ENERGY PRICE AND COST-OF-LIVING CRISIS: A CRISIS OF POVERTY, INEQUALITY, DEMOCRACY AND FAILED ECONOMIC POLICIES

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EXECUTIVE SUMMARY

British people are facing an existential threat to their lives and living standards. The crisis is given visibility by escalating energy prices, but has been incubating since the late 1970s. It has been nurtured by neoliberalism and the state-corporations nexus, which has systematically sought to increase capital's share of gross domestic product (GDP).

The masses have been systematically impoverished as successive governments have sought to weaken trade unions, employment and welfare rights and pushed zero-hour contracts, fire and rehire policies to reduce workers' share of gross domestic product. Poverty and inequalities have deepened, creating a class excluded from social consumption, queuing at food banks and forced to decide between heating and eating. The biggest beneficiaries from this have been footloose corporations. Their profits have rocketed. Unsurprisingly, millions of Brits are unable to pay energy, food and other bills.

The power of corporations has been further enhanced by state-sponsored privatisation of publicly-owned assets and industries, often at knockdown prices. The energy sector is an example of the state-sponsored private monopolies. In this sector there can be no competition as competing infrastructure consisting of alternative pipelines, electric grids and cables is economically infeasible. Households and businesses have to buy energy. With captive customers, the energy sector has been able to make huge profits. Large parts of these are exported via dividends and other forms of returns, which are not even taxed in the UK.

The regulator, the Office of Gas and Electricity Markets (Ofgem), has been more concerned about pseudo-competition and guaranteeing corporate profits and has failed to protect the interests of consumers. It is inherently conflicted as it simultaneously seeks to protect corporate profits whilst trying to protect customers. Ofgem's price cap formula is fundamentally flawed as it favours the most inefficient and expensive supplier. Suppliers offering cheaper tariffs are penalised and forced to compensate the losing suppliers.

The problem of high energy prices cannot be resolved by privatisation or neoliberal economics where wealth gushes upwards. This paper puts forward policies for equitable distribution of income and wealth to reduce poverty and economic inequalities, the root cause of the daily crisis faced by millions of people. It recommends progressive taxation and democratisation of corporations, so that they serve the interests of communities and people rather than just shareholders and executives. It recommends that essential industries, such as energy, be brought into public ownership. It shows that there is very little cost associated with bringing energy, and other essential industries, into public ownership.

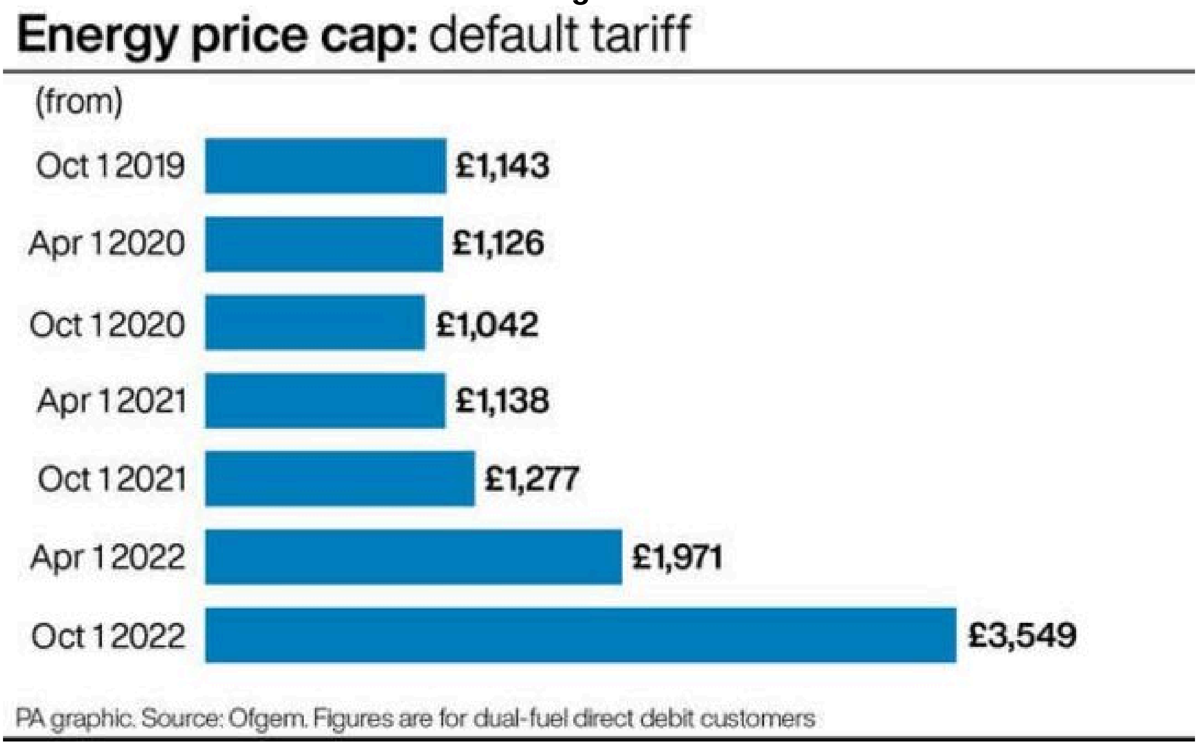
THE ENERGY PRICE CRISIS

1. British people are facing severe hardships caused by declining disposable income and rising cost-of-living. The crisis is given visibility by ultra high energy prices. On 26 August 2022, Ofgem announced that

   > "From 1 October the equivalent per unit level of the price cap to the nearest pence for a typical customer paying by direct debit will be 52p per kWh for electricity customers and a standing charge of 46p per day. The equivalent per unit level for a typical gas customer is 15p per kWh with a standing charge of 28p per day[1]."

2. The standing and variable charges vary by each region. The net effect is that a typical household would expect to see its average annual energy bill rise from £1,971 to £3,549 (see Figure 1) though some would pay much more. Within one year, the average household bill jumped by 80%.

Figure 1



Source: https://www.itv.com/news/2022-08-27/energy-bills-forecast-to-hit-7700-next-year-in-worst-price-cap-warning-yet

3. The energy industry uses a two-part tariff.

   a) The fixed part relates to access to the distribution system and is covered by the standing charge i.e. the cost of being connected to the grid. This does not vary with usage and is around £273 a year[2] for each customer and is included in the Ofgem cap.

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[1] https://www.ofgem.gov.uk/publications/ofgem-updates-price-cap-level-and-tightens-rules-suppliers

[2] https://www.mirror.co.uk/money/martin-lewis-reveals-exact-amount-27908511

This must be paid even if the customer does not use any energy and increases the cost per unit for low users.

b) The second part is variable and relates to each unit of usage.

4. The UK government blames the Russia-Ukraine war for the current energy price hikes, or more specifically the increase in the wholesale price of gas.

a) In 2021, imports from Russia made up 4% of gas used in the UK, 9% of oil and 27% of coal. In 2021, imports of gas, oil and coal from Russian to the UK were worth a combined £4.5 billion[3]. In June 2022, the UK ceased importing any oil, gas or coal from Russia. Overall, direct impact of the Russian invasion on the UK is small. However, there are knock-on effects in that the lack of exports of natural gas from Russia have driven-up prices in international markets and therefore affect the prices in the UK.

b) Around 50% of gas used in the UK is home produced. Its cost of production has hardly changed, but due to market volatility, local gas/oil companies are able to make excessive profits. As the German Chancellor put it - some energy companies are "simply using the fact that the high price of gas determines the price of electricity and are therefore making a lot of money[4]".

5. The price of gas is a key driver of the UK energy price.

a) It should be noted that the gas tariff is lower than electricity's even though headlines state that gas prices have soared. Some 80% of the UK homes are heated by gas boilers. Some 40% of the UK electricity is produced from gas fired power plants, compared to about 20% for the EU[5]. It takes lot of gas to produce 1 Kwh of electricity.

b) Because of past choices, the wholesale price of UK electricity is tied far more closely to the gas price. The high gas price also acts as a disincentive for oil and gas companies to invest more in renewables.

c) The power grid selects electricity from various generators. It selects them from renewables first, as solar and wind power is the cheapest. Nuclear power is also comparatively cheap, but none of these can meet the energy demand. So gas is used and it is the most expensive. In September 2022, renewables had a cost of few pence per megawatt hour (MWh), nuclear power £10/MWh and gas £280/MWh.

6. When the average annual energy bill jumped from £1,277 to £1,971 (see Figure 1 above), on 26 May 2022, the Chancellor announced[6] a £37bn relief package of

[3] https://researchbriefings.files.parliament.uk/documents/CBP-9523/CBP-9523.pdf
[4] https://www.thetimes.co.uk/article/why-are-our-energy-prices-so-complex-nmxkhj0gv
[5] https://www.thetimes.co.uk/article/why-are-our-energy-prices-so-complex-nmxkhj0gv
[6] https://www.gov.uk/government/news/millions-of-most-vulnerable-households-will-receive-1200-of-help-with-cost-of-living

help with the energy bills. Most households would receive support of £400 and some more, leaving them to find the rest.

No relief was given to businesses, schools, charities, hospices, hospitals, SMEs and others who faced higher bills too. The absence of any support meant that higher business costs would feed into higher rate of inflation and hit households through higher cost of food and other essentials.

