosperity.

An alternative supply-side economics from the left is about rebuilding, in Joe Biden's phrase, 'the economy from the middle out and bottom up'. In the words of Janet Yellen, Biden's Treasury Secretary, it would prioritise 'labour supply, human capital, public infrastructure, R&D and investments in a sustainable future.'[15] Reeves calls her strategy 'securonomics', to build a more productive economy through a more active state. Biden's stimulus, of course, began in a much more favourable economic climate, with very low interest rates.

One of Labour's key new institutions, the National Wealth Fund, is aimed at unlocking investment and boosting innovation through public/private partnerships with the hope of £3 of private investment for every £1 of government money. Some of this new infrastructure – from public transport to green investment - will have a clear positive impact. Others, such as the commitment to three new airport runways, have raised multiple eyebrows. Does promoting more air travel pass the test posed by the American Nobel Laureate Simon Kuznets, the first to devise the system of national accounting? He called for the need to distinguish between activity that benefits society and that which doesn't. While Heathrow executives are cheering, the Northern mayors are asking why projects such as HS2 North are not on the list.

The effect of the proposed fusion between capital and state will also be to leave the process of recovery heavily in the hands of national and global investors, and their insistence on high returns. This risks, again, a bonanza for big business with limited social return. As the economist Daniela Gabor has warned, the public/private partnership plan, by

13 What is the National Wealth Fund? | Institute for Government.

14 Rachel Reeves Mais Lecture 2024 – The Labour Party.

15 Janet L. Yellen, 'Remarks by Secretary of the Treasury Janet L. Yellen', The World Economic Forum', 21 November 2022.

putting our fate in global asset managers is to 'get BlackRock to rebuild Britain'.[16] This was given some substance when the Deputy Prime Minister, Angela Rayner, was photographed in a close up chat with Larry Fink, the CEO of Blackrock, the world's leading asset manager in control of trillions of investment cash.

An earlier example of state de-risking for private investors, New Labour's Private Finance Initiative, proved a financial bonanza for investors. PFI delivered much-needed new schools and hospitals but through contracts that allowed excessive private returns. The taxpayer is still paying the price.[17]

Given the immense power of international finance, and the destabilising record of these giant cash-rich US fund managers, government needs much tougher measures to ensure that they don't simply exploit the public subsidies on offer to own the additions to infrastructure, while insisting on outsized gains to be met by taxpayers. One way of countering this is to insist on state equity stakes in return for the public subsidies on offer. Indeed, such an instrument has now been included in the remit of the National Wealth Fund.[18] This would also help with rebuilding the state's depleted asset base.

This reliance on private finance, as a former Cabinet Secretary and other leading economists have hinted at, could be lessened if the level of borrowing for public investment that the market would be likely to allow could be raised.[19] The Treasury, however, remains wary of such a strategy, fearing that more borrowing might trigger higher interest rates to finance debt repayments. Although it was short-lived, and caused by global not national forces, such a hike occurred in early January. As one former US political strategist once claimed, if he died he would like to come back as the bond market. Nevertheless what the markets fear most is stagnation. They would be less likely to act against extra borrowing for productive investment that would boost productivity and build long term strength.

One of the key questions about growth is who gains. The surge in inequality since the 1980s shows that the gains have been heavily colonised by the already rich.[20] Or as one heckler put it during the Brexit referendum, 'That's your bloody GDP. Not ours.' There is also the vital question of how close we are to the limits to growth. Attempts

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16 Daniela Gabor, 'Labour is putting its plans for Britain in the hands of private finance. It could end badly', The Guardian, 2 July, 2024.

17 L. Emerson, Are we really going to get PFI version 3.0 with a new Labour government?, Intergenerational Foundation, April 2025.

18 Institute for Government, What is the National Wealth Fund?, 12 February, 2024.

19 Letter, 'UK national renewal requires step change in public investment', The Financial Times, 16 September, 2024.

20 S. Lansley, The Richer, The Poorer: How Britain Enriched the Few and Failed the Poor, Bristol University press, 2022.

to boost growth rates in a world of tight ecological constraints risks turning into competition between nations.

In recent decades, the entrenchment of market power, under the cover of the promises of neoliberalism's evangelists, has been used to serve the interests of capital at the expense of wider society. Or as the Austro-Hungarian political economist, born in 1886, Karl Polanyi, described nineteenth century capitalism, 'Instead of the economy being embedded in social relations, social relations are embedded in the economic system'.[21] This lack of counter-civilising structures today helps to explain the great surge in private fortunes in the UK and globally, and the malign effect such enrichment has had on economic performance and ordinary living standards.

Far from the promise of a more competitive economy, an unregulated and anti-competitive wave of mergers and acquisitions has diverted resources from innovation, while suppressing innovation in smaller companies. Far from neoliberalism's promise of a 'march of the makers', more and more markets – from banking and supermarkets to mobile phones and energy supply – have become oligopolistic, a process that has distorted market dynamics and created barriers to new competition. High profile tycoons - only too happy with their freedom to create mega corporations - use their companies as private fiefdoms and as cash cows for their owners and executives.

