# Surviving 2023

## How to manage the coming economic crisis

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Dedicated to all those who will suffer if something like this does not happen.

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# Introduction

## What Surviving 2023 is about

The economic crisis of 2023 is about four things.

The first is inflation.

The second is the cost-of-living crisis that is enveloping the UK as a result.

The third is the energy crisis that both issues relate to.

The fourth is the fact that no UK politician has, as yet, seemed to comprehend the scale of the issues that we face or as a result come up with a comprehensive plan to address them.

This publication seeks to remedy the last issue, whilst addressing the other three.

The aim is threefold.

The first is to show that this crisis is massive in scale, and has in part been deliberately engineered, including by the Bank of England.

The second is to explain what the crisis is, and what its impact will be.

The last is to explain that we can afford to fund our way out of this crisis without difficulty if the willing and understanding to do so exist.

We do not need 2023 to represent the beginning of a deep depression for the UK economy but it might be unless the suggestions made here, or others of similar style, are adopted by UK politicians.

## Summary

The crisis that we are facing as we head towards 2023 is being caused by inflation. This started as a flurry after Covid reopening caused supply chain disruptions, but it is Putin's war and resulting gas price hikes by profiteering energy companies that are making this such a problem.

The problem is that inflation might reach 15%. Worse, for households on low incomes domestic price hikes might mean these households paying 24% or more of their after-tax income in energy costs. Staggeringly, all but the top 20% of households could be in fuel poverty.

Clearly, this issue needs to be addressed. But this is not the only problem. The Bank of England is currently seeking to ruin the economy by imposing interest rate rises that cannot work. This is going to deliver recession in the UK. The impact will be widespread.

In particular, schools, hospitals and care homes are all going to be unable to pay their energy bills this winter, creating massive new crises. And hundreds of thousands of companies are going to fail too, with millions unemployed. This is the bigger issue we must face.

In my plan I seek to tackle all these issues. I do not pretend that the issue is just about a household cost of living crisis, because it is not. Unless the big issues of public services and a failing economy are also addressed helping households will still leave us in trouble.

Taking households first though, the plan offers a range of necessary solutions. The big idea is to ensure that no household should spend more on energy as a proportion of after tax income than the wealthiest households in the country would if energy costs reached £4,200 a year.

The plan is that no household will spend more than 7% of their post-tax income on energy. This suggests variable rates of relief are need, from £2,600 a year for the lowest income households, with relief continuing all the way through to above average income households.

Most households will need more than £2,000 of relief to achieve this goal of no fuel poverty in the UK.

I suggest how to provide this relief. Everyone on a pension or benefits should get it, automatically. Everyone else would need to make a simple application. The payment would go to their energy company to prevent fraud.

I estimate that the cost of this would be £44 billion a year, and I think it would work. It could also be easily adjusted if energy prices fall, which is important.

But that is not enough. I also make proposals to put prepaid meters on lowest tariffs, always. I would also scrap standing charges, which are akin to a poll tax, and I would introduce progressive energy tariffs so that high consuming households pay more for their energy.

Ofgem would also need radical reform. One reason our energy prices are so high in the UK is that it maximises energy prices to deliver guaranteed profit for energy companies. It does not protect consumers. It protects profits.

This can and should change. I suggest how. Whether there is a worthwhile energy market left for consumer facing energy companies to partake in after that is a very good question. I doubt there will be.

But this is still not enough. If state services are to be protected and staff are to get fair pay rises, we need an emergency budget.  I suggest that protecting public services will cost £80 billion in a year. It is unavoidable.

There may also need to be help for pressurised companies. I suggest a package linked to the number of employee jobs at risk. If the subsidy was £2,000 a job supporting smaller business might cost £20 billion this year.

Charities might also need help, and many are now dependent on them.

All in, this package might cost £144 billion. In the short-term deficit funding might cover this. To allay fears that this will be a burden on taxpayers I suggest a new Bank of England funding arrangement to provide this money, almost costlessly.

If this level of support is provided we should recover quickly from this crisis, which is where the real payback for that spend comes from. Preventing a recession is a price well worth paying, as we appreciated in 2008 and 2020. There will, however, remain longer term issues.

I suggest necessary new taxes that we need if we are to have the state we need. Most target wealth, which is heavily undertaxed in the UK. Other measures target tax abuse and windfall taxes also have a role, but on banks as well as energy companies, where they're hard to deliver.

And finally, we need the long-term reform that only a Green New Deal can deliver. We have no choice but transform our economy now to face the reality of climate change.

How to pay for this Green New Deal? It is not hard. UK savers love tax reliefs. Tax reliefs on pensions and ISAs have to be changed. If they were I estimate that £100 billion could be found from UK savers to fund the Green New Deal each year.

We are a wealthy country and it is UK wealth that must be foundation that provides the funding for the transition to becoming the state we need to be. When the country has £12 trillion of wealth finding the required money will not be hard.

The plan I propose is radical, realistic in the face of the crisis we have got, and necessary if the economy, households and public services are to survive intact.

The plan focuses on inequality and seeks to address it by eliminating fuel poverty as well as by taxing fairly.

But the plan also seeks to keep essential public services going, and people in jobs this winter as well. I am baffled as to why no one else is talking about these issues.

Finally, the plan addresses the long term, and finding for the transition to energy efficiency that we need. This funding can be delivered out of better utilisation of the UK's wealth. Tax incentives will drive the change.

From start to finish this is a plan for the crisis we are in. And I fear that unless something like this happens we are in the very deepest trouble. Please read on.

# Chapter 1

# The economic crisis of 2023

## Inflation

Inflation might reach 15% in 2023. This inflation has been caused by several factors.

Initially, shortages and short-term shocks resulting from reopening the economy too quickly after Covid created inflationary pressure. In addition, some who did well in economic terms from Covid sought to spend their resulting increased savings faster than the economy could withstand in 2021, adding to that pressure. However, these problems now appear to have disappeared. Most prices related to these issues are now falling fast. Instead, what we now have is inflation caused by profiteering by energy companies seeking to push up prices based on fears of fuel shortages driven by Russia's actions related to war in Ukraine.

The problem is wages have not kept up with this inflation. What is more, the government is doing all it can to try to prevent them doing so, offering pay rises of well below inflation. Private sector businesses meanwhile are offering bonuses to compensate for current inflation, but that just means they are deferring a pay crisis until next year as there is no sign prices will fall back to where they were in early 2021 now. And to add to all this, the Bank of England is encouraging employers not to pay inflation matching pay rises, saying this will create an inflationary pay spiral, whilst all it seems that we are actually getting is a downward spiral towards poverty instead.

The Bank of England is making matters worse in other ways too. It is increasing official interest rates, which will put a massive squeeze on household budgets over coming months as mortgage rates rise. As a result, commercial bank profits will be inflated as households are squeezed, because banks are not passing rate rises on to savers. And, at the same time, commercial bank profits are also rising because increasing the Bank of England base rate means that the interest that they earn on the deposits they hold with the Bank of England increases by around £9 billion a year for each 1% interest rate rise. They are already making around £15 billion of extra profit a year as a result.

## The consequences

Energy company and bank profits are rising. Reports from oil companies like Shell and BP and energy supplier Centrica all confirm this. Natwest has also announced profit increases.

However, at the same time the UK's gross domestic product (GDP), or national income, is beginning to fall. There was a decline of 0.6% in June 2022 and the trend is markedly downwards now. The likelihood that we are heading for a significant recession is high.

Households will be placed under impossible stress as a result of these various pressures.

For the lowest income households energy costs to be paid out of after tax income will increase from 7% of those earnings to around 24%.

In contrast, the best-off households might see energy costs increase from 2% of after tax income to maybe 7%.

For those on average earnings the increase might mean that they spend 13.4% of after-tax earnings on energy, whilst the second highest earning quintile of households will be spending more than 10% of earnings on energy.

To put this in context, what this means is that in January 2023 it is likely that up to 80% of UK households will be in fuel poverty when that has been defined as spending more than 10% of after-tax earnings on energy costs.

That is the result of energy price increases that by then will have gone up by around £3,000 per household to around £4,200 on average a year.

This, however, is not the only inflation we are facing. Food is also increasing in price and is likely to do so by even greater amount as the effects of war, climate change and drought are all hitting this year's crops very hard. Road fuel prices have also increased considerably in price, although they appear to be past their peak. The spillover of all these issues is that other prices are also being driven upwards. The pressure on households comes from much more than energy prices.

The difficulty in all this is that wages are not rising. Regular pay was increasing at a rate of 4.3% per annum in July 2022 according to the Office for National Statistics[1]. With bonuses it was over 6%, but those bonuses tended to go to the best off. And, whilst benefit increases are linked to retail prices, there is a significant lag in this process, meaning most on benefits will also get nothing like inflation increases in their payments.

To summarise:

1 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/kai9/lms

- Prices are increasing dramatically;
- Real wages relative to prices are falling dramatically;
- Real profits in the energy band banking sectors are, in the short run increasing.

## The scale of the stress

There are around 27 million buildings used as houses in the UK. Some are second homes. Others are in multiple occupancy. But, like other researchers in this area, I am using this number as an indicator of the number of households in the UK when preparing the estimates that follow.

Before energy price started rising average household bills were around £1,100 per annum. As a result, total domestic energy costs might have been around £30 billion a year.

If prices increase to £4,200 on average that cost will go up to around £110 billion a year. That is an increase of maybe £80 billion a year.

Total average household income a year in 2021 was £31,383 based on ONS data. That might imply total household disposable income might have been £937 billion.

3.2% of household income was spent on energy in early 2021. Even after allowing for a 5% pay rise (which many might not get), 11.1% of average after tax earnings might be spent on energy in 2023, on average but it may will be 25% or more for the lowest earning 20% of UK households. This is an impossible scale of household stress.

## The government's planned support

The government has announced support.

Every household will get £400 in help, whether they need it or not. Landlords may take that owing to some lower income households. This will cost around £11 billion. At least £4.3 billion of that will probably go to households who can manage the stress already, to a reasonable degree.

Other households, mainly pensioners and those on universal credit, will get up to £800 of additional support this winter, bringing the total support available to around £1,200. It is not clear how many will get that much, but most will not.

This support scheme was designed when it is thought that the energy price cap would increase to £2,800. If that had been the case it would have covered around 75% of that increase for the most vulnerable households in the UK. Pensioners and others would have been left to find £400, plus the cost of other inflation. Now this scheme is likely to cover no more than 40% of the increase in energy bills. It is very obviously deeply inadequate as a result.

## What might happen without extra support

It is, of course, impossible to predict the future with certainty. But, such is the scale of this issue that some things are reasonably predictable.

First, large numbers of UK households are very unlikely to be able to pay their bills as the winter of 2022/23 develops. How many cannot be known for sure, but given that we know most households on average and lower incomes have very few cash savings it is likely that the number who will struggle might exceed 10 million households and could easily reach 15 million homes.

These households will not only have problems with energy bills though. If they try to keep paying for electricity and gas in they will simply shift the problems that they face elsewhere. They will also struggle with water bills, council tax, broadband and phone costs, mortgage and rent payments, car loans and other debt payments, like credit cards.

Talking of credit cards, these will soon be maxed out, as will be overdrafts. The pawn shops will be very busy this winter, feeding off misery as they always do.

So what we face is a very rapidly developing household debt crisis, which none of those involved will have had to experience through any fault of their own.

The immediate consequence will be seen in increased demand for support services. Food banks will be busy, and probably overwhelmed. So too will the NHS as people cannot cope because, for example, they are unable to afford adequate home heating. My suspicion is that the real crisis will arrive in January. People will struggle on until then, with the desperate desire to have a normal Christmas. Then the debts will really hit.

This pattern always happens in every January, but in 2023 this is going to be different. Very large numbers of people will no longer be going out. The hospitality and leisure sectors will be hit, massively, as people simply stop spending money that they have not got. This will also hit a lot of retail business too. The inevitable consequence of that is going to be a rise of business failures, and increasing unemployment. A serious economic recession is very likely as a result .

But there are also going to be big impacts on those who are not going to be paid what they are owed. Energy companies are going to be bogged down with millions of accounts that will be failing or in dispute. They will not have the staff to deal with this. Some of these companies will try to cut people off as a result. Amazingly, and unlike water companies, they can do this. But the consequences will be severe. People will lose access to heat, light, the ability to cook, access to the internet, their phones, entertainment and more. Lives will be put on hold. Worse, lives will quite literally be put at risk. People will die.

This won't save the energy companies though. They might send the bills out for energy people can't afford to pay for in 2023, but the payments will not come back to them in anything like the sums they might expect because people will be unable to pay through no fault of their own.

And, as we saw in 2021, energy companies can, and do, fail. The actual producers of oil and gas will not. Maybe the electricity generators might not (but it's harder to be sure) but those who actually sell us the energy that comes into our houses can fail. And they are going to do so. This is inevitable. You cannot try to sell most of your product to people who cannot pay for it and expect to stay in business. That just cannot happen. In that case it is not just consumers who should be panicking about the forecast price increases: all of the domestic energy companies should be too. They are at extreme risk in the situation that is developing.

The energy companies will not be the only businesses in trouble though. The water companies will be threatened. When people realise that water can't be cut off water bills will go unpaid at a phenomenal rate. The whole business model of the water companies is likely to fail.

Landlords might also be going unpaid. Expect attempts at eviction to skyrocket in 2023. Many will succeed. We are likely to have a homelessness crisis as a result of energy price increases.

Banks will also have a big problem with mortgage arrears, which could be very costly for them. It takes time for them to repossess, but don't doubt that their attempts to recover homes will be a big issue in 2023 as things stand right now. The situation will be made worse by the fact that when the banks try to sell the houses they can no longer make money from house prices are likely to fall, because few will be able to buy, or will want to. That could then trigger a banking crisis since more than 80% of most banks' lending is secured on property, and if its value falls banks make losses as night follows day.

What other activities will be in trouble? No one knows how schools will pay their energy bills in 2023, which are not capped, and which have not been discussed by any politician as yet. Will they have to send children home? And what is the impact of that in the economy? Similarly, hospitals are already in trouble. Fuel costs will just make everything worse. The chance that effective health care can be provided in what could be the worst case scenario of cold buildings without power is close to zero.

The social care situation may be even worse. Already at breaking point with staff problems, fuel costs will make many, and maybe most, care homes unprofitable. But who then will care for those living there? Or will they be abandoned?

And I stress none of this is catastrophising. I wish it was, but all if it is simple and reasonable extrapolation of the issues that are likely to arise as we head through the winter of 2022 and into 2023.

# Chapter 2

# What can be done?

None of these predicted outcomes is necessary, of course. There are whole ranges of things that can and should be done to tackle this problem, many of them simultaneously. A competent government would be putting all of them into place. This chapter discusses a wide range of issues that are likely to need to be addressed, simultaneously.

## a. Energy pricing

Energy prices in the UK are already high. That is not by accident. That is by design. The price of energy is regulated by the Office for Gas and Electricity Markets, or Ofgem for short.

Ofgem is not a consumer protection agency. Its job is to regulate the energy supply market with the aim of ensuring there is available a steady supply of energy to meet demand. To achieve that goal its aim is to make sure energy suppliers are profitable.

In doing its job Ofgem harms consumers. For example, although 50% of gas used in the UK is still home produced, Ofgem lets energy companies price gas as if it is all bought on the international market, where prices have risen, enormously. But what that means is that UK gas producers are making excess profits because none of their costs have really risen as a result and all the increased price does is inflate their profits.

With regard to electricity the problem is worse. The reasons are a little complex but are worth explaining.

Broadly speaking, electricity can be generated from coal, nuclear, hydro, renewable sources and gas in the UK. What electricity we get through the wire into our house does, whatever our energy company tells us, come from a mix of all these sources. And what Ofgem does is set the price so that the most unprofitable of these production methods will always make a profit, come what may.

What Ofgem then requires is that all the other producers of electricity charge the same price as the weakest producer needs to charge to be profitable.

This, though, is absurd. If, for example, all of the producers made electricity for £1 a unit in 2020 but now, the price of gas has increased meaning it now costs £2 to make electricity from gas then, even though the costs of hydro, nuclear, coal and renewables have not changed the price to consumers from all producers will be doubled by Ofgem just so that those producing electricity from gas can still be profitable.

What should happen is that Ofgem should in the current emergency buy the electricity that all producers generate at a fair price that allows them a fair profit, and it should then sell that electricity on to consumers at the price that delivers this fair profit, and no more to any producer.

To explain, using the example already noted, if gas produced electricity now costs £2 and it makes up 40% of the electricity market, but all other electricity still costs £1 a unit, including fair profit to generate, then the price of electricity should go up to £1.40 a unit when sold to the consumer[2]. Instead Ofgem requires that the price be £2 a unit to cover the gas producer's costs. This is, of course, a summary of a complex issue. But the message is clear: why our prices are going up more than elsewhere is because the government appointed regulator in the UK guarantees that this will be the case at present because of the absurd pricing model that they use. This has to be sorted. An overhaul of Ofgem and its pricing model would dramatically cut the profits made in the UK energy market and reduce wholesale gas and electricity prices, which would significantly cut domestic prices as well.

### b. The energy standing charge and prepaid meters

But why has the price for those on low incomes increased so disproportionately?

First, many in this group are forced onto pre-paid meters.

Second, these pre-paid meters invariably have the worst tariffs available: energy companies punish those they deem to be uncreditworthy in this way.

And third, the standing charges for simply having any meter in your house is disproportionately high for those on low incomes because relatively they consume less energy, and those standing charges have increased considerably. That is most especially true in rural and remote areas. We have in that case a system not only rigged against consumers in the UK, but against poorer consumers in particular.

The answers to these issues are easy to suggest. First, prepaid meters must always be on the lowest tariff available from any supplier.

[2] That is made up of four types of production at £1 each, representing 60% of power and then gas, representing 40% of electricity at £2. Six times 1 plus 4 times 2 is 14, which when divided by 10 is £1.40.

Second, the standing charge must be scrapped. It is absurd that energy supply in the UK includes what is, in effect, a deeply regressive poll tax that penalises the poorest in our communities whether people are on prepaid meters or not. There is no reason at all why the standing charge cannot be absorbed into the tariff based on usage, and that should happen now.

### c. Tariff reform

Tariff reform is essential as part of the mechanism for tackling the cost-of-living crisis.

The idea that an energy market would benefit consumers, which was the philosophy that supposedly underpinned privatisation, was always wrong. It might have benefitted a few who were willing to continually change supplier: most consumers have not done that and have been exploited by their suppliers as a result.

In any case, something like 80% of consumers are now on an Ofgem energy price capped tariff: the consumer market in energy in the UK can safely be said to have failed as a result. In that case the time has come for Ofgem to set single tariffs for energy pricing in the UK. The time when consumers could be exploited by companies should end, and the vast waste of human effort and expenditure utilised in pretending there is a market when that was always rigged against the consumer should also come to an end.

There are, however, changes required beyond having a single tariff. First, the standing charge has to be built into the tariff, as already noted. Second, the tariff must be progressive depending on the level of consumption. So, the first units used must be charged at a lower price than later units, with the scale becoming increasingly upward as consumption exceeds average levels. Not only is this fair, but it will also encourage energy saving, which is essential. For that reason, the progressivity needs to be significant.

### d. Support for households

Current levels of support for UK households in fuel poverty is low and totally illogical.

Every UK household is getting an energy bill rebate of £400 this coming winter. This appears to be a token gesture, but worse, when around 40% of UK households are likely to be able to afford energy price increases, whilst undoubtedly noticing their significant impact on their ability to spend, this makes no sense. This subsidy will be around £11 billion but of that about £4.4 billion might go to people who do not need it.

There are several other schemes. Those on universal credit should get at least £650. Pensioners and those with disabilities should get more.

At best households might get around £1,200, which was chosen when the increase in fuel bills was meant to be £1,600 a year. No one explained how households on the edge of survival were to find another £400, but they were left to do so. Now though the increase in fuel bills is forecast to be at least £3,000. It may be more. And there has so far been no additional offer of help even though, based on my calculations, more than two thirds of households may be in fuel poverty by early 2023 with prices at this level. That means they will be paying more than 10% of their income after tax on energy costs.

To address this, fuel poverty has to be eliminated for all who might suffer it. I suggest that no one should pay more than 7% of their after-tax income on energy, which my calculations suggest is what the best off 20% of households are likely to pay in the UK in 2023.

To achieve this goal the households with the lowest 20% of incomes after tax would require an annual fuel subsidy of around £2,700.

The next 20% of households, with average after tax earnings of around £23,400 in 2021, will need a subsidy of around £2,300.

Average earners, with after tax income of £31,400 in 2021, will need a subsidy of about £1,900.

Those on above average after tax earnings in the 60% to 80% of income earning households would, quite surprisingly, still need a subsidy, of maybe £1,300 a year.

Only the top 20% of income earning households would not need a subsidy.

So, how much would this cost? The lowest earning 20% of households need £14.4 billion. The next lowest 20% need £12.2 billion. Households on average incomes need £10.2 billion, and these earning above average but not in the top 20% need £7.2 billion. Call it £44 billion all in then. That's just a bit more than the cost of the totally failed Track and Trace system during the Covid crisis, just to put it in context, and likely to be vastly more effective.

This is now my benchmark for the level of support required by UK households. Anyone who plans to spend less than this supporting UK households with their energy bills will be leaving all households outside the top 20% of income earning households worse off than those on highest earnings, and I see no justice in that.

## e. How to deliver this require help for households?

Given the sheer scale of the issue delivery of this support is not going to be straightforward whilst ensuring there is no overlap in delivery mechanisms meaning some people might get a benefit twice.

My suggestion is that those on benefits and on pensions should see dramatically increased payments to cover this. Those households are likely to need total support of around £2,600 per household, on average, if their energy bills are to be reduced to 7% of their after-tax income, which is what the best-off households will be paying in energy bills without support. I would define this as fair. I think this needs to be added to all such payments, taking care to ensure that each household only gets it once.

I then suggest everyone else will be required to apply for support. Households in the top quintile of income would not qualify for support. All others could apply. The application should be as simple as possible. It would require:

- A name
- National insurance number
- Name and national insurance numbers of others, if applicable, living in the household
- Address
- Name and account number of energy supplier(s) ad details of the bank account from which paid
- Tax reference if known, which is essential for the self employed
- Employer name
- PAYE reference
- Three most recent monthly payslips for each person in employment in the household and for each employment if there are multiple employments
- Confirmation that no one is on benefits at the address, as they will already be getting the rebate
- Bank details, which should agree with that used to pay the energy bill
- Most up to date available accounts for the self-employed which could be the last submitted to HMRC

The application should be capable of submission without the absurd difficulties placed in the way of applying for anything from the government e.g. those without driving licences or passports should not have impediments placed in their way.

The onus on checking should also be on the government. Duplication of the following should flag issues:

- National insurance numbers
- Tax references
- Addresses
- Names linked to employers

Remember that the government has real time information on all the payments made to every employee in the UK which has to be submitted by employers every month, all of which revolves around national insurance numbers: the claims made by the vast majority of people can be checked using this data. But HMRC should also be able to check:

- Tax returns for the self employed
- Electoral registers
- Council tax payments
- Benefit payment details

No system will be perfect but just as with tax returns, once basic checks are made then payment should be made under this scheme with the option of correcting mistakes later.

### f. What rate of support should be supplied?

I have already noted that most households in the lower income bracket will, I estimate, need at least £2,600 a year. The next 20% of households by income might need £2,300, whilst middle income households could need £1,900. Even those earning up to 30% above average might need support, although the levels will taper off. It is apparent as a result that not too much finesse in calculation will be required for most people making claim: even wide disparities in income will still result in broadly similar support being paid. This takes the stress off the system. Those on above average incomes (maybe £50,000 and above) will be the area for the focus of attention in that case, as will duplicate claims and claims for bogus addresses be an issue.

The risk of fraud can be reduced by all support payments being made direct to energy companies and not to claimants, The energy companies will be required to immediately adjust bills and arrange suitable future repayments and refunds if necessary. They should also be required to report duplicate claims.

Support services should be supplied to those needing help.

All prepaid meter account holders who are not on benefits will need to have their meters credited.

The result of this scheme is that not a single household in the country should be in energy poverty (although some properties may be so bad in terms of energy efficiency that this cannot be guaranteed) and all would pay broadly the same proportion of their incomes in energy bills. Social justice would have been delivered.

I can live in hope of this happening. Of course, it may not. So other options need to be considered, and are in the sections that follow.

### g. Support for those in debt

Many UK households are already in debt as a result of fuel poverty and other issues. Their debt crisis is only going to get worse as this winter progresses and fuel poverty gets very much worse unless the government provides the £44 billion level of support I suggest to be necessary.

And let's also be clear, my estimate of £44 billion support assumes everyone has average consumption. Many do not. If you live further north in the UK you will need to consume more energy. Days are shorter and colder.

Many on low incomes also live in homes that are very poorly insulated. Add these two factors together and even the support I have suggested may not be enough to prevent millions of households struggling with unpaid debt this winter, although the scale of those debts should certainly be a lot lower.

It will not, of course, just be energy bills that go unpaid. Rent, mortgages, existing debts, council tax, water, broadband and school dinner charges might be amongst the many other bills unpaid.

None of these creditors will stand a chance of recovering their money from those pushed, through no fault of their own, into poverty this winter. Anyone who tries to enforce their debt claim will just create a calamity, whether that be houses without energy, or people becoming homeless. The country cannot afford this.

To protect us from that risk, and to enable those impacted in this way to stay in the market economy and so partake in any economic recovery when it happens we need an emergency insolvency service for those considerable numbers who might be affected.

A simple system, recording income, regular bill payments and necessary spending like commuting costs, plus the need to feed a household and have some entertainment, has all to be taken into account, with whatever is available for bills then being paid to a central government agency who will pass it to a person's creditors who will be legally obliged to accept it in full and final settlement for whatever is owing for each month of this arrangement so that arrears of debt do not accumulate.

No system of this sort will be perfect, but I suspect a scheme could be tried and tested in a week. And the army of people needed to operate it could come from UK accountancy practices. Just push back the tax return submission deadlines (but not tax payment dates) by three months and all the required personnel could be found this autumn. This is no panacea, but it is vital that people can have a mechanism to manage their debt now. Any compassionate government would be arranging this now.

Just one final word: those abusing the scheme should know the penalties will be big.

### h. Support for public services

It is not just households that face an energy cost crisis this winter. So too do many public services. There is no provision in the budgets of most of them for the massive increases in energy cost that they are going to face, none of which are capped, unlike those of households.

Schools and the NHS face obvious crises, as do universities. Outside the state sector, but largely paid for by it, so too do care homes, where the problem may be especially acute. Many other activities will also be hit: just running offices is going to become very expensive. Every government department is going to have to spend more, but the front line services I mention are going to be hit hardest.

How much will the extra costs be? We cannot be sure, largely because government accounting for its spending is so obscurely and opaquely organised that there is no way that I suspect anyone can know this. This, I suggest, is in itself a massive indictment of government accounting that suggests there is enormous and immediate need for reform. So, let me guess instead. My guess is that additional energy costs across all public services might be as much as it is going to be for households. That may be too heavy, but let's allow for it.

Then we need to add in inflation for other fuel costs and a fair allowance for wages and this could easily reach £80 billion - a sum that will be, unsurprisingly, at least 10% of government annual spending before this crisis hit.

What will happen if this spend does not occur? Schools will be cold. Children will not be able to learn in that environment. They might have to be sent home. Parents will be under enormous stress. Household heating budgets will be stretched even more.

In addition, hospitals will have to restrict admissions as they will be unable to heat wards. The crisis that is now overwhelming the NHS will get very much worse.

Care homes, meanwhile, will shut. The bills that they face will give the companies owning them no choice but to declare themselves insolvent. It is impossible to imagine where many of their residents will go. They could by themselves completely block all hospitals and effectively close the NHS. Or they might die.

Universities will have it easier, but students won't. Online lecturing will be the norm again.

And other services will collapse as offices don't function, and people crushed by debt due to inadequate pay rises can no longer concentrate on delivering public services.

In that case the choice facing government is that they must ether spend or see the end of state services as we know them. There is only one way to overcome this problem, and that is for an emergency budget to realise the funds required to maintain public services in the face of the costs that are going to be faced. Nothing less will do.

### i. Support for business

I would like to pretend that this is the limit of the crisis that we face, but it is not. The recession is going to have a massive impact on the private sector as well.

Water and energy companies may well fail as the scale of bad debts that they face, especially if there is no insolvency arrangement of the sort I have described and if households do not get the levels of support I suggest. They cannot have millions of customers paying very much less than their full bills and stay in business. This is especially true of energy suppliers, because the companies selling the energy into our houses are not the same ones as those making billions they exploit the oil and gas they drill out of the ground at no additional cost of extraction to them. So, both these sectors face potential wipe out as a result. Renationalisation, without compensation as they will have failed, is likely to be the only answer in these cases, and with the permanent intention of keeping them in the public sector.

But so too do landlords face difficulties, as will banks. They, of course, provide mortgages to many of the households who will struggle to pay what they owe. Both landlords and banks could try to evict or repossess of course, but if you do this to millions you create a simultaneous homelessness crisis and house price crash. That is especially risky for banks, although at nothing like the 2008 scale. But we have no mechanism for handling this scale of housing crisis. A humanitarian disaster is possible unless a ban on evictions is put in place, as it was in the Covid crisis.

And then there are the sectors that will be hit hardest by people unable to spend. Leisure, hospitality and some retail businesses are at biggest risk. Very significant numbers of these businesses could fail. The Bank of England already implicitly forecasts this as a result of its interest rate rises. What they have got wrong is the scale of the horror to be unleashed and the number of jobs that might be lost. They suggest that maybe a million more might be unemployed. It could be very many more.

It is very likely that if support that I have suggested for households was supplied then much of this problem would go away since demand for goods and services might survive in that case. However, there will be businesses for whom increases in energy cost will be unaffordable. Examples are already emerging. In that case support will be required for them, and that must be provided so long as it is linked to a social objective. In the case of smaller businesses, the obvious social objective will be jobs saved by supplying support. This sum might vary by sector, and by region. Support should only ever be provided on application. But broadly speaking an annual support sum per employee should be available to all smaller employers who can demonstrate:

- That they have had employees for some time e.g. at least a year, meaning PAYE records will need to be checked;
- Their energy bills have risen, for which proof will be required;
- They have a limited capital base for the business as shown by the last submitted accounts.

Having proved this the credit should be provided by reductions in future PAYE payments due to HMRC: again, no direct payment to a business should be made to reduce the risk of fraud and to prevent loss in the event that employees are no longer engaged.

A more complex arrangement will be required for larger employers but most again be linked to employee protection. It would be a variation on the above scheme and might require individual negotiation.

## j. Summary

The support required by the beginning of 2023 by those facing crushing debts, other households who are going to struggle, the public services and businesses are immense, and require immediate responses on the scale suggested, here  with the built in mechanisms to prevent fraud that I propose.

The scale of costs are high, although the arrangements for tackling problems with standing charges, prepaid meters and unfair tariffs should impose no cost on the public purse. Nor should the cost of the arrangements for helping households in debt crisis be significant if (and it is a big if) the proposed support for households is provided.

Helping households will likely cost £44 billion a year.

Public service support might cost £80 billion a year, for reasons noted above.

And support for employers to keep maybe 10 million employees at work at a subsidy rate that might be at least £2,000 per employee per annum might cost £20 billion a year.

Charities might also need support: a special scheme might be required for them.

The whole package might, then amount to at least £144 billion. That sum is, of course, much less than the deficit in the first year of the Covid crisis and is lower than the deficit in the first year after they 2008 financial crisis. Given that the crisis now being faced is potentially bigger than either of these events in the scale of the catastrophic impact it might have on the UK economy for many years to come the costed budget is remarkably small in the circumstances.

Should we provide this support? The alternative is not doing so. And the cost of that will be:

- Millions of households unable to pay their debts;
- Massive homelessness;
- Millions of unemployed people as businesses lose the business of households struggling to pay debts;
- Failed public services, including the NHS, schools and care homes;
- Potential failure of energy and water companies as millions cannot pay them;
- The breakdown of the market system as we know it, leading to a deep recession.

Assuming we do not want those things, £144 billion or so is a small price to pay.

# Chapter 3

## How to pay for it?

The question that every journalist asks every politician when they propose a course of action is "How are you going to pay for it?" There are numerous ways to pay for this crisis, but only a limited number that make sense. They are:

- Very short term deficit funding
- Tax reforms from 2023 onwards
- Long term structural reforms to the UK economy

### • Very short-term funding

We face an immediate emergency requiring immediate action. As we know from 2008 and 2020 there is only one way that a government can fund reaction to crises of the scale we now face, and that is by running deficits.

One of the very few advantages of Brexit is that how we run deficits is now up to us. It is, for example, entirely permissible for the government to simply run an overdraft at the Bank of England now without ever issuing bonds to cover that sum. At this moment that is exactly what I would recommend. With private debt rising rapidly, the government does not need to seek new funds from the private sector. This, incidentally, is wholly legal: a £20 billion overdraft facility was agreed in March 2020. We just need to make it bigger now.

However, technically for the government to borrow in this way can still create a borrowing cost. That is because the money that the Bank of England creates for the government is spent into the economy via the UK's commercial banks, who end up with what are, in effect, bank deposit account balances with the Bank of England as a result. There are balances of more than £900 billion on these accounts at present, largely created by the quantitative easing funding programmes since 2009. These balances guarantee the solvency of the banks but are more than ample for that task now. This means that these co-called central bank reserve account balances do not need to be inflated again during this crisis.

The reason for saying so is that the Bank of England insist that interest at bank base rate be paid on theses sums, and this is now proving expensive as they are pushing this rate ever upward, enriching the banks by tens of billions as a result for no good reason at all. In that case the new funds to be injected by the government into the economy during this crisis via the Bank of England and the commercial banks needs to be routed through a new arrangement, which might be called 'special reserve accounts' held by the commercial banks with the Bank of England on which interest of no more than 0.1% pa need ever be paid, constraining the cost to a sum close to zero, and creating no future debt risk for the government as a result of  creating new money for the economy to bail it out now.

If this plan as followed a low cost, no risk, sustainable mechanism to pay for the current crisis could be created by the government to prevent economic catastrophe occurring.

And for those saying there is an inflation risk in this, my question is what would they prefer? A possible risk of inflation (although there is no evidence that deficits over the last twelve years did in any way fuel the current crisis, which is entirely unrelated to them) or a deep economic recession, at best? If they want a recession their judgement is not to be trusted by anyone.

- Tax reforms

As this crisis proves, the UK is undertaxed to provide the scale of public services that its population needs whilst also providing the safety net they so obviously require.

For most households taxes are at now near record high levels, but this does not mean that there is no additional capacity to tax because some sources of income are still radically undertaxed. For example, companies are taxed at lower rates in the UK than in most countries around the world, and there is almost no evidence that companies relocate real economic activity for tax reasons.

There is also no wealth tax in the UK. More importantly, many sources of income from wealth are heavily undertaxed:

- There are low rates of tax on savings;
- National insurance is not charged on income from investments;
- Rental income is still undertaxed despite recent changes;
- Capital gains are charged at half income tax rates and are not subject to national insurance, and that is after an additional annual personal allowance for those enjoying them.
- Inheritance tax is easily avoided by the very wealthy.
- I have suggested that based on available data if increases in wealth in the UK were taxed at the same rate as income then an extra £174 billion of tax could be

collected each year in the UK[3]. This will not happen, of course, but it does indicate by how much wealth is undertaxed in this country.

There is also evidence that many tax reliefs and allowances are heavily biased in favour of those with wealth:

- Most pension tax reliefs and ISA tax reliefs go to those with wealth as the majority of such reliefs go to people in the top 10% of wealth owners in the UK.
- Those with higher rates of income get double the rate of many tax reliefs to those on lower rates of income. This is true of pension tax reliefs, for example.
- Many VAT reliefs e.g. on school fees and private medicine, and on the purchase of second homes, go to those on higher incomes.
- The sums involved are large: pension and ISA tax reliefs alone cost £60 billion a year at present but no one ever seems to question this.

Higher rates of tax are also low in this country and are easily avoidable. The top rate of income tax is only 45% in the UK - not much above that paid by people on only a little above average earnings. This makes no sense.

It makes even less sense when those with high incomes are able to shift much of their earnings into readily available and lightly regulated companies where the current tax rate is just 19%, however large the income and whatever it is derived from. This could easily be prevented. Until 1980s there were arrangements that ensured that what were called 'close companies' (which were basically all those owned by families) could not earn funds from investments without having to either pay them out to their shareholders so that they paid higher rates of income tax on them, or they were deemed to have done so anyway, with the same result. And trading profits could also be forced to be paid out in the same way unless the company could explain why it needed to retain them for investment reasons. So, this massive loophole could be closed, now.

There are other deeply unfair taxes. For example, council taxes are profoundly unfair as they are capped so that the most valuable properties in almost every area of the country are massively undertaxed compared to their value when compared to average priced properties in the same area. Many new bands of council tax would overcome this problem, and valuation is simply not an issue now when massive online databases can be used with considerable reliability to determine most of these.

[3] https://www.taxresearch.org.uk/Blog/2020/04/22/tax-after-coronavirus-tacs-there-is-significant-room-for-wealth-taxation-in-the-uk/

Tax abuse is also rampant in the UK. Most of this is almost certainly done by forming 'shadow companies' at the UK's Companies House, which costs just a few pounds, and then trading this company without ever declaring any profits to anyone before the company is then struck off the Register by Companies House after about 18 months because they presume that if they have not heard from a company it cannot be trading. A more perfect state-provided mechanism for fraud could not have been invented. Addressing this might raise tens of billions of tax revenue every year from those cheating the system, but the government refuses to act saying it would add to red tape, which is nonsense.

These issues need to be addressed. Depending on the choices made tens of billions of additional revenues could be added to UK tax revenue every year.

- Windfall taxes

Windfall taxes are talked about as if they are simple. They are not. There are good reasons for this:

- The naive assumption that we are sold electricity and gas by the same company that extracts it from the ground is commonplace amongst those calling for windfall taxes but is invariably untrue.
- Even if we pay a company under the same control as one that might extract oil or gas from the ground (and we can if we buy energy from Shell, BP and Centrica, for example)) the company within those groups selling us energy will not be the same as those extracting the oil and gas.
- What is more, we will buy from a UK company that will pay a world market price for the energy it sells to us - even if it buys it from another company which has the same ultimate ownership as it has. However, that company selling it oil and gas will most likely not be based in the UK, and most of the excess profits now being earned by oil and gas companies will not be declared as profits in the UK for tax purposes, even if the ultimate parent companies of the entities that make the excess profits from oil and gas extraction that are now being earned are UK based, as Shell, BP and Centrica are, for example.
- The consequence is that the profits on which we wish to charge a windfall tax are not obviously available to the UK to charge under conventional corporation tax rules.
- There is a way around this, but it is controversial as there will be international objections. The UK could decide to tax oil companies on what is called a unitary apportionment basis - demanding that if (for example) 10% of their sales are in the UK then 10% of their profits should be taxed here, whatever their accounts claim. The mechanism to discover this data is readily available to tax authorities. It is called

country-by-country reporting and I designed it in 2003 and helped guide it through the OECD in 2015[4], since when it has become the law in about 90 countries. The information to tax on this basis is available, in other words. But taxing in this way is going to be hard work. In the meantime, achieving anticipated tax revenues from this arrangement may be hard.

This however is not true in the case of banks. They are getting windfalls right now as a result of the Bank of England increasing the interest rate on the deposit accounts they have no choice but hold with it resulting from quantitative easing. For every 1% increase in interest rate by the Bank of England the UK's commercial banks make £9 billion between them, with no extra costs. They are now about £15 billion better off a year as a result. A windfall tax on these unearned profits at a high rate seems to be fair and a very readily available source of new tax revenue.

- Long term structural reforms to the UK economy

The crisis we face has arisen because we have not taken climate change seriously and so are still dependent on fossil fuels. In addition, we have not worked out how to fund investment for the common good as opposed to being for the purpose of speculation in the UK whilst we have not planned how to link the need to address climate change through the transformation of our economy via the new forms of funding that we need.

- The Green New Deal

I co-authored the original Green New Deal[5] in 2008. We said back then that the economic crises we faced came from not tackling climate change, not tackling the food crisis the world would face and not tackling its creaking financial systems. These failures, we suggested, would lead to long term economic failure, and then climate catastrophe. Nothing has changed since then.

We now need to save energy:

- By making every UK property thermally efficient in ways that suit its situation;
- Making as many buildings into power stations as we can as the price of solar energy falls;
- Create a carbon army of people to work on these changes in every location in the UK;

[4] https://www.oecd.org/tax/beps/beps-actions/action13/
[5] https://greennewdealgroup.org/

We also need to create new energy sources by investing in more and better wind, tidal, solar and hydro power and by creating better energy transmission systems, and storage systems for electricity.

We must reduce emissions we well:

- By phasing out gas boilers;
- Reducing the use of carbon fuels in transport;
- Changing the nation's diet;
- Changing farming methods;
- Changing some aspects of the way we live e.g. the frequent use of air travel by some.

But that is not enough. We also need to build the energy efficient homes we need, and to rebuild pubic infrastructure whilst providing the incentives, both carrots and sticks, for private sector change.

- Funding reform[6]

The Green New Deal will cost maybe £100 billion a year in the UK. However, we have more than £12 trillion of wealth in the UK or which more than 80% is in tax incentivised assets (homes, pension funds and ISAs). Even if homes are taken out of consideration, more than 80% of financial assets are in tax incentivised assets.

In that case, to fund the Green New Deal we need to change the tax incentives for pensions and ISAs. If to secure tax relief all new ISA deposits needed to be in savings accounts where the sums deposited were used to provide capital for Green New Deal projects and if in exchange for tax relief all new pension deposits had to have 25% of funds saved used to fund Green New Deal related projects then more than £100 billion of funding could be found a year for these projects, and the evidence of existing saver behaviours suggests that tax relief is so valuable that saver's behaviour will not change as a result. In that case a Green New Deal could be entirely funded by redirecting the UK's wealth as a result. The long-term reform of the UK to prevent the current crisis happening again is possible: we just need to change the rules to make sure that happens.

[6] This section is based heavily on this publication, where more details might be found https://www.taxresearch.org.uk/Blog/wp-content/uploads/2021/10/The-QuEST-for-a-Green-New-Deal.pdf

# About the author

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Richard Murphy (64) is Professor of Accounting Practice, Sheffield University Management School.

He is a chartered accountant who was senior partner of a firm in London for a number of years before becoming an economic justice campaigner.

Richard co-founded the Tax Justice Network, the Green New Deal, the Fair Tax Mark and the Corporate Accountability Network.

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Amongst Richards books are 'The Joy of Tax' and 'Money for nothing and my Tweets for free'.

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