The rate of inflation (RPI) jumped from 7.8% in January 2022 to 12.3% in July/August 2022. Under the weight of higher energy prices, some expect it to soar to 21% respectively by early 2023[7].

7. After considerable public disquiet, on 8th September 2022, the government announced[8] an Energy Price Guarantee, or a freeze of the Ofgem tariff so that

> "from 1st October a typical household will pay no more than £2,500 per year for each of the next two years".

The Prime Minister added that:

> "We will also support all businesses, charities and public sector organisations with their energy costs this winter – offering an equivalent guarantee for 6 months … After those 6 months we will provide further support to vulnerable sectors, such as hospitality, including our local pubs".

Does "We will also support all businesses" mean their bills will also be frozen? Ministers have not done anything to discourage that interpretation.

8. Magically, the price freeze for households continues until the next general election. Almost immediately, the average domestic energy bills will be £1,049 lower than otherwise.

9. The freeze includes a "temporary suspension of green levies", which are around £150 per household. It is assumed that the levies would continue to be paid out of general taxation or through government borrowing.

10. The Prime Minister's announcement did not reveal the cost of the freeze to the public purse though some commentators say that the cost would be over £100bn in the next year alone[9]. Others put the total cost of the intervention to be around £150bn[10]. The Chancellor would make a statement at a later date. A mini-budget is scheduled for 23 September 2022.

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[7] https://www.theguardian.com/business/2022/aug/22/uk-inflation-will-hit-18-per-cent-in-early-2023-says-leading-bank-citi-gas-electricity
[8] https://www.gov.uk/government/speeches/pm-liz-trusss-opening-speech-on-the-energy-policy-debate
[9] https://ifs.org.uk/articles/response-energy-price-guarantee
[10] https://www.bbc.co.uk/news/business-62831698

11. The cover of energy price crisis has also been used by the Prime Minister to abandon moratorium on fracking, which would appease corporations who have been demanding it. Its impact on energy supply over the next decade will be insignificant.

12. From 1 October 2022, the new freeze price guarantee average direct debit rates for households are electricity at 34.00p per kWh and gas at 10.30p per kWh[11]. Note that the price of gas is much lower than that of electricity.

13. So, almost the first act of the Liz Truss government, consisting of ultra right-wing free marketers, has been to bailout the energy sector, which has been making record profits. Some £150bn or so will be handed over directly to the energy industry by a government which cut Universal Credit, the state pension and public sector wages in real terms.

14. Unlike classical market mechanisms, energy companies are now shielded from bankruptcy and their profits are guaranteed even though they have been declaring record profits and dividends. The key driver for the price freeze is the worsening liquidity position on the energy suppliers caused by people's inability to pay rocketing bills.

    a) In December 2020, 2 million households were in arrears owing their energy suppliers about £760 for electricity and £605 for gas, or £1,365[12].

    a) In the first quarter of 2022, some 3.4 million[13] gas and electricity accounts were in debt, up from 2.6 million from the previous year.

    b) The numbers falling into arrears would have increased after the April 2022 hike in energy bills and even more so after the planned October 2022 hike to £3,549. By winter 2022, some 45 million Britons[14] were expected to be in fuel poverty, increasing the potential for bad debts.

    c) Without the energy price freeze around 50% of UK households were facing fuel poverty in late 2022[15]. Even with the freezing of energy tariffs announced by the government, some 6.7 million households are expected to be in fuel poverty[16], which may be around 12,640,023 people[17].

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[11] https://uk.news.yahoo.com/martin-lewis-fixed-rate-tariffs-pay-energy-price-cap-104822561.html
[12] https://www.theguardian.com/money/2020/dec/16/more-than-2m-uk-households-in-arrears-on-energy-bills
[13] https://www.opendemocracy.net/en/ofgem-electricity-gas-energy-debt-arrears-price-cap/
[14] https://www.mirror.co.uk/money/around-45million-brits-face-fuel-27777593
[15] https://www.bbc.co.uk/news/business-62643934
[16] https://www.independent.co.uk/news/uk/politics/truss-energy-freeze-fuel-poverty-reaction-b2162737.html
[17] https://metro.co.uk/2022/09/08/map-shows-areas-in-england-where-12000000-may-see-fuel-poverty-17322335/

d) The financial value of the arrears is not known but even an average of £1,500 would mean that there is potential bad debt of £10bn, and rising, causing a big hole in profits and liquidity of the energy industry.

e) Then there is an even bigger problem of a large number of 5.6 million small and medium-size businesses defaulting on their energy bills. It was suggested that more than 70% of pubs would not be able to pay their energy bills[18]. In the event of bankruptcy, energy companies will rank as unsecured creditors and are unlikely to recover little, if anything owed to them.

f) Higher customer arrears or the level of bad debts would have made it difficult for energy retailing companies to pay wholesalers, transmitters, generators and other suppliers, and banks financing the companies. Faced with higher energy costs, many businesses, especially SMEs may also have struggled to survive.

g) So, the £150bn is effectively a bailout of the energy industry. it reduces the level of bad debts and ensures that companies and traders (who speculate in the energy market) continue to make high profits that they have become accustomed to. Anyone buying products in bulk, which is what the government is doing, can demand discounts. But the government spending £150bn has not demanded discounts.

15. In addition to the £150bn bailout, the Bank of England and the Treasury will provide £40bn of financial support to energy companies facing “extraordinary liquidity requirements” due to high and volatile energy prices[19].

a) It is worth remembering that energy prices are through the roof, companies are reporting record profits. So, why are they getting another £40bn? There are two reasons:

b) Energy companies enter into hedging contracts (clever bets on price movements through a variety of financial instruments). With increases in the price of energy, this requires greater outlays. Companies have failed to finance the outlays themselves, for example through greater equity base, and have relied upon banks to do so. However, banks are also jittery about the energy industry.

c) Secondly, energy companies are highly leveraged and £40bn will help them to pay interest on debt at a time when their cash may be squeezed by rising bad debts. The payment of interest attracts tax relief at the prevailing rate of corporation tax, which reduces cost of capital and increases shareholder returns.

The £40bn is a direct subsidy for boosting shareholder returns.

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[18] https://www.theguardian.com/business/2022/aug/23/pubs-winter-energy-costs-soar
[19] https://www.gov.uk/government/news/hm-treasury-and-bank-of-england-to-launch-the-energy-markets-financing-scheme-emfs

16. Leaked Treasury data, not confirmed by the government, suggests that energy producers will collect up to £170bn in excess profits over the next two years[20]. The government could tax that at 90% or 100% rates to recover the cost of public support, but the government has stated that it will not levy any further windfall taxes.

    The European Union expects to raise €140bn (£121bn) from windfall tax on excess profits of energy firms[21].

17. The May 2022 attempt to levy windfall tax was poorly designed.

    a) The government had announced a windfall tax[22] of 25% on North Sea profits of oil and gas companies to raise £5bn for the year beginning 26 May 2022. It is for one-year though can be extended to 2025. The Energy (Oil and Gas) Profits Levy Act 2022[23] contains numerous exceptions.

    b) Energy companies have been running a racket for years. They speculate on oil and gas prices to push them up. BP alone employs more than 3,000 traders[24] to do that and is estimated to generate $2bn - $3bn profit from such speculation, whilst Shell has notched $4bn profit a year. None of this is subject to windfall tax.

    c) Between June 2021 and June 2022, the refiners' margins[25] on petrol and diesel increased by 366% and 648% to create bumper profits. BP reported an average refinery profit margin[26] of $18.90 per barrel during the first quarter of 2022. That's nearly three times the $6.70 per barrel margin reported in 2020. Shell's refining profit margin[27] rose in the second quarter of 2022 to $28.04 per barrel from $10.23 a barrel in the first quarter and $4.17 a year earlier. This was excluded from the UK windfall tax.

    d) Petrol retailers, which include oil companies, are quick to hike prices and slow to pass on falling costs. Retail profiteering is not covered by windfall tax.

18. Major beneficiaries of the price freeze in absolute financial terms are wealthy elites who may own more than one home. The wealthy also tend to consume more energy than the poor. The Resolution Foundation[28] estimates that the top

[20] https://metro.co.uk/2022/09/01/energy-firms-to-make-170000000000-in-profits-while-you-struggle-17280854/
[21] https://www.theguardian.com/business/2022/sep/14/eu-windfall-tax-energy-fossil-fuel-firms
[22] https://www.gov.uk/government/speeches/cost-of-living-support
[23] https://www.legislation.gov.uk/ukpga/2022/40/contents/enacted
[24] https://www.theguardian.com/business/2022/may/12/trading-in-turbulent-market-helps-bp-and-shell-secure-record-profits
[25] https://www.bbc.co.uk/news/business-61750251
[26] https://www.fool.co.uk/2022/07/09/heres-the-bp-dividend-forecast-through-to-2024/
[27] https://www.cnbc.com/2022/07/07/shell-boosts-oil-and-gas-asset-value-as-refining-soars.html
[28] https://www.resolutionfoundation.org/app/uploads/2022/09/A-blank-cheque.pdf

fifth of households may gain around £1,300 in winter 2022 compared to £1,100 for the lowest-income fifth of households.