This makes it all the more strange that the former chair of the Competition and Markets Authority, responsible for encouraging more competitive markets – a key to faster productivity – has been ousted and replaced by Doug Gurr, the former boss of Amazon UK. Some attribute this to Keir Starmer's call to pull out the 'weeds' of regulation as vital to growth plans.[22] Yet, Britain is an already weakly regulated economy, one of the principal causes of the 2008 financial crisis. Indeed, the governor of the Bank of England, Andrew Bailey, has recently warned that it is not too much regulation that has driven low growth, but too little.[23]

While there may be areas of poor or over-regulation, many aspects of economic activity – from environmental damage to corporate extraction – need tougher controls.[24] The easing of planning regulations, for example, needs to be accompanied by measures that prioritise social housing through better zoning. It would be better to build fewer

21 Great Transformation : Polanyi Karl : Free Download, Borrow, and Streaming : Internet Archive.

22 C. Doherty, 'Starmer vows to clear 'regulatory weeds' ahead of Reeves growth speech', The Independent, 29 January, 2025.

23 Reuters, 'Bank of England's Bailey Says Deregulation Can Be Bad for Growth', 11 February, 2025.

24 G. Bevan, How Did Britain Come to This?, LSE Press, 2023.

affordable (good growth) than many more unaffordable homes (bad growth).

A growing proportion of resources have been steered into unproductive and low economic value activity.[25] 'The efforts of men are utilized in two different ways' declared the influential Italian economist Vilfredo Pareto in 1896. 'They are directed to the production or transformation of economic goods, or else to the appropriation of goods produced by others'. Such appropriation, prevalent in the gilded age of the nineteenth century, is now embedded in the global and national economies. Without a reset of today's increasingly predatory capitalist model, little will change even if the world finds a way of escaping from the stagnation of the last decade.

What about demand?

Although the planned rise in public investment announced in the autumn budget will boost demand once it's spent, the focus is on supply. Yet with Britain's rigid fiscal rules, high debt, and shrinking public assets, the economy has a bias to contraction. In sharp contrast, in a significant shift in its strict low borrowing economic policy, Germany is to boost defence and infrastructure spending by higher debt. This expansionary strategy, albeit one that has increased borrowing costs,

is set to bring a wider easing of debt rules across the continent. As the Nobel Laureate and leading pro-market evangelist, Robert Lucas, once put it, 'We're all Keynesians in a foxhole.'

Over the last decade, low wages, weak investment, public spending retrenchment and declining exports have contributed to prolonged stagnation in the UK. In 2024, household demand was the second weakest in the OECD.[26] An important TUC study argues that boosting the productive capacity of the economy with weak demand is like driving with the hand brake on.[27]

Some recent measures - the rise in the national minimum wage, above-inflation public sector pay settlements, and improvements to workers' rights - will raise demand. Yet mild fiscal stimulus is hitting a contractionary monetary wall. Monetary measures have always been a limited tool for solving structural economic problems. The Bank of England, worried by inflationary pressure, is engaged in a process of quantitative tightening (QT), reversing the earlier process of monetary stimulus through years of very low interest rates and quantitative

25 S. Lansley, 'Wealth Accumulation: The Good, the Bad and the Ugly', The Political Quarterly, November, 2024.
26 TUC submission to the Treasury for Autumn Budget 2024 | TUC.
27 TUC, From the doom loop to an economy for work not wealth, February, 2023.

easing (QE). To save a collapsing financial system, supercharged during the pandemic, the Bank has pumped £895 billion into the economy. Yet pairing high interest rates with QT may be unwinding past monetary stimulus too quickly, adding pressure on a fragile economy already close to recession.[28]

Alongside this, the government lacks a strategy for boosting trade. The effect of Brexit, according to the OBR, has been to cut trade with the EU by 15%.[29] An improvement will depend on Britain re-joining the European single market, a move that has been repeatedly ruled out.

Of course, boosts to demand need to stay in line with economic capacity and also need to allow for some supply restraints, from land to a lack of skilled labour in some sectors like construction, housebuilding and engineering.[30] Here the supply-side measures that make Britain more secure from external shocks, such as building more stable supply chains in critical areas like minerals and energy production, are important.

But there is a strong argument that even a mild boost to demand – through, for example, a further rise in real public sector pay, or improvements to some benefit levels, such as child benefit – that would raise current as well as capital spending, would support the supply-side measures.[31]

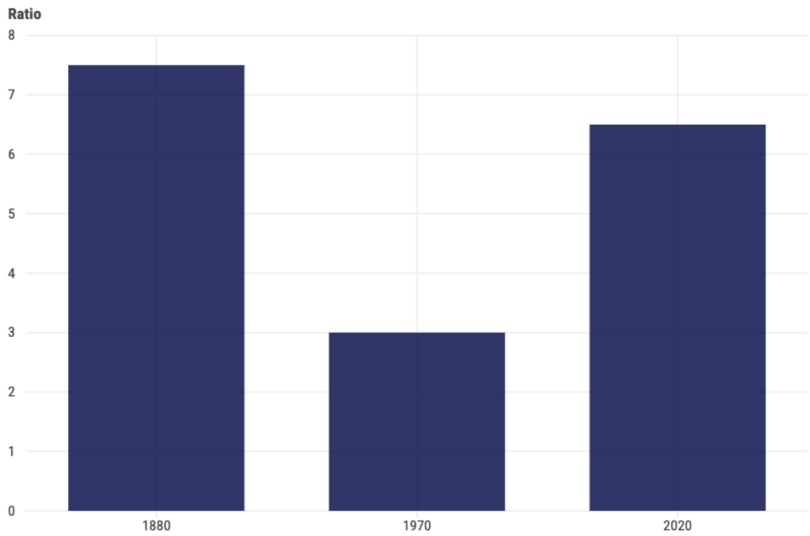
Releasing resources through higher taxation of assets

Expansion alone, however, is only a small part of the solution. Economic activity needs to serve the primary interests of society through, for example, an expansion of high quality basic services and improved opportunities in the most disadvantaged areas.

