Social Science and Policy APPG

Annual Report

2 May 2023 to 16 April 024

Introduction

The APPG on Social Science and Policy focuses its work on the importance of original social science research in finding solutions to the major local, national and global issues of our time and which have a direct constituency and policy relevance to MPs and Peers.

This APPG is fortunate to host annual presentations from leading social scientists like Paul Johnson from the Institute for Fiscal Studies who recently gave private briefings to MPs and Peers before the Budget, and Prof Sir John Curtice who will analyse the 2 May 2024 election results at our 7 May APPG meeting.

We are delighted to have the Economic and Social Research Council supporting the APPG as they are one of the main bodies funding social science research in the UK. It is fantastic that the APPG is able to draw on data and information across a wide range of excellent and timely ESRC projects.

The purpose of the APPG is to bring parliamentarians together with economists and social scientists to help present the most recent and impactful academic research to inform policymakers in their decision making in subjects as diverse as social care, housing, the cost of living crisis and social mobility.

The APPG is co-chaired by Sir Peter Bottomley MP and Daniel Zeichner MP. The APPG is supported by Palace Yard – a cross party think tank set up by former House of Commons Deputy speaker, Natascha Engel, working with social scientist, Dr Roberta Blackman-Woods, former MP City of Durham.

Overview

Palace Yard started supporting the APPG in August 2023 since when there have been six sessions – three sessions before the Autumn Statement in November and three further sessions before the March Budget in 2024. Each was a private session held with political parties: one with Conservatives, one with Labour and another for other parties. The breakdown of attendees is given below.

Summary of Pre-Autumn Statement briefings by IFS held in-person 20 and 21 November 2023

- Three events were held: one with Conservatives, one with Labour and the final event for other MPs and Members of the House of Lords. The first two meetings were addressed by Carl Emmerson, Deputy Director of IFS and the final event was addressed by Paul Johnson, Director of IFS.

- The speakers emphasised that this fiscal event was probably the least predictable in recent history. Economists were uncertain where extra money would be coming from but could include: interest rate reductions, borrowing which was likely to be lower than the March forecast, possible freezing of allowances and thresholds, reforming welfare and redefining 'fit for work'.

- The meetings were chaired by Sir Peter Bottomley MP and Daniel Zeichner MP.

Breakdown of attendees:

MPs: 14
House of Lords: 10
Civil servants and other policymakers: 0
Staff/researchers: 1
Think tanks and consultancies: 0
Sector specialists/practitioners: 1
Palace Yard: 2
ESRC: 2

TOTAL: 30

Topics covered

IFS spoke to their slide-deck presentation saying that this fiscal event was probably the least predictable in recent history. Where the much-trailed extra money would be coming from to pay for possible tax cuts was not obvious. Possible sources included:

- Market expectations of interest rates reductions which had become more optimistic recently. This would reduce debt servicing costs.

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- Borrowing was likely to end the year £20bn/£30bn lower than March forecast.

- Chancellor freezing allowances and thresholds was expected to raise £8bn. Now on course to raise more like £50bn.

- OBR may have improved its already optimistic growth forecasts.

- Government consulted on redefining 'ill' and 'fit for work' with a view to cutting that part of benefits budget. This rarely results in net reduction of cash.

Summary of Pre-Budget briefings by IFS held in-person
4 March 2024

- Paul Johnson noted that the contents of the budget appeared to have been heavily trailed over the previous weekend. He spoke about the likelihood of further tax cuts, future funding of public services and the outlook and propensity for further government borrowing and the current economic outlook.

- The meetings were chaired by Sir Peter Bottomley MP, Daniel Zeichner MP, and Ian Blackford, MP.

- Questions included asking about what other countries are doing in a similar situation to the UK, whether we should borrow more to invest, are there additional targets for tax cuts beyond NI and do the OBR take levels of migration into account.

Breakdown of attendees:

MPs: 17
House of Lords: 8
Civil servants and other policymakers: 0
Staff/researchers: 7
Think tanks and consultancies: 0
Sector specialists/practitioners: 0
Palace Yard: 4
ESRC: 2

TOTAL: 38

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Topics covered:

Growth

- The UK is in a 'technical recession' caused by stalled growth in the previous two quarters.

- But GDP per head has in fact been worsening since 2022.

- Significant population increases combined with stalled growth has meant that the UK has effectively been in recession on a per capita basis for two years.

- It is very unusual, and perhaps unprecedented, that in terms of income per person we will likely be no better off at the end of the parliament than we were at the beginning.

- Household disposable incomes will almost certainly be lower than they were in the 2019 election.

- OBR growth forecasts are significantly more optimistic than those of the Bank of England. There is little reason to believe that forecasts will have changed much since November. The average of independent forecasts is virtually unchanged.

Public finances

- Borrowing is £10 billion down on forecasts made in November 2023 but is £63 billion more than forecasts two years ago.

- Debt is higher than at any time since the early 1960s.

- A quarter of the UK's borrowing is index-linked rather than on a fixed rate. This means that inflation adds to the cost. A large fraction is also held by the Bank of England and so interest payments vary with the bank base rate.

- The result is that debt interest payments are at record levels. Spending on debt interest is now 4% of national income – double the average of the 2010s – amounting to £50bn or £60bn more than we had been used to.

- The scale of these payments is one of the major constraints on government who need to run a primary surplus – raise more in taxes and other revenues than they spend on everything other than debt interest – to avoid putting debt on an ever-rising path.

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The Chancellor's fiscal rule

- Jeremy Hunt's five-year fiscal rule is that as a proportion of GDP, the level of the national debt in 2029 should be lower than in 2028.

- It is almost impossible to predict growth, inflation and interest rates over a five-year period. Any small movement in any of those factors will tip the outcomes one way or the other by tens of billions.

- This is not a sensible fiscal rule. We are meeting it by a hair's breadth – and that is why the chancellor is said to have so little 'headroom' – yet debt is actually on an upward path.

- The rule is all about the change in the final year of the forecast. This is probably the loosest fiscal rule we have had to date.

Public spending

- All the Chancellor's forecasts are predicated on current public service spending rising by 0.9% a year from April 2025.

- Given reasonable assumptions about what is likely to happen to spending on health, defence and one or two other protected areas, this would mean cuts of around £20 billion across other areas of public service spending, for example, local government, justice and social care.

Tax

- The tax burden is at a record high having risen by £66bn over the course of the parliament.

- This has been driven especially by freezes to income tax allowance and thresholds. These will amount to a £40 billion tax increase by the time the freeze is due to end in 2027-28.

- The 2p cuts in National Insurance rates already in place offsets these increases in 2024-25 for those earning around £40-50k but others will lose overall with higher and lower earners losing most.

Palace Yard on behalf of the APPG Social Science and Policy
April 2024

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