Corporate profits will benefit from energy bailout and may use it to pay higher dividends and/or executive pay. The government did not introduce any mechanisms to curb excessive executive pay, dividends, share buybacks or other forms of shareholder returns.

19. One benefit of the freeze on household and business energy bills is to slow down the headline rate of inflation by about 4%-5% and reduce pressure on business and household costs. This is effectively what the French government had done though previously the UK Conservative government was opposed to that.

20. Despite the freeze, average household energy bill has increased from £1,277 to £2,500 within the period of one year. In the same period, the average wage increased by only 5% and state pension and benefits by 3.1%.

21. The government freeze does not mean that price pressure on energy bills is off as the causes of energy price hike are not addressed. Each hike in energy price will increase the support needed from the public purse.

22. Experts forecast that the Ofgem tariff will rise and average domestic energy bill is likely to hit £4,567 in January 2023, £5,816 in April 2023[29] and some expect it to hit £7,700 later this year[30] even though European wholesale natural gas prices are expected to fall from about €215 (£186) a megawatt hour to below €100 a MWh by the end of the first quarter of 2023[31]. This suggests that in order to keep household bills at around £2,500, more public money will be handed to energy companies.

23. The Bank of England expects the average take-home pay (after tax) in 2023 to be around £2,054 per month[32]. The average household will spend around 10% of its wage on energy bill alone, leaving precious little for other essentials.

24. The high energy prices have impacted schools, hospitals, community centres, care homes, hospices and businesses. The government's position is that

> "After those 6 months we will provide further support to vulnerable sectors, such as hospitality, including our local pubs"

This has created uncertainty for numerous sectors and will fuel inflation.

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[29] https://www.theguardian.com/business/2022/aug/22/uk-inflation-will-hit-18-per-cent-in-early-2023-says-leading-bank-citi-gas-electricity
[30] https://www.itv.com/news/2022-08-27/energy-bills-forecast-to-hit-7700-next-year-in-worst-price-cap-warning-yet
[31] https://www.theguardian.com/business/2022/sep/13/gas-prices-eu-fall-sharply-goldman-sachs-eu-russia
[32] https://www.tuc.org.uk/news/energy-bills-will-cost-two-months-wages-next-year-if-ministers-dont-act-warns-tuc

25. Low income families face serious upheavals in finding additional resources to buy energy, food, transport and other essentials.

a) For the quarter ending November 2021, the median state pension was between £150.88 and £179-41 per week[33]. The state pension is the only or the major source of income for majority of the retirees.

b) The minimum wage rose by 6.6% in April 2022, well below the anticipated rate of inflation and the increase in the cost of energy.

c) The monthly Universal Credit for a single person over the age of 25 years is £334.91 and £525.72 for a couple[34].

d) Malnutrition (or undernutrition) affects over 3 million people, including 1.3 million retirees[35]. This will worsen.

e) In 2022/23, some 21 million adults (over 40% of adults) will have annual income of less than £12,570. In May 2022, personal debt was £1805.7bn[36] and many have no capacity to absorb higher household costs.

26. People lack financial buffers to absorb higher living costs.

a) Around 15% of people in the UK have no savings at all, while one in three people have less than £1,500 put away[37].

b) According to the Resolution Foundation[38] 1.3 million families across Britain had no savings prior to the pandemic – including one-in-twelve of the poorest tenth of households. A third relies upon friends and families for help in the case of an unexpected expense. Almost half of families had savings worth less than a month's income.

27. In August 2022, the rate of inflation, as measured by the consumer price index (CPI), stood at 9.9%, slightly below the 40 years high rate of 10.1% in July[39]. The annual rate of inflation measured by the retail price index (RPI) remained at 12.3% in August 2022. By early 2023, the inflation rates are expected to soar to 18.6% and 21% respectively[40] though the energy price freeze may dampen down the forecast.

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[33] https://questions-statements.parliament.uk/written-questions/detail/2022-07-04/HL1455
[34] https://www.gov.uk/universal-credit/what-youll-get
[35] https://www.bapen.org.uk/malnutrition-undernutrition/introduction-to-malnutrition?start=4
[36] https://themoneycharity.org.uk/money-statistics/
[37] https://blog.moneyfarm.com/en/investing-101/average-savings-by-age-in-the-uk-how-much-should-you-be-saving/
[38] https://www.resolutionfoundation.org/press-releases/1-3-million-families-including-one-in-twelve-poor-families-have-no-savings-to-cope-with-rising-cost-pressures-or-unexpected-expenses/
[39] https://www.ft.com/content/2fb6f361-a7bb-4b98-8100-6847b5df79b4
[40] https://www.theguardian.com/business/2022/aug/22/uk-inflation-will-hit-18-per-cent-in-early-2023-says-leading-bank-citi-gas-electricity

28. Much of the inflation is driven by corporate profiteering, which is not just confined to the energy sector.

    Research by Unite found that profit margins for the UK's biggest listed companies (FTSE 350) were 73% higher than pre-pandemic levels in 2019. Even after excluding energy firms, FTSE 350 company profits increased by 42% between 2019 and 2021[41]. The profit jump is responsible for 58.7% of inflation.

A CRISIS OF POVERTY AND INEQUALITY

> Everybody knows that the dice are loaded
> Everybody rolls with their fingers crossed
> Everybody knows the war is over
> Everybody knows the good guys lost
> Everybody knows the fight was fixed
> The poor stay poor, the rich get rich
> That's how it goes
> Everybody knows (Leonard Cohen song, 1988)

29. Popular media and political elites have portrayed the squeeze on income and escalation of household costs as a 'cost-of-living crisis though in reality the predicament of low/middle income families is the outcome of decades of maldistribution of income and wealth which has widened inequalities and left millions in poverty.

    This is exacerbated by the shareholder-centric model of corporate governance which prioritises short-term returns to shareholders; capture of the state which prioritises the interest of capital and regulators whose main concern is to ensure profits for corporations controlling essential service rather than meeting the needs of the public.

30. The 1970s are a convenient point for understanding the developments which accelerated inequalities and poverty.

    The rise of the new-right, mostly notably associated with Conservative Prime Minister Margret Thatcher, marked a break from the post-Second World War consensus politics. One of its beliefs was that by weakening trade unions and increasing capital's share of GDP, it would make UK attractive to footloose global capital.

31. In the 1970s, trade unions had around 13 million members or 55.4% of all workers[42]. This gave workers considerable market power[43] in wage bargaining.

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[41] Unite, Unite Investigates: Corporate profiteering and the cost of living crisis, June 2022; https://www.unitetheunion.org/media/4757/unite-investigates-corporate-profiteering-and-the-col-crisis.pdf

[42] http://www.unionhistory.info/timeline/1960_2000.php

[43] In neoliberal economies, workers bring two forms of interlinked powers to bear on wage negotiations and bargaining. These are "market power" and "political power". Market power is associated with workers' collective rights. Trade unions can bring pressures upon

Unsurprisingly, in 1975, workers share of GDP, in the form of wages and salaries was 65.1%[44]. At that time foodbanks were rare.

32. Since 1970, manufacturing's share of UK economic output[45] (in terms of Gross Value Added) has declined from 27% to 9.7% in 2021[46]. As manufacturing was heavily located outside London, those regions lost thousands of skilled and semi-skilled jobs. Successive governments have failed to offer any coherent plans for reskilling people or building a new industrial base. The policy failures have led to lower wages.

33. Since 1979, the Conservative government engaged, sometimes violently, with trade unions and abolished the 'closed shop', made prior balloting compulsory for all strike actions, banned secondary picketing and under certain circumstances trade unions could be sued for damages caused by industrial action.

    There were no equivalent restrictions on mobility and accountability of capital. The Thatcherite reforms, accompanied by a decline of the unionised manufacturing sector, drastically reduced the "market power" of many employees.

34. By 1996, trade union membership shrank to less than 6 million and workers' share of GDP sank to 52.6%.

35. Following the 1990s high-profile financial scandals at Maxwell, Bank of Credit and Commerce International, Polly Peck and others, public attention focused on excessive financial rewards for company executives, especially at poorly performing companies.

36. The UK government did not create any statutory constraints on executive pay or links with workers' pay. Instead, it chose a voluntary approach through what became known as corporate governance codes, initially developed by a Committee led by Sir Adrian Cadbury[47]. Such codes did not, and still do not, require directors to provide an equitable distribution of income.

37. The 1997-2010 Labour administration did not reverse any of the Conservative anti-trade union laws. Indeed, Prime Minister Tony Blair boasted that "The changes that we do propose would leave British law the most restrictive on trade unions in the Western world[48]."

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employers through co-operation and conflict to increase their members' share of a company's income. Workers can take industrial action to increase labour's share of GDP.

[44]https://www.researchgate.net/publication/227428884_Corporate_governance_What_about_the_workers

[45] https://researchbriefings.files.parliament.uk/documents/SN01942/SN01942.pdf

[46] https://commonslibrary.parliament.uk/research-briefings/sn05206/

[47] Committee on the Financial aspects of Corporate Governance (1992), The Financial Aspects of Corporate Governance, Gee, London (Cadbury Report); Committee on Corporate Governance (1998), Committee on Corporate Governance: Final Report, Gee, London (Hampel Report).