A regressive global trend has been the hike in returns to capital owners. Britain as a result is an asset rich – in monetary terms – country. As Chart 2 shows, private wealth holdings - a mix of financial, corporate and property assets - are worth close to seven times the size of the economy, up from three times in the 1970s.

28 ‘Could the Bank of England push the UK into recession?’, CityAM, 23 January, 2025.
29 Office for Budget Responsibility, Brexit Analysis, October 2024.
30 James Meadway, ‘Net zero sum games’, March, 2022 https://jamesmeadway.substack.com/p/net-zero-sum-games.
31 TUC submission to Spring Budget 2023: https://www.tuc.org.uk/sites/default/files/2023 02/Spring%20Budget%202023%20-%20TUC%20submission.pdf.

Chart 2: Wealth as a ratio of GDP, UK, 1880-2020[32]



Most of this great surge in wealth has been captured by the already rich. Today's tearaway fortunes are also less the product of a wealth-creating leap-forward, than of the accretion of economic power, monopolisation, and elite control over scarce resources. Much of this swollen wealth pool is unearned, the product of endemic corporate wealth extraction, the rolling sale of former public assets, and state-induced asset inflation triggered by excess financial liquidity and poor regulation of finance.[33] The QE programme had a fitful impact on recovery, but fuelled speculative activity, the takeover boom and property and share prices, greatly boosting the net worth of the ultra-rich.

What is needed is a much more active role for the state in the control of finance through 'credit shaping' policies that direct private capital to high social value activity. There is a strong case for the Bank to have an additional inflation target that restricts asset price rises, perhaps accompanied by a change in the nature of monetary stimulus. Injecting demand when needed could be achieved more directly with cash payments to ordinary people and small businesses through what has been dubbed 'people's QE.'[34]

Despite the questionable sources of rising wealth holdings, the tax system is still heavily biased towards taxes on income from work rather than from assets (on dividends, capital gains and inheritance). While income is taxed at an average of around 33%, wealth is taxed at around 4 per cent.[35]

32 World Inequality Lab, World Inequality Report, 2022.
33 S. Lansley, The Richer, The Poorer: How Britain Enriched the Few and Failed the Poor, Bristol University press, 2022.
34 F. Coppola, The Case For People's Quantitative Easing, Polity, 2019.
35 Author's calculations from HMRC statistics.

Through political inertia, the tax system has failed to catch up with the growing importance of wealth over income in the way the economy operates, and does little to dent the growing concentration of wealth holdings at the top. Take inheritance. An accident of birth, its significance has risen sharply in recent decades, leading to ever higher generational wealth transfers.[36]

Assets tied up in wealth pools are often little more than idle or passive resources, playing a weak active, and sometimes negative, role in the economy. Big inter-generational and lightly taxed wealth transfers contribute little to more productive activity, with one of its primary effects being to fuel higher house prices.

