

## THE PEOPLE'S REBATE

The People's Rebate: an unprecedented tax cut aimed at the UK's "left behind" areas, to boost economic growth, living standards, and employment.

*"Let money fructify in the pockets of taxpayers. Government should not presume to tell any businessman and industrialist what he should or should not do; attempts to frustrate the operation of market forces will tend to damage the growth rate of the economy."*<sup>1</sup>

### Left behind

When campaigning for the 2019 General Election, Conservative leader Boris Johnson stated that "for too long, too many towns and villages across Britain have been overlooked and left behind".<sup>2</sup> Indeed, the UK is one of the most centralised developed economies in the world, with London making up 30% of total GDP, generating political resentment and ultimately weakening economic productivity in Britain's "left behind areas".<sup>3</sup>

There is no doubting that the UK's reliance on London and the South East harms productivity across the country; between 1998 and 2018, London's economy grew at an average annual rate of 3.1%, double that of the North East, at 1.5%.<sup>4</sup> This effect carries through to living standards: a boy born in the North West can expect to live three years fewer than one born in the South East.<sup>5</sup>

Post-industrial cities, rural areas and coastal towns across the country have seen traditional industries collapse, high streets become ghost towns, and ever more people becoming reliant on government handouts. Mr. Johnson's electoral message resonated; constituencies gained by the Conservatives on election day had lower earnings than the average Labour constituency, by at least 5%.<sup>6</sup>

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<sup>1</sup> Statement by Financial Secretary of Hong Kong, Sir John Cowperthwaite (Hong Kong Government Secretariat), 1963, as quoted in Yu, T.F. *Entrepreneurship and Economic Development in Hong Kong*. New York: Routledge, 1997.

<sup>2</sup> Hossein-Pour, Anahita. "Boris Johnson Vows to Invest in 'Left behind' Communities If Tories Win Election." Politics Home, DODS Group, 15 Nov. 2019, [www.politicshome.com/news/article/boris-johnson-vows-to-invest-in-left-behind-communities-if-tories-win-election](http://www.politicshome.com/news/article/boris-johnson-vows-to-invest-in-left-behind-communities-if-tories-win-election)

<sup>3</sup> Clark, D. *Gross Domestic Product (GDP) of the United Kingdom (UK) in 2018, by Region*. Statista, 29 Mar. 2021, [www.statista.com/statistics/1004135/uk-gdp-by-region](http://www.statista.com/statistics/1004135/uk-gdp-by-region).

<sup>4</sup> *Budget 2020: Delivering on Our Promises to the British People*. HM Treasury, 11 Mar. 2020, [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/871799/Budget\\_2020\\_Web\\_Accessible\\_Complete.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871799/Budget_2020_Web_Accessible_Complete.pdf).

<sup>5</sup> A Divided Britain? Inequality Within and Between the Regions. The Equality Trust, July 2014, <https://www.equalitytrust.org.uk/sites/default/files/A%20Divided%20Britain.pdf>

<sup>6</sup> Payne, Sebastian. *Earnings in New Tory Seats 5% Lower than in Labour Constituencies*. Financial Times, 6 Sept. 2020, [www.ft.com/content/48495b7f-b749-407b-9cfe-c1a34f6a9cf5](http://www.ft.com/content/48495b7f-b749-407b-9cfe-c1a34f6a9cf5).

## The Westminster response

Successive governments have endeavoured to reach these 'left behind' areas from Westminster, through spending on infrastructure schemes, grants, and moving around elements of the public sector. Good infrastructure is indeed necessary to support economic growth, but schemes often take many years to come to fruition and the benefits of construction work do not necessarily go to local communities. Grants to local authorities and businesses involve onerous bureaucratic processes and are often small in scale. Placing government offices in poorer areas does not have a meaningful impact; Swansea, for instance, has not been noticeably enriched by the presence of the DVLA.