[48] https://www.independent.co.uk/voices/leading-article-a-modest-victory-for-the-workers-1158009.html

However, the Labour administration introduced the National Minimum Wage Act 1998, which set the minimum wage for worker and slowed down the decline in the workers' share of GDP. It continued with voluntary codes of corporate governance and failed to democratise corporations.

38. Since 2008, governments have pursued austerity and wage freezes, especially in the public sector, and further eroded the real wages of workers.

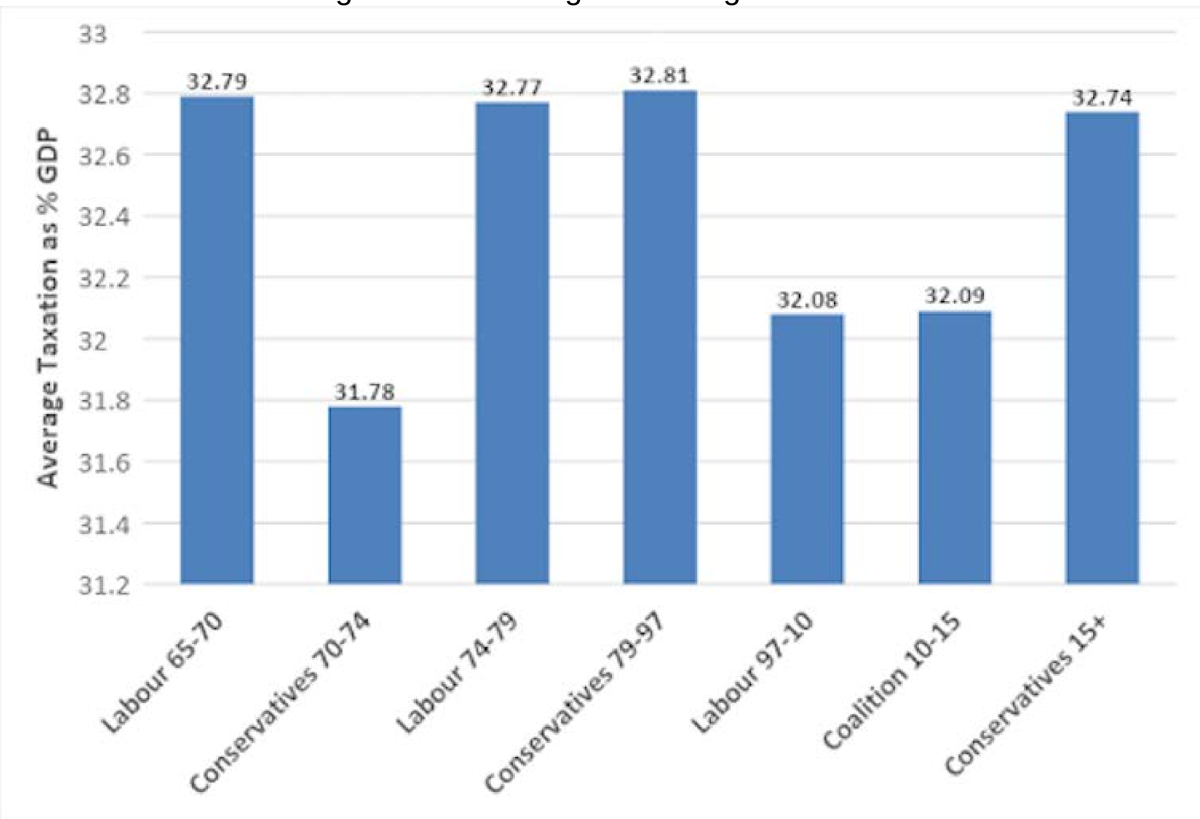
39. The return of the Conservative Government in 2010 saw further assaults on employment rights and the development of fire-and-rehire policies, umbrella companies and zero-hour contracts.

40. By 2021, trade union membership levels among UK employees reached 6.44 million[49] or 23.1% of the labour force though most of it was confined to the public sector or former publicly-owned industries. Workers' share of GDP was barely 50% by the end of March 2022[50].

41. The state's share of GDP in the form of taxes has remained relatively constant at between 32%-33% (Figure 2). Therefore, the main beneficiary form the decline in workers' share of GDP has been capital.

Figure 2

Taxes as a Percentage of GDP during each UK government from 1965 to 2019



[49] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1077904/Trade_Union_Membership_UK_1995-2021_statistical_bulletin.pdf
[50] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2022

Source: Paul Whiteley, Cost of living crisis: the UK needs to raise taxes not cut them – here's why, The Conversation, 22 August 2022; https://theconversation.com/cost-of-living-crisis-the-uk-needs-to-raise-taxes-not-cut-them-heres-why-188938

42. Despite a massive decline in the workers' share of GDP, the government has continued with anti-worker laws.

    This is epitomised by the actions of P&O Ferries which in March 2022 sacked 800 employees without any warning and replaced them with cheaper agency staff. Its chief executive said that the company knowingly violated employment law[51]. The Prime Minister[52] said that P&O violated employment law, but there was no prosecution.

43. Instead, the government enacted the Conduct of Employment Agencies and Employment Businesses (Amendment) Regulations 2022[53]. It permits employers to replace striking workers with cheaper agency workers. The government intends to further weaken the bargaining power of workers by banning strikes in essential services and forcing striking workers to provide minimal levels of service during an industrial dispute[54].

    The above forms the backdrop to understanding the developments which have caused the current crisis for millions of people.

44. During 1970 to 2007, average real wages grew by 33%, but fell to below zero in the 2010s[55]. The gains were unequally shared. Inequalities in the distribution of income and wealth are institutionalised.

45. By 2022, the UK economic policies created a record 177 UK billionaires.

    The richest 250 people are worth £710,723bn in 2022, compared to £658,089 billion the year before, an 8% rise on the previous year[56].

    In 2020, the wealthiest 10% of households had 43% of all wealth[57]; in comparison the bottom 50% had only 9%.

    The richest 1% of households had total wealth of more than £3.6 million. The least wealthy 10% of households had wealth of £15,400 or less[58].

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[51] https://www.independent.co.uk/news/uk/grant-shapps-dp-world-huw-merriman-andy-mcdonald-mps-b2043178.html
[52] https://www.theguardian.com/business/2022/mar/23/boris-johnson-po-ferries-sackings-mps
[53] https://www.legislation.gov.uk/ukdsi/2022/9780348236675/contents
[54] https://morningstaronline.co.uk/article/s/has-time-come-organise-general-strike
[55] https://economy2030.resolutionfoundation.org/reports/stagnation-nation/
[56] https://news.sky.com/story/sunday-times-rich-list-2022-uk-has-a-record-number-of-billionaires-12617181
[57] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020
[58] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2018tomarch2020

46. In 2022, the annual remuneration of FTSE100 CEOs soared by 39% to an average of £3.4m, equivalent to the average pay of 109 workers[59].

The top 1% of earners – those with pay packets above £170,000 – had secured an 11% pay rise[60] whilst the government advocated real wage cuts for workers.

The consequences are stark. 42% of the household disposable[61] income goes to the top 20% of the population and the lowest 20% have only 7%.

47. According to the Bank of England, real household incomes are expected to decline by around 5% on average, over two years to 2024 – the deepest fall since records began in 1960[62].

Wage settlements constantly lag inflation. Between April and June 2022, average wages rose 4.7%, well below the rate of inflation[63].

Predictions are that 2022 pay rises would fall behind inflation by almost 8%, marking the biggest fall in real wages for 100 years[64].

48. Work does not pay enough to make ends meet.

a) 41% of universal credit claimants are in work[65]. Around 68% of families living in poverty include at least one working adult[66].

49. What the mode of production denies to workers can be secured through politics. Progressive taxation is key part of redistribution and funding public services. But successive governments have loaded taxes on low income earners.

In 2017-18, the poorest 10% households paid 47.6% of their gross income in direct and indirect taxes. The richest 10% paid 33.5% of their gross income in direct and indirect tax[67].

50. The UK tax system systematically penalises workers and rewards rentiers and speculators. This example shows that in 2022/23 tax year, a worker earning

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[59] https://www.theguardian.com/business/2022/aug/22/average-pay-ftse-100-chiefs-jumps
[60] https://www.theguardian.com/business/2022/jul/19/uk-living-standards-fall-inflation-cost-of-living-crisis-prices
[61] https://commonslibrary.parliament.uk/research-briefings/cbp-7484/
[62] https://www.independent.co.uk/news/business/uk-recession-bank-england-latest-inflation-rates-b2138062.html
[63] https://www.bbc.co.uk/news/business-62550069
[64] https://www.theguardian.com/business/2022/aug/11/biggest-uk-fall-real-wages-100-years-looms-tuc-inflation
[65] https://www.theguardian.com/business/2022/may/22/boris-johnson-to-stress-work-as-the-fix-for-cost-of-living-crisis
[66] https://www.theguardian.com/business/2022/may/22/boris-johnson-to-stress-work-as-the-fix-for-cost-of-living-crisis
[67]https://www.taxpayersalliance.com/tpa_analysis_shows_higher_taxes_are_hitting_the_poorest_families_hardest_over_the_last_decade

£30,000 pays far more in direct tax than a speculator making £30,000 in the form of capital gains.