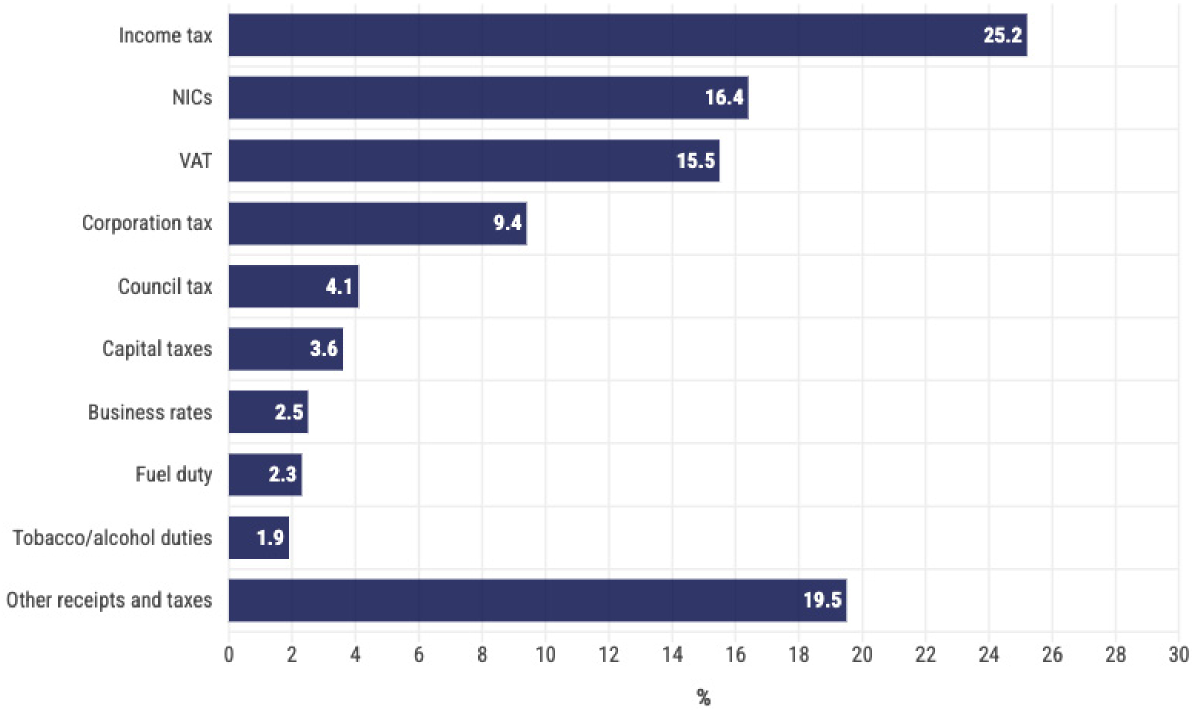
'A power to dispose of estates forever is manifestly absurd' declared the patron saint of economics, Adam Smith, 250 years ago. 'The earth and the fulness of it belongs to every generation, and the preceding one can have no right to bind it up from posterity.'[37] Smith's wisdom was often quoted by Thomas Jefferson, the third President of the United States and the primary author of the Declaration of Independence, the founding 1776 statement of the nation.[38] Progressive taxation – with those with the broadest shoulders paying more proportionately – is a fundamental principle of tax fairness endorsed by a succession of tax commissions in a variety of countries.

Yet only 3.7 per cent of deaths in the UK result in an inheritance tax charge. This compares with 10 per cent in Germany, and 9.3 per cent in Japan.[39] As seen in Chart 3, capital taxes, including in inheritance, make a tiny contribution to the public purse.

36 K. Costa, The 100 Trillion Dollar Wealth Transfer, Bloomsbury Continuum, 2023.
37 Adam Smith, 'Lectures on Justice, Police, Revenue and Arms', Online Library of Liberty, 1763.
38 'Declaration of Independence', National Archives, July 4, 1776. Declaration of Independence: A Transcription | National Archives.
39 'UK could raise more inheritance tax by adopting measures used by G7 peers, says think-tank', Financial Times, 14 July, 2024.

Chart 3: Sources of tax revenue, UK, 2023/24[40]

Percentage of total tax revenue



Note: Capital taxes include stamp duty, inheritance and capital gains tax

A modest and phased shift to capital taxation would help to reduce the illiquid and passive role played by wealth holdings, releasing resources for social reconstruction. A greater emphasis on taxing wealth also has the potential for a significant rise in revenue.[41]

Rachel Reeves has taken some steps to raise extra revenue from the wealthy – through, for example, closing loopholes to inheritance tax, increasing rates of capital gains tax, and doubling the higher rate of Air Passenger Duty (APD) for larger private jets. Yet these are too modest to alter the overwhelming dominance of tax on earnings. The government is, however, aiming to harness additional investment from pension funds which have significant holdings of £160 billion.[42]

There are four broad options for raising the revenue taken from taxing wealth. First, to raise more from existing taxes on the income from wealth, for example, by equalising the rates of income and capital gains

40 House of Commons, Tax Statistics, March 2024.

41 Arun Advani, Emma Chamberlain, and Andy Summers, A Wealth Tax for the UK, Wealth Tax Commission, 2022. R. Murphy, 'Wealth is undertaxed by £170 billion a year in the UK', taxresearch.org.uk, 6 September, 2023.

42 29 January, 'How Rachel Reeves' pension reforms will affect your savings', The i Paper, 29 January, 2025.

tax, a move that could bring up to an additional £14 billion a year.[43]

Secondly, by reform of existing taxes. There is a strong case for replacing council tax and stamp duty with a single progressive property tax. This would require a long overdue property revaluation, with an extended number of tax bands at the top.[44] Thirdly, through a new tax on wealth holdings. A modest annual 2% tax on assets over £10 million could raise over £20 billion a year.[45] Such a measure could be sold politically as a 'solidarity tax' to help pay for reconstruction.

Finally, a much more concerted attack is needed on tax avoidance. Estates of £2-3 million paid twice the inheritance tax rate as those over £10 million.[46] Higher rates of inheritance tax would be easier to sell politically if this inequity were eliminated through reforms of loopholes and exemptions.[47] Also needed is a much tougher national and global line on tax havens. In 2022 alone, an estimated $1 trillion in profits was shifted to tax havens by multinationals, resulting in a loss of global tax of some $255 billion.