The main reason for this is a problem of knowledge; Whitehall officials cannot possibly know better how to meet the needs and desires of those living in "left-behind" areas than the individuals themselves. On top of this, public spending is inefficient, and government cost-benefit analyses favour schemes in London and the South East.<sup>7</sup> Government spending may even crowd out the modest private investment which would have been made in these areas in any case.<sup>8</sup>

Though if government schemes are not effective, what is the solution? Lowering taxes and getting out of the way of entrepreneurship would boost innovation and growth across the country, but this is not politically possible. The benefits of this would be tilted towards the already-productive South East, and people in "left behind" areas would perceive this as handing money to the rich, at the expense of the public services on which they rely. A way needs to be found to put money back into the pockets of taxpayers, but in a way which focuses the benefits on "left behind areas".

## The solution

The answer is the People's Rebate: a politically possible means of reducing taxes, encouraging entrepreneurship and improving living standards, specifically improving less prosperous areas. This is not a standard tax cut, nor a plan for more spending on government projects.

In the People's Rebate, taxpayers would receive a significant (up to 90%) rebate of their income tax and National Insurance (NI) contributions based on where they live; employers would also receive NI rebates. The more deprived the area, the larger the rebate. Tax breaks focused deliberately on those in poor areas would not be out of place on a major party platform: Conservatives would value cutting taxes and trusting individuals rather than the state to make spending decisions, while the Labour Party would support a significant increase to workers' incomes in the poorest areas of the country.

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<sup>7</sup> The UK's public sector spending efficiency is rated at just 6.1/10 by the Fraser Institute: di Matteo, Livio. *An International Overview Of The Size And Efficiency Of Public Spending*. 2013, <https://www.fraserinstitute.org/sites/default/files/measuring-government-in-the-21st-century.pdf>. Coyle, Diane, and Marianne Sensier. "The Imperial Treasury: Appraisal Methodology And Regional Economic Performance In The UK". *Regional Studies*, vol 54, no. 3, 2019, pp. 283-295. *Informa UK Limited*, doi:10.1080/00343404.2019.1606419.

<sup>8</sup> Shackleton, J. R., et al. "How to Create New Jobs." Institute of Economic Affairs, 8 Oct. 2020, [iea.org.uk/publications/how-to-create-new-jobs/](http://iea.org.uk/publications/how-to-create-new-jobs/).

The People's Rebate offers an immediate and automatic spending boost in lower-income areas. Moreover, in the medium-term it would encourage the highest-paid workers and businesses with high NI bills – who would have most to gain from a lower tax rate – to move to lower-income areas, rather than clustering in a few cities and counties. As high earners move in, deprived local areas would see increased local spending, more local tax revenues in council tax and business rates – and, most importantly, would be dramatically more attractive places for bright, skilled people to move to, and for ambitious entrepreneurs to start new businesses.

## How the People's Rebate works

The process of the People's Rebate follows three simple steps:

### ***Step 1: Local authority areas sorted into deciles by income***

At the end of each tax year, lower-tier local authority areas across the UK would be sorted into deciles based on the mean income of their residents, calculated from the ONS Annual Survey of Hours and Earnings and the ONS Labour Force Survey.<sup>9</sup>

### ***Step 2: Local authority decile determines rebate level***

For the tax year beginning one year later, taxpayers would receive a rebate on their income tax and employee NI contributions, and businesses on employer NI contributions. The level of this rebate would be based on the local authority area in which the employee lives, on a sliding scale from 90% in the poorest areas to 0% in the wealthiest.

### ***Step 3: Deciles are recalculated each year***

Local authority deciles would be recalculated at the end of each tax year, with the corresponding rebates coming into force one year later. This constant refreshing of the rebate means the policy would be active automatically, increasing incentives for people to relocate as areas become more or less wealthy over time.

In order to demonstrate how this policy would work in practice, it is useful to focus on England & Wales, as this negates issues around data availability, demographic differences and various differential tax rates in Scotland and Northern Ireland. The policy could be extended to Scotland and Northern Ireland, preferably with the agreement of the Scottish Parliament and Northern Ireland assembly.