	Worker (£s)	Speculator (£s)
Gross Income	30,000	30,000
Personal Allowance	(12570)	
Capital gains allowance		(12,300)
Taxable Income	17,430	
Chargeable Gain		17,700
Income tax at 20%	(3,486)	
Capital Gains Tax at 10%		(1,770)
National Insurance at 13.25%	(2,309)	NIL
Total tax and NI	(5,795)	(1,770)
Net Income	24,205	28,230

The worker pays £4,000 more in tax and national insurance deductions and has a lower take-home pay. The beneficiaries of capital gains use the National Health Service (NHS) and social care, but pay no national insurance.

The above is just one of the numerous regressive and anti-worker tax laws which have institutionalised poverty.

51. The UK is the only major country to impose higher taxes on people amidst a cost of living crisis[68]. In April 2022, the government increased national insurance contributions by 1.25 percentage point. It also froze tax free personal allowances and income tax thresholds for the higher and additional rates. The net result is to increase taxes and deplete disposable incomes.

52. Even before the pandemic and the energy price crisis14.5 million people were living in poverty. This included 8.1 million working-age adults, 4.3 million children and 2.1 million pensioners[69]. The numbers are expected to accelerate.

53. The UK has some very rich people, but the masses are condemned to poverty. British living standards have collapsed and are now lower than the average for developed countries. Far from simply losing touch with their western European peers, last year the lowest-earning bracket of British households had a standard of living that was 20 per cent weaker than their counterparts in Slovenia[70]. The poorest 20% in Ireland Irish have a standard of living almost 63% higher than the equivalent poorest in the UK

54. Queues at food banks are getting longer. There are over 1,400 Trussell Trust food banks in the UK, in addition to at least 1,172 independent food banks. Some 2.1 million emergency food packages were distributed between 1 April 2021 and

[68] https://www.independent.co.uk/news/uk/politics/national-insurance-sunak-mcfadden-ifs-b2037508.html
[69] https://www.jrf.org.uk/data/overall-uk-poverty-rates
[70] https://www.ft.com/content/ef265420-45e8-497b-b308-c951baa68945

31 March 2022, 832,000 of them to children. This is an increase of 14% compared to the same period in 2019/20.

55. The Resolution Foundation[71] estimates that a typical non-pensioner household disposable income will be 5% lower in 2022-23 than in 2021-22, and then fall again by 6% in 2023-24, resulting in loss of £3,000 of disposable income.

    Absolute poverty is projected to rise from 17% in 2021-22 to 22% in 2023-24 – again the worst two year change on record, and a rise of over 3 million from 11 million to 14 million people.

    Absolute child poverty is expected to rocket from 23% in 2021-22 to 31% in 2023-24, an increase of 1 million children.

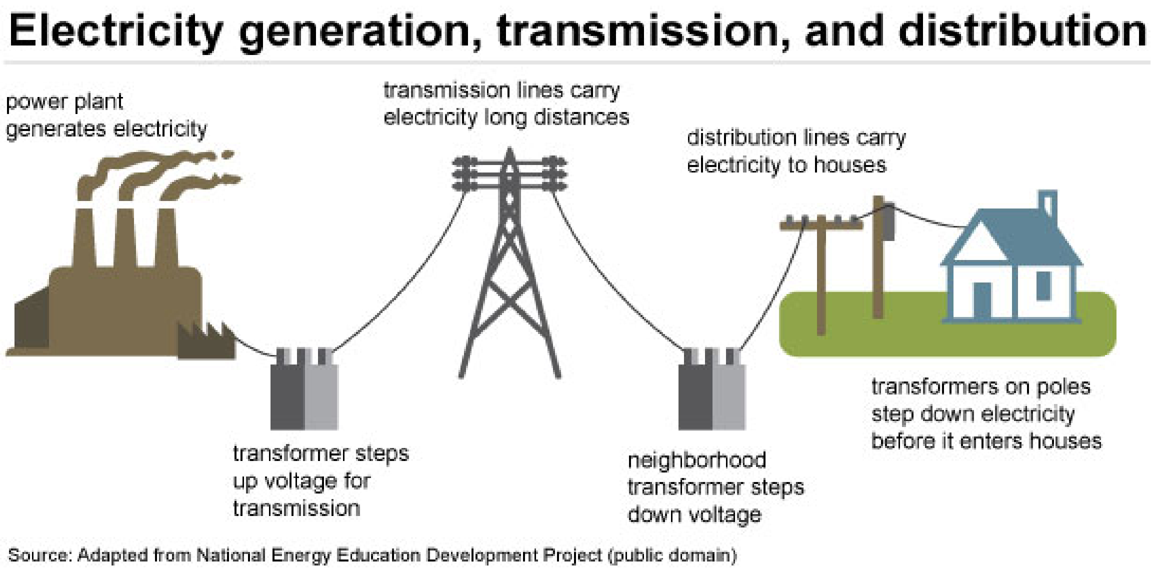
PUBLIC OWNERSHIP v PRIVATISATION

56. The energy price crisis isn't just about markets. It is also about UK politics, which have prioritised obsessions with privatisation, appeasement of corporations, erosion of people's incomes and light-touch regulation.

57. The market relating to energy has three broad stages (Figures 3).

    a) These are production, transmission and distribution. In the UK, each stage is controlled by profit-seeking corporations. The regulatory system guarantees profits for participants of all three stages.

Figure 3



Source: https://www.eia.gov/energyexplained/electricity/delivery-to-consumers.php

    b) Even before production, raw materials in the form of gas, oil coal, and other resources are needed. These are in private hands too. Public regulation of

[71] Adam Corlett & Lalitha Try, In at the deep end, The Resolution Foundation, September 2022; https://www.resolutionfoundation.org/app/uploads/2022/08/In-at-the-deep-end.pdf

corporations controlling the raw materials for producing gas and electricity is weak. Whilst there are health and safety laws to protect consumers, there is little effective check of price gouging. The Competition and Markets Authority (CMA) has done little to check profiteering.

c) Through privatisation, the state has created natural monopolies. Effective competition is not possible as companies cannot create parallel networks of power stations, pipes and cables to supply households and businesses. Indeed, that would be highly inefficient.

d) The privatisation of oil and gas production has reduced policy options for the state.

58. The production and refining of oil/gas was partly in public ownership too. BP (British Petroleum) was privatised in 1979, when the Conservative government sold a 5% stake to take the state's share to 46%, a minority holding for the first time. In 1987, the government sold the last of its shares.

59. Even when the UK won nature's lottery in the form of oil and gas reserves in North Sea, the government gave it all away to corporations and thus lost the possibilities of making interventions to protect people and businesses from pricing spikes.

a) Around 1970, the UK and Norway discovered large quantities of oil and gas in North Sea, although it was not produced until 1976.

   Since then, both countries have produced similar amounts of hydrocarbons though the governance of the sectors has been different.

b) Since 1986, the UK government has not held any direct equity participation in the North Sea. It created a fully private upstream sector, with taxation as the only channel of government revenues from hydrocarbons.

   Norway took a different approach, with over 50% of production coming through Statoil (of which the state owns a majority) and state ownership of assets via the State Direct Financial Interest (SDFI), held through Petoro (wholly owned by the state)[72]. In fact, via Statoil and Petoro, the Norwegian state has majority stakes in 11 of its 14 fields. The Norwegian state invested public money whilst the UK baulked.

c) With less state control and oversight, the UK produced more of its oil and gas in years when prices were low than Norway did. The UK's twin peaks of production in the late 1980s and late 1990s coincided with low oil prices in world markets resulting in lower tax revenues for the UK state.

[72] https://www.scottishenergynews.com/how-did-britain-miss-out-on-400-billion-worth-of-n-sea-oil-revenue-compared-to-norway/

d) The UK produced 65% of its oil when prices were below $50 a barrel compared to 57% for Norway.

The state oversight meant that Norway sold its oil and gas for about $10 per barrel of more than the UK on average. Norway's production peaked later in 2004, when oil prices were higher.

e) By 2014, the UK generated $470 billion in revenues whilst Norway has generated $1,197 billion since 1971 in real (2014) terms

f) The tax rates were also different. Oil and gas companies operating within the Norwegian jurisdiction[73] are subject to a general corporate tax of 22% and a special tax at the rate of 56% upwards i.e. this is a form of permanent windfall tax.

g) The UK tax rates were lower. Until 2014, the UK generated $11.0 tax revenue per barrel compared to Norway's $29.8 per barrel in 2014 prices i.e. Norway generated $18.8 per barrel more in revenue for the state than the UK.

h) In 2019, Norway collected $21.35 tax for each barrel of North Sea oil whilst the UK collected only $1.72[74].

i) Norway now has a sovereign fund of $1.2 trillion to enable it to manage any economic crisis whilst the UK has squandered its oil and gas wealth at the altar of privatisation.

60. UK electricity is produced from gas, oil, nuclear power, wind, tidal waves and solar power. However, entities producing it are not publicly owned. Therefore, that state has fewer policy options for managing the energy price crisis.

61. The top 10 global oil and gas companies made £174.5 billion profit between them in 2021 – up 37% on 2019. Seven top UK North Sea producers made a combined £41.6 billion profit in 2021, up 50% on 2019[75].