A key reform of these secretive jurisdictions is greater transparency. The world's top three corporate tax havens – the British Virgin Islands, the Cayman Islands and Bermuda – are British Overseas Territories.[48] As long argued by the Tax Justice Network, the UK government could take action to encourage its territories to introduce public registers of the shell companies and trusts registered. Only two out of the 14 Crown Dependencies and Overseas Territories have introduced such registers.[49]

Governments have been wary of the political reaction to higher taxes on wealth, but the tide is turning. Those supporting higher taxes on wealth include the Conservative-aligned think tank Bright Blue and the Patriotic Millionaires UK – a group of campaigning multi-millionaires.[50]

Lessons from Spain

There are also important lessons from the way Spain, under Pedro Sánchez's centre-left Spanish Workers' Socialist Party, has built its way out of a succession of economic crises. With Britain in 31st place, The

43 OTS Capital Gains Tax Review: Simplifying by design - GOV.UK.
44 S. Adams et al, 'Revaluation and reform: bringing council tax in England into the 21st century', Institute for Fiscal Studies, 20 March 2020.
45 Tax Justice Network, Ten tax reforms & closed loopholes to raise over £60 billion, March 2025.
46 Office for Tax Simplification, Inheritance Tax Review, November 2018.
47 HM Revenue & Customs, Inheritance Tax liabilities statistics, GOV.UK, 31 July 2024.
48 M. Bou Mansour, Tax haven ranking: UK protects itself while keeping world defenceless to British tax havens, Tax Justice Network, 2024.
49 Tax Justice UK, Momentum continues to build against tax havens, December, 2024.
50 Patriotic Millionaires UK.

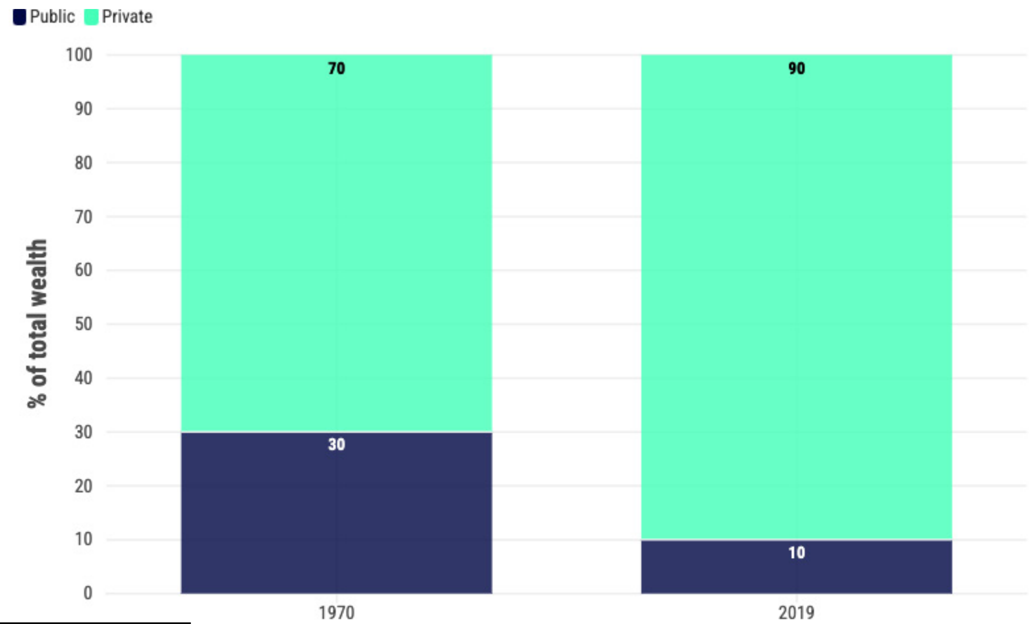
Economist has named Spain the best world economy for 2024.[51] Spain achieved a growth rate of 3.5% and a relatively low rate of inflation while improving the government's deficit. This success has been achieved through, as described by the IMF, 'unconventional fiscal policies'.[52] These include controls over the cost of essentials from gas to rents, and cash transfers to those most affected by the cost-of-living crisis.

Significantly, Spain has also introduced a Solidarity Tax for Great Fortunes (ISGF). This is a temporary and progressive tax on wealth of over €3m (£2.6m), affecting 0.5% of households. The government is banning non-EU nationals from buying a second home, and has introduced labour market reforms which have improved reskilling programmes and strengthened collective bargaining. Supported by EU funding, they have raised investment in renewable energy and infrastructure. In a sign that progressive policies are popular, a 2023 snap election brought a million extra votes for the PSOE, while the far-right Vox party lost 19 of its 52 seats.

Greater democratic control over resources

A more sustained economy also requires greater social direction over the way national resources are used. The impact of flat taxes, privatisation, and monopolisation has been to hand much of this command to asset managers, corporate boardrooms, top bankers and the super-rich. As shown in Chart 4, publicly owned assets as a share of GDP have fallen sharply. This is one of the principal causes of the deterioration in the public finances, while handing more control over the economy to private owners.

Chart 4: Shrinking public assets, UK, 1970 – 2018



51 Which economy did best in 2024?

52 IMF, Unconventional fiscal policy in times of high inflation, September, 2023.

A significant outcome of hikes in inequality is over-consumption by the rich and under-consumption by ordinary citizens. As a result, more of Britain's and the global supply capacity is geared to feeding the lifestyles of the super-rich. This deflects resources from meeting basic needs, essential social infrastructure, and the key foundational and everyday goods and services that sustain our daily lives.[53] In the UK, the top fifth by income account for more than twice the proportion of total consumption as the bottom two-fifths.[54] A boost to investment would need more saving and lower overall consumption, concentrated amongst the wealthiest, to create room to finance it.