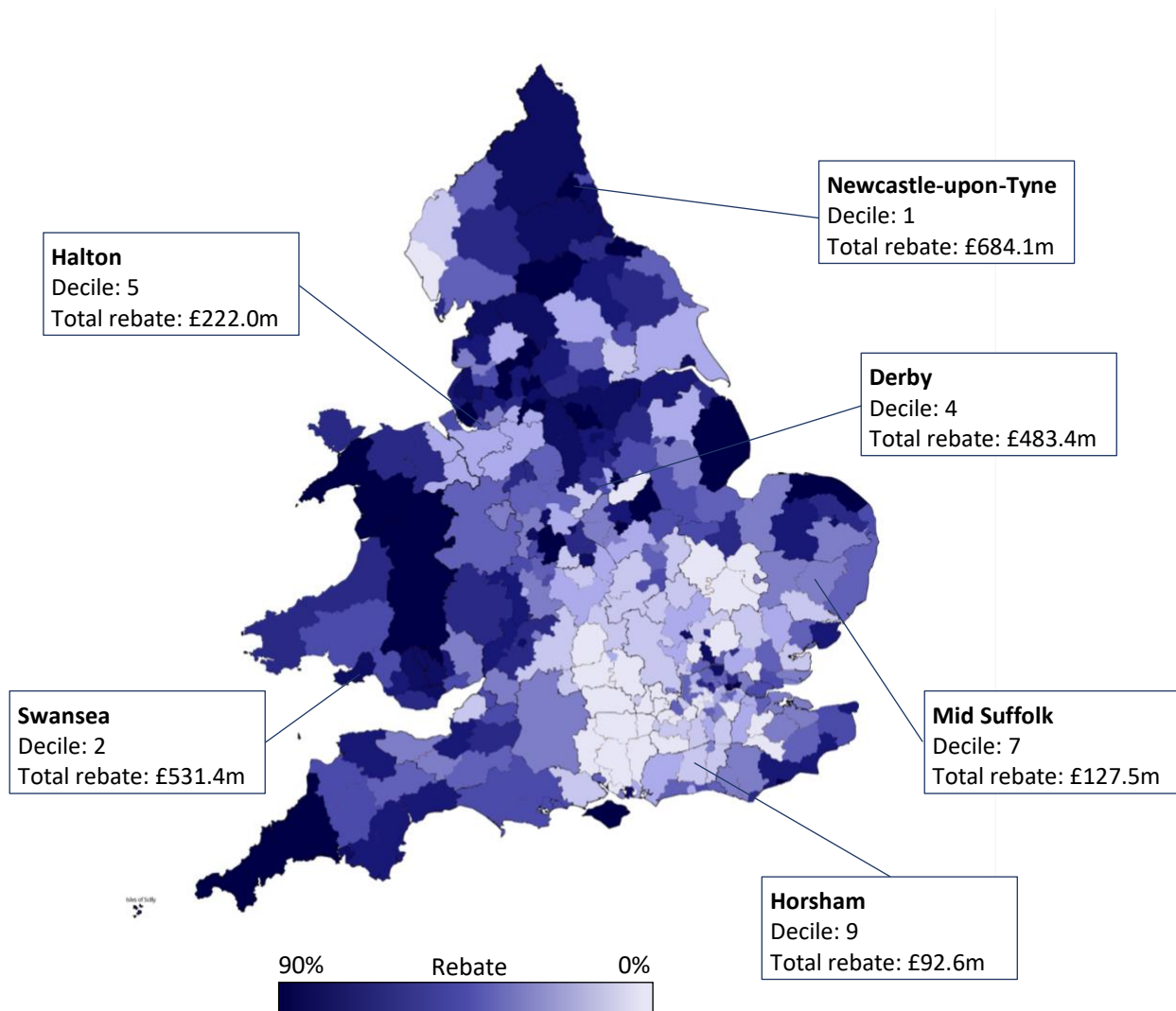
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<sup>9</sup> 2020 ONS Annual Survey of Hours and Earnings: "Earnings And Hours Worked, Place Of Residence By Local Authority: ASHE Table 8 - Office For National Statistics". *Ons.Gov.Uk*, 2021, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/placeofresidencebylocalauthorityashetable8>.

ONS Labour Force Survey: "LI01 Regional Labour Market: Local Indicators For Counties, Local And Unitary Authorities - Office For National Statistics". *Ons.Gov.Uk*, 2021, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/locallabourmarketindicatorsforcountieslocalandunitaryauthoritiesli01/current>.