    There are signs that the scale of such profiteering has increased further in 2022. Centrica, for example, announced operating profit for the first 6 months of 2022 of £1.34 billion – over £1 billion more than the year before[76].

    At least 30% of the energy price cap increase over the last year is made up of profit for companies across the energy supply chain[77].

62. The French government has more policy options as it owns entities producing energy.

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[73] https://www.offshore-mag.com/regional-reports/north-sea-europe/article/14210826/norway-considers-further-petroleum-tax-changes
[74] https://priceofoil.org/2021/05/11/uk-needs-to-act-on-oil-and-gas/
[75] https://www.unitetheunion.org/media/4920/uniteinvestigates-energysectorprofiteering.pdf
[76] https://www.unitetheunion.org/media/4920/uniteinvestigates-energysectorprofiteering.pdf
[77] https://www.unitetheunion.org/media/4920/uniteinvestigates-energysectorprofiteering.pdf

a) Electricité de France (EDF) is controlled and owned by the French state[78]. EDF produces electricity through its nuclear power plants.

b) Gaz de France (GDF) is a major supplier of gas in France and is wholly-owned by the government.

c) Public ownership has given the French state additional policy options. For example, in January 2022 the government's *bouclier tarifaire* (price shield) froze gas prices and capped and electricity price rises at 4% until the end of 2022[79].

   French customers on regulated tariffs face annual household bills of around €950 (£803) for 2022[80]. The French government will cap increases in electricity and gas prices at 15% for 2023[81]. French household bills will still be far less than in the UK.

d) The French government is effectively absorbing the energy price increases and any losses to companies will be made good through general taxation. This policy reduces the rate of inflation and protects businesses and households from excessive price increases.

e) Eventually, the UK government has emulated the French policy and frozen energy tariffs from October 2022. However, there are two vital differences.

   The average household energy bill will be around £2,500, nearly three times the price paid French households in 2022.

   Secondly, unlike the French government, the UK government is guaranteeing profits of all companies in the energy supplying chain. Therefore, its financial support is more expensive.

THE PRIVATISATION OBSESSION

> "I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country. . . . corporations have been enthroned, and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working on the prejudices of the people until all wealth is aggregated in a few hands, and the republic is destroyed. I feel at this moment more anxiety for the safety of my country than ever before". (Abraham Lincoln)

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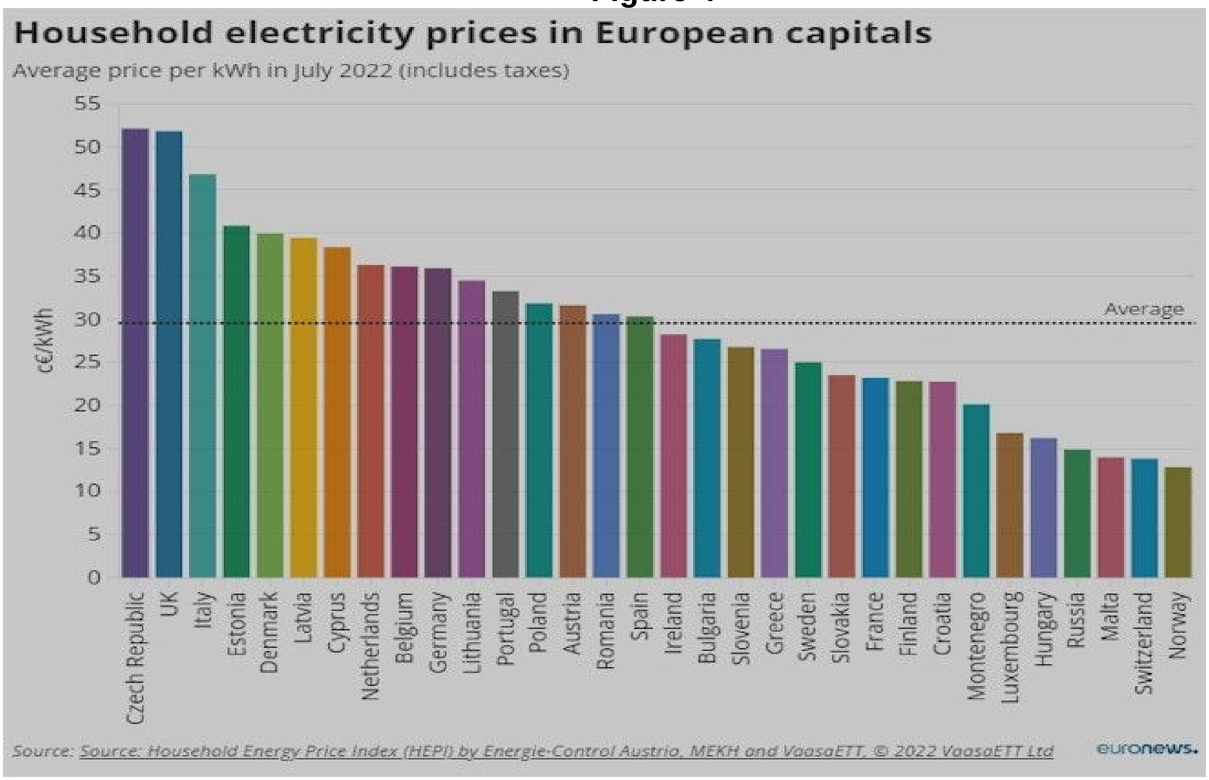
[78] In July 2022, the French government fully nationalised EDF Before that it held 80% of its shares.
[79] https://www.thelocal.com/20220530/french-government-to-continue-energy-price-freeze-until-at-least-2023/
[80] https://www.mirror.co.uk/money/edf-bills-france-less-half-27728887
[81] https://www.energylivenews.com/2022/09/15/france-to-cap-electricity-and-gas-price-hikes-at-15/

63. The main causes of the high energy prices are British politics and economic policy failures.

a) As *euronews* stated: “Even before today's hike [to £3.549] was announced, UK households faced some of the highest prices in Europe—nearly double France. Only the Czech Republic was higher than the UK, which was followed by Italy and Estonia”[82] (Figure 4 and 5).

b) The UK generates about 40% of its electricity from natural gas and its household electricity price is at least 30 per cent higher than in many of its European neighbours[83]. That is partly down to various levies the UK government adds to bills to support renewable power and poorer households, as well as the Ofgem’s ‘cap’ calculations which guarantee profits to all participants.

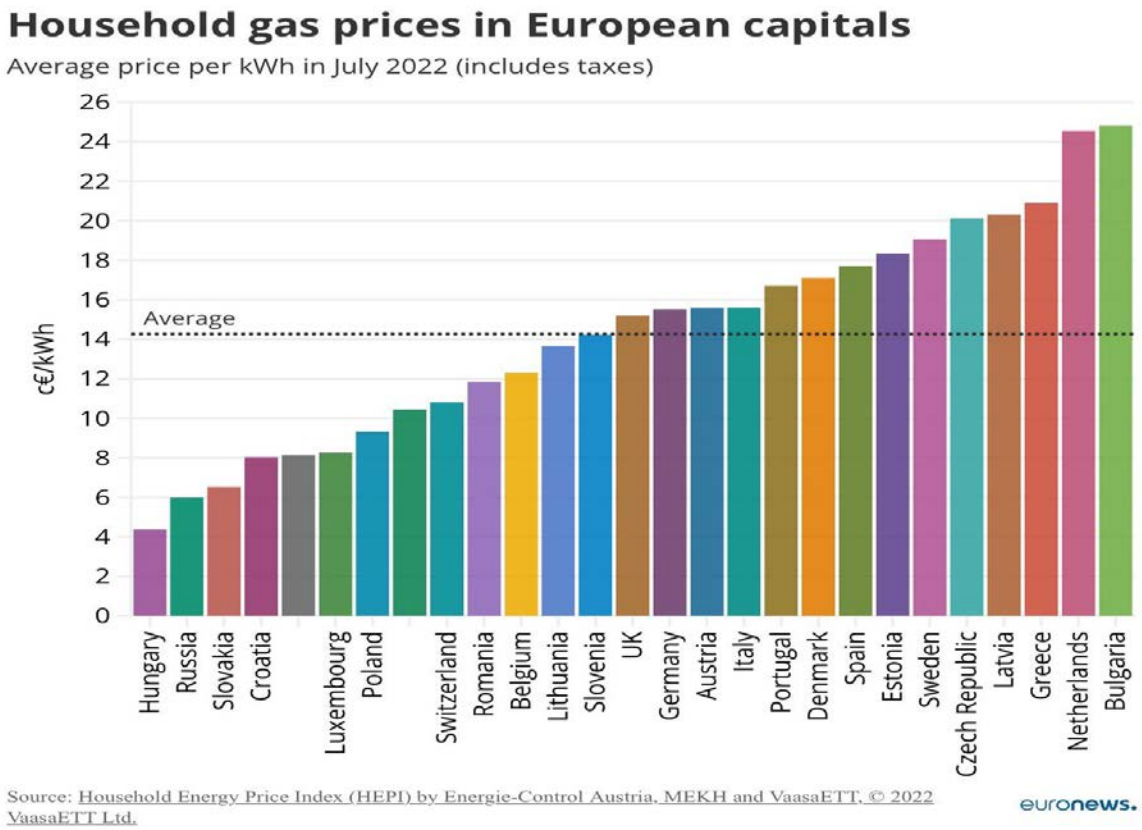
Figure 4



Source: https://www.euronews.com/my-europe/2022/08/26/soaring-energy-prices-how-does-the-uk-compare-with-europe

[82] https://www.euronews.com/my-europe/2022/08/26/soaring-energy-prices-how-does-the-uk-compare-with-europe
[83] https://www.ft.com/content/57c66a89-b046-4c3e-a8aa-d9099bd4da20

Figure 5



Source: https://www.euronews.com/my-europe/2022/08/26/soaring-energy-prices-how-does-the-uk-compare-with-europe

c) Until late 2021, the UK enjoyed cheaper gas than the EU average. However, since then, for the first time since 2009, Brits have paid substantially higher prices than the EU average. T

d) The UK relies more upon gas for production of its electricity than nuclear power and renewables. Much of this is imported from European countries. Its high inflation rate has eroded the purchasing power of the pound sterling.

e) The UK could have diversified its energy production, but the Conservative government chose not to. For example, in November 2009, the Labour administration sought to diversify the production of electricity and approved 10 sites in England and Wales for new nuclear power stations[84]. The incoming Conservative and Liberal Democrat administration rejected the plans.