Britain has built an extreme version of the paradox of wealth. Despite the surge in asset values, its capacity to meet essential needs - from children's services and young adult training to social and health care - has faltered, with resources steered instead to low social value, and increasingly high emission, activity. Hence the rising social crises facing many affluent countries, and the juxtaposition of enfeebled public services, growing levels of impoverishment, and high levels of super-luxury consumption.

The plutocracy's growing control of resources – often acting as a drag on economic and social progress, and often at odds with the needs and preferences of society – is the inevitable consequence of a toxic mix of over-marketisation and excessive inequality. Britain is one of the highest users of private jets, contributing a fifth of related emissions across Europe.[55] Scarce land and building resources have been used to construct walls of multi-million pound luxury flats and mansions, mostly bought for speculative purposes and left empty for much of the year, by the mobile super-rich. Such misallocation lies at the heart of today's decline in home ownership, a lack of social housing, and unaffordable private rents.

There is nothing new about the impact of high inequality, market-led capitalism. A few years after Queen Victoria's death in 1901, the Italian-born radical journalist and future British MP, Leo Chiozza Money, spoke of the 'wanton extravagance' of the time, with extreme levels of luxury spending on 'non-productive occupations and trades of luxury, with a marked effect upon national productive powers.'[56]

53 L. Calafati et al, When Nothing Works, Manchester University Press, 2023.

54 Office for National Statistics, The Distribution of Household Income, Consumption and Savings, an OECD study, November 2017.

55 'Private jet ban called for in open letter: Which European countries take the most flights?', Euronews, 2 October 2023.

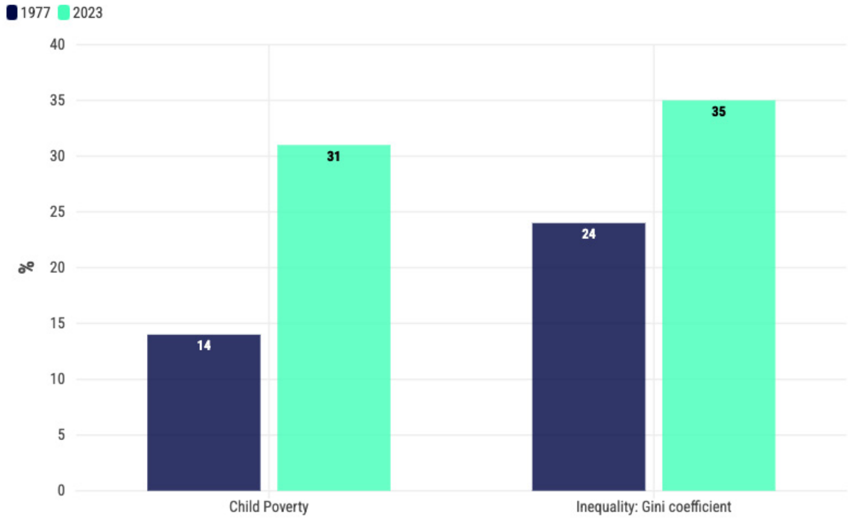
56 L. Chiozza Money, Riches and Poverty, Methuen, 1905, p 165.

The missing mission: a more equal society

Creating a more equal society is one of the prerequisites for linking resources and high value needs. Yet Labour's mission-driven government so far lacks a clear mission to cut inequality and poverty. Since the 1970s, as shown in Chart 5, the income gap has widened sharply. As the gains from growth have been colonised at the top, child poverty, in relative terms, has more than doubled. The poorest fifth of Britons are much poorer than their counterparts in other, more equal nations such as Germany and France.[57]

Chart 5: The end of peak equality[58]

Trends in poverty and inequality, 1977-2023



Note: A higher Gini coefficient means a bigger gap

Poverty and inequality levels are ultimately rooted in the outcome of the power games that play out between big business, state, and society. With the exception of the immediate post-war era, the struggles for share over the last 200 years have been won by the richest and most affluent sections of society, mostly with the compliance of the state.[59]

Central to the post-war social democratic agenda, one that 're-embedded' society into the economy, was the integration of the 'distribution question' – of how we share the cake – in the management of the economy. One of the reasons for post-war economic success was the emphasis on pro-equality measures. These changed the pattern of demand in favour of meeting social needs, the everyday economy, and away from the pre-war demands of the super-rich. This fusion of Keynesian macro-management and social egalitarianism gradually

57 S. Lansley, Extractive capitalism, British Politics and Policy, LSE, February, 2022.
58 Living standards, poverty and inequality in the UK | Institute for Fiscal Studies.
59 S. Lansley, The Richer The Poorer, How Britain Enriched the Few and Failed the Poor, a 200-year history, Bristol University Press, 2022.

softened the co-existence of extreme opulence and mass social scarcity of the pre-war age.

The promise of the counter-revolution against social democracy in the 1980s was that freeing up markets, the political licence to get rich, and the weakening of state social protection would bring a more entrepreneurial economy, with all getting richer, faster. Instead, the doctrines of the neoliberal evangelists have driven much deeper divides along with low levels of private investment and productivity, and more frequent and more damaging financial crises. As the IMF has shown, far from boosting dynamism, high levels of inequality have been associated with brittle economies that are prone to crisis and weak growth.[60] Britain's economic model – built on low wages and high structural poverty – has created a consumer society with too little demand, forcing a self-destructive dependency on debt.

An increasing volume of economic activity has been geared not to building economic strength through productive activity, but to personal enrichment. Social and economic renewal needs an end to the growing number of predatory business methods used to 'top slice' the gains from economic activity at the cost of weakened social and economic resilience and declining life chances. This means targeted controls over the processes of extraction by which a small elite secure an excessive slice of the economic cake often at the expense of wider well-being and social resilience. Examples include the application of monopoly power through the ruthless destruction of rivals, the rigging of financial markets, the 'skimming' of trading profits – a process City traders dub 'the croupier's take' – and the engineering of company accounts. The boom in the private takeover of public companies since the millennium, from the AA and Boots to Morrisons and a range of companies providing social care, has enriched a generation of private equity barons, often at the expense of the survival of the targeted companies themselves. The long list of companies destroyed by such financial extraction include ICI, GEC, BHS and Debenhams.

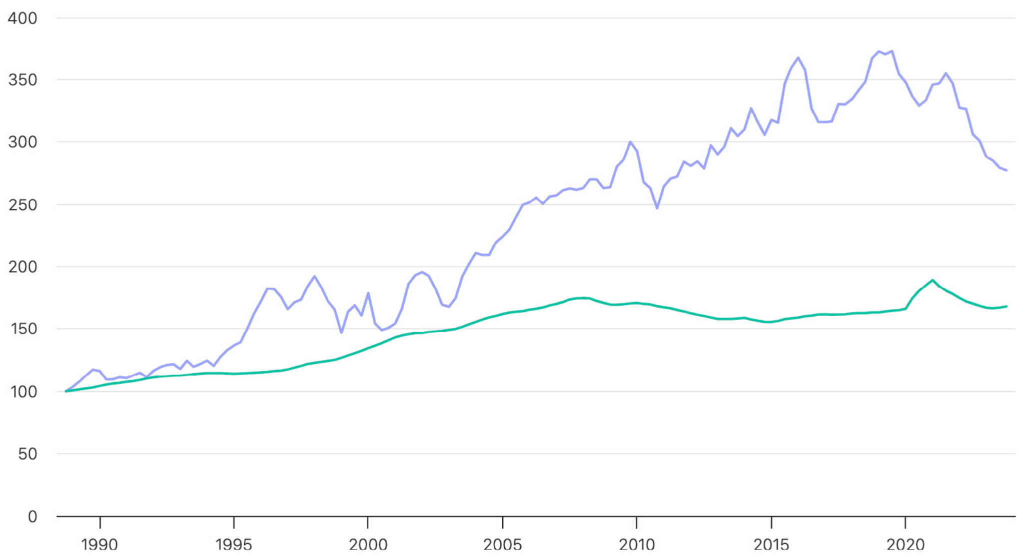
Extraction adds to Britain's tendency to anti-productivism.[61] This is because economic activity becomes detached from new wealth creation, with the boost to profitability and rising corporate surpluses of recent times used to reward executives and investors rather than boost productivity, a key explanation for Britain's low-growth, low-productivity, low-wage economy. Reversing the abuse of corporate power requires much tougher measures on a range of economic activity, from mergers and acquisitions, especially the private equity takeover of key areas of social provision, to the increasingly anti-competitive strategies of capital.

60 Jonathan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, 'Redistribution, Inequality and Growth', February 26, 2014.

61 D. Rodrick, On Productivism, harvard.edu, May, 2023.

Chart 6 shows how dividend payments in the UK have greatly outstripped wage rises in the last 35 years.[62] With UK companies increasingly owned by overseas investors, a rising share of gains have been sucked out of the UK economy, with highly damaging consequences. A remarkable 2600 UK growth companies have been sold overseas in the last decade, mostly to the US. Global investors own 60% of the FTSE 100, a massive self-inflicted loss of transfer of control and investment.[63]

Chart 6: How dividends have outpaced pay, UK, 1985 to 2022[64]



Despite these deep-seated economic problems, Britain is still a resource rich country. Yet waste, extravagance and misuse are some of the principal results of the combination of wealth concentration and the over application of markets. Britain, for example, hosts a vast and lucrative industry, a mix of tax avoidance, lobbying and public relations, whose sole purpose is to rig the economy in favour of the wealthy. Examples include the hiring of 'reputation professionals' paid to protect the errant rich and famous, the use of over-restrictive copyright laws and ways of overseeing and micromanaging workers and neighbourhoods.[65]

Harnessing national resources for progressive ends requires a radical change in direction. As well as preventing austerity, and raising the share of tax revenue from capital, resources tied up in low social value and unproductive industries need to be unlocked, including by breaks on the consumption patterns of the wealthiest. Such a redirection would require a form of state managed progressive

62 E. Shearer et al, A Firm Partnership, CommonWealth, 16 May, 2024.
63 A Hanton, Vassal State: How America Runs Britain, Swift, 2025.
64 E. Shearer et al, 'A Firm Partnership', Briefing, Common Wealth, 16 May, 2024, Fig 3.
65 B. Lindsay and S. Teles, The Captured Economy, Oxford University Press, 2017.

destruction that would change the dynamic of the economy. In 1942, the Austrian political economist Joseph Schumpeter set out his theory of 'creative destruction', a market-driven process of innovation to replace redundant industries and jobs. A progressive and incremental alternative would be a publicly managed contemporary version of Schumpeter's thinking.

To work without adding to insecurity this would need to be underpinned by a much more secure welfare state, through a mix of more active labour market policies, a guaranteed income floor and better social infrastructure. In the last decade the idea of a guaranteed, non-means-tested basic income for all has moved from the fringes of debate with a number of pilots of how such a scheme might work. Studies have shown that even a modest floor - a Plimsoll Line for incomes - would be highly progressive, would cut poverty and income inequality as well as providing much greater security and choice for individuals and families, a prerequisite for progressive change.[66] Of course, many of these proposals would take time to implement and should be seen as a medium to long-term programme of change.

Can we do better?

So how might these alternative levers overcome the 'lack of money' thesis?

Based on current forecasts, a growth rate of 1% in year 1, 1.5% in years 2 - 4, and 2.0 % in year 5, the economy would be larger by around £200 billion after 5 years, an increase over today of 7.7% (Chart 7). This compares with an estimated loss of around £400 billion of GDP based on 2010 projections.[67] This growth would bring an additional tax dividend in each year, equal to some £75 bn in year 5. Adopting a more expansionary strategy, including dropping planned austerity measures, would help to boost growth.

66 H. Reed et al, Tackling Poverty: The power of a universal basic income, Compass, 2023.
67 TUC, From the doom loop to an economy for work not wealth, February, 2023.

Chart 7: Potential contributions to national renewal

	By year 5	Percentage rise over current tax receipts
Extra tax revenue from growth	£75bn	7.7%
An additional £40 bn a year from capital taxation	£40bn	4.1%
Resource transfer from low to high value activity	£52bn	5.3%

What about a correction to the under-taxation of wealth? In 2023, UK tax revenue stood at £950 billion, or 37% of GDP. Capital taxes (capital gains, inheritance and stamp duty) raised £41 billion, 4% of this total.[68] Gradually doubling this take to, say, a still modest 8% over 5 years would deliver around an extra £40bn in the final year. This would boost additional state revenue from growth by just over a half, with three highly positive benefits:

- a boost to public spending on programmes – such as social housing, youth services, and green investment – that are known to be cost-effective, socially beneficial and will future-proof the economy. The social multipliers (the extent to which state spending brings additional gains) associated with such boosts are probably greater than conservative Treasury estimates.[69]
- a transfer of resources from passive to active use (raising the overall growth rate).
- a reduction in the level of wealth inequality.

Measures to release resources from low social value to higher social value activity would require structural shifts that would take longer and require policy shifts in taxation, ownership and regulation. Such shifts would include rethinking the pattern of property rights, measures to share the national wealth pool more evenly, and the reining in of corporate and billionaire extraction. They would be part of attempts

68 Institute for Fiscal Studies, Where does the government get its money?, 2025.
69 D. Caddick, Forecasting a better future, A bucket approach to multipliers, New Economics Foundation, 2024.

at a shift in political economy away from today's entrenched anti-egalitarian, anti-productive and highly damaging model of capitalism. Even a modest transfer at an initial rate of 1% of GDP a year rising to 2% would transfer resources of just over £50bn in year 5 (equivalent to boosting tax revenue by over 5%). The extra resources for social renewal from wealth taxation and resource shift would therefore be around £90bn in year 5. This compares with an extra £75bn in state revenue from growth.

These are broad illustrations, based on achievable assumptions, as a guide to the potential of using Britain's capacity more effectively. Even if capital taxation rose by a smaller amount, and resource restructuring took longer, these would add billions of additional resources, greater than the equivalent of doubling the predicted growth rate.

The targeting of resources for social gain, through for example, a rise in the share of national output going to wages, should be a key instrument in a progressive armoury. Transfers – through market and state mechanisms – are a normal part of the way economies work. Labour has initiated some progressive reforms aimed at redirecting resources. They include the boost to public sector pay, the proposed renationalisation of the railways, the creation of Great British Energy, a new, publicly-owned clean energy company, and new powers for councils to take back control of buses. These should be seen as the start of a rolling process of progressive resource reallocation.

We are living through an age of repeated shocks, and new threats to social stability, many coming from unforgiving global upheaval. These forces will not be tamed by tepid reformism, whatever the constraints facing radical change. But with a large majority, Labour has been handed the opportunity for transformative measures that could reverse the damage of recent decades. Failure to deliver a stronger, fairer and more resilient society, to raise the incomes of the poorest, and to tackle cases of bad growth, will have a profound impact on the future course of the economy, on living standards and also on Labour's electoral future. It would pose big questions about the party's purpose in government while emboldening the populist right. If the rare enough opportunity to shift the plates is lost, Britain faces a serious risk of accelerated decline.

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