All Party Parliamentary Group on Social Science and Policy

MINUTES OF MEETING

Meetings held on 20 and 21 November 2023

Present: Sir Peter Bottomley (Chair) and Daniel Zeichner (Chair), Sir Desmond Swayne MP, Lord Peter Lilley, Lord Stewart Jackson, Richard Fuller MP, Lord James Arbuthnot, Jo Gideon MP, Barry Gardiner MP, Steve McCabe MP, Dame Angela Eagle MP, Sir Stephen Timms, Baron Keith Bradley, Kim Leadbetter MP, Alison McGovern MP, Baroness Janet Whitaker, Lord David Lipsey, Lord Simon Haskel, Derek Twigg MP, Valerie Vaz MP, Lord William Wallace, Jonathan Edwards MP, Baroness Claire Tyler, Baroness Susan Kramer, Baron Andrew Turnbull, Lord Andrew Stunnell.

In attendance: Stian Westlake, Executive Chair (ESRC), Alison Park, Deputy Executive Chair (ESRC), Roberta Blackman-Woods, Chair (Northumbria University), Natascha Engel, Chief Executive (Palace Yard), Tom Waterhouse, Head of Academic Partnerships (Palace Yard).

Speaking: Paul Johnson, Director (IFS), Carl Emmerson, Deputy Director (IFS).

The 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.
- 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.

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The previous period of austerity meant few spending areas left to cut.

The background to the Autumn Statement:

- The economy has avoided recession but is barely growing, and living standards are much as they were ten years ago.
- While inflation has halved, it is still slightly more than twice the target rate. Counter-intuitively, this has a benign effect on the public finances: rising cash incomes drag more people into the higher tax brackets.
- This is the highest taxing parliament in the post-war period. Drivers pushing up spending include high debt interest payments and day-to-day spending on public services rising by 3% a year against 40-year average of less than 2%.
- Over next five years, there will be 80% more adults paying 40% and 45% – making higher tax a permanent feature of the economy.
- Tax, as a portion of national income fluctuated between 32% and 34% for 50 years but has now jumped to 37%. The structure of income tax has changed completely, and current levels may have established a new equilibrium.
- Around 2025, total Government revenues are forecast to be higher than spending (excluding debt interest). This means Government will be taking more money out of the economy than it is putting into it.
- There is a significant range of economic forecasts. OBR is most optimistic and Bank of England least optimistic. There are several objective parameters that will constrain this or any other government.

Apparent decline in NHS hospital productivity is puzzling and worrying. While GPs are seeing more people, hospitals with 15% more consultants and 10% more nurses are reporting no greater activity.

NHS productivity has flatlined over the last decade and a half and continues to do so. Because the NHS budget is protected and is only going to grow in real terms as the population ages, this tightens spending in other areas of the public sector.

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Even so, debt will only just stabilise at 95% of national income in five years' time.

Bank of England's use of interest rates to bring inflation down has entered a new environment in which the effects of interest rates take longer to percolate through the economy.

Only a third of homeowners now have a mortgage – far fewer than a generation ago (because many of the Baby Boomer generation own their homes outright). The move away from floating rate mortgages to two- and three-year fixed mortgages means the pain of interest rate increases may take over a year to transmit to mortgage holders.

It is unknown how quickly homeowners cut spending anticipating or experiencing a rise in mortgage payments but there is a risk of recession in Q3 next year.

There has been speculation around inheritance tax, stamp duty and the higher-rate threshold:

- Cutting inheritance tax rate from 40% to 30% would cost around £2bn.
- Abolishing stamp duty for primary residences costs around £6bn.
- Using October rather than September inflation to uprate working-age benefits would cut spending by £3bn.
- The pensions triple-lock cost is £2bn up relative to last March's forecasts. Excluding bonuses would reduce this to £1.4bn.

The IFS took questions and answers from parliamentarians who thanked them for their presentation.

The presentation can be found here.

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