For the tax year 2020-21, the People’s Rebate would have resulted in the following distribution of deciles by lower-tier local authority, from poorest Leicester with an average income of £10,560, to Richmond-upon-Thames, with an average income of £33,420.

FIGURE I: England & Wales lower-tier local authority deciles 2020-21, with examples<sup>10</sup>



Unsurprisingly, the most “left behind” areas according to this metric, and those which would therefore receive the highest rebate, are the post-industrial towns of the North and Midlands, rural Wales, Cornwall, and the Isle of Wight. The rest of the North, Midlands, Wales, East of England, the South-West and some London boroughs make up the bulk of the middle deciles, while the South East and the remaining London boroughs form the highest decile areas.

**Why use average earnings data?**

It is vital that any policy designed to assist “left behind” areas is automatic and based on transparent metrics, rather than being determined according to more complicated formulae

<sup>10</sup> Map constructed using earnings data from ONS Annual Survey of Hours and Earnings (2020) and population data from ONS Labour Force Survey (2019), combined to calculate average income per person aged 16-64 in each lower-tier local authority area.

or, even worse, political intervention. The deciles calculated here do not show which areas politicians and bureaucrats believe need more investment, but are instead a simple reflection of income per working-age person. Furthermore, areas would move between deciles as incomes increased or decreased relative to other areas.

### ***Why income tax and National Insurance?***

The People's Rebate deliberately targets income tax and NI because it is the simplest way to put money back into "left behind" areas. By targeting income tax and NI, this policy benefits individual workers most and helps businesses with their staffing expenses. It is often argued that other taxes, such as VAT and business rates, have a negative impact on businesses and "left behind" areas. Business rates, however, form a key part of local authority revenue, which is already under pressure in many such areas, and a reform of VAT would be complex and significantly more difficult to administer and enforce. Individuals paying income tax and NI through PAYE or self-assessment, however, could much more easily be assessed for rebates based simply on their local authority area.

## **Advantages & objectives**

The purpose of this policy is to supercharge growth, improve living standards, and support employment in "left behind" areas. Put simply, putting money back into the pockets of people in these areas achieves all three of these, and there are additional benefits for each objective.

### ***Supercharging growth***

Growth in productivity and economic activity requires entrepreneurship. Fortunately, there is no lack of entrepreneurial talent in the UK. Currently, however, people wishing to start new businesses are faced with a stark truth: the human capital which they need to make a success of their business is clustered in London and the South East. Property and labour may be cheaper elsewhere, but there are few further incentives to set up outside the South East. A rebate on employers' NI would give entrepreneurs a significant incentive to base their business in "left behind" areas, in addition to encouraging talented workers to move to less-wealthy areas of the country and encouraging general mobility of labour.

### ***Improving living standards***

Naturally, putting money back into the pockets of people in the poorest areas of the country would improve living standards. Under the People's Rebate, in 2020-21 a supermarket worker in Newcastle-upon-Tyne earning £20,000 a year would immediately have retained £207 a month in additional income, a nurse earning £30,000 in Swansea an additional £397, and an engineer earning £40,000 in Derby an additional £458.

This additional spending power would not only improve living standards for those receiving rebates, but would also benefit local economies, increasing incomes for local businesses and creating further opportunities for employment in those areas. Overall, in 2020-21 first-decile Newcastle-upon-Tyne would have seen its spending power increase by £684.1 million, second-decile Swansea by £531.4 million, and fourth-decile Derby by £483.4 million; all in addition to the money saved by businesses through employer NI rebates. These sums not only dwarf

government schemes to achieve similar objectives, such as the average £17 million paid out to revive town centres through the Future High Streets Fund, but would be spent far more efficiently by ordinary consumers than they could ever have been by Whitehall-based bureaucrats.<sup>11</sup>

Moreover, the bulk of income for local authorities comes from council tax and business rates. As it stands, poorer areas, with some of the highest spending needs on services such as social care, have the lowest tax bases. Thus, in poorer areas of the country, demand for public services is high but supply is low. By encouraging higher earners to move to lower-income areas, buying higher-banded properties and starting businesses which pay rates, the People's Rebate would increase the tax base for local authorities in these areas.

### **Supporting employment**

An increase in local spending power would also contribute to meeting the third objective of this policy: supporting employment. Jobs are created by consumer demand, not government intervention, and we have already seen how this policy would increase spending power in "left behind" communities. Moreover, reducing employer NI contributions for workers living in those areas would immediately increase the incentive for businesses to move near to low-income areas, and for businesses already in those locations to hire new staff.

## **Cost & risks**

### **Cost**

If it had been enacted in 2020-21 across England and Wales, the policy would have resulted in a total rebate, or reduced tax take, of £96.41b – or 4.7% of GDP – with £60.73bn of this coming from income tax, and the remainder from employee and employer NI contributions.<sup>12</sup>

<b>Policy cost 2020-21</b>	
<b>Type</b>	<b>Rebate</b>
Income tax	£60.73bn
Employee NI	£16.58bn
Employer NI	£19.10bn
<b>Total</b>	<b>£96.41bn</b>

There is no denying the policy's cost, but one must consider significant mitigating factors. The primary one is that a dramatic fiscal policy is required to reset dynamism in the economy, and tax reduction is better than increased spending. The UK's economy has been historically and severely lopsided. Government spending on infrastructure, business support, and any other measure aimed at increasing the lot of "left behind" areas is unlikely to have a lasting impact,

<sup>11</sup> "£830 Million Funding Boost for High Streets." *Gov.Uk*, MHCLG, 26 Dec. 2020, [www.gov.uk/government/news/830-million-funding-boost-for-high-streets](https://www.gov.uk/government/news/830-million-funding-boost-for-high-streets).

<sup>12</sup> Income tax rebate cost calculated by multiplying total income tax receipts as reported by HMRC by rebate values calculated above. National Insurance receipts per local authority estimated using earnings percentile data in ONS Annual Survey of Hours and Earnings, then multiplied by rebate values.

"Income And Tax By Borough And District Or Unitary Authority". *Gov.Uk*, 2021, <https://www.gov.uk/government/statistics/income-and-tax-by-borough-and-district-or-unitary-authority-2010-to-2011>.

*GDP (Current US\$)*. The World Bank, 2019, [data.worldbank.org/indicator/NY.GDP.MKTP.CD](https://data.worldbank.org/indicator/NY.GDP.MKTP.CD).

as it does nothing to increase incentives for the most skilled entrepreneurs and workers to base themselves in such areas.

Another mitigating factor to consider is that people on lower incomes have a much higher marginal propensity to consume.<sup>13</sup> By targeting the rebate at lower-income areas, each pound retained is very likely to be spent rather than saved, stimulating the economy more than other fiscal measures.

## Risks

For the People's Rebate to be politically possible, it would have to enjoy significant political support, and survive attacks from opposition politicians and media outlets. It would also have to prove its worth to economists. The following are potential sources of political or economic risk, with mitigations:

Risk	Description	Mitigation
<b>Political</b>		
Perception of a "tax cut for the rich"	Due to the nature of how tax is paid in the UK, any tax cut is likely to benefit the highest earners. This is somewhat unavoidable in a country where the top 1% of earners pay 28% of income tax, and the top 10% more than half. <sup>14</sup>	In order to get the highest rebate, even the rich would have to live and spend their money in "left behind" areas. A suitably generous cap on individual rebates could also be introduced, to prevent political issues around the highest earners receiving six-figure-plus rebates, without damaging the overall benefits of the policy.
Political backlash in upper-decile areas	Political opposition could arise in top-decile areas such as Winchester, or Tunbridge Wells, which would continue paying income tax and NI in full, thus subsidising poorer areas of the country.	The point would have to be made that top-decile areas are already subsidising public services in poorer areas of the country, and have been for decades. This will continue into the future unless productivity in "left behind" areas is given a significant boost, so that they can stand on their own two feet. Furthermore, the rebate is a discount on tax people have already earned, not a handout.
Public service provision	The main reason that it is not politically possible to lower taxes across the board is because this would require spending less money on public	"Left behind" areas are some of the biggest users of public services; in 2018-19, the NHS spent 12% more per capita in the

<sup>13</sup> Fisher, Jonathan D. et al. "Estimating The Marginal Propensity To Consume Using The Distributions Of Income, Consumption, And Wealth". *Journal Of Macroeconomics*, vol 65, 2020, p. 103218. Elsevier BV, doi:10.1016/j.jmacro.2020.103218.

<sup>14</sup> Corlett, Adam. *What Share of Tax Do the Top 1 per Cent Pay? Less than You Might Have Heard* • Resolution Foundation. Resolution Foundation, 23 May 2018, [www.resolutionfoundation.org/comment/what-share-of-tax-do-the-top-1-per-cent-pay-less-than-you-might-have-heard/](http://www.resolutionfoundation.org/comment/what-share-of-tax-do-the-top-1-per-cent-pay-less-than-you-might-have-heard/)

	services such as the NHS, or increasing government borrowing.	North West than in the South East. <sup>15</sup> Improving living standards in such areas would, over time, reduce demand for public spending on areas including welfare payments, the NHS, and social care.
<b>Economic</b>		
Increased marginal rate of taxation	There is a risk that individuals' marginal rate of taxation would be increased if the area in which they live moves into a higher decile from one year to the next.	It is unlikely that an area would move more than one decile in a year, and so an individual's rebate amount would only likely change by 10% in either direction. Additionally, by using data on the tax year ending in one year to determine deciles for the tax year starting the following year, individuals would have one year's notice about changes to their rebate.
Stamp Duty Land Tax (SDLT)	One of the benefits of this policy is that it encourages mobility in the highest earners, and labour mobility is a known predictor of productivity. <sup>16</sup> This could be stymied by SDLT, one of the largest disincentives to labour mobility in the UK.	SDLT thresholds should be raised significantly, or the tax abolished altogether, not only to mitigate the negative impact it would have on the People's Rebate, but also its general suppressive effect on UK productivity growth as a major obstacle to the mobility of labour. <sup>17</sup>
Multiple residences	This policy would require a mechanism to prevent owners of multiple residences from residing in a high-income area and claiming a rebate from a secondary residence in a low-income area.	This could be achieved by assuming all those with multiple residences live in their highest decile area residence, unless the individual presents evidence to HMRC to the contrary.

## Conclusion

It is clear that the UK's "left behind" areas are in need of a dramatic shift in opportunities, earnings, and productivity. Policies which tinker around the edges will not fundamentally alter the London-centric nature of the economy, and at worst would waste taxpayers' money for no tangible benefit. "Left behind" areas have not significantly benefited from the drip-feeding of

<sup>15</sup> *CCG Allocations 2019/20 to 2023/24 (All Funding Streams, Spreadsheet)*. NHS England, 17 July 2019, [www.england.nhs.uk/publication/ccg-allocations-2019-20-to-2023-24-all-funding-streams-spreadsheet/](http://www.england.nhs.uk/publication/ccg-allocations-2019-20-to-2023-24-all-funding-streams-spreadsheet/).

<sup>16</sup> "The Decline In Labour Mobility In The United States: Insights From New Administrative Data". 2020. *Organisation For Economic Co-Operation And Development (OECD)*, doi:10.1787/9af7f956-en. Accessed 4 May 2021.

<sup>17</sup> Hilber, Christian. *Written Evidence to the Treasury Select Committee*. London School of Economics, 2 May 2016, [personal.lse.ac.uk/hilber/evidence/Hilber\\_Evidence\\_HMTreasuryCommittee\\_2016\\_05.pdf](http://personal.lse.ac.uk/hilber/evidence/Hilber_Evidence_HMTreasuryCommittee_2016_05.pdf).



money through government incentive and investment schemes, and there is no reason to believe they would in the future.

Equally, no policy which would have a major impact on the “left behind” areas of the UK will be cheap; after all, this discussion is around altering a serious imbalance in the world’s sixth-largest economy. To solve this problem, a government must be prepared to take major fiscal action. The key is finding a solution which is fair, effective, and efficient.

The People’s Rebate is this solution. It would immediately boost the spending power of “left behind” areas and create the conditions for entrepreneurship to thrive right across the UK. It would give people back money they have already earned, lacks the bureaucracy associated with other stimulus schemes, and focuses on poorer regions by design.

The People’s Rebate would be a dynamic step towards increasing the UK’s productivity, spreading opportunity from the South East to the rest of the country, and lowering the overall tax burden, all at once.