64. Ever since the Thatcher administration of 1979, privatisation has been an obsession with successive governments and little thought has been given to the economic and social consequences. Privatisation has led to fragmentation and lack of public accountability. This caused extra charges to consumers as private entities have to make profits.

65. The electricity supply industry was in public ownership from 1948 to 1990. In England and Wales, the Central Electricity Generating Board (CEGB) was

[84] http://news.bbc.co.uk/1/hi/uk_politics/8349715.stm

responsible for generation and transmission; it sold electricity to 12 area board under the terms of the bulk supply tariff, based upon its marginal costs. The area boards were responsible for the distribution and supply to electricity consumers.

66. Shortly prior to privatisation in 1990, 12 regional electricity companies replaced the 12 area boards. Transmission became the responsibility of the National Grid Company, a company fully owned by the regional electricity companies (RECs).

    Later, the Scottish industry was sold, as were the generating businesses National Power and Powergen and also the National Grid.

    At the time of privatisation, distribution and supply were uncoupled to some extent, as a REC can supply electricity outside its franchise area on the payment of a charge for distribution over another REC's network. Each REC owns and operates the electricity distribution network in its authorised area. The distribution systems consist of overhead lines, cables, switchgear, transformers, control systems and meters to enable the transfer of electricity from the transmission system to customers' premises. Supply businesses are engaged in the bulk purchase of electricity and its sale to customers.

67. The Gas Act of 1948 nationalised the UK gas industry[85]. It came into effect in May 1949 and over 1,000 privately owned and municipal gas companies were merged into 12 area Gas Boards – geographically organised and collectively known as British Gas.

    Up until 1986, the state-owned British Gas held the monopoly for the sale and distribution of natural gas to end-users, controlling the supply from landfall to the entire industrial and domestic gas markets

68. Since privatisation, there have been numerous changes. The National Grid's main business is now moving electricity and gas around the country. This is known as transmission. The very last leg of the journey into people's homes and businesses - known as distribution - is done by a number of different companies.

69. Between 1996 and 2018, the electricity bills increased by about one-third in real terms, while the gas bill has gone up by just over a half[86].

70. In 2022, the electricity distribution network is controlled by 14 different Distribution Network Operators (DNOs). However they are managed by just six distribution companies (see Figure 6). A DNO owns and operates the electricity infrastructure that connects properties to the national grid. A DNO owns the network of towers and cables that carry low-voltage electricity to homes and businesses from the electricity transmission network.

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[85] The Evolution of the Gas Industry In the UK; https://www.iapg.org.ar/WGC09/admin/archivosNew/Special%20Projects/3.%20IGU%20GMI%20Guidelines/3.%20IGU%20GMI%20Guidelines%20FINAL%20-%20CD%20contents/UK%20Gas%20Market.pdf

[86] https://www.bbc.co.uk/news/business-48284802

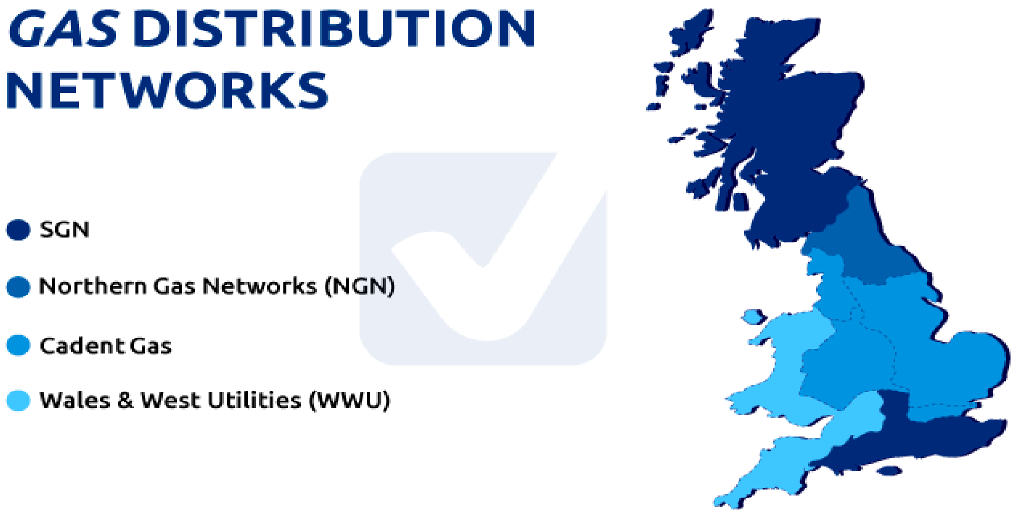
Figure 6

Source: https://selectra.co.uk/energy/guides/distribution

71. The electricity network operators account for 94% of revenues in electricity distribution industry. They are regulated by Ofgem and have a profit margin of 42.5%[87]. Due to poor cables and transmission equipment, up to 7% of UK electricity is lost through leaks[88], equivalent to charging 6.8 million electric vehicles.

72. The gas distribution network (GDN) is controlled by four companies (Figure 7) and their profit margin is 40.5%.

Figure 7



Source: https://selectra.co.uk/energy/guides/distribution

[87] https://uploads-ssl.webflow.com/5e2191f00f868d778b89ff85/62bc22a33a9246e7f372ac04_CW_Profiting%20Amid%20the%20Crisis%20v2.pdf
[88] https://www.sustainabilityfirst.org.uk/

73. The electricity and gas distributors made a combined profit of £6.3 billion in 2021. Both have operating profit margins of over 40%[89].

74. Since privatisation, the UK has been more reliant upon gas for generation of electricity, but the storage capacity has been reduced.

    Ever since the closure of its Rough storage facility, owned by Centrica, in 2017, the UK has followed a “just-in-time” approach to gas procurement. The UK has around nine terawatt hours of stored gas reserves, compared to 168 in Italy, 151 in Germany and 117 in France[90]. Without safety inventories, the UK is highly vulnerable to price shocks and supply uncertainties.

    The government permitted Centrica to close the gas storage facilities and said that “the market will adapt to these changes in supply and demand[91]”. It expressed faith in markets and Just-In-Time-Systems (JITS) without ever considering the downside or “what if” and Just-In-Case.

OFGEM AND FALLACY OF COMPETITIVE MARKETS

> “As in the past, the costs and risks of the coming phases of the industrial economy were to be socialized, with eventual profits privatized ...” (Noam Chomsky, Failed States: The Abuse of Power and the Assault on Democracy, 2006).

75. A major problem with the energy bills is the assumptions behind the formula used by Ofgem to set the price ‘cap’ at quarterly intervals. It is built upon the fallacy of competitive markets. Ofgem states that

    > “The price cap, as set out in law, puts a maximum per unit price on energy that reflects what it costs to buy energy on the wholesale market and supply it to our homes. It also sets a strict and modest profit rate that suppliers can make from domestic energy sales[92]”.

    The calculation of ‘cap’ is technical and involves a number of variables, one of which is ‘cost’. But which cost? There are a variety of ‘costs’ e.g. historical cost, average cost, weighted average cost, opportunity cost, marginal cost and many more. The choice of ‘cost’ has a significant bearing on energy company profits and household/business bills.

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[89] https://www.unitetheunion.org/media/4920/uniteinvestigates-energysectorprofiteering.pdf
[90] https://www.newstatesman.com/chart-of-the-day/2021/09/how-the-uks-low-gas-storage-capacity-leaves-it-vulnerable
[91] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/770450/gas-security-supply-assessment.pdf
[92] https://www.ofgem.gov.uk/publications/ofgem-updates-price-cap-level-and-tightens-rules-suppliers

76. Ofgem uses a version of ‘marginal cost’[93]. Marginal cost is the cost incurred in bringing one additional unit of gas/electricity to the market. When applied correctly, it can lead to efficient use of resource allocation. But there are problems with Ofgem’s assumptions.

77. Energy supply is not a market in the classical economic sense. People must buy energy (gas, electricity, etc). So, there are captive customers who have to pay whatever the prevailing price is. There are no effective substitutes for consumers. In a competitive market (where there are many buyers and sellers and everyone is a price taker), firms compete and that drives costs to marginal levels i.e. the cheapest option and sets a price that enables suppliers/producers to recover all costs associated with production. The firms unable to produce goods/services at that level will not be able to sell and will go out of business.

78. However, the classical market logic does not apply to monopolies such as gas and electricity generation and transmission. In these situations, prices are driven up if more producers are present. The cost of entry is high and it needs to be recovered. For example, if there were two vertically-integrated electric utilities serving a town, then there would need to be two sets of generation, distribution, and transmission infrastructure to support the two companies and only half the population to pay for it. This duplication would make everything prohibitively expensive.

79. At the time of privatisation, the government had envisaged separation of energy production from retail in the hope of securing lower prices. However, that separation has long disappeared. For example, EDF retails energy and also owns and operates eight nuclear power stations in the UK. E.ON owns and operates a power plant. The consolidation creates opportunities for higher economic rents.

80. In its keenness to make the energy market work, Ofgem failed to carry out due diligence checks on new retailers. Many had low equity base, high leverage and did not hedge against future wholesale price increases. The resulting financial instruments may offer some protection against price rises but also increases financialisation of the energy sector, creates price volatility and makes it much more vulnerable.

    Many entrants had little or no expertise of the energy sector. A July 2022 report from the House of Commons Business, Energy and Industrial Strategy Committee concluded that:

[93] https://www.ofgem.gov.uk/sites/default/files/2021-07/Final%20report-%20Research%20into%20GB%20electricity%20prices%20for%20EnergyIntensive%20Industries.pdf

“Ofgem’s negligence has contributed to higher energy bills, which is in complete contradiction to its mandate to act in the interests of consumers[94]”.

81. A glimpse of Ofgem’s failures is provided by the collapse of Bulb Energy which collapsed in November 2021 with 1.7 million customers.

Bulb was formed in 2014 with share capital of only £100. By August 2016, it amassed losses of £763,287. By March 2017, the accumulated losses increased to £2,747,998, suggesting a major problem with its business model.

Its final accounts for the year to 31 March 2020 showed that share capital was still £100. Bulb had virtually no capacity to absorb losses or unexpected market shocks. It never made a profit and its accumulated losses ballooned to £223m. It had tangible assets of £1m and a £54m bank loan guaranteed by the parent company Simple Energy. It owed £466m to its suppliers.

Other than its two directors, the company had no direct employees. However, its parent company had 510 employees (203 in 2019), including four directors. Presumably, they must have performed all the day-to-day tasks. One consequence of this is that their salaries would be booked by Simple Energy and thus understated the losses of Bulb Energy.

Bulb’s accounts were prepared on the basis that it was a going concern, a dubious assumption. Its director said that the parent company provided financial support. The difficulty is that Bulb’s parent company Simple Energy, was itself teetering with debts of £550m at the end of March 2020, rising to between £600m and £1bn in the subsequent 18 months.

It is doubtful that Ofgem understood any of the financial calculus of Bulb, and other retailers. Bulb had high leverage, ultra low share capital; high losses and its parent company lacked the financial strength to underwrite its operations. Yet Ofgem authorised the company to retail energy and landed customers and people with the costs arising from its failures.

82. Since the beginning of 2021, 31 UK energy retail companies have ceased trading. Bulb Energy is under special administration and is likely to cost the government £4bn[95]. There are also consequences of the collapse of other energy retailers, and altogether the public cost may hit £7bn[96]. This works out at an average cost of £233 per customer, and only arises in a system of privatised energy industry. Many companies failed because of Ofgem’s flawed checks.

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[94] House of Commons House of Commons Business, Energy and Industrial Strategy Committee, Energy pricing and the future of the energy market, July 2022; https://committees.parliament.uk/publications/23255/documents/169712/default/

[95] https://www.ft.com/content/cbe1c23e-e929-42ec-8f0d-58065802c53e

[96] https://www.dailymail.co.uk/news/article-11153293/Every-household-country-pay-250-cover-utility-firms-failed.html

83. The customers of a failed company are to be transferred to another retailer under the Supplier of Last Resort (SOLR) regime. The new retailer has to take account of administration costs and the terms of the inherited contract.

    Customers inevitably face considerable hardship and inconvenience. This includes an immediate increase in their energy costs as they are often transferred from fixed rate to the standard variable tariff of the new retailer, which costs the average customer an estimated £30 per month extra for the remainder of the duration of their original contract[97]. Since July 2021, 2.4 million customers have been transferred under the SOLR regime.

84. The credit balances owed to customers of the bankrupt entity are not ring-fenced. The new supplier effectively recovers them through a levy on all customers and is part of what is called a Supplier of Last Resort (SOLR) levy. This increases customer bills, and only arises in a privatised system. Ironically, the customers awaiting recovery of their credit balance pay for it through SOLR.

    The National Audit Office states the total cost of the supplier failure dealt with through SOLR to be around £2.7bn[98]. The largest component of this cost is for suppliers buying wholesale energy above the level of the price cap for customers from suppliers that had failed. The costs are distributed across all energy bills, rather than just the customers of failed suppliers, equating to around £94 per customer.

85. If a new retailer in unwilling to take on the contracts and customers of a failed company, the government is required to act as a retailer of the last resort under the special administration regime (SAR). The government had to step-in to provide continuous supply to 1.7 million customers of Bulb Energy[99] at an estimated cost of £4bn. This bailout alone (or special administration, as the government prefers to call it) is likely to add £150 to the average energy bill for each household.

86. The government is unlikely to let any major producer of gas, oil, nuclear power, renewable energy, and electricity collapse. The freeze of energy prices lets companies earn a rate of return, but that is likely to be overstated as the risks are low – captive customers, no effective competition, state bailouts, reduction in bad debts, guaranteed profits.

87. The normal rules of competitive markets do not apply to the energy sector and Ofgem's edifice is built on erroneous assumptions and negligent practices.

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[97] https://www.nao.org.uk/wp-content/uploads/2022/03/The-energy-supplier-market.pdf
[98] https://www.nao.org.uk/wp-content/uploads/2022/03/The-energy-supplier-market.pdf
[99] https://www.theguardian.com/money/2022/aug/22/collapse-of-supplier-bulb-could-add-more-than-150-pounds-to-energy-bills

OFGEM AND PRICE CAP

74 Ofgem's duties[100] are *inter alia* "to protect the interests of existing and future consumers", "promoting effective competition", "the need to secure that licence holders are able to finance the activities which are the subject of obligations on them" and "secure a diverse and viable long-term energy supply".

Ofgem can't simultaneously protect consumers and ensure that providers of energy remain profitable. This is amplified by its "Market Stabilisation Charge[101]". Under this, suppliers who win customers with cheaper deals have to pay the old supplier 85% of the difference in tariffs[102]. The regulator argues that this protects companies from being destabilised at times of market price volatility, but it deters competition, increases energy bills and guarantees profits for inefficient and incompetent companies. In August 2022, one of the Ofgem's non-executive directors, Christine Farnish resigned, and said that the regulator "gave too much benefit to companies at the expense of consumers[103]". Ofgem can't reconcile the tensions between protecting consumers and guaranteeing profits for corporations.

75 Energy is produced from various sources (such as gas, oil, nuclear, wind, sea, hydro, solar, biomass, etc) and all elements are mixed and transmitted by the generating stations. The customers cannot distinguish how much of their energy is from gas, oil, coal, wind, nuclear or solar, etc. as electricity from one source is as good as any other.

However, each input source has a different cost structure. For example, currently gas costs the most and nuclear, hydro and renewables cost considerably less.

Ofgem cap does not calculate 'cost' based on each variety of input. It is not based on average cost or weighted average of all inputs.

76 One of the Ofgem's objectives is to ensure profit for each supplier[104] at each stage i.e. generation, transmission, distribution and retail.

77 This means that the Ofgem cap has to be set at the most expensive price/cost per unit. Otherwise the marginal producer (the most expensive producer) cannot

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[100] https://www.ofgem.gov.uk/publications/our-powers-and-duties
[101] https://www.ofgem.gov.uk/publications/market-stabilisation-charge-dashboard; https://www.ofgem.gov.uk/sites/default/files/2022-08/MSC%20Guidance%20%28Version%203%29.pdf
[102] https://www.theguardian.com/business/2022/may/16/energy-price-cap-ofgem-price-falls
[103] https://www.theguardian.com/business/2022/aug/17/ofgem-director-christine-farnish-quits-over-energy-price-cap
[104] https://www.ofgem.gov.uk/publications/ofgem-updates-price-cap-level-and-tightens-rules-suppliers

make a profit. This is reverse of what happens in competitive markets where the most expensive supplier can be put out of business.

This is a boon for companies providing oil, nuclear, renewables, solar and hydro and other forms of resources because they are paid the price of energy generated by the use of gas, which currently is the most expensive input. The cost incurred by domestic producers of gas is considerably less than the wholesale market price, but that does not enter into Ofgem calculus. Its price of electricity is determined by the wholesale market price.

CORPORATE PROFITEERING

78 Just six companies, namely British Gas, EDF Energy, E.ON UK, npower, ScottