

April Will Be a Cruel Month for the UK Economy

By David Bailey and Phil Tomlinson

The Conservatives have a poor economic record, but Labour's offer lacks boldness and credibility.

It was TS Eliot who famously proclaimed April to be the cruellest month. This description is perhaps a tad unfair – April generally sees fairer weather and lighter nights, and Spring flowers. Yet, for the UK [\[PT1\]](#) economy and its citizens, the cost-of-living crisis and scheduled tax rises means that April 2022 will be especially cruel.

In April, employers, the self-employed and many employees will face at least a huge increase in their [\[PT2\]](#) National Insurance contributions, while personal tax allowances begin a four-year freeze [\[PT3\]](#) during which they will not be uprated in line with inflation. In real terms, workers will face a higher tax burden and over time, more will be 'fiscally dragged' into higher tax bands. April also sees Council tax bills land on homeowner's doorsteps – many councils are expected to announce increases much higher [\[PT4\]](#) than in recent years. For those living in Bands A-D, the blow will be softened by a £150 government rebate [\[PT5\]](#). Yet overall, the UK tax burden is set to rise to the highest level [\[PT6\]](#) for over 70 years.

These tax rises come on top of the UK's highest level of inflation in over thirty years. Much of this higher inflation is a result of the rising global price of energy, and to a lesser extent, shortages and supply bottlenecks that arose as the global economy emerged from the impact of the pandemic. Since early 2021, wholesale energy prices have soared [\[PT7\]](#) and, in April, the UK's domestic energy price cap will rise by 54%, an average rise of nearly £700 for the average household. The war in Ukraine – and the associated threat to oil and gas supplies from Russia to Europe – are likely to push wholesale energy prices even higher.

There have long been concerns about UK energy security and supply, but poor policy choices and inaction over the last decade in particular have meant the UK is left with some of the lowest energy storage capacity [\[PT8\]](#) in Europe. Moreover, the fragmented and largely broken UK energy market is itself a product of ill-conceived privatisation [\[PT9\]](#) in the 1980s and 1990s. In contrast, the French state-owned energy supplier, EDF, has been restricted in raising heating bills to a mere 4%. [\[PT10\]](#)

Conservative's Poor Economic Record

Politically, the cost-of-living crisis threatens the government's electoral base. As in 2008, the challenging economic conditions are global in nature. This may suggest the government can shield from blame for the crisis – though historically, and as in the aftermath of 2008, governments presiding over falling living standards don't tend to survive very long. Indeed, the threat to living standards is emblematic of the underlying weaknesses in the UK economy.

So how does the Conservatives economic record stand up?

In short, the UK's economic performance over the last decade has been poor. George Osborne's austerity drive focused on reducing public debt rather than growth. This approach not only weakened the UK's public services, but it slowed the recovery from the Great Financial Crisis. As a result, since 2010, UK economic growth has been anaemic; between 2010 and 2019, real GDP per capita growth averaged under 1.2% per annum, less than half that achieved in the decade preceding the financial crisis [\[PT11\]](#). Productivity growth was also anaemic. Austerity also failed on its own terms [\[PT12\]](#), as public debt as a proportion of GDP continued to rise even before the pandemic. For households, average real wages have yet to recover [\[PT13\]](#) from the financial crisis and are expected

to remain below their 2008 level until at least 2026. This is the longest squeeze on UK average real incomes in over 200 years. [\[PT14\]](#)

Moreover, the government's early mismanagement of the pandemic meant the UK suffered the largest economic contraction of the G7 nations, alongside having one of the highest death tolls in the world. [\[PT15\]](#) Added to this, Brexit has been a drag on the UK economy since the 2016 referendum, with sterling, trade and investment falling significantly, such that by the time the UK left the EU the [hit to GDP had been of the order of 2-3%](#). The Johnson government pursued, and obtained, a hard Brexit deal in the form of the Trade and Cooperation Agreement (TCA), which has raised substantial non-tariff trade barriers with the country's biggest market. As a result, in 2021, UK goods trade was around 11.2% lower [\[PT16\]](#) than if the UK had remained in the EU's single market and customs union. Lost trade and growth means Brexit is expected to have a net cost to the Exchequer of around £30 billion a year [\[PT17\]](#) – enough to cover all of the recent tax rises[\[PT18\]](#) .

And what about funding for the government's flagship programme 'levelling up'. The recent White paper outlined measures to address the country's wide regional imbalances. But so far, the funding does not match the rhetoric. Indeed, the £1.5 bn a year allocated to the Levelling Up and Shared Prosperity Funds is somewhat short of the annual £2.1 bn funds designated under previous schemes, that largely comprised of EU structural funding[\[PT19\]](#) . Coming on top of a decade in which local government funding has been cut by 49.1% in real terms[\[PT20\]](#) , reviving regional economies will remain a big challenge with a small budget.

Labour still lacks credibility and a coherent vision

For the Opposition, the cost-of-living crisis should be an open goal. Labour's shadow chancellor, Rachel Reeves, made much political capital over the Tories' economic mismanagement in her recent Spring statement response [\[PT21\]](#) . Yet just offering to be more competent on the economy than the government is not sufficient – it is, after all, a pretty low bar.

Labour needs to set out a compelling and positive vision as how it will seek to shape the UK economy. So far, there has been very little in terms of an alternative economic strategy, although Reeves has suggested a 'Buy British' procurement [\[PT22\]](#) policy. This is reminiscent of Harold Wilson's 'I'm backing Britain' [\[PT23\]](#) campaign in 1968, which followed the 1967 sterling devaluation, and sought to encourage UK workers to become more productive and consumers to buy British goods. The campaign quickly fizzled out, and a new 'Buy British' policy is fraught with difficulties. It is inherently a protectionist stance, that is likely to contravene WTO rules, and lead to retaliatory trade barriers [\[PT24\]](#) which will crowd out British exports in more productive sectors of the economy.

Labour is also committed to working within the confines of Boris Johnson's Brexit deal, under the mantra 'Make Brexit Work'[\[PT25\]](#) . The slogan and approach may seem good politics, but is it good economics? The evidence suggests that Brexit is acting as a slow drag on the UK economy, adding substantial red tape and logistic costs and delays to British business. That is set to continue unless Labour levels with the British public and makes the case for the UK seeking a better and closer deal with its largest trading market.

Yet, Labour has never been a leader on the European question – since the 1950s, it has left it to the Conservatives to determine the UK's direction of travel. But a failure to change the narrative means that a future Labour government is unlikely to be able to deliver on its objectives. Indeed, if Labour assumes power after the next election – and its most likely route is as a minority government – it will

inherit an economic situation not [too dissimilar to the chaos](#) it inherited in 1974. And, as history recalls, that didn't end too well

[PT1]<https://www.poetryfoundation.org/poems/47311/the-waste-land>

[PT2]<https://www.manchestereveningnews.co.uk/news/uk-news/two-month-warning-issued-anyone-22975209>

[PT3]<https://www.reuters.com/world/uk/britain-freeze-personal-tax-thresholds-until-2026-2021-03-03/>

[PT4]<https://www.lgcplus.com/finance/exclusive-over-two-thirds-of-councils-to-raise-council-tax-by-maximum-permitted-05-01-2022/>

[PT5]<https://www.standard.co.uk/news/uk/council-tax-rebate-april-energy-bills-often-2022-b980786.html>

[PT6]<https://inews.co.uk/opinion/rishi-sunak-tax-cutter-ukraine-covid-inflation-made-choice-1509761>

[PT7]<https://www.independent.co.uk/news/uk/home-news/energy-crisis-uk-gas-why-price-rise-b2031984.html>

[PT8]<https://www.theguardian.com/business/2021/sep/24/how-uk-energy-policies-have-left-britain-exposed-to-winter-gas-price-hikes>

[PT9]<https://www.theguardian.com/commentisfree/2021/nov/24/uk-energy-sector-public-ownership-bulb-collapse>

[PT10]<https://www.edf.fr/en/edf/exceptional-measures-announced-by-the-french-government>

[PT11]<https://www.theguardian.com/commentisfree/2019/nov/16/strong-economy-tories-weak-labour>

[PT12]<https://www.newstatesman.com/politics/uk-politics/2018/10/austerity-how-ideological-project-failed-its-own-terms>

[PT13]<https://www.independent.co.uk/business/realters-weekly-pay-is-lower-than-before-2008-financial-crisis-b2015511.html>

[PT14]<https://www.tuc.org.uk/blogs/17-year-wage-squeeze-worst-two-hundred-years>

[PT15]<https://www.nbcnews.com/news/world/u-k-economy-slumps-record-10-percent-2020-after-covid-n1257600>

[PT16]<https://www.cer.eu/insights/cost-brexite-september-2021>

[PT17]<https://institute.global/policy/cost-frost-0>

[PT18]<https://www.theguardian.com/commentisfree/2022/jan/31/covid-easy-scapegoat-economic-disruption-brexite-biting>

[PT19]<https://www.independent.co.uk/news/uk/politics/eu-regional-development-funds-cut-brexite-levelling-up-b2004944.html>

[PT20]<https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/2036/203605.htm>

[PT21] <https://www.theguardian.com/politics/live/2022/mar/23/spring-statement-2022-rishi-sunak-poorest-families-likely-to-be-worst-hit-by-impact-of-ukraine-war-live-updates>

[PT22]<https://www.independent.co.uk/business/labour-plan-to-buy-british-not-about-slapping-a-flag-on-procurement-reeves-b1877867.html>

[PT23]https://en.wikipedia.org/wiki/I%27m_Backing_Britain#:~:text=I%27m%20Backing%20Britain%20was,others%20to%20do%20the%20same.

[PT24]<https://theconversation.com/why-labours-buy-british-plan-is-not-going-to-succeed-163995>

[PT25]<https://www.independent.co.uk/news/uk/politics/brexit-opportunities-keir-starmer-labour-b2014643.html>