THE NEW STATESMAN

Spotlight

Thought leadership and policy

Cost-of-Living Crisis: the search for solutions

Tulip Siddiq MP
Stella Creasy MP
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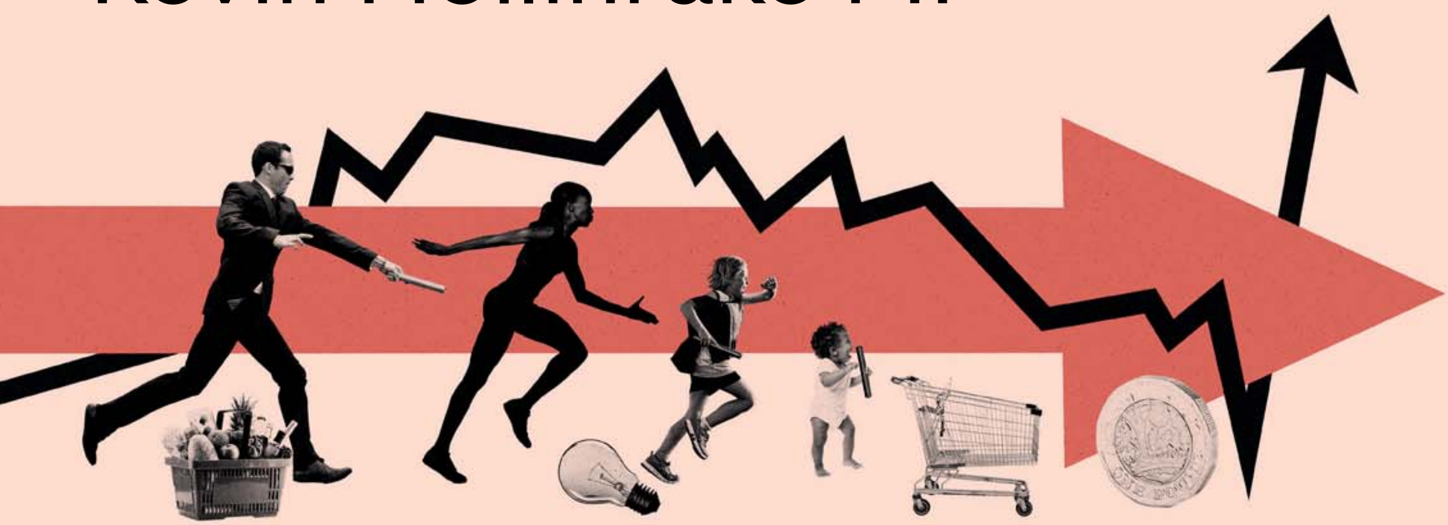
Kevin Hollinrake MP



British Gas

British Gas Energy Trust

Missed opportunities

On 15 March, Chancellor Jeremy Hunt unveiled a Budget which has alternately been described as "boring", "a missed opportunity" and "too little, too late".

Certainly, compared to his predecessor Kwasi Kwarteng's scorched earth approach to government finances, the announcement was a tame affair. It did, of course, contain measures aimed at easing the pain of rising prices (see pages 4-5 for our explainer) – from the extension of the energy price guarantee to a freeze in draught beer duty.

But with an election looming (which, according to the polls, is Labour's to lose), the government betrayed little vision for the country beyond maintaining the status quo.

The reform to childcare, a set-piece of Hunt's Budget speech, is a case in point. Yes, the expansion of provision was a major coup for those who have long campaigned on this issue. Hunt's commitments included extending the 30 free hours per week of childcare to all children of working parents aged from nine months to five years, and an incentive scheme to encourage more professionals into the childcare sector.

But as Stella Creasy MP tells *Spotlight* (see pages 18-20), the government's plans are "no solution" to the childcare crisis. Rather than overhaul a creaking system desperately in need of change, the government has extended that system, and part-funded this at best.

This is an example of the lack of imagination at the heart of our politics. Much like the green transition, childcare – and the care sector more generally – could be an opportunity for our leaders to redraw the lines of provision, and to ensure that everyone born in this country has the best start in life. Instead, we tinker with what we have, whether in renewables or early years. Labour has promised to "completely reimagine" childcare if it wins power, but its pledges – so far – fall short.

The British economy is still hostage to energy shocks, booming inflation and the aftermath of pandemic lockdowns and restrictions – and the latter seem so long ago. At the time, there was excitement that the pandemic might reshape society for the better. That has yet to happen. A bolder vision would help. ●

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The Budget explained

What is the Chancellor doing to tackle the cost-of-living crisis?

Childcare

The headline announcement in the Budget, and widely trailed beforehand, was childcare reform. Chancellor Jeremy Hunt is expanding the 30 free hours of childcare per week to include all children aged nine months to five years old, of parents working 16 hours or more a week – with £4bn to be spent on it. Those on Universal Credit will also receive part of the payment for childcare up front for the first time.

Hunt also pledged money to a pilot scheme that will provide incentives of £600 for people to become childminders, to more free nursery places, and for schools to offer "wraparound care". The widened free childcare allowance will be phased in by September 2025 to allow providers to scale up provision. Hunt has also relaxed the staff-to-children ratio from one-to-four to one-to-five.

This will mean the recruitment challenges to deliver the policy will be less daunting, but providers have already highlighted potential impacts on safety. There are also concerns around the funding shortfall, as places for three- and four-years-olds are already lacking £2bn a year, according to the IPPR think tank.

The cost of childcare in the UK is more than double the OECD average, attracting a lot of campaigner attention. The government says the measures will allow 60,000 parents to return to work.

Energy bills

With energy costs still rising and fuel poverty deepening, the government has extended its "energy price guarantee" for a further three months, limiting typical household bills to £2,500 per year until the end of June. Hunt also announced that households using prepayment meters will no longer be charged more for energy than those on direct debits. This is designed to help reduce the poverty premium. While such interventions are urgently needed, they will not address the British public's long-term exposure to volatile fossil fuel prices. There were no new energy efficiency schemes that would protect bills from future external shocks, and there was no social tariff, which would further discount bills for vulnerable groups.

In terms of energy infrastructure support, £20bn has been allotted to carbon capture storage, and there was a promise of support for new nuclear plants, and especially small modular reactors.

There wasn't much in the Budget to suggest a net zero economy is imminent, such as planning reform that would promote renewable energy, and support for green skills or heat pumps. Meanwhile, an extended fuel-duty freeze will further incentivise the use of fossil fuels. New announcements on actions to help meet net zero have been promised for later in March.

Earnings

The Office for Budget Responsibility (OBR) forecasts that real disposable income will fall by 5.7 per cent over the next two years – the biggest drop on record. Despite that, there was nothing in the Budget on public sector pay, which has been subject to several years of real-terms cuts, prompting waves of labour strikes. Although private sector pay has risen, it has not kept up with inflation.

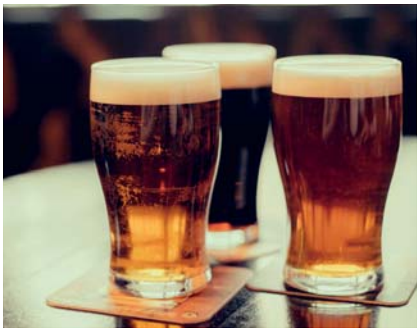
Back-bench disquiet over the UK's large tax burden was ignored, as Jeremy Hunt kept current levels of taxation in place, with no adjustment to tax bands. Hunt and Rishi Sunak are committed to running a day-to-day budget surplus and borrowing only for capital investment. There are no changes to the minimum wage, which will stay at £10.42 an hour from April.

The Chancellor has raised the annual allowance on pensions by £20,000 to £60,000, increasing the amount a person can contribute without being charged by the Treasury.

The move is part of a range of measures designed to encourage people back into work after more than half a million people, predominantly older workers, have left the jobs market following the pandemic. The measure particularly targets higher earners such as experienced doctors, who have long complained about the "pension tax trap".

PHOTOMAVENSTOCK / BASTIAN WELTJEN / CHOTTHANIN THITIAKARAKIAT / SHUTTERSTOCK

Inflation



Last year, the UK's Consumer Price Index (CPI) hit 11.1 per cent, the highest rate since records began in 1997. The CPI, which tracks the changing price of everyday consumer goods, is currently at 10.1 per cent. The OBR has forecast a fall to 2.9 per cent by the end of 2023.

The Chancellor laid out measures to reduce inflation, focusing on energy, fuel and beer. As mentioned in the Energy Bills section, the energy price guarantee will be maintained at £2,500 per year until June, and the government will align charges for people on pre-payment meters with those on direct debits.

Tax on draught beer in pubs will remain frozen from 1 August 2023 to limit rises in the price of a pint. £5bn will also go towards keeping fuel duty at the same level for the next 12 months, including the 5p cut per litre, reducing costs for motorists. A funding boost of £63m will also go to community leisure centres and swimming pools to help them cope with high running costs.

There was no mention of mechanisms to reduce supermarket prices, or mortgage interest rates. However, interest rates are expected to fall as inflation does. The Bank of England base rate, currently at 4 per cent, is predicted to rise to 4.6 per cent by July 2023, before falling over the next five years to around 3.5 per cent.

VIVIEN / RICHARD OLDROYD / SHUTTERSTOCK

Stats

The average monthly mortgage payment nearly doubled in 2022 to over £1,000 for a flat and £2,000 for a detached house

The average price of a pint of draught lager is now £4.23, up 21 per cent since 2016

Real-terms pay fell at one of the fastest quarterly rates for two decades in 2022, declining by 2.6 per cent between August and November

Average annual childcare costs have increased by more than £2,000 over the past decade, from £4,992 in 2010 to £7,212 in 2021

Electricity prices in the UK rose by 66.7 per cent and gas prices by 129.4 per cent in the 12 months to January 2023

SOURCES: OFFICE FOR NATIONAL STATISTICS AND TRADES UNION CONGRESS

Welfare

Amid the intensifying consensus that Britain's social safety net is not fit for purpose, the Chancellor announced plans for what he labelled "the biggest change to our welfare system in a decade".

Work capability assessments (WCAs) will be scrapped and replaced with a voluntary employment scheme for disabled people. The scheme will fund 50,000 places per year to help people "find appropriate jobs and put in place the support they need". It will be up to a work coach's discretion as to whether someone is fit or unfit to work.

Tougher sanctions will also be placed on Universal Credit (UC) recipients who fall foul of the rules. Claimants will face a more "intensive" eligibility criteria: they will have to work a minimum of 18 hours a week (three more than currently), with those below this having to meet regularly with a work coach. Additionally, UC financial top-ups for disabled people will no longer be based on capability to work, but be awarded to those already receiving the UC standard allowance, alongside personal independence payment.

While the scrapping of WCAs has been welcomed, policy experts are concerned that stricter employment enforcement measures are not an effective incentive to work. There are worries that they will place more stress on benefit claimants.

The view from the opposition

Tulip Siddiq MP
Shadow economic secretary to the Treasury

"Only Labour has a serious plan for national renewal"

Families are facing the biggest hit to living standards since records began, and under the Conservatives the economy has simply stopped working. The Resolution Foundation has found that the typical household will be £1,100 poorer as a result of the government's policies over this parliament. A typical family looking to re-mortgage will face a £2,000 annual hike.

For months our shadow chancellor Rachel Reeves has been pushing the government to get a grip on the crisis. Labour has led the way on championing policies to support people with the cost of living. For example, we have been calling for a fairer deal for those paying a premium on energy prepayment meters since last August.

In his Budget of 15 March, the Chancellor finally gave in. And not just on prepayment meters. Whether it's the freeze to fuel duty, a plan to help over 50s get back to work or better childcare – where Labour leads the Conservatives follow.

But this is all too little too late. Of course, we welcome the freeze in energy prices. But in the Spring Budget, the Conservatives chose yet again to protect the energy giants' windfalls of war. By failing to backdate the windfall tax to January 2022 and end the fossil fuel investment allowance they have left billions on the table, leaving ordinary families paying the price.

The only surprise in the Budget was a multi-billion pound tax cut for the richest 1 per cent of pension savers. This sums up the Conservatives' basic approach: handouts for the richest few.

Labour would always put ordinary families first. That's why we have committed to reversing this expensive cash giveaway to the wealthiest pensioners. The government could create a targeted scheme to encourage doctors to work overtime and not to retire early which would cost a fraction of this proposal.

And that's why we would also scrap the unfair non-dom tax status – which costs the UK more than £3bn every year – in order to pay for free breakfast clubs and the biggest ever expansion in the NHS workforce. Fundamentally though, we understand that the UK needs a long-term economic plan to boost living standards for working people.

This crisis has exposed structural problems in the British economy. Under the Conservatives we have become trapped in a cycle of stagnant growth, low wages and high taxes. The fact that the UK is experiencing the slowest post-pandemic economic recovery in the G7 is a scandal. But all the Chancellor had to offer was more sticking plasters.

The consequences of this complacency will be devastating for working people – the Office for Budget Responsibility has now confirmed that Britain will have the weakest growth in the G7, not just this year but also in 2024. But we don't have to go down this path of managed decline – Britain has the potential to be a world leader.

That's why a Labour government's first mission will be to secure the highest sustained growth in the G7, to deliver productivity growth and well-paid jobs in every part of the country. We'll achieve that through an active partnership with business and our modern Industrial Strategy, while our Green Prosperity Plan will drive bills down and let British businesses and workers compete in the global race for the jobs and the industries of the future.

The alternative is stagnation. While the US has passed the Inflation Reduction Act and the EU its own Net Zero Industry Act, the Conservatives' complete lack of ambition has seen the UK fall behind.

In contrast, our economic plan will get the UK growing again, boosting living standards and wages for working people. Only Labour has a serious and patriotic strategy for national renewal. ●

MARTA SIGNORI

Keir Starmer to open the *New Statesman*'s Politics Live conference

The opposition leader will discuss the biggest issues facing Britain

In association with:

THE NS | EVENTS

The Labour leader Keir Starmer has been announced as this year's keynote interview guest at the *New Statesman*'s Politics Live conference, taking place on the South Bank in London on 27 June 2023. The leader of the opposition, currently cutting a more self-confident figure as his party rides high in the polls, will be interviewed live and quizzed on his party's emerging proposals for government.

Amid the return of partygate, continued Conservative Party infighting, and economic turmoil, the country's bookmakers make Starmer the clear favourite to enter No 10 after the next election. But what kind of prime minister would he make? What is his vision for the country? What is the purpose of the contemporary Labour Party?

This year's *New Statesman* Politics Live conference will gather some of Westminster's biggest players, including Starmer, to discuss the most important policy issues of the day. From the war in Ukraine to the transition to net zero, from global economic headwinds to the state of play between government and opposition, the event will bring together business leaders, academic experts and seasoned politicians from both sides of the Commons to debate the politics that matter.

Alongside Starmer, we'll also be hosting Bridget Phillipson, the shadow education secretary; Chris Skidmore, the government's net zero tsar; and Kerry McCarthy, the shadow climate change minister. *New Statesman* contributors and journalists will be sharing their insights too, including our political editor Andrew Marr and our Britain editor Anoosh Chakelian.

In this era of upheaval, beset by global challenges, it's more important than ever to get to grips with the world of political decision making. How can the journey to a green economy be financed, and how can we ensure a just transition away from fossil fuels? With an ageing population and demographic pressures, what is the future of the NHS and social care services? How do we solve the housing crisis and unlock home ownership for younger generations?

With government ministers, shadow ministers and *New Statesman* journalists and commentators, we'll be answering these questions and many more.

You can secure your place at this event under the Early Bird offer for only £69, saving you £50 off the standard rate of £119 – offer ends on 14 April. Scan the QR Code to find out more. ●

For more infomation about NS Politics Live, please visit: nsmg.live/event/ns-politics-live/

Advertorial

Helping customers through the cost-of-living crisis

Rising energy costs are hitting households – but help is at hand

By Jessica Taplin

In association with our partners

This advertorial was paid for by British Gas.

Readers of this magazine will be all too aware of the harsh and harmful impacts of fuel poverty affecting people across the country. The enormous external shocks of the pandemic, escalating energy costs, and wider increases to the cost of living have all affected the lives of families and individuals, many of whom may already have been vulnerable or struggling to cope financially.

The British Gas Energy Trust is an independent charitable body working towards the relief of poverty, particularly among those who are unable to pay for their energy, as well as through debt awareness and prevention. Our grant-giving programmes help people to meet challenges and improve their daily lives against the odds, helping alleviate the detrimental impact of poverty, especially fuel poverty.

In addition to energy debt relief grants for fuel-poor energy consumers, support is offered through a network of over 50 Trust-funded energy and debt programmes. The organisations we fund help people access support such as emergency fuel vouchers, energy efficiency measures for the home, and income maximisation. Longer-term interventions include skills development and casework support. Through accessing these services clients receive holistic in-depth support, including budget planning, debt write-off grants, home energy surveys, and mental health consultations and advice.

Funded solely by British Gas, since the launch of the Trust in 2004 over £130m has been invested in helping hundreds of thousands of households across England, Scotland and Wales manage their energy costs. Last year alone our programmes were able to reach almost 30,000 beneficiaries, helping our clients, supported by funded advisers, secure £16m in additional annual income. We know that over a third of our grants support people with disabilities or caring responsibilities, single parents, and those with large families. Most of the households we fund are in the lowest two deciles in terms of national income levels.

This year the Trust has increased its grant giving to over £22m, thanks to a huge increase in funding and support from British Gas, who while separate from the Trust have provided funding since our inception. This new funding was a proactive, direct response to the current energy crisis. Over the last year over £17m has been awarded to households in direct relief energy grants, £1.2m in financial assistance payments and over £3.5m to charities to fund money and energy advice provision, alongside wider support.

Our intelligent funder approach

To ensure money is distributed where it is needed most, we use data and insight from partners to drive our funding approach. This was especially crucial during the pandemic, where service provision was mainly conducted remotely or in a limited manner due to lockdowns and restrictions on in-person contact. Funded organisations had to quickly react to the circumstances with innovative approaches, including digital skills training, mobile advice and leveraging the potential of partner venues and services.

The success of the organisations we fund and the services they provide to beneficiaries during these challenging times is very much the product of their local knowledge and unique expertise. That is why the Trust is proud to act as an enabler and capacity builder within this space, helping to achieve maximum positive social impact.

As an intelligent funder, we are committed to ensuring that funding is targeted at those areas most affected by fuel poverty and other indicators of poverty. This approach has allowed us to identify hot and cold spots at local authority level and provide evidence-based guidance in the provisioning of our grants. Our focus as a funder is to continue to work proactively to identify those geographic areas and communities most at risk of the negative impacts of poverty, in particular fuel poverty, and work through partnerships and funding to target support at these groups.

Supporting communities at risk

Over 50 of our funded charity partners are now running services throughout England, Scotland, and Wales, delivering money and energy support projects to those most in need. This year our independent Board of Trustees extended funding beyond geographic targeting to other communities, identifying groups most at risk of fuel poverty. Over £2m of new grants have been awarded to enable organisations such as Scope, the Royal National Institute for the Blind, and Children's Hospices Scotland to provide targeted support to their clients.

Funding is practical and flexible. We trust our partners to be knowledgeable about the specific needs in their community and define how they meet need with tailored support; but we do require our grants to fund money and energy advisers, enabling charities to set up new services or extend the reach of their work in the most vulnerable parts of their catchment areas with outreach and other crucial support services.

While each charity provides support differently, most funded projects cover in-person, telephone, online and email support, with the aim to intervene early to prevent further debt increases and the associated impact on local people's mental and physical health. Interventions could include energy efficiency advice and steps to take around the home, as well as emergency fuel vouchers, benefits support, advocacy and more.

By supporting a range of charities across each region we believe that our programmes and projects reach communities most in need of additional support, while enhancing the capacity of advice organisations across Britain, from Hartlepool to Hastings, from the Western Isles to Cardiff. This in turn helps many tens of thousands of people to make informed choices, access additional income, enhance money management skills and get help with energy advice. ●

We're providing advice, advocacy and debt relief grants for struggling customers

IRINA STRELNIKOVA / SHUTTERSTOCK

If you know someone who is struggling, especially with energy bills, help is available. Go to britishgasenergytrust.org.uk for information on how to access energy grants and other support.

Jessica Taplin is the CEO of the British Gas Energy Trust

Economics

Right or left? The cost-of-living crisis has forced politics and policy to a crossroads

By Jonny Ball

Real disposable incomes have been falling in Britain since late 2021, and politicians are scrambling for ways to stop the biggest squeeze on living standards in decades. In his Budget this month, Chancellor Jeremy Hunt announced an extension of the energy subsidies that have kept heating and electricity bills below wholesale market energy rates since last autumn, as well as an extension of free childcare hours for parents. But those measures will only limit the pressures on households rather than improve them.

The causes of the crisis are familiar: an energy shock has been precipitated by a disastrous land war. Waves of strikes are disrupting basic services. Household finances are severely strained by rampant inflation. Growth forecasts look bleak.

These symptoms of economic malaise would also have applied just as aptly to

The highest inflation rate in 40 years is hitting household living standards

KLAWE RZECZY

the 1970s, as Wolfgang Münchau highlighted in the *New Statesman* in March. The crisis in Ukraine and the sanctions imposed against Russia have led, just as the Yom Kippur War did in 1973, to a breakneck revision of energy flows and oil and gas markets, resulting in spiralling bills. Trade union activity has increased across Europe and the US as inflation has whittled down real-terms pay. The UK lost 2.5 million working days to strikes in 2022 – the highest since 1989.

But there are important differences between today's crisis and the 1970s. As well as inflationary pressures from external energy shocks, governments face supply chain disruptions caused by a host of other factors: two years of Covid-19 restrictions, changing consumption habits, climate breakdown and labour constraints across the West, after millions have dropped out of the jobs market in the wake of the pandemic because of long-term sickness or early retirement. But comparisons are also flawed because of one crucial difference: the current downturn is worse.

There is no consensus between economists about the causes of inflation, or its remedies. Last year, before the price increases began in earnest, the Nobel Prize laureate and former chief economist of the World Bank, Joseph Stiglitz, told *Spotlight* that inflation had not been a "significant problem" for 40 years. It was not linked to over-spending by governments or unions demanding higher pay. "The inflation we had in the 1970s… was supply-side not demand-side inflation", he said. "[It was] when the price of oil soared. It wasn't profligacy that led to that inflation, it was a supply shock."

In 2023, industrial disputes remain comparatively rare. Thirteen million Britons were members of a trade union in the late 1970s. Today, membership is below half that. Days lost to strike action in 1979 totalled almost 30 million – more than ten times the level in 2022. While many blamed the price rises of the 1970s on the pay demands of workers outstripping productivity improvements, few would identify wage increases as the starting point of today's crisis; real-terms pay has been stagnant since 2008. Instead, economists of the free-market right have identified new culprits: the expansion of the money supply through cheap credit, ultra-low and even negative real interest rates, and money creation (known as quantitative easing, or QE, a policy the Bank of England introduced in 2009 as a response to the global financial crisis). Kristian Niemietz, head of ▸

◂ policy at the free-market think tank the Institute of Economic Affairs, told *Spotlight* that "inflation is the result of loose monetary policy... We've got too much money chasing too few goods. It's a hangover from a long time of quantitative easing." Some £895bn has been created through QE – when the Bank buys government bonds to increase their prices, reduce interest rates and replenish Treasury coffers – which is not far below the UK government's entire outgoings in a normal year.

James Meadway, a former adviser to the one-time shadow chancellor John McDonnell, has co-authored a book, *The Cost of Living Crisis (and how to get out of it)*. As an economist of the left, he is sceptical of the view that QE has doled out too much money, but is still critical of it. "A great deal of that money made its way into the property market," he says. The result was inflated asset prices, which benefited property owners rather than supporting incomes or investment in useful capital projects. "It didn't necessarily turn into people having more money in their pockets," Meadway adds.

And people's pockets are increasingly empty. In the 1970s, despite the narrative of decline, real household disposable income grew in line with the postwar trend. That simply isn't the case in 2023. In the mid-1970s, annualised inflation consistently hovered around the mid-teens, and hit 24 per cent in 1975. Interest rates were raised to a whopping 15 per cent (today they stand at 4 per cent). But the widespread collective bargaining arrangements that were in place, and the increased leverage enjoyed by a unionised workforce, meant that wages often rose as fast as prices. This further pushed up demand and resulted in that infamous wage-price spiral. Today, the Treasury and the Chancellor use the threat of a similar spiral to warn public-sector workers away from making "excessive" pay demands, but the situation is far from analogous.

Despite the Bank of England's worries about a tight labour market, with plenty of vacancies but not enough workers to fill them, prices are spiralling with only meagre increases in take-home pay. The result is worse living standards and more in-work poverty. While the consumer price index measure of annual inflation stood at around 10 per cent in January 2023, wages grew by only 7 per cent over the same period. The vast majority of growth in the latter figure was driven by increases in private-sector pay, with nurses, teachers, firefighters and other public-sector workers suffering dismal real-terms cuts, and are still negotiating with the government for an increase.

Productivity growth for the 1970s – or the output of the economy for every hour worked – also rose in line with the postwar trend. The difference with today is that, along with real measures of prosperity such as household disposable income, productivity has been stagnant since the 2008 financial crash. Real incomes are falling rapidly.

Perhaps the biggest difference between the 1970s and 2023, however, is that 50 years ago solutions were emerging from both the left and right of the political spectrum.

Traditional postwar Keynesianism was dumbfounded: rising unemployment should have provoked government stimulus spending, but simultaneously high inflation risked adding fuel to the inflationary fire. Higher levels of joblessness were supposed to signal a deflationary environment as workers accepted lower pay and demand for goods was depressed. Instead, goods were becoming more expensive.

On the right, fresh ideas were circulating in free-market think tanks such as the Mont Pelerin Society, the Centre for Policy Studies and the Institute of Economic Affairs, then incubating in sections of the Conservative Party. The theories of Austrian economists like Friedrich Hayek held sway, and the right was uniting behind the ideas of "monetarism" developed by Milton Friedman. Their "classical liberal" economic analyses gained such traction in Tory circles that, upon taking office, Margaret Thatcher was said to have interrupted a cabinet meeting by slamming down a copy of Hayek's *The Constitution of Liberty* and bellowing "This is what we believe!"

> "Neoliberals said everything was fine – that was so wrong"

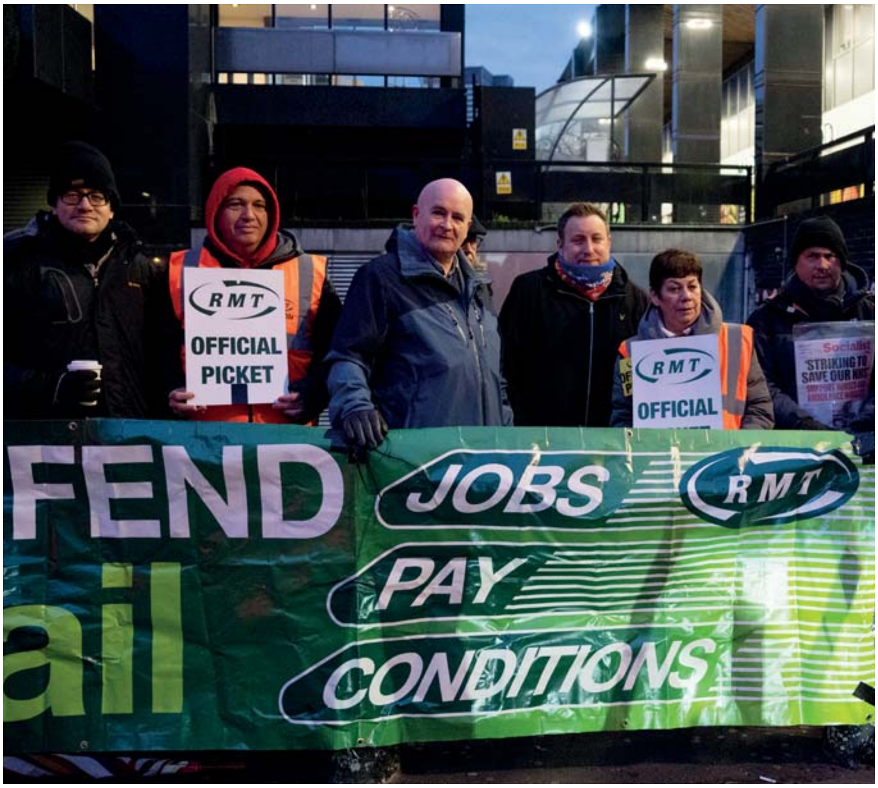
The diagnosis was simple: an overweening state and bloated public sector were crowding out the supposedly more efficient private sector and disincentivising the profit-seeking motives that drive growth. The solution was a programme of deregulation, privatisation, marketisation, lower taxes and a squeeze on spending, not dissimilar from the solutions favoured by Liz Truss. Interest rates would be hiked abruptly to tame inflation, even if it came at the cost of rising unemployment and damaged exports.

Meanwhile, on the left, Tony Benn and radical members of the Labour Party drew up the Alternative Economic Strategy (AES). Their route out of economic stagnation was a protectionist form of state socialism: public investment in infrastructure and national industries; exit from the European Community's free trade area; the imposition of tariffs, import and capital controls to promote British manufacturing and shore up the pound; increasing wages to boost demand; upping taxes on the wealthy; price controls on basic goods to stymie inflation; and boosting production through the nationalisation of key industries and economic planning.

Faced with sky-high inflation and a currency crisis in 1976, the government of Jim Callaghan accepted loans with strict conditions from the International Monetary Fund, effectively rejecting the AES's socialist road and taking the monetarist route. Thatcher's election in 1979 solidified the onset of what became known as the neoliberal era.

Today's politicians are less set on concrete solutions to the economic crisis. The Conservative Party is split between a technocratic faction represented by Rishi Sunak, which is low on ideological zeal and has few policy ideas beyond commitment to fiscal rectitude, and the Trussite wing's slash-and-burn approach to regulation and insatiable desire to reduce taxes and initiate a supply-side, free trade revolution – represented best by Truss's "enterprise zones" policy.

"Inflation is always and everywhere a monetary phenomenon," says Tom Clougherty, research director at the Centre for Policy Studies, quoting Friedman. While acknowledging the impact of supply shocks, Clougherty maintains that today's price increases



The UK lost 2.5 million working days to strike action in 2022

CARL COURT / GETTY IMAGES

are down to loose monetary policy (set by the Bank of England) and loose fiscal policy (set by the government). His solution centres around letting the market do its work. He argues that artificial bottlenecks like restrictive planning laws are distorting the economy and limiting the provision of the most expensive goods such as housing, the biggest outgoing for many.

"There are too many different veto players in the system, too many people with the opportunity to block something or delay it," he tells *Spotlight*. The government should deregulate and allow developers to respond quickly to demand. Another example of burdensome regulation Clougherty cites is the over-stretched childcare sector. He claims rules on the ratio of staff to children are pushing up prices. In March's Budget, the Chancellor increased the number of children that could be looked after by one nursery staff member. But there were no signs that public-sector pay would be improved. "The government is basically right to show the kind of restraint that they're showing," says Clougherty.

This is not the consensus among economists however. "That narrow view of inflation is politically convenient for the right," says David Barmes, head of research at the Positive Money think tank. He thinks it's a post-facto justification for shrinking the state. "They either blame inflation on too much public spending or too much money creation… and their solution is always a combination of tightening fiscal policy and/or tightening monetary policy – not giving into workers demands, essentially."

Barmes and Meadway are critical of the Bank of England's decisions to raise interest rates. It's a blunt tool, they say, that will deliberately stimulate a recession and lower living standards to tame price pressures. Instead, they recommend new wealth taxes, windfall taxes on the profits of energy and shipping companies, a programme of short-term price controls on basic goods, as well as public and private investment to strengthen supply chains. But that kind of radical action isn't gaining huge traction on the centre left.

Few of Benn's proposals in the AES would be welcomed by the more cautious leadership of today's Labour Party. But just as the crisis of the 1970s birthed the neoliberal model of British capitalism, the weaknesses of our post-Covid economy, the expansion of government largesse brought about by lockdowns and the cost-of-living crisis are resetting the relationship between market and state.

In the US, President Joe Biden's Inflation Reduction Act and multi-trillion-dollar infrastructure investment programmes are evidence of an economic model more comfortable with interventionism, state aid, industrial subsidy, limited protectionism and the championing of national industries. There's continuity with the Donald Trump administration, alongside the mission to "de-couple" the US economy from China's. Biden's government openly talks of strengthening supply chains by re-shoring manufacturing jobs, and the approach ties in the green transition.

In Europe, too, the EU is dropping its long-held aversion to common debt issuance and investing in projects, particularly in green energy sectors, to build a more resilient economy. So far, Labour has announced it will found a publicly owned Great British Energy company, set an industrial strategy recommending corporatist "partnership" between business and unions, commit £28bn annual investment in energy infrastructure, and boost UK manufacturing with a promise to "buy, make and sell more in Britain". Labour's shadow chancellor, Rachel Reeves, has championed Biden's approach, and promised a "national wealth fund" to invest in industry in the north and "left behind" regions.

On both sides of the Atlantic, the cost-of-living crisis has repoliticised the economy in a way that didn't seem possible when Bill Clinton declared the "era of big government" over in the mid-1990s. When Tony Blair rhapsodised about "open, liberal economies". Now, there is popular recognition about the drawbacks of free trade agreements and limited, laissez-faire government.

"The fib," Stiglitz told *Spotlight* last year, "that the neoliberals told us – that everything was going fine, that there was trickle-down economics, that everybody was doing well – that was… so obviously wrong." A new economic era may not yet have fully emerged, but the old one has palpably failed, and the cost-of-living crisis is only the latest symptom of its collapse.

Infographic

No Budget for the young

By Kath Swindells

The Spring Budget contained some policies aimed at improving people's personal finances, particularly on childcare and pensions. But one group was noticeably absent from discussions around economic support: Gen Z.

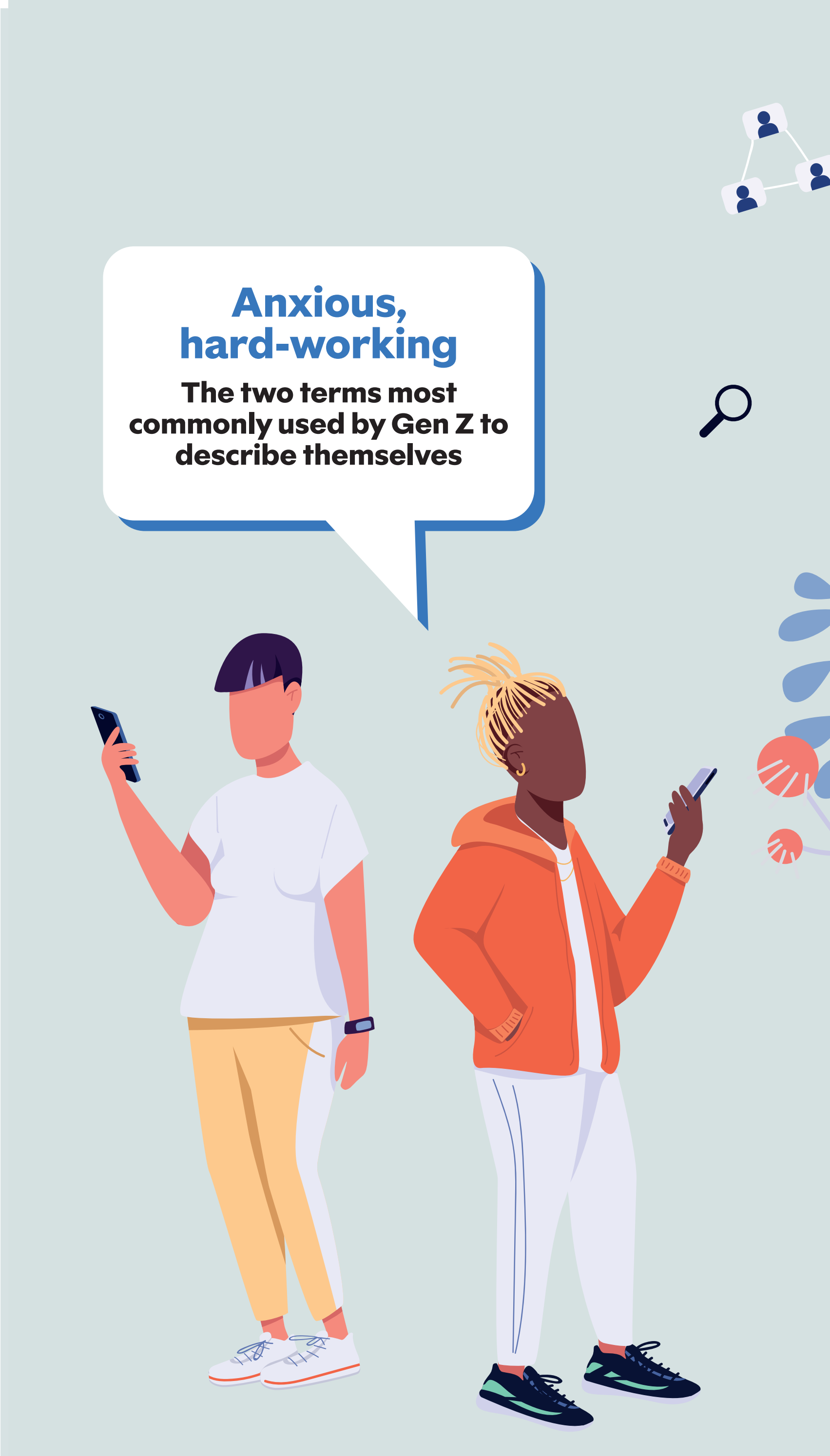
On the job market, Chancellor Jeremy Hunt's "back-to-work" Budget focused on the over 50s, despite unemployment levels among 18-24 year olds increasing by 3.4 per cent in the past three months, and by 27 per cent in the past six months (compared to a national increase of 2.6 per cent in that period).

The extension of the energy price cap and an expansion of childcare support payments are welcome, but there was no mention of the nightmarish rental market, of getting on the housing ladder, or the challenges young people have in finding work.

But polling conducted last year found that the cost-of-living crisis topped the list of anxieties for Gen Z. And across age groups, people think that young people today have it worse than their parents. When asked about their ambitions, 27 per cent of 16-24 year olds highlighted financial security or making money, and 15 per cent said having a family with children, followed by: having a job they loved, travelling, and owning a home. But more than half say they are worried about the cost of living and rising inflation, 40 per cent are worried about financial security, and a third are worried they'll never be able to afford buying a home.

Just 39 per cent said they had enough money to live on, and 38 per cent said they felt they received a fair wage for their work. Meanwhile, a third were worried about the level of personal debt they have.

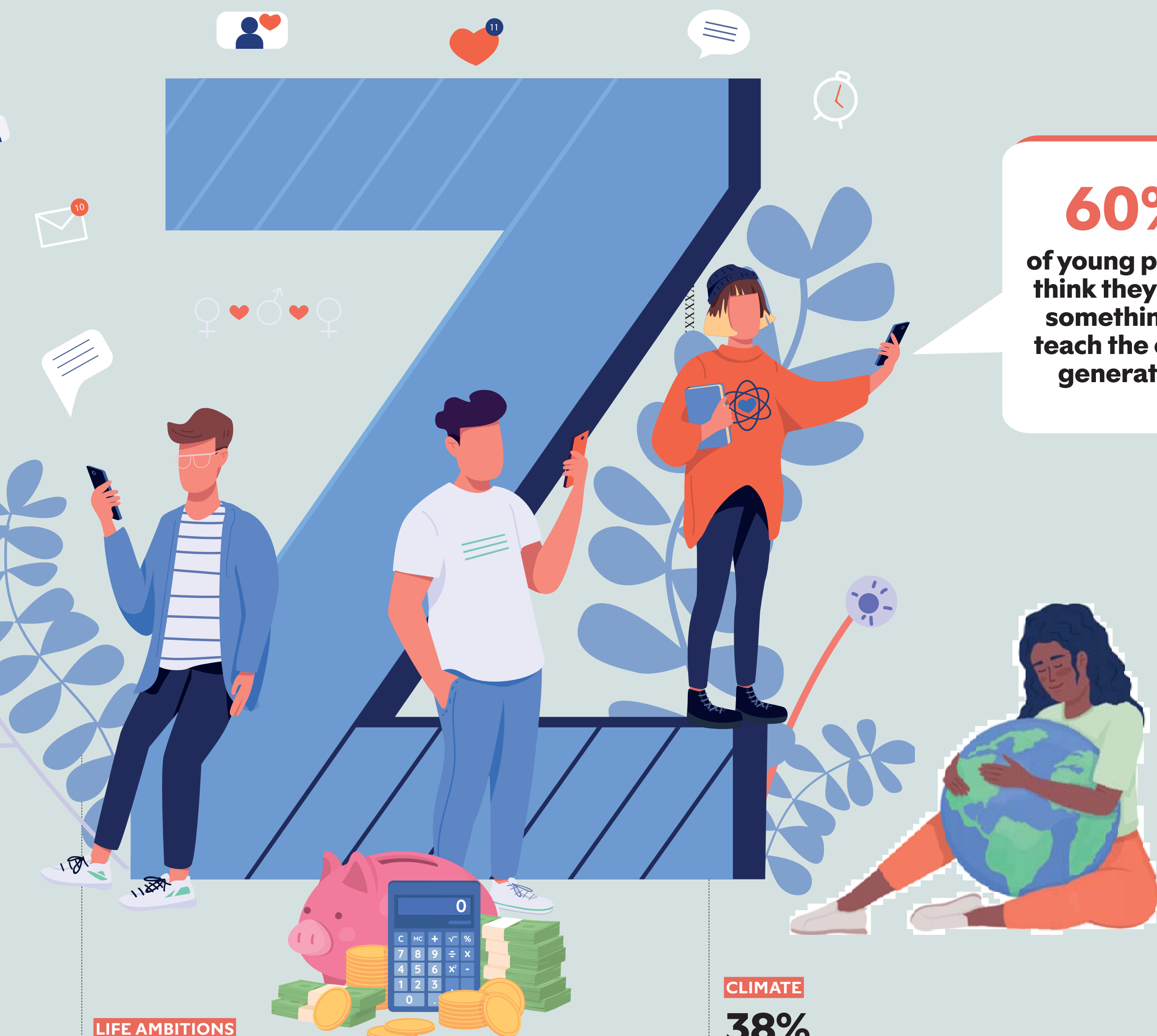
But their concerns go beyond personal circumstance. More than half of 16-24 year olds feel negative about the economy and politics. And more than a quarter feel negative about the future. With less than a fifth of young people saying that British democracy addresses their interests, compared to almost half of pensioners, it's clear young people are demanding action. But who's listening?



WORRIES

Source: Ipsos

52% of Gen Z worry about the rising cost of living	**40%** about becoming financially secure	**39%** about mental health



60%

of young people think they have something to teach the older generation

LIFE AMBITIONS

27%

of 16-24 year olds said financial security or making money was their goal

15%

said having a family with children

CLIMATE

38%

of 16-25 year olds in the UK say climate change is making them hesitant about having children

2/3

say the government is failing young people on climate policy

34% about being able to afford property	**33%** climate and the environment	**33%** the health of the UK economy	**32%** being able to afford rent to live somewhere	**31%** succeeding in their career	**31%** the state of the NHS	**31%** UK politics

Energy prices

Storm chasers

As bills soar, a project in Ireland shows how renewables can tackle fuel poverty

By India Bourke

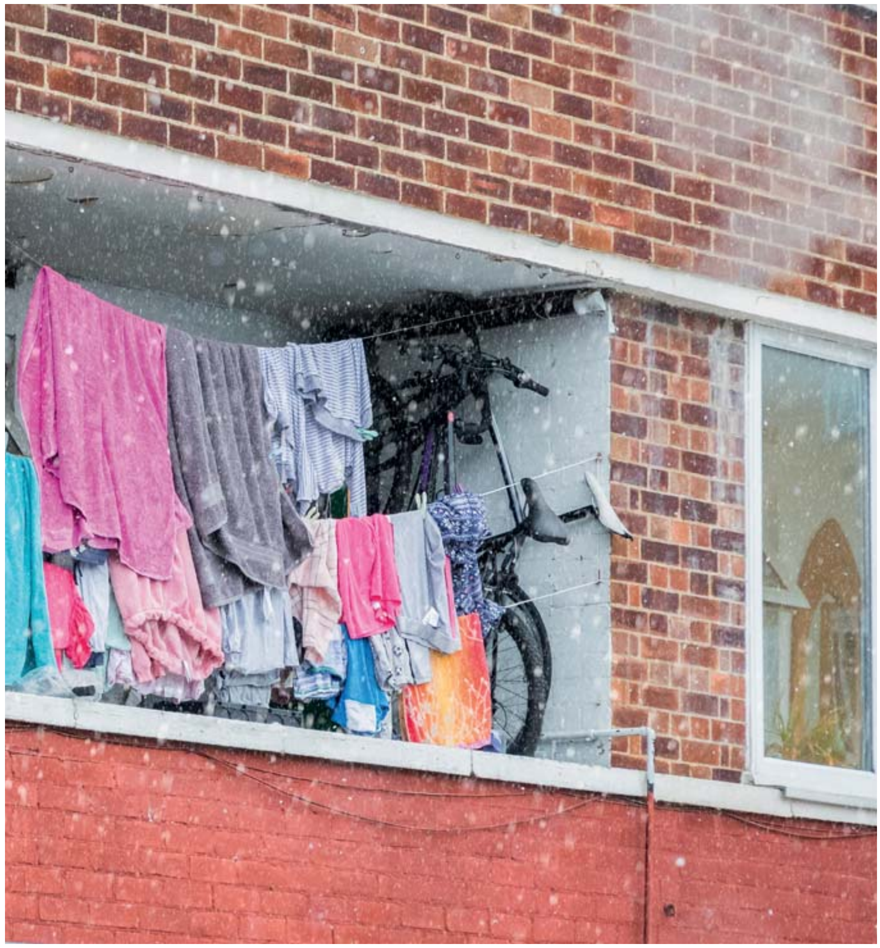
"A pointless circularity of artificial taxation and support" was how a group of Conservative MPs and peers dismissed environmental levies that support the green transition, in a letter to the *Telegraph* last year. Soaring fuel poverty shows, however, that the UK cannot afford to miss out.

Government figures released in February show that 7.39 million households in England spent more than 10 per cent of their income (after housing costs) on domestic energy in 2022 – up from 4.93 million in the previous year. By next year 14.4 per cent of England's population is expected to be in official fuel poverty. The clear solution, campaigners argue, is to reduce reliance on expensive fossil fuels. In early 2021 UK energy bills would have been £2.5bn lower, the climate policy website Carbon Brief calculated, if David Cameron's government had not cut support for renewables and energy efficiency (and that was before the war in Ukraine pushed up oil and gas prices further still).

Undoing this damage would involve a street-by-street expansion of energy-saving measures, NGOs such as Friends of the Earth and the End Fuel Poverty Coalition suggest. Households could then be weaned off fossil-fuel dependency through financial support to replace boilers with heat pumps, while a rapid expansion of renewable energy would counteract the rising international price of gas. To help balance renewable power's intermittent availability with the peaks and troughs of consumer demand, the National Grid has already launched a "demand flexibility service" that pays households to cut their energy use at certain times.

There are, of course, obstacles to such a shift. Too few households can afford the upfront costs of insulating their homes or installing heat pumps. There are not enough skilled installers. And giving money back for reducing consumption favours those with the technology, time and capacity to make the change, experts warn. "Too often innovation is taken with early adopters in mind, and risks leaving those who need the help behind," Matt Copeland of the fuel poverty charity National Energy Action told *Spotlight*. In other words, you cannot move your energy use to a different time if you cannot afford to turn the heating on at all.

Social enterprises, however, are



Millions of households spent over 10 per cent of their income on energy in 2022

I WEI HUANG / SHUTTERSTOCK

showing how renewable energy can directly benefit society's most vulnerable. By the end of 2023, for example, a scheme called EnergyCloud will use excess wind power to provide 10,000 homes in the Republic of Ireland with hot water for free.

Launched during the pandemic, the scheme works by installing a remote-controlled digital switch on a household's hot water tank. Thanks to the combined efforts of the home technology company Climote, the Clúid Housing Association and Wind Energy Ireland, every time a windy night releases a burst of power onto the Irish grid, EnergyCloud's pilot scheme uses the digitally controlled hot water tanks to soak up excess wind energy that would otherwise have been lost. "We call the existing users 'storm chasers'," Derek Roddy, co-founder of Climote and EnergyCloud, said over the phone from Dublin, "They look forward to the next storm since they know it means low-cost energy."

An estimated 750Gwh of potential energy was wasted in Ireland in 2021 due to lags in demand, while predicted growth in UK renewable energy means supply is forecast to exceed energy demand 53 per cent of the time by 2030. EnergyCloud offers hope that such challenges could be turned to consumers' advantage. A new partnership with Amazon Web Services, announced in February, will see 1,000 households provided with the free smart device by the end of March.

"EnergyCloud is a unique approach by stakeholders along the value stream," said Roddy; the scheme has support from the Irish national grid EirGrid and energy companies such as SSE Airtricity, among others. "Yes, some of our stakeholders may feel a little less comfortable that this is not focused on generating profits for shareholders, but we are all in this together to see what we can do if we think differently."

The way the scheme circumvents energy markets might make it difficult to replicate at scale, warns Louise Sunderland from the Regulatory Assistance Project, an energy policy NGO. "But they've proved a great concept, which is about finding as much value in renewables as we can and directing it to those who really need it."

Other social enterprises are applying similar logic in different ways. In England, the Brighton and Hove Energy Service Co-operative is providing a free consultancy to households on the best ways to improve energy efficiency and reduce energy costs. It also offers upfront financing via a community share offer, which provides investors with an annual interest payment. A portion of the bill savings are then used to repay the project's costs.

Governments too must play a role. According to Dan Curtis, of the Brighton co-operative, there is an urgent need for all homes, not just privately rented ones, to be supported in meeting higher efficiency-band requirements. That means more financial support for energy efficiency measures and heat-pump installation, and more training for experts to fit them.

Furthermore, the electricity market itself needs to ensure cheaper energy for those who need it most. According to a report from the Common Wealth think tank, billions could be saved by tackling windfall profits in electricity generation. "Decoupling electricity prices from the price of gas is key to cutting energy prices," Common Wealth's Adam Peggs told *Spotlight*. Under the current wholesale market, the price of all electricity units is set by whatever source generates the last unit needed to meet demand, and that is almost always gas, rather than cheaper renewables.

All this and more will be needed if the UK's green energy future is to be built on solid, socially minded foundations. But such an overhaul will also require public support. And it is here that schemes like EnergyCloud may play their greatest role yet.

"As a country we need to bring our citizens with us," Roddy said with regard to the rapid development of wind and solar farms needed to underpin the renewable transition. "And we're going to get people wanting wind and solar farms in their area if they've already experienced the benefits of what that renewable energy can provide." ●

Profile

"It's not a solution"

Stella Creasy MP on why Jeremy Hunt's childcare reforms don't add up

By Alona Ferber

There were years of campaigning, years of build-up and then – it happened. In last week's Budget, the Chancellor Jeremy Hunt announced a major reform of the UK's beleaguered and expensive childcare sector.

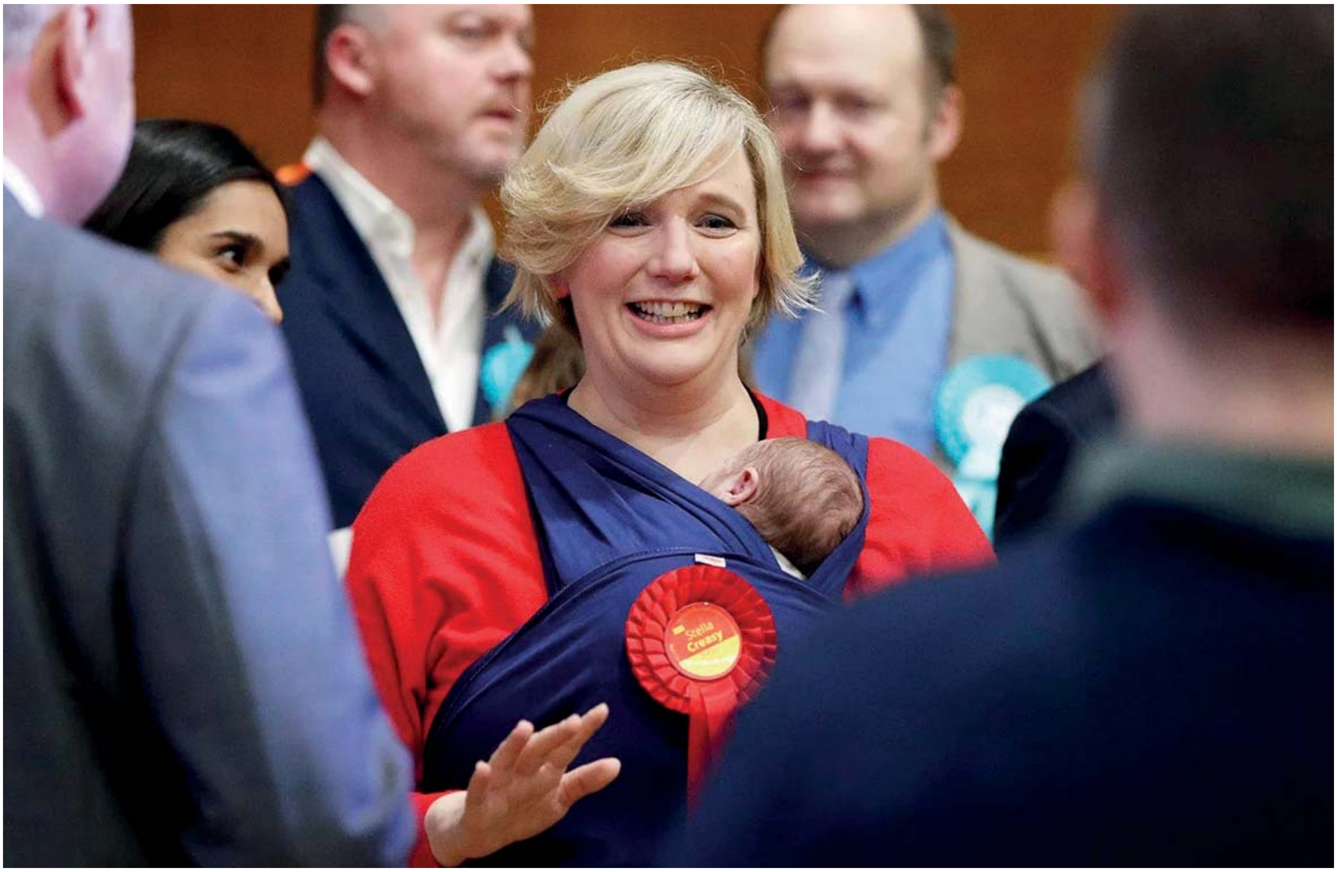
The inclusion was testament to the fact that, with an election on the horizon, what was once seen as the preserve of mothers has become a major issue in British politics. In her short-lived tenure, the former prime minister Liz Truss pledged reform. Rishi Sunak initially, quietly, dropped her plans. In his Autumn Statement in November, the Chancellor made no mention of childcare. And yet in March, they were one of the set pieces of his Budget.

Hunt's plans included an expansion of the 30 free hours of childcare available to working parents with offspring between the ages of three and five: this will be available for parents of children aged nine months and above, and be introduced in a staggered way from April 2024. The Chancellor will also push for schools to provide wraparound childcare for parents who struggle with a workday that is far longer than the school day. Those on Universal Credit will be able to claim a higher rate for childcare, and – crucially – receive part of the funding upfront for the first time.

There was also a boost to funding for childcare settings that provide the 30 free hours of care, and a pilot scheme will offer an incentive of £600 to new childminders entering the profession, rising to £1,200 if they join through an agency.

The phrases "step in the right direction" and "welcome" did the rounds among the Twitterati response. But for many, the policy didn't add up to a real solution for the problems faced by parents struggling to pay for some of the most expensive childcare in the OECD. Nor did it seem a sufficient tonic for the sector, which, according to the Early Years Alliance, is facing its worst crisis in recruitment and costs in 20 years. Between March 2021 and March 2022, some 4,000 providers closed down, the biggest decline since 2016.

Stella Creasy, Labour the Co-op MP for Walthamstow since 2010, has long campaigned for childcare reform. She was also one of the Budget's sceptics. While the Chancellor announced a £4bn spending increase for the reform, research from the Confederation of



Stella Creasy with her first child in 2019

JOHN SIBLEY / REUTERS

British Industry estimated the full cost at £8.9bn. "Giving parents the right to ask for more hours without funding the full cost of those hours will cause the existing childcare system to crash as providers are forced to offer even more care at a loss," she told *Spotlight* ahead of the Budget, as an exclusive report on Hunt's plans was published in the *Guardian*.

She likened this week's plans to Help to Buy, the government scheme that guaranteed high loan-to-value mortgages for first-time buyers, and which has been criticised for leaving young people in vast amounts of debt and pushing up house prices. "It's as economically illiterate [as that]," she said. "The government policy pushed up demand without addressing supply, and so ended up making the housing cost more for first-time buyers, not less."

Hunt's childcare reforms tinkered with a system that is "fundamentally flawed and about to collapse", as Creasy put it when we meet a few weeks before the Budget at her office in Portcullis House. Parliament had just returned from recess and Creasy was, coincidentally, about to head to a debate on the affordability and availability of childcare. The 45-year-old, whose career in national politics followed another in local government, was wearing a bright green jacket and her office was filled with colour, too – from the books and Star Wars memorabilia on the shelves, to the pictures on her wall, including a child's drawing of "Aunty Stella as a pirate".

Various whiteboards showed her "campaign of action", as she describes it – "any time a Conservative MP comes in here they gulp a little bit". On one of the boards were the words "childcare" and "Levelling Up Bill". The levelling-up white paper, released last year, notably omitted childcare, and Creasy's amendment to the bill succeeded in redefining childcare as infrastructure – a major coup for campaigners. Among other things, that means property developers will have to ensure there is sufficient childcare provision in new building projects, and councils will be able use the community infrastructure levy on new developments to fund those services. "Parents and potholes [should] get equal attention," Creasy said in December when she put forward the amendment.

"Putting childcare in as an economic infrastructure issue is about saying, 'OK, what do we do with economic infrastructure?' We invest in it. Because we recognise the return it makes," she explains. And just as they need infrastructure like reliable public transport to get to the workplace, working parents need help looking after their children.

That this is now a political priority is evident not only from the Conservatives' attempt at reform, but also Labour's avowed commitment to "completely reimagine" childcare, as the shadow education secretary Bridget Phillipson has put it. So what's changed?

"As somebody who's been trying to talk about childcare for years, it was often like talking Klingon," says Creasy. "It's been seen as a niche issue for women. It's not now."

The difference is partly down to the pressure mounted by campaigns like Pregnant Then Screwed, whose founder Joeli Brearley (see page 22) refuses "to let politicians off the hook", says ▸

Jeremy Hunt has expanded childcare provision to more parents

◂ Creasy. But it's also about a paradigm shift: "Finally, people are seeing this not as an equalities issue, but an economics issue." The UK is one of the least productive nations in the G7, she notes, and the rate of women leaving the workforce because of caring responsibilities is the highest it has been in decades.

The pandemic was pivotal too. "Mums were at home and watching government say, 'Oh yes, we really ought to invest in potholes, but you parents, let's give you a slap on the back and that's enough for you,' and it was like the... bubble burst and people said, 'If we don't organise, nothing will change.'"

Members of Parliament are not entitled to maternity leave. Creasy, a mother of two, was able to organise locum cover when she had her daughter in 2019 under a trial scheme, but this was not possible for when her son was born in 2021. It is illegal for an employer to ask a new mother to work in the first two weeks post-partum, but Creasy was already taking calls from hospital.

Footage of her in the Commons with a baby strapped to her chest highlighted the impossibilities of being a working mother – as did the fact she was told it was against parliamentary rules to bring a child into a debate. Responses to this were not wholly supportive of Creasy.

"I have faced a lot of abuse... for talking about" motherhood, she says, but also "for – because I didn't have any maternity cover – thinking, well, I still need to do my job, which is why I ended up bringing my baby into the chamber". In fact, it is on the issues of motherhood and childcare that she has received "the most hostility from my peers".

For years, Creasy has called for universal childcare. So far, Labour's commitments on this front have been vague. At Labour Party conference last year, Phillipson pledged universal free breakfast clubs for every primary school child. The party has also mooted reforms to allow councils to offer new childcare provision. Phillipson has travelled to Estonia, Ireland and Australia to learn from their examples, including from Australian Labor's 2022 election win, which was helped by a major pledge on childcare subsidies.

> "Finally, people are seeing this as an economic issue"

But is this bold enough? Will we see properly funded and expanded early-years provision under Keir Starmer's five national missions? Creasy is "really confident it's going to be a key part of it because I see people like Rachel [Reeves] and Bridget [Phillipson] really driving it forward and really getting it."

And what of Hunt's reforms? Creasy has questions for the Treasury. What happens after 2026, when the government's £289m of "start-up" funding for primary schools to provide wraparound care ends? What are parents of current one- and two-year-olds, who are working part-time, studying or retraining and are not eligible for the expanded hours scheme, supposed to do? At the moment, nurseries cross-subsidise the 30 free hours for three- and four-year-olds, which is underfunded by £2bn a year, by charging higher fees for one- and two-year-olds. How are nurseries expected to fill that gap?

And if the plan succeeds in bringing more people into the workforce, and subsequently more children into early-years settings, how will the government ensure there are enough places available?

After Sunak dropped Truss's childcare plans, a group of Tory backbenchers, led by Siobhan Baillie MP, pushed for reform behind the scenes. Perhaps part of the problem is the lack of women – and mothers – at the policymaking table; it is women, after all, who tend to pick up most of the childcare burden, and whose working life suffers when it goes wrong.

But Creasy insists we have to be careful with this line of thinking, lest we repeat the trope that this is a women's issue. "My male colleagues who take their children to the lobby never had any of the abuse that I've had for doing it," she says. "But that speaks to one of the challenges in this debate, and it happens in politics, too, where we think women will probably solve it."

Should Labour be irritated or flattered that the Conservatives have scooped them on childcare? The reform was a long-time coming, Creasy told me after the Budget was announced, and "the result of years of graft by many of us. It's not a surprise – and as this policy has lots of flaws it's not a solution." Keir Starmer's offer, she adds, will address the "issues that make this the start, not the end, of the conversation". ●

STEFAN ROUSSEAU / WPA POOL / GETTY IMAGES

The view from government

Kevin Hollinrake MP
Minister for small business

"Small businesses need to thrive, not just survive"

It's no understatement to say that these are tough times for small businesses. Global economic headwinds following the Covid-19 pandemic and Russia's invasion of Ukraine have blown rising inflation, interest rates and energy bills through the door of many businesses.

Just a few months after opening my own business in 1992, Black Wednesday led interest rates to skyrocket overnight. I know first-hand the struggle and the challenges of running a business in a financial crisis and the sleepless nights worrying about how you'll keep afloat.

But I also know the feelings of freedom and accomplishment that come from being a small-business owner and the difference that you make to your local community. That's why, as small business minister, my ambition is to see our businesses not just survive in these challenging times but thrive – delivering on our promise to grow our economy and create good jobs across the country.

MARTA SIGNORI

We knew that we had to prioritise shielding businesses from high running and energy costs to protect jobs and allow them the space to grow and succeed. That's why we put in place our Energy Bill Relief Scheme, which means businesses had to pay less than half the predicted wholesale cost of energy over the winter.

The Chancellor also announced a £13.6bn package of support for business rate payers, including the £500m Supporting Small Business scheme, which caps bill increases over the next three years at £50 per month for an estimated 80,000 small businesses.

The government has always been a champion for business right across the country, which is why since 2010 we've seen one million new businesses contributing to the economy. But we need the right environment for those firms to thrive. Innovation is key to our growth, which is why the new enhanced tax credits for research and development (R&D) by small and medium-sized enterprises (SMEs) will help catalyse new breakthroughs.

For parents starting new families, the path back into work after the birth of a child has been a challenge. The Budget featured major reforms to the childcare sector. This will enable more parents to get back into work, boost productivity for all businesses and provide more education to the next generation.

We want small businesses to feel empowered to grow. In this vein, we are working hard to better support British Scale-Ups, including in areas such as access to finance, bolstering advice and support, and removing barriers to growth.

Prospective entrepreneurs, for example, have access to the Start Up Loans programme offered by the government-owned British Business Bank.

Those further along in their business journey have access to our Help to Grow management scheme, which provides training, expertise and mentoring from leading national business figures.

We're also stepping up our support for SMEs looking to begin their export journey, and our recent trade agreements with Japan, Australia and New Zealand have included dedicated small and medium-sized business chapters for the first time.

While we pursue economic growth, we're not blind to the fact that practical problems remain. We're hot on the issues that really matter to businesses, such as dealing with the burden of late payments.

These impact cash flow and hinder business growth, so I am pleased to be leading the Payment and Cash Flow Review to gather insight and see what our next steps in government should be to tackle this important issue.

Small businesses are the beating heart of our high streets, towns and communities, and this government will never stop championing them. ●

The Policy Ask

Joeli Brearley: “If you’re not happy and you dread going to work, then leave”

MARTA SIGNORI

The founder of Pregnant Then Screwed on toxic workplaces, the need for universal free childcare, and the tampon tax fund

How do you start your working day?
By repeatedly shouting: “Boys, for the love of god, will you put your shoes on!” Then, when they finally leave for school with their dad, I drink a very large cup of coffee and listen to ten minutes of Radio 4 before I switch my computer on.

What has been your career high?
March of the Mummies, the protest we organised in 11 cities across the UK in demand for government reform on childcare, flexible working and parental leave. It was hugely ambitious but we pulled it off. Roughly 15,000 families attended, we had more than 700 items of press coverage and 67 per cent of attendees had never been to a protest before.

What has been the most challenging moment of your career?
The death of Mary Agyapong, a 28-year-old nurse, who was the first pregnant woman to die from Covid-19. I had pleaded with the government to do more to keep pregnant women safe and we were supporting as many women as we could with legal advice so that they could protect themselves from the disease. Her death broke me.

If you could give your younger self career advice, what would it be?
If you’re not happy, if you dread going to work, then leave. It’s not worth your time or your energy. And don’t be intimidated by more senior colleagues. They don’t always know best.

Which political figure inspires you?
Stella Creasy MP. She’s not interested in personal gain or toeing the line so that she can climb the political ladder. She wants to make the lives of women materially better and she uses her influence to do exactly that, no matter what the personal cost. Plus, she is absolutely hilarious.

What UK policy or fund is the government getting right?
The tampon tax fund that allocates funds generated from the VAT on period products to projects that will improve the lives of disadvantaged women and girls. Although I don’t always agree with how the money is distributed, the fact that it exists is a wonderful thing.

And what policy should the UK government scrap?
The shared parental leave scheme. Only 2 per cent of eligible families use it. Instead they should ring-fence properly paid parental leave for both parents. We know from other countries that this would significantly increase uptake, thereby improving gender equality, and the well-being of whole families.

What upcoming UK policy or law are you most looking forward to?
The Neonatal Care (Leave and Pay) Bill still has a few more hoops to jump through before it receives Royal Assent [it is currently in its second reading in the House of Lords], but once it becomes law it will give both parents up to 12 weeks extra leave and pay to spend vital time with their baby if they are born premature or sick.

What piece of international government policy could the UK learn from?
Canada recently invested $30bn in its childcare sector to create a system that costs no more than $10 a day. It did this after trialling the policy in Quebec and studying the outcomes. It found that every C$1 invested in childcare put between C$1.50 and C$2.80 back into the wider economy.

If you could pass one law this year, what would it be?
Free, high quality, universal early years education for all children. This would include early years educators being paid a decent wage, and ample provision for those who have a child with a disability.