

The Consequences of Rishi Sunak



Richard Murphy

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Foreword

I wrote the text of this pamphlet on 24 and 25 March 2022 as a reaction to Rishi Sunak's Spring Statement (or budget), made to the House of Commons on 23 March 2022.

I got my first public comment on this statement in early. Alongside Mark Littlewood of the Institute of Economic Affairs (with whom I rarely agree) I have been offering budget commentary on the Jeremy Vine show on BBC Radio 2 for more than a decade now. We go live almost the moment the Chancellor sits down.

Oddly, we were the first guests to apparently appear live in the studio with Jeremy for two years, having been just about the last to do before Covid lockdown in March 2020, and now we were back. Jeremy noted that this felt like a Blues Brothers reunion, aided by the fact that we all happened to be wearing blue jackets. His pleasure in having familiar guests in front of him was apparent.

What I reminded Jeremy of as a result was that in March 2020 my comment to him on what turned out to be the first of the many Sunak statements made that year was

that Sunak had completely misunderstood the scale of the crisis that he faced with regard to Covid at that time. What I suggested this time was that Sunak had completely misunderstood the scale of the crisis that he now faces with regard to mass poverty in the UK.

In comments between the three of us, which were not broadcast, I went further and suggested that the real Crisis was that Sunak did not appreciate that the challenge that he was really facing was the end of globalisation and the neoliberal politics that has underpinned that economic process. Quite simply, what was happening was that the old was dying and that the new was waiting to be born. It's a phrase that I did, of course, borrow from Gramsci, but that does not in any way change its relevance: this is what I think is happening.

I headed from BBC Radio 2 to the studios of LBC in Westminster later that afternoon. I was on the Andrew Marr show on that station between 6.30 and 7 pm that evening. In a discussion with Andrew before the show began, I made much the same point, that we appeared to be at the political point where everything had to change. I admit that, like Jeremy before him, I am not entirely convinced that he agreed with the argument, but

equally, he was very clearly interested in it. Indeed, in his particular case, I am fairly sure that his own departure from the BBC was motivated by the desire to have more freedom to explore the changes that he very obviously thinks need to happen.

At the close of the Andrew Maher show I enjoyed a slightly surreal experience. At 6:58 the program changeover to bring in the following show began. I rose from my chair, took off my microphone, and passed them over for Rishi Sunak to use because he was my replacement as the studio guest. We shook hands and spoke briefly as we changed places.

It was on the train home afterwards that I realised I probably needed to write a little more about the reasons for the failure of Sunak's Spring Statement that day. The universal condemnation of that statement right across the media, including in newspapers normally totally loyal to the Conservative party, the next morning was unusual, to say the least. However, almost no one was picking up the consequences of what Sunak was saying. It was easy for the media to concentrate on the immediate impacts of his negligence. Tales of real, and impending, poverty were everywhere. However, extrapolation of the

consequences of Sunak's choice to strip large parts of the UK population of almost any disposable income over the which they might have any real choice as to how they might spend it was almost entirely ignored. As a consequence, I realised that the thread in this pamphlet needed to be written.

Writing a long Twitter thread is not a new activity for me. I have previously published a collection of them entitled 'Money for nothing and my Tweets for free'¹. In the run-up to this Spring Statement I had published a couple more that had attracted a lot of attention. One explained the cause of the inflation we are facing, and the other the scale of the resulting poverty. These are now appendices in this pamphlet and provide background information to the main argument within it.

I admit that I did not plan to write a thread as long as the one that follows. Nor did I expect that many people would read it once I had published it. No one should really write a Twitter thread of around 6,000 words, or expect anyone to get to the end of it, but they did. This note is being written on the morning of 27th March, just

¹ Available as a free download, here <https://www.taxresearch.org.uk/Blog/2021/04/14/mfnamtff/>

over 24 hours after the thread was published. The stats for the opening Tweet in the thread are as follows at this moment:

× **Tweet Analytics**

 **Richard Murphy** @RichardJMurphy · Mar 26

There is a growing and numbing realisation of just how bad Sunak's budget really was. Worse, he's even now saying that there is nothing he can do about poverty. This is a long thread to explain why he's failing and what we can do about it if we want to change our politics.

[Show this thread](#)

 **14,670**  **4,821**  **302**

Impressions ⓘ Engagements ⓘ Detail expands ⓘ

1M **84,347** **55,099**

New followers ⓘ Profile visits ⓘ

14 **7,130**

Promote your Tweet

Your Tweet has earned 1,327,428 impressions so far. Switch to a professional account to broaden your reach.

Switch to professional

Some people said in response to the thread that it should be a pamphlet. I agree. That is why I have produced this version.

Others said it read more like a book plan than a Twitter thread. Those doing so are right: this thread had a dual purpose. Many of the themes in this thread need significant elaboration. My publisher will have a copy of this note soon after it is published.

These points are, though, incidental. The key issues are those noted in the thread. My sense that Sunak's apparent total indifference to the crisis developing around him, about which he claimed he could do nothing, has only grown. In a sense it is epochal: it does, I think (and hope) mark the end of an era.

Anyone who has been following my blog since it began in 2006 will know that I have rarely been happy with neoliberalism and all its consequences, from tax havens onwards. Those a little more observant will also have noted that I have rarely promoted solutions that might be described as socialist. There are three good reasons.

The first is that I do not see conflict-based dogmas that are used to underpin a political creed as a solution to the problems that we face, which I think require cooperation, and socialism is a confrontational creed of this sort.

Second, I do not think the public ownership of assets is in itself a panacea. It is all too obvious that mismanagement, from simple incompetence to outright corruption, can exist in the public as well as the private sectors and for that reason I see any change of ownership as being a little relevance in itself in many (but not all) cases. The exceptions are based on need driven by market failure, or the simple absence of market based solutions, and not dogma.

Third, I had to think that there is real value in the partnership between the state and private sectors, so long as each does what it is best at, and plays within the rules laid down by ethical, liberal democracy where the needs of all are paramount.

What is described in this thread is, then, something which as yet does not really have a name. I might use social democracy, except that seems timeworn. I am also, candidly, not too worried about that absence of a name as yet. That's because I'm not really very interested in labels. I am interested in consequences.

At this moment the consequences of Sunak are mass poverty, failing public services, injustice, and failure to

tackle climate change. He can only plead guilty to all those things. The evidence on the ground is that there is no defence available to him on any of these allegations. He is, quite literally, destroying the whole fabric of society as we have known it with a casual indifference that is callous and very painful to both witness and experience.

I wrote this thread to say just that. I suspect there will be more to come that will explore the issues that we must address in more depth.

Richard Murphy

Ely, Cambridgeshire

March 2022

The economic and political consequences of Rishi Sunak

Introduction

There is a growing and numbing realisation of just how bad Sunak's budget really was. Worse, he's even now saying that there is nothing he can do about poverty. This is a long thread to explain why he's failing and what we can do about it if we want to change our politics.

If you want a summary of the whole thread it's this: the neoliberal thinking that all our main political parties subscribe to is now bankrupt. We need something new now.

The challenge to Rishi Sunak

Sunak faced a challenge this week. A winning Chancellor has to decide how to secure the support their party needs to win elections. In that case there will always be winners and losers in a budget. So Sunak had to make decisions.

However, it's fair to say that decisions are always constrained. No budget has, I suspect, ever delivered precisely the policies any Chancellor has really wanted. That's because all politicians are fantasists and reality has to be addressed as well in any budget.

The overwhelming realities that Sunak needed to address were really not hard to spot. First, there was the real economic chaos created by shortages in the economy. These are the result of Covid, Brexit and now war, but which heavily pre-dated the last.

To be blunt, oil and gas as well as many foodstuffs, from wheat to sunflower based products, to fertiliser, have been and will be in short supply. And with China in an uncertain political and economic space the possibility of further supply chain disruption from there is high.

After forty years of domination of the world economy, the theory and practice of globalisation is failing. Covid showed it could not cope with crises.

Worse, Russia has very obviously opted out now. And it's now clear that China engages on its own terms, and views trade as a mechanism of control, not liberation.

The 'one-world, one inter-linked economy' idea underpinning globalisation is now history.

The 'return to normal mentality'

Sunak has not noticed. In the Office for Budget Responsibility report on the economy published this week every chart shows they think we are suffering a short-term blip at this moment and everything will go back to normal very soon. I have news for them and Sunak. It won't.

Even if war in Ukraine ends soon, and even if Russia is defeated, as at least seems possible, nothing will go back to 'normal', just as nothing went back to normal after the 2008 global financial crisis.

Life is lived forwards, not backwards. Sunak's philosophy says otherwise. It's wrong. By its nature, Conservatism seeks what was, and not what might be. That was very clear in the budget documents. The implicit appeal in them all was to just let things be normal. They aren't.

In that case, not only is globalisation dead, but so too is the political approach that supported it. The neoliberal philosophy that has dominated politics since the late

1970s is based on the logic that there is just one way of doing economics, and you can't buck it.

What we now can very clearly see is that the ideas in neoliberalism are wrong, and that there must be a better way to do economics.

Inflation

That brings me to the second reality that challenged Sunak's fantasies yesterday. This is inflation-induced poverty. The sudden onset of inflation is not like anything we have faced before. In that sense the comparison Rachel Reeves made between Sunak and Ted Heath was wrong.

The 1970s inflation was caused by three things. One was coming off the gold standard, with no one understanding the consequences. The second was union power pushing wage rises to match price rises.

The third was the politically driven increase in oil prices, linked to conflict in the Middle East. Put together they were a toxic mix, but one which took some time to develop. We had several years of inflation before it reached its peak.

The current inflation is nothing like the 70s. It has had a sudden onset, leaving us wholly unprepared for it. And the driver this time is the market power of those who can exploit uncertainties and shortages in the world economy for their own political gain.

Oil, gas and food are being traded at enormous profit across the world right now, at cost to us all. As if to compound the issue, central bankers are getting in on the act by pushing up the price of money in an attempt to create a shortage of that as well.

If the source of power that fuelled 1970s inflation was trade unions, then the source of power that is now holding the world to ransom is unfettered control of markets by a relatively small number of companies and traders who are exploiting shortages for gain.

It does not matter whether the exploitation is by the producer of the product, its shipper (and shipping prices for gas are sky-high), traders in the commodities markets, or distributors: shortages have turned their companies into cash machines, as BP's boss has put it.

If there is a power structure behind the current inflation it is the concentrated, unaccountable market power

globalisation has created that is now turning upon the people it was meant to serve.

Sunak did nothing to address this in his statement. There was no windfall tax. Indeed, his promise was of business-friendly tax reforms to come. Instead of naming the beast he faces, Sunak sought to accommodate and even facilitate it. Reality passed Sunak by.

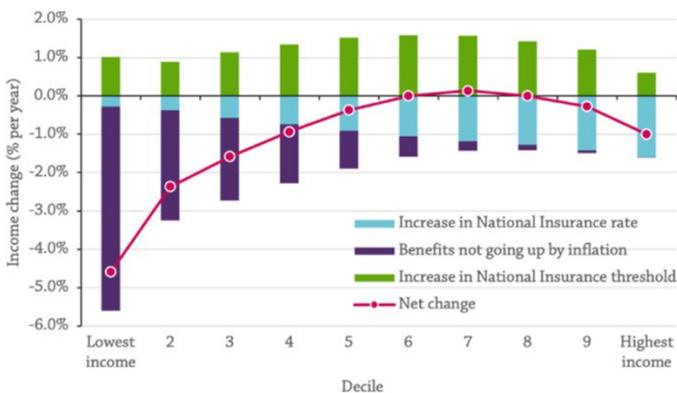
Poverty

The third reality that Sunak had to face was the hardship that this exploitation is creating. The ONS says that real household disposable income will fall by 2% this year. They are wrong. Their inflation estimate is too low.

The Joseph Rowntree Foundation think that the impact of the budget measures looks like this², and it is apparent that it is the worst off who are hit hardest, but remember this is just the budget impact and the impact of inflation is bigger than that:

² <https://www.jrf.org.uk/press/600000-will-be-pulled-poverty-result-chancellors-inaction>

Impact of Spring Statement on working age households



The ONS do not also allow for the fact some are gaining when they calculate their average. I am not saying my own estimates are right. No estimate is. But I think for 30% of households the cost of living could rise by well over 10%. Even the best-off 10% might be 5% down.

I think I am closer to the truth than the ONS. The belief is widespread that millions are going to face poverty because Sunak did not act this week.

He did not raise pensions or benefits. He did impose the NIC increase, and a confusing simultaneous cut. He cut fuel duty by a meaningless 5p. He gave £500 million to a hardship fund. He also gave £2.2 billion to bailing out Bulb, the energy company. And he hammered graduates.

As an exercise in indifference this was staggering. I would call it callous. Of course people are crying on phone-ins. They literally have no clue what to do. And candidly, I am clueless as to what to tell them. They have been cast adrift by a government that does not care.

These were, then, the three realities that Sunak had to face. They are that neoliberal globalisation is dead; that exploitative capitalism is driving inflation, and that the result is that many millions face crushing poverty. He failed to spot any of those realities.

The consequences of Sunak's choice

Worse, the Office for Budget Responsibility, and so most of the media, have not noticed the second-order consequences of all this. The OBR thinks things we will go back to normal. I know they won't. And I have good reason for that.

The simple fact is that people who cannot afford their rent, mortgage, heat and food (the bottom order priorities in Maslow's hierarchy of needs) will not be spending on anything else. And so leisure, travel and holidays go by the board. So do fripperies like new clothes.

And when people stop spending on things like this then businesses fail, people lose their jobs and the crisis of deliberately imposed poverty will get very, very much worse than it is now.

There will be massive rent, mortgage and fuel bill defaults. There will be mass evictions from homes unless people are protected. And there will be personal debt crises that could easily spill into a banking crisis.

We are not in that case heading back to normal, as the Office for Budget Responsibility think. We are heading for recession, at best. It could be worse than that.

Neoliberalism has no answers to this crisis. That's because neoliberalism's political answer to all questions is to say politicians should stand back and let the market find a solution.

That's what Sunak is doing, of course. His indifference is not chance. What he's done is a little posturing but he is then saying "let what the markets decide be". If the market wants poverty, so be it, he is suggesting. That, he thinks, is the way it must happen.

But, of course, the crisis we face is the result of using that approach for decades. This is not a crisis to be cured by neoliberalism. This is a crisis caused by it. The poverty we are seeing was created by the rigged markets and power inequalities neoliberalism delivers.

And neoliberalism cannot solve the crisis it has now delivered because it has but one tool in its armoury, which is to let the market decide. But, we now know if we did not know before, that the market can make very bad decisions. In that case, the day of neoliberalism is done.

Let's be clear though that socialism is not the alternative to neoliberalism. Neoliberalism is a dogmatic form of politics based on assumptions unrelated to any known form of real-life human behaviour. Socialism shares all those faults. So, let's dismiss it as an option now.

The search for an alternative

If there is to be an answer to the crisis that we face - and there has to be if we are to go on and face the bigger one that climate change poses - then the answer has to be pragmatic and value-driven in contrast to the dogma that has delivered us into crisis.

To be precise, the compromises that drive liberal democracy have to prevail. Each person has to count. Their views have to be heard. The government must be accountable to all, not some. The purpose of policy must be to create the compromises that achieve that.

The excesses that markets are prone to have to be curtailed, but the fact that people wish to trade has to be recognised. And those who trade must recognise that they need the regulation that government supplies if there is to be the level playing field fair competition requires.

Taxes must be fair. They must be paid. There must be transparency about this. There must be investment in the tax system to make this work, so all can see it.

Government must understand its role in the economy, most especially as a money creator, which it must be. The idea that it is just another business that must balance its books is crass when the whole economy is dependent on the money it creates, controls and lets us use.

The whole idea that there is no such thing as government money has to be thrown away then. There is in fact only government created money. Look in your wallet or purse, or bank statement. There are pounds there. And pounds are government created money.

Government – and money

The idea that there is no money for the government to solve a problem like poverty is not true. The government can always create the money needed to solve such problems. What it actually has to do is make solving that problem its priority over other uses of money in the economy.

Thankfully the government has a tool that lets it reallocate resources in this way to tackle the problems that we face. That tool is called tax – which is a term that extends to benefits, which are negative taxes in all but name.

In that case the government and all politicians need to realise they are not neutral parties that are required to stand back from the action as neoliberalism dictates. Instead, they have the power to direct and change the economy and should use it. What else is politics about?

In particular, it is the job of government to address the imbalances neoliberalism has created, most especially when neoliberalism has the goal of increasing wealth for a few at cost to the many.

This policy of inequality creation has now reached the inevitable point where it results in mass poverty. To address this not only must that income inequality be addressed, but so too must the wealth inequality that has driven that income inequality be tackled as well.

In particular, the idea that government must leave wealth and business with as low taxes as possible whilst loading those in work with the unaffordable burden of supposedly paying for public services that fail to meet need as a result must end.

So too must the idea that only people can spend money wisely end.

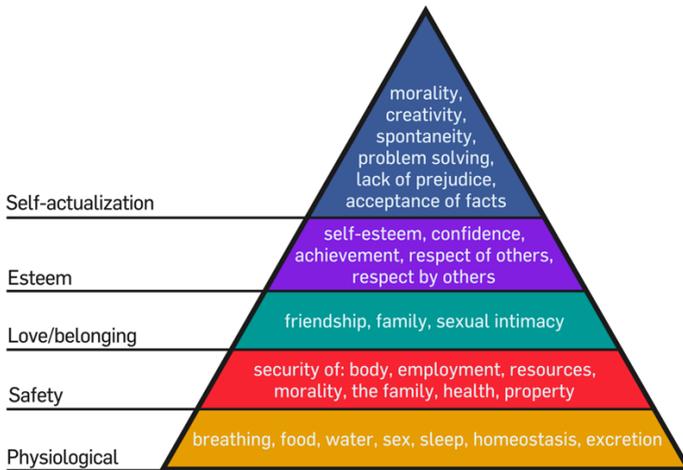
As also must the idea that money given to the public sector is poured into a bottomless pit go for good. If the crisis facing the NHS does not convince reasonable people of that, nothing will.

A new culture

Instead, we need a new culture for a new politics. The need for that culture is laid out before us now that Sunak has created a poverty crisis, by choice. That new culture must be based upon meeting the needs of all, whilst allowing as many as possible to satisfy wants as well.

Right now it is apparent that as a society we are failing to meet basic human needs³:

³ Image from Wikimedia.



Food is going to be beyond reach for some. Covid has proved we cannot deliver safe air to people. Water bills will be impossible for many. As will shelter be. And with the poverty we're facing go all the issues around security, including of employment.

Talk of growth, wealth, government book-balancing or debt are just offensive in the face of these realities. That is what a new politics has to recognise. The ideas in Sunak's budget that allowed these things to take priority and offered nothing to public services are wrong.

So too are dogmatically driven tax cuts and tax reforms to make the life of business easier offensive when there are communities in this country who cannot afford to meet their basic needs. That is politics from which all morality has been removed.

Sunak has chosen to serve the interests of a small, wealthy, part of society and abandon most people, because he believes (and he has said this) government cannot address all problems, and he apparently includes poverty in that category. What is the state for then?

Meeting need

The economics of a new politics – and the two are always related since all politics is eventually about who gets to partake in what share of the resources of society – has in that case to be built around the idea that meeting need is the absolute fundamental task of government.

There are other concerns for government as well. It must, after need is met, deliver education and ensure people are defended from risk. It has to uphold law, fairly. And it has to do all it can to ensure that a society is sustainable, or it has no future. But need comes first.

It's as pointless to say that government cannot afford to ensure needs are met as it is for government to claim it cannot afford to tackle climate change. Saying either presumes that the protection of wellbeing is not what government is about, when that's the very core of its purpose.

Unless the protection of the weakest in a society, and the protection of that society itself is what government is about then it has no reason to exist and no moral authority to act. It's as simple as that.

Getting government's act together

In that case the government has to marshal the resources of society to achieve these goals. What are those resources? They are its people, the physical resources the state can command (subject to sustainability) and both the financial income and wealth within it.

What government can do is threefold. It can encourage people to use their talents and resources in ways that contribute to the common good. We used to call this industrial policy.

This industrial policy must be delivered through the use of regulation and the tax system to encourage some actions in preference to others. Sometimes that is by the government choosing to make the supply itself e.g. through the NHS and state education.

At other times it is about influencing what business does through the use of tax and regulation to encourage and persuade so that some actions happen, and, if necessary, to ban an activity, or to only allow it under licence.

The government should decide what it wants and do it. So, if green energy is required its job is not to deliver a speech. It must instead intervene directly to deliver that policy, by building such systems, if necessary; by banning carbon over time; or by taxing it out of use.

This is the exact opposite of neoliberalism. There is no pretence here of letting the market get on with things. We know markets will never go green by choice: exploiting carbon is easy and that is what markets would do until life on earth ended. Action is required then.

Putting wealth to work

That's only the first step though, however important it is. The second step is to use the financial wealth of a country in the common interest, whilst still respecting the right to private property.

There is a bargain here. The right to property is not absolute. It's conditional, and created by law. Unless violence proves entitlement to claims on assets that has to be the case because in a liberal democracy it is law that defines property and defends a person's right to it.

The bargain is that if law creates and defends this right to property then the right to ownership is dependent upon the conditions attached to owning it, including publicly acknowledging ownership, using property responsibly and paying the taxes due as a result of doing so.

In other words, the relationship between the state and private property is not as neoliberals like to represent it when they say that property is private and the state steals it through taxation. Rather it is a bargain based on proper use.

That bargain is that the owner is permitted use and protection of the property if they have been compliant with the conditions for doing so.

If in any doubt about this, note that this is the logic used in Russian sanctions regimes. Oligarchs are deemed not to have complied with the conditions for the ownership and use of their property. As such they have been denied the use of it.

That is an extreme example, but proves a point: all property rights are actually built around this conditionality e.g. we can own and drive a car so long as we insure it, MOT it and drive it appropriately with a licence to do so. What I am saying is what is normal, and accepted.

Taxes

Importantly, the property within the scope of this review is of two sorts. The first is income. The second is capital – what we call wealth. For reasons that are incomprehensible neoliberal government only concentrates on the first.

So, almost all taxes are based on income or transactions derived from income, such as sales taxes. And the government itself is not managed around wealth – indeed the concept of asset management is almost unknown within the Treasury of most countries.

It is as if the whole system of neoliberal government, its system of finances and its management of resources wants to turn a blind eye to wealth so that the system of wealth accumulation that is the goal of neoliberalism goes on without attention being given to it.

As example, inflation is defined around income and must be minimised. As a result wages are suppressed, even whilst they are the basis for most taxes. On the other hand, asset wealth – whether stock markets or physical property markets – are celebrated when they inflate values.

What is more, that property value inflation is very lightly taxed, if at all.

The balanced books fiasco

Meanwhile, the government balances its books without any reference to a balance sheet that takes into account the value of the assets it owns or the investments it makes, which is bizarre.

It's as if all politicians assume that society, whether households or individuals, pays for all its asset investment e.g. in buildings and equipment, out of its income and never takes a loan to finance this activity, because that's what they seem to think governments should do.

This cannot continue if society is to tackle the issues that it now faces. To ensure government uses all the financial resources within society it not only has to tax capital fairly, but also use that capital to fund the investment now needed, including to deliver sustainability.

With regard to taxing capital fairly the capacity is enormous. Looking at data for the period 2011 to 2018 I have shown that if increases in the value of people's capital had been taxed at the same rate as income from

work then £174bn of extra tax a year could have been raised.

This may not be optimal, but it shows that when it is claimed there is no tax revenue available to the government that is the result of a choice on its part to not tax wealth and not because that claim is true⁴.

With regard to wealth, there was in March 2020 (the most recent date for which there is data) £8.4 billion of financial wealth in the UK, of which 82% was in pensions and ISAs, which are heavily tax influenced investment vehicles, the use of which the government can regulate⁵.

Large parts of these funds are invested in fixed interest bonds – whether issued by the government or companies. Those government bonds form part of the national debt. And yet the rhetoric of politicians is that this borrowing is unwelcome and must be eliminated.

⁴ See <https://www.taxresearch.org.uk/Blog/2020/04/22/tax-after-coronavirus-tacs-there-is-significant-room-for-wealth-taxation-in-the-uk/>

⁵ See <https://www.taxresearch.org.uk/Blog/2022/03/09/if-we-have-more-than-15-trillion-worth-of-personal-wealth-in-the-uk-to-suggest-that-we-cannot-afford-to-save-the-planet-is-quite-absurd/>

Savings

It is important to stress that savings and borrowing are, of course, the flip side of each other, and that the so called 'national debt' (which includes everything from the notes in your wallet or purse, to Premium Bonds, to government bonds) is just savings of various sorts.

The idea that people's savings, voluntarily placed with the government because it provides the most secure place available to anyone for their savings, is debt is ludicrous. Instead, savings of this sort should be encouraged. People's private capital should be used for the public good.

If there is a single change at the core of this new political philosophy that I am suggesting it is this – that the taxation and use of private capital are at the core of the provision of public services for the benefit of all, and that paying people a fair return for using it is just fine too.

Accounting

It is important to explain the economic logic of this. The money from borrowing is used to take expenditure out

of current government budgets. Most years the government spends at least £50bn on capital investment in things like schools, hospitals, roads and so on.

These should not be treated for government accounting purposes as if they are the same as expenditure on, for example, pensions, paying teachers, and prescribing drugs. In accounting terms, they are not. They are capital spending and the others are revenue costs.

Treating them as capital expenditure and raising appropriate finance to pay for them is a totally normal thing to do. It is what business does, day in and day out. To stress the point, nothing that I am suggesting here is in any way radical or unusual. It's just good practice.

However, the immediate consequence of doing this is to change the whole profile of government accounting. I suggest expenditure on these capital assets be charged to the government's balance sheet, and from there be expensed over what might be quite long periods of time.

There are, however, other immediate benefits, apart from reducing the apparent deficit by this amount of this expenditure, now treated as being on assets, which in

the process eliminate the argument that we cannot afford to tackle poverty.

In particular, the expense of producing these assets might go to the balance sheet but the taxes that are paid by those who are engaged in making them are quite appropriately treated as government income in its income account. That tax paid is, then, a boost to government funds.

Accounting in this way reflects the reality of what is happening. The government investing using people's savings create new wealth that results in new income, which then boosts government tax revenue, and helps its argument that it can afford to tackle poverty.

Facing up to reality

And this is no con trick: this is what actually happens when private capital is put to public use for the benefit of all in society. We all win because that money has now produced a benefit not just by producing the asset, but by allowing for its use in the long term.

What might those benefits look like? Presuming the money is wisely spent – and this is down to electing good politicians – the outcome will be that we have a better-resourced country, and more available to spend on public services as well.

If we turned some more of that £8.4 trillion of private wealth in the UK to public advantage we could, for example, have more social housing with high insulation and fair rents, for a start – with land bought without paying a premium for development value.

And we could transform public transport – to make it more accessible for all when right now travel is a privilege and not a right.

Then we could transform energy generation – under public ownership so that we can never be held to ransom again. That would help address the problem of inflation.

We could also invest to save energy which is vital if we are to be sustainable. It also happens to create very large numbers of secure jobs for a long time to come. And we need to do this in the public and not the private sector to keep the cowboys out.

After that we could also invest in sustainable rather than intensive farming to increase food security. The list goes on, and on. And because this could be done without cutting into current spending budgets we'd also have more better-paid jobs and more money for services too.

QE – the guarantee that underpins our future

But what happens in this case if private investors do not wish to save with the government? First, interest rates could be raised if necessary. That should secure more funds. Alternatively, quantitative easing can be used to fund investment instead.

Relatively few people understand QE, and it is a technical issue. But, what in effect happens when QE is used is that the government creates new money which it uses to make the payments due for public services instead of using borrowed money to do so.

There is a paranoia fed by neoliberal politicians about government money-creation. It is misplaced. If you think you really do not like government-created money, please

feel free to send me all the notes and coins that you have because they are all part of the national debt.

How does the government create this money? The process is very simple. In practice all that the government does is to make a promise to pay. Again, if you are in doubt, look at the money in your pocket. That promise is printed on every bank note.

What the government does, in practice, is to promise to pay the Bank of England back money it lends it. In exchange the Bank of England promises to pay whoever the government tells it to make payment to. And that exchange of promises is how the government creates new money.

I stress, again, that there is nothing odd about this process. It is exactly the same process that is used whenever a bank makes a loan to a customer. The customer promises to repay the bank the loan. The bank then pays it to whoever the customer asks them to make payment to.

No other customer's money is involved. It is just an arrangement between you and the bank. All money is

made in the way. However it takes a bank registered by a government to let this happen – because only they can access the bank payment arrangements.

The Bank of England is just a rather special bank, that's all. That's because it's the government's own bank, and ultimately it makes all the money that we use, or regulates the commercial banks that can also create money by lending.

Denial

Neoliberal politicians have refused to acknowledge this truth because in principle it means that their argument that they can't do something because the money is just not available is never true. In practice the government can always create money for whatever is needed.

If you are in doubt about that the entire £400 billion cost of the Covid crisis was paid for using money created using the quantitative easing process. None was paid for using debt and none was paid for with taxes.

This also makes the argument that we have to now repay this money used to pay for Covid quite absurd: there is

no one to repay it to. It was created for the government by the bank the government owns and paid into the economy where it was used to keep the economy going.

And the one thing we do know for certain is that it did not create the inflation we must tackle now. That, as I have already explained, was created by oil, gas food and other companies and traders exploiting shortages of essential commodities within the economy.

So why mention quantitative easing? Because what it provides is a guarantee that the government can always repay its debts, come what may, whenever and if ever they are demanded of it. The Bank of England can always create the money required to make payment.

What that means is that saving with the government is the safest thing anyone can ever do. Every other person you lend to might default. The government in a country like the UK with its own central bank, own currency and which only borrows in its own currency cannot do so.

Safety – for everyone

And what that means is three things. First, it's always safe to save with the government because, second, they can always repay and, third, the government can offer a low interest rate as a result because there is no risk at all of not being repaid.

But add all that up and the government should be the place where people want to put their money to make sure it is both safe and used for public benefit. Not all their money, of course, but some, quite probably.

And if that were done private money, saved with the government, could be used to transform our society. So, what a new politics of transformation has to do is recognise these facts (for facts they are) and liberate money to achieve this goal for the benefit of society at large.

So, to conclude. We've a crisis created by markets that neoliberal economics promotes. It is markets that are driving people into poverty by creating inflation that the government will not tackle, just as it won't tackle the resulting poverty. So, neoliberal politics has failed.

In that case if we care about poverty we have to abandon neoliberal economics – with all the assumed but unreal constraints that it imposes on governments – that the Tories, Labour, LibDems and SNP have all subscribed to in the UK over the last forty years.

I stress, the Tories may have been the most neoliberal political party in the UK, but even Labour under Jeremy Corbyn talked about the government having a maxed-out credit card and the fact that they could not create money to solve problems when that was not true.

Change

We cannot create a society that will tackle poverty, meet need, create jobs for all, provide economic stability, break our dependence on oil, gas and imported foods and also deliver sustainability using the existing politics or economics in that case.

When all our political parties are wedded to a politics that says these things are not possible because they refuse to understand how money works, how savings and

government borrowing work, and how both can be liberated for the common good, we have to reject them.

We also have to reject politics that refuses to accept that rising inequality is what has led us to this current crisis where millions will be in absolute poverty, which governments have tolerated and encouraged by failing to deliver proper taxes on wealth to support those in work.

A new politics

It is time for a new politics. A politics committed to meeting need, to creating a more equal society, and a sustainable one too. And one that puts private wealth – like pension funds and ISAs - to work for public benefit in a way that no politics to date has agreed to do.

Is that possible? I know that what I've described in terms of accounting and economics is all correct. None of it is radical. In fact, its commonplace in the commercial world, whilst the way I describe money is just how things actually work, as the Bank of England agrees.

So what is stopping us having the society we want and need? What is stopping us ending poverty? And what is stopping us being sustainable? Only the stranglehold of political parties dedicated to the old order – which stops us having all these things – is doing that.

How do we overcome their objections? We either change them from within, or we have to change them from without. But they, and their combined dedication to keeping neoliberalism in power, are the biggest threat that we face.

If we believe our current politicians we will balance the government's budget but at the same time let people starve, see the elderly die of cold and watch our planet fail because they say we cannot afford the risk to create the money required to save people and life on earth.

If that's what you want, stick with the politics we have and the politicians from all main parties, without exception, who all subscribe to the belief that the money needed to change our worlds is not available, in a country where there's financial wealth of £8.4 trillion.

Alternatively, we have to dismiss that collective nonsense and say money is the servant that should make the world a better place – which is possible, without in any way creating a revolution, or creating some sort of socialist utopia – which I want no more than you do.

I just want to put sound money, sound economics of what really happens in the world, some proper accounting, and some clear management tools to work to build a better world based on the principle that each of us has the right to be here and to have a good life.

A life that is free from fear, and with the hope that generations to come have the chance of that as well. It might not seem a big ask, but it is being denied to us by those who promote a mantra that prevents financial wealth being used for the benefit of society right now.

That has to change. I've said how it can be done. But others have to deliver. No one person can do everything. All I can do is say that there is a way out of this mess, this crisis and this poverty that now faces us. But it takes those with the political will to turn that into reality.

Will they? I wish I knew.

Appendix 1

Oil, gas and energy prices are causing inflation.

Introductory note:

This thread was published on Saturday 12 March⁶. The aim was to explain the cause of the energy price crisis that the UK is facing in the clearest possible terms.

By 27 March the publishing stats were as follows, with the implication being that the objective had been achieved:

⁶ <https://twitter.com/RichardJMurphy/status/1502671563530948610>

× Tweet Analytics

Making sense of energy price rises is important. They're going to be the cause of a lot of poverty in the UK, soon. So, I've been doing some analysis. What follows is a bit simplified, but not too much. What it reveals is that you're about to be ripped off, massively. A thread....

[Show this thread](#)


22,128


12,582


672

Impressions ⓘ

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220K

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62

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Your Tweet has earned 3,118,555 impressions so far. Switch to a professional account to broaden your reach.

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The Thread

Making sense of energy price rises is important. They're going to be the cause of a lot of poverty in the UK. So, I've been doing some analysis. What follows is a bit

simplified, but not too much. What it reveals is that you're about to be ripped off, massively. A thread....

In January 2020 SSE suggested that the cost of the energy they supplied was broken down as follows:



Let's take that SSE data as a reliable benchmark for what's happened to date. And let's assume that all the data that I can find that says that the average house paid £1,200 a year for fuel in 2021 is also right. It was pretty much for me, for example.

Now let's base what energy costs might be on the fixed prices now being made available by the same energy suppliers who were happy to supply our electricity and gas for £1,200 last year. It seems around £3,000 is that new normal. Again, it happens to be for me.

So, the price is increasing by £1,800. But the cost of some things has not changed. For example, the costs of delivery, billing and customer services have not changed, certainly by much. Nor should government and environmental schemes cost more.

To be clear, delivery cost £288 on average in 2021, and I am assuming it still does. Billing and customer service cost £240, and still should. And green and other levies cost £156, and I see no reason why they should change. That's £684 of cost that should not change, at all.

The government is still taking 5% in VAT. That was (and this is near enough) £60. Now it's £150. Why you need to be penalised with £90 of extra tax for energy costs going up is for the government to justify. It's a decision they seem happy with. Take it up with them.

So, of the new £3,000 cost we've explained £684 of fixed costs and £150 is VAT. That leaves £2,266 to cover the cost of buying in the energy sold to you and profit.

In 2021 the cost of bought-in energy was 36%. That was £432. I've checked the accounts of UK based energy company. I used SSE again, because that seemed fair.

They made a normal profit margin of 11.6% in 2020 and 13.3% in 2021, or about 12% on average.

SSE both makes and distributes energy. Now, this is a little simplistic, but let's assume they make 2% on distributing energy to us and so made 10% on making energy. The profit on energy distribution was £24. That on the bought-in energy was, then, roughly £43.

So now we can work out that the cost of producing the energy that was sold to you in the last year was the bought-in cost to the distribution company of £432 less £43 (near enough) of profit the producer made, or about £389 of real cost of production for the year.

Now let's assume the profit margin on distributing energy remains at 2%. With the average cost of domestic energy increasing from £1,200 to £3,000 that puts the distribution profit per customer up to £60. That's two and a half times what it was before. That's a big jump.

And let's be clear, that none of the cost of producing energy in the world has changed because of war in Ukraine. In fact, right now, there is not even a shortage of energy in the world because of that war: Russia is still supplying oil and gas right now.

So, the only reason for price increases is because oil and gas dealers expect a shortage in oil and gas which has not happened as yet. Bluntly, what we're seeing is panic buying of oil and gas that's still in the ground right now by countries terrified that they might run out.

It's vital to remember this: oil and gas are going up in price because people – oil companies, hedge funds and others - are speculating in oil and gas in the expectation that there will be shortages. No one actually thinks the stuff is going to cost more to produce.

So, let's summarise where we are in this table:

Year	2021/22 (to now)	2022/23 (to come)
	£	£
Overall energy cost	1,200	3,000
Made up of:		
Distribution costs	288	288
Billing and customer service	240	240
Green and other levies	156	156
VAT paid to the government	60	150
Distribution company profit	24	60
Cost of producing bought in energy	389	389
Profit made by energy production company	43	1,717
Total energy price	1,200	3,000

Please accept that some of these numbers will be give and take a bit, but probably not that much. I think my assumptions are pretty fair.

Then notice that the first three lines in this table have not changed. These costs are near enough fixed. Meanwhile, the government is going to take £90 a year more off you whilst the distribution company is going to make £36 extra profit a year out of you.

And then note that the electricity and gas suppliers to the distribution companies are going to see their profits increase almost exactly forty times, from £43 a year to an extraordinary £1,717 a year.

That's where your extra payment is going. It does not disappear into a black hole. It goes to oil and gas companies, power generators, the countries and shareholders that own these, and of course to the speculators who are currently making billions out of this.

To put this in context, it's estimated that the price of UK energy is going to increase by £38 billion. That increase will be split between the government (£1.9 billion), the energy distribution companies (£760 million) and oil, and generation companies (£35.34 billion).

In plain straightforward terms that is profiteering – or exploitation if you like – on a quite staggering scale. Brexit is the excuse for some. Covid was the excuse for more. And now the war in Ukraine is being used as an excuse for the biggest rip off of all time.

Four questions then. Why is our government accepting this? Why are governments elsewhere accepting this? Why aren't they cooperating to stop it, individually or together? They could. They aren't. So, what is going on here?

I look forward to answers from ministers and justifications from oil companies. And in case I have anything wrong, I look for clarifications. But the explanation I seek is why is war being permitted as an excuse for a massive rip-off of ordinary people by big oil companies?

The following additional material was added to this thread a day after the previous material was published:

Thanks to so many who have read this thread. I can't answer all the questions individually, so I am doing to post some additions to the thread to clarify some issues.

First, to all those asking about the extra standing charges they are paying, which are often double this year to what they were last. I can't see how these can be justified. In my calculation, I assume they should be fixed.

If standing charges have increased for a reason then the energy companies need to say why, and precisely what and who is to blame. If it is Brexit, say so. If it's poor regulation, say that too. But explain it so we know who to demand change from.

Second, it's been suggested I do not appreciate the split between energy creation / generation and energy distribution companies. I am confused by this claim. I thought it obvious from what I have done that I have made this split.

I have done a bit more checking though and think that I was, maybe, generous in assuming 10% profit in oil companies. Some don't make that. But all that means is that their profit increase is even bigger. The logic remains intact, in other words.

Third, some say I am ignoring the economics of scarcity here, and that the price rises are justified that there may be 11% less oil and gas supply in the world if Russia is

cut off from supplying that oil and gas to Europe and beyond.

I have several responses. One is I guess I know some economics or I would not have been a professor of political economy for five years. Two, theories of economics are just that i.e. they're theories about how pure markets work.

Pure markets say scarcity increases prices. Political economy says something different. It says that those with power can influence markets, for better or worse. In other words, what economic theory says can be changed in reality, but it takes the powerful to do so.

Right now the powerful in this game appear to be the oil companies. They are exploiting us all to make exceptional profits. That's what my evidence shows. However you play with the numbers the answer will always be the same: they're exploiting this situation.

My answer to that is that for well over a century governments have challenged the power of those exploiting markets and the power they give to large companies to make profit at the expense of everyone else. This is a process that began in the US, surprisingly.

In the US they have what are called Antitrust Laws whose whole purpose is to prevent the exploitation of consumers by companies in the marketplace. My argument implicit in this thread is that this is what governments around the world need to be doing now.

More than that, I'm suggesting that if we want to stop Putin winning by making sure millions of people don't demand the end of sanctions on him because those sanctions lead to them being exploited by energy companies then we need cooperation now to end international exploitation.

Political economy says we can do that. We can reallocate energy supplies between nation states to stop the risk of energy rationing in some. We can use international tax laws - including some I helped create - to track down the profits of energy companies and tax them.

And we can also impose taxes on energy companies at home. There is a straightforward case for a massive increase in taxes on energy companies right now - to be applied to their excess profits, but nothing more.

But more than that, there is something else the government can do. Ofgem, a UK government regulator,

does in effect set UK electricity prices. And it, in effect, prices that energy at the cost of the highest component element in the energy mix - which is gas.

What this means is that even though most electricity is not generated from gas in the UK, we pay for it as if it all is. So the price has skyrocketed even though we all know that the cost of creating renewables, nuclear, hydro and even coal power has not changed.

The government could change that regulation now and bring down electricity prices overnight. France provides evidence that this is possible.

Just as the government could also keep green levies fixed (but very definitely keep them, please). It could also cut the rate of VAT so that it takes no more money from us now.

However, none of these things, all of which are possible in the political economy, are happening. So there is a failure of our politicians to stand up to the power of energy companies here, nationally and internationally. And I am calling that out.

Finally as an addition, I know - and said - that the numbers may be a little simplified, but not much. But I would add, that's just fine. I am showing what can and cannot be controlled, and by who, and I am showing who is exploiting us. And that is deliberate.

This thread is in itself an exercise in political economy. Using the power of logic - and everything I have argued is logical and subject to minor simplifications likely to be as close to the truth as is needed to prove a point - I can show we're being exploited.

That's my aim. I want to use the power of Twitter to say that something different to what we are told is inevitable is in fact possible.

What could be different?

- 1) VAT could be cut
- 2) Excess profits could be taxed
- 3) The pricing formula used by Ofgem could be changed and the price of electricity could be cut, a lot
- 4) Standing charge increases can be challenged
- 5) International cooperation is possible.

What can you do? First, share this.

Second, write to your MP and ask them:

- 1) Why the gov't can't cut the rate of VAT on domestic energy to control prices, when Brexit permits this;
- 2) Ask why we can't have an excess profits tax on energy companies;
- 3) Ask why Ofgem can't change its electricity pricing formula.

Third, tell your energy company you are not happy. Ask them what they are going to do about this. Post the answers on Twitter.

Exploitation is not acceptable is the message we need to deliver. And right now, we are being exploited.

Appendix 2

Sunak has a choice to make next week.

Introductory note:

This thread was published on Saturday 19 March⁷.

As I noted when blogging it:

Sunak could provide the support most households in the UK will need if they are to be able to pay their bills in the next year. If he doesn't provide it, we're in meltdown.

We now know he chose meltdown.

The thread had more than 600,000 impressions on Twitter.

The thread

⁷ <https://twitter.com/RichardJMurphy/status/1502671563530948610>

This is a thread on the impact of price changes we were expecting as a result of government policy, Brexit and Covid before the war with Ukraine, plus those we're now getting because of it. Stick with it. Everyone's going to be hit hard by what the government is letting happen....

In case this thread is too long for you this is a summary. We're in a crisis. Energy and food costs are going to increase the cost of living of low-income families by 14% a year, or £300 a month. More than 70% of households will go into debt unless they cut their spending, a lot.

Given that most households will not be able to borrow to cover costs there is a massive economic recession coming our way instead as families cut out discretionary spending. The leisure sector will be hammered. Unemployment will rise. Banks will suffer massive bad debts.

Sunak should know this. If I can predict it based on data in this thread so can the Treasury. He needs to take action. He can afford to - tax revenues are way above budget - and by using QE if need be. Doing so he could peg energy costs and beat inflation.

Will he? That's the question I am asking as I lay out the evidence and what he could do in this thread. If he doesn't, you need to worry, because within a year we could be in meltdown. The evidence is in what follows. It may be the most important thread I have written.

I [recently highlighted](#) who might gain from the potential increase in average UK domestic energy tariffs from approximately £1,200 a year, to about £3,000 a year, as current fixed cost energy supply contracts now imply to be likely.

As I noted, most of the benefit of this increase in profits will go to energy companies located somewhere in the supply chain between the point where oil and gas comes out of the ground and where that energy does through a wall into your house.

The increase in profit to your actual energy supplier will be fairly small. In fact, the government benefits a lot more by collecting more VAT and by dumping the cost of failed energy companies onto you through increased daily standing charges.

That does, however, mean that most of this price increase benefits other companies in the supply chain. My estimate is that their share of your annual payment might increase from £43 a year to more than £1,700 a year, a near enough 40-fold increase.

As I noted when I first wrote about this, the only appropriate description for this is exploitation. You are being ripped off simply because governments are collectively letting the oil and gas companies and oil traders get away with this.

The object of this blog post is to consider what the implications for some sample UK households of these energy price increases, and some of the other changes in both income and prices, might be. After all, it's not just energy that is changing in price.

It is my belief that until we do understand what these impacts on real people might be that it is unlikely that we can properly appraise the appropriate responses to be demanded from energy companies, the government, and others to tackle the poverty crisis that we face now.

For the purposes of this exercise, I am using data supplied by the Office for National Statistics on

household income and expenditure. [This is available here.](#)

As usual for the ONS, this data is a little out of date. It relates to March 2020. It's also a bit 'clunky'. By that I mean it's presented in a fairly cumbersome style and to use it I have had to do some summarising and rounding.

That rounding means that some of the data in the tables I present in this thread does not quite add up. Don't yell at me! I used what I had to work on and have done my best to turn it into something that makes sense. What I ended up with is plenty good enough to be useful.

Importantly, this data is split into what are called decile groups. For those not familiar with deciles, they split data on a population into ten groups of equal size, in this case including an equal number of households in each group, with each group having a broadly similar income.

Using the ONS data, the deciles of equal size split by income group in March 2020 were split as follows into income bands, with income being stated before tax:

Decile group	Lowest income in the group
	£
Lowest	-
Second	11,856
Third	17,420
Fourth	23,192
Fifth	29,536
Sixth	36,816
Seventh	45,396
Eighth	54,652
Ninth	67,392
Highest	90,116

My work concentrates on those who are in the third and fifth and top bands. Those in the third band have income of about £19,100 a year on average after tax. On average people in this group earn just a bit more than the minimum wage, working full time.

I also chose to look at the fifth band, where average income after tax is about £29,500, or very close to UK median earnings at present. Before tax, and assuming a single income earner in the family, earnings would be 33,400 per annum.

It is important to note that I am assuming there is only one income earner in the household when making these observations. There may, of course, be two.

To provide contrast to these two groups I also looked at the tenth decile – the top income earners. They have average pre-tax income of £118,400 a year. After tax they enjoy £89,400 at present according to the ONS. Obviously, some at the very top enjoy very much more.

Having summarised the income, tax and national insurance paid according to ONS data for these groups I then also summarised their average spending according to the ONS. I had to do this under broad headings. The actual data is many pages long and more detailed than shown here.

If I just use the data for these three groups as the ONS presents it then it is as follows:

	Third decile group - annual income	Fifth decile group - annual income	Tenth decile group - annual income
	£	£	£
Average annual income	20,551	33,426	118,399
Less: Tax	1,024	2,714	22,651
Less: National insurance	426	1,212	6,360
Average annual income net of taxes	19,100	29,500	89,388
Food & non-alcoholic drinks	2,444	3,130	5,242
Alcoholic drink, tobacco & narcotics	458	645	1,045
Clothing & footwear	624	941	2,642
Housing (net)	2,756	3,208	4,612
Electricity, gas and other fuels	1,102	1,217	1,680
Household goods & services	1,118	1,607	3,983
Health	260	380	822
Transport excl petrol and diesel	1,539	2,288	7,452
Petrol diesel and motor oils	671	1,014	1,981
Communication	822	1,045	1,763
Recreation & culture	2,215	2,985	8,216
Education	(57)	(88)	983
Restaurants & hotels	1,269	2,350	6,599
Miscellaneous goods & services	1,399	2,070	4,893
All expenditure groups	16,734	22,968	51,906
Other expenditure items excl mortgage and holidays	702	775	1,773
Housing: mortgage interest payments, council tax etc.	1,321	2,122	5,886
Holiday spending	(109)	432	2,413
	18,647	26,296	61,979
Other items recorded			
Life assurance and contributions to pension funds	374	946	7,150
Other insurance inc. friendly societies	68	94	276
Purchase or alteration of dwellings, mortgages	926	1,830	8,975
Savings and investments	94	255	1,773
Pay off loan to clear other debt	(42)	78	322
Windfall receipts from gambling etc	83	21	78
Total spend	20,150	29,520	80,553
Net saving	(1,050)	(20)	8,835

There are three things to note straightaway. The first is that the ONS data implies that the third decile – the

minimum wage earners (near enough) don't already make ends meet. It's not clear how the ONS explain that, especially as their savings are already small.

The fifth decile - the average earners – broke even in March 2020, near enough. And the top decile of income earners were doing just fine, which is no real surprise to anyone because that's the way our society is stacked.

Having established this data I then had to make some assumptions on relevant inflation rates to suggest what might happen. On income, I have assumed 3.8% pay rises – because that is the latest ONS estimate of pay rises, excluding bonuses.

Tax increases are based on the estimated pay rise at the appropriate tax rate assuming no increase in personal allowances, which is what is happening – so taxes are increasing in reality, as I show.

For national insurance I have allowed for the NI due on the increased income and the increase in rate of 1.25% overall income. Because NI is capped for high earners the calculation is different for the top decile than it is for the two lower deciles.

Thereafter I have assumed 5% inflation on most spending – which is consistent with most current forecasts (although if I am honest, I think these may be a bit low now), but there are obvious exceptions.

On food I have allowed 10% for the lower deciles and 5% for the top decile – because they have more flexibility and the ability to substitute products. The 10% is based on Jack Monroe’s work and may be an underestimate. It may be worse as wheat shortages hit.

Domestic energy I have estimated at 150% as that seems to reproduce the prices we expect. Petrol I have estimated at 100% - or a doubling in the cost, which latest expert forecasts suggest likely.

I have assumed no increases in some discretionary costs. Most housing costs are hard to estimate because they vary so much. I have allowed for interest rate rises (very approximately) on mortgage costs. There is a lot of give and take here depending on people’s circumstances.

Putting all this together the impact on people in the third decile of income earners (those on about minimum wage, working full time) is:

	Third decile group - annual income	Inflation rate or likely increase	Restated annual figures for coming year	Increases
	£	% unless otherwise shown)	£	
Average annual income	20,551	3.8	21,332	781
Less: Tax	1,024	156	1,181	156
Less: National insurance	426	240	667	240
Average annual income net of taxes	19,100		19,484	384
			2.0%	
Food & non-alcoholic drinks	2,444	10.0	2,688	244
Alcoholic drink, tobacco & narcotics	458	5.0	480	23
Clothing & footwear	624	5.0	655	31
Housing (net)	2,756	5.0	2,894	138
Electricity, gas and other fuels	1,102	150.0	2,756	1,654
Household goods & services	1,118	5.0	1,174	56
Health	260	5.0	273	13
Transport excl petrol and diesel	1,539	5.0	1,616	77
Petrol diesel and motor oils	671	100.0	1,342	671
Communication	822	5.0	863	41
Recreation & culture	2,215	5.0	2,326	111
Education	(57)	-	(57)	-
Restaurants & hotels	1,269	5.0	1,332	63
Miscellaneous goods & services	1,399	5.0	1,469	70
All expenditure groups	16,734		19,811	3,192
Other expenditure items excl mortgage and holidays	702	-	702	-
Housing: mortgage interest payments, council tax etc.	1,321	5.0	1,387	66
Holiday spending	(109)	-	(109)	-
	18,647		21,791	3,258
Other items recorded				
Life assurance and contributions to pension funds	374	3.8	389	14
Other insurance inc. friendly societies	68	-	68	-
Purchase or alteration of dwellings, mortgages	926	10.0	1,018	93
Savings and investments	94	-	94	-
Pay off loan to clear other debt	(42)	-	(42)	-
Windfall receipts from gambling etc	83	-	83	-
Total spend	20,150		23,400	3,365
Net saving	(1,050)		(3,916)	(2,980)

The impact on those on approximately median income is:

	Fifth decile group - annual income	Inflation rate or likely increase	Restated annual figures for coming year	Increases
	£	% unless otherwise shown)	£	
Average annual income	33,426	3.8	34,696	1,270
Less: Tax	2,714	254	2,968	254
Less: National insurance	1,212	466	1,678	466
Average annual income net of taxes	29,500		30,050	550
			1.9%	
Food & non-alcoholic drinks	3,130	10.0	3,443	313
Alcoholic drink, tobacco & narcotics	645	5.0	677	32
Clothing & footwear	941	5.0	988	47
Housing (net)	3,208	5.0	3,369	160
Electricity, gas and other fuels	1,217	150.0	3,042	1,825
Household goods & services	1,607	5.0	1,687	80
Health	380	5.0	399	19
Transport excl petrol and diesel	2,288	5.0	2,402	114
Petrol diesel and motor oils	1,014	100.0	2,028	1,014
Communication	1,045	5.0	1,097	52
Recreation & culture	2,985	5.0	3,134	149
Education	(88)	-	(88)	-
Restaurants & hotels	2,350	5.0	2,468	118
Miscellaneous goods & services	2,070	5.0	2,173	103
All expenditure groups	22,968		26,820	4,028
Other expenditure items excl mortgage and holidays	775	-	775	-
Housing: mortgage interest payments, council tax etc.	2,122	5.0	2,228	106
Holiday spending	432	-	432	-
	26,296		30,254	4,134
Other items recorded				
Life assurance and contributions to pension funds	946	3.8	982	36
Other insurance inc. friendly societies	94	-	94	-
Purchase or alteration of dwellings, mortgages	1,830	10.0	2,013	183
Savings and investments	255	-	255	-
Pay off loan to clear other debt	78	-	78	-
Windfall receipts from gambling etc	21	-	21	-
Total spend	29,520		33,697	4,353
Net saving	(20)		(3,647)	(3,803)

And the impact on high-income earners is:

	Tenth decile group - annual income	Inflation rate or likely increase	Restated annual figures for coming year	Increases
	£	% unless otherwise shown)	£	
Average annual income	118,399	3.8	122,898	4,499
Less: Tax	22,651	1,800	24,451	1,800
Less: National insurance	6,360	599	6,958	599
Average annual income net of taxes	89,388		91,489	2,101
			1.9%	
Food & non-alcoholic drinks	5,242	10.0	5,766	524
Alcoholic drink, tobacco & narcotics	1,045	5.0	1,097	52
Clothing & footwear	2,642	5.0	2,774	132
Housing (net)	4,612	5.0	4,843	231
Electricity, gas and other fuels	1,680	150.0	4,199	2,519
Household goods & services	3,983	5.0	4,182	199
Health	822	5.0	863	41
Transport excl petrol and diesel	7,452	5.0	7,824	373
Petrol diesel and motor oils	1,981	100.0	3,962	1,981
Communication	1,763	5.0	1,851	88
Recreation & culture	8,216	5.0	8,627	411
Education	983	-	983	-
Restaurants & hotels	6,599	5.0	6,929	330
Miscellaneous goods & services	4,893	5.0	5,138	245
All expenditure groups	51,906		59,038	7,126
Other expenditure items excl mortgage and holidays	1,773	-	1,773	-
Housing: mortgage interest payments, council tax etc.	5,886	5.0	6,181	294
Holiday spending	2,413	-	2,413	-
	61,979		69,404	7,420
Other items recorded				
Life assurance and contributions to pension funds	7,150	3.8	7,422	272
Other insurance inc. friendly societies	276	3.8	286	10
Purchase or alteration of dwellings, mortgages	8,975	10.0	9,873	898
Savings and investments	1,773	-	1,773	-
Pay off loan to clear other debt	322	-	322	-
Windfall receipts from gambling etc	78	-	78	-
Total spend	80,553		89,158	8,600
Net saving	8,835		2,330	(6,499)

What this means is that those on about minimum wage have a cost-of-living increase of about 14%. Those on median pay have an increase of less, but still of an eye-watering 11% a year. And those on the highest incomes

see a much smaller increase of about 5.3% in the way I estimate it.

Remember all these numbers are approximate, and they are forecasts, but I offer them in good faith. If the government does nothing to help people in Rishi Sunak's statement next week, then I suspect that outcomes like this (or maybe worse) might happen.

Let's put hard numbers on these forecasts. Those in my lowest income group will spend £65 a week, or £3,365 a year more. Given they had no money to spare before this began they are now in a desperate situation. After pay rises they're still down about £3,000 a year

I don't say that lightly: I am incredibly worried about those on lower incomes right now. Brexit, Covid and government policy – all of which were pushing up inflation well before war began – are pushing millions of households in this country into near impossible poverty.

I stress – these families are facing near impossible situations. Let's not beat about the bush. Without much more help I can't see how their household budgets can come close to adapting to the additional costs that they face. There is no slack to cut.

Life is not going to be a lot better for those on average or median pay. They will see their weekly costs rise by £84, which is an additional annual spend of £4,350. They were breaking even before this. Now they aren't. They're going to be down £3,800 a year after pay rises.

Just like those earning £10,000 or more less than them, many in this group will not be able to make anything like the demanded level of lifestyle adjustments that this level of additional cost will require.

What is also apparent is that if they do try to make that adjustment – and most will be forced to – then the savings will come from their recreation budgets – for which there is going to be little money left in both groups if anything like the required savings are to be found.

The top earners actually suffer bigger increases in actual costs as a result of the inflation that we are going to see. On average they face additional spending of £8,600 a year. This is despite having earnings increases of £4,500 a year. Two cars and bigger houses have a cost.

The best off will differ from the other groups in one way: they will still be able to cover their outgoings including all their planned savings, pensions and

mortgage payments. Their options on how to address the issues arising are much wider than those available to others.

There are some interesting comparisons to make before considering the consequences of all this. For example, the same 3.8% income increase is assumed for everyone, but for the lowest earners that results in a 2.0% net pay increase; the median earners get 1.9% and the top 1.9%.

Those lowest off pay slightly less in national insurance increase overall than the median earners in this group, and the top group have higher income tax increases to compensate for smaller NI increases. But there is nothing remotely progressive about this.

Importantly, overall tax rate on inflation driven pay rises next year might be as high as 50% overall, given the impact of national insurance changes across the board. There is in that case no pay solution that is going to solve this issue, although cutting the NI increase would help.

What is more, net pay rises are only 11% of cost increases for those on approximately minimum wage, 12.6% for those on median pay and 24.4% for those in the top

decile. No one is getting a pay rise that compensates for their extra cost of living, but the rich are doing best.

In that case there are three questions to ask. First, does this matter? Yes, because as it stands it's likely that well over half of all UK households are going to face financial pressure they simply cannot manage over the next year as things stand. That is a nightmare for them.

It is also a nightmare for the government. These people will get very angry when faced with an insurmountable burden requiring that they cut back on everything but the most basic things in life, and even then will be challenged to make ends meet.

Politically we have not seen anything like this in the lifetime of anyone now living in the UK. How people react is anyone's guess. But I know that a mother who cannot feed her children is one of the angriest people on earth and there are going to be millions of them sometime soon.

To be blunt, I am not sure how this situation can exist without the risk of serious civil unrest, which it would be very easy for people to have sympathy with.

Second, my analysis only concerns the initial reaction to price rises, as people try to pay. As struggling households cut all their leisure spending back, or end it, the secondary reaction is going to kick in. That means large scale business closures, and then mass unemployment.

You cannot force most people in the country to spend all their income on basic costs of living and maintain a thriving economy. That's impossible. And £150 here or there on a saved council tax bill, or a bit saved on deferred payment arrangements is not going to solve that.

The leisure, tourism and travel sectors are clearly going to be hardest hit by this. The ONS data shows that everyone who can likes going out in the UK. But that's not going to happen with bills rising this much. There is going to be economic meltdown in these sectors.

Third, once these secondary effects kick in so does the financial crisis as debts, rents and mortgages, as well as utility bills, go unpaid. People without the money to pay their debts cannot settle them. The consequence is that a full-blown debt and banking crisis is on the cards.

How big a crisis? Something that makes 2008 look like a picnic, I suggest. That's the magnitude of the crisis that we are looking at if people simply cannot pay their bills, as seems likely based on this quite fair data analysis of the problems most households are facing.

So, what can government do? I stress I ask that question in that way deliberately. That's because I can't see anyone else doing anything about this crisis, or having the power to do so. It is either down to the government to tackle this or we are in very deep trouble indeed.

First, the government has to acknowledge this problem, and its scale. Rishi Sunak has the chance to do that in his spring statement next week. I cannot see that happening but have to hope I am wrong.

My problem is that I recall all too well Sunak's first response (and his second, and more) to Covid and they were all too little, too late, or riddled with holes that let fraudsters have a party at our expense. I have to hope that for once he might get this one right but doubt he will.

Second, the problem has to be acknowledged to be a universal one. It would be relatively easy to announce

some measures for those on Universal Credit for example, and they'd be welcome. But, my data shows that the problem we are looking at extends way beyond those on UC.

Third, in that case tinkering of the sort announced earlier this year to tackle the increases in energy cost schedule for 1 April onwards are not going to be enough: something much more radical is required. Council tax rebates and enforced loan schemes won't work this time.

Fourth, the problem is not only with domestic energy bills. [I've shown that the increases](#) in these are down to energy company profiteering that exploits us all in this thread.

The problem now extends to road fuel and food prices as well. Both are also likely to go up, and again because of profiteering in most cases because it is not cost increases that are driving up these prices, but shortages that are being exploited by speculators that are doing so.

Fifth, we have in that case an inflation driven crisis in our economy caused by speculators and not real cost

increases from things that might compensate for the price increases, like wage rises.

Understanding this is important because it tells us what will not work to tackle this crisis. Most especially, increasing the official interest rate will do nothing to stop these speculators. All those increases will do is pour even more hardship on hard-pressed households.

In that case Rishi Sunak should be sending out a very clear signal to the Bank of England to not only stop the increases in interest rates they're imposing on us right now, but to reverse them too. People need all the help they can get right now.

There is another message that Rishi Sunak also needs to be sending to the Bank of England, which is that he might need a lot more quantitative easing (QE) quite soon. The government's response to Covid was entirely paid for with money created using QE.

No debt, no tax and no borrowing paid for the £400 billion cost of Covid. Money creation by the Bank of England did. And what we know is that money creation of this sort did not create inflation in the previous 11 years, and nor is it, or will it, now.

In that case, the crisis our economy now faces can be addressed using QE, if necessary. However, QE does create problems of growing inequality. To tackle them taxes on the best-off need to go up, and we will also need a windfall profits tax on energy companies.

What else can Sunak do? The answer is that he must intervene in markets to prevent the impact of the exploitation that we are seeing driving people into the financial problems that I am suggesting are likely to happen in this thread.

Tinkering will not do. Instead, he has to hit the problem head-on. He has to cut road fuel prices to prevent them pushing all other prices up. That means cutting VAT and other duties to keep these prices at 2021 levels. That's the price we need to pay to beat inflation.

And then he has to be really radical. We need subsidised household energy pricing, imposed compulsorily on all energy suppliers. That means setting the tariff for the energy consumed by an average household at 2021 levels. The government must subsidise that cut in costs.

If this was done only larger houses should be required to pay the market price for whatever energy they consume

above that average use. This would encourage energy-saving measures by them and suit the green agenda. That makes this fair, affordable and green.

These measures do, however, only address the immediate problem. Then we have to solve the long term one. That requires three things. Green energy; new jobs and better pay. This is where the Green New Deal comes in. This has always been designed to deliver all three, everywhere.

The jobs would be installing insulation to cut energy costs as more than 30% of UK houses are uninsulated at present. We also need more double glazing, and then heat pumps rather than gas boilers. On top of that, solar, wind, tidal and other new energy is required.

Then there is new green housing that is needed and the transformation of transport and office spaces. Just about every business process needs reengineering too. The number of jobs that becoming net-zero could create is enormous, as we cut our emissions.

All of this is affordable. QE and tax could pay a part. But so too could redirecting the financial wealth of the UK to this task. There is £8.4 billion of financial wealth in the

UK, most in pensions funds and ISAs. The rules on these need to change to deliver green funding.

If ISAs had to be saved in government-backed green bonds paying competitive interest and one-quarter of all new pension contributions had to be used to fund the green transition more than £100 billion a year could be provided to create the transformation of our society.

Sunak could change ISA and pension rules to require that. Then we could be weaned off not just Russian gas and oil, but all the gas and oil that threatens life here on earth. This is possible. And we could have more, better-paid jobs using the savings.

In other words, we do not need to go into recession now. With imagination we could be setting ourselves up to tackle the immediate inflation issue and the long-term issue that created it. Will he do that? I don't know. I can only hope so, for all our sakes.

What I do know is that if Sunak does little or nothing, we face the biggest economic meltdown of my lifetime with millions of households who have never faced poverty joining those who already know all about it. If that is not enough to make him act now, nothing is.

My thanks to economist Howard Reed for reviewing the data in the thread: any errors are mine.

About the author

Professor Richard Murphy is Professor of Accounting Practice, Sheffield University Management School. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He co-founded the Tax Justice Network, the Fair Tax Mark and Finance for the Future. He founded and still directs Tax Research UK. He co-created the Green New Deal and remains an active member of the Green New Deal Group. He is founder-director of the Corporate Accountability Network.

Richard created the concept of country-by-country reporting, which is now in use in more than 90 countries around the world to identify tax abuse by multinational corporations as a result of backing for it provided by the Organisation for Economic Cooperation and Development. Richard has created the concept of sustainable cost accounting.

Richard has authored a number of books including *The Courageous State* and *The Joy of Tax*. He blogs, usually daily, at Tax Research UK and is a frequent commentator

in the media on tax and accounting issues. In the last three years he has been named by the Institute of Chartered Accountants in England and Wales as the top social media influencer on accounting issues in the UK.

Research interests

Richard Murphy's work focuses on the need to use accounting as an instrument to effect social change, particularly with regard to the prevention of corruption and abuse, to eliminate poverty and to manage the impact of climate change.

One stream of Richard's work has focussed on tax transparency. His other major focus is on sustainability. A founder of the Green New Deal Group in 2008, Richard now focusses on how the impact of climate change can be recorded on the balance sheet of major public reporting entities. This work is being done at Sheffield and with Copenhagen Business School. Elsewhere he is working on how tax and other regulation can be revised to provide the funding for the climate transition we need and which, so far, governments are refusing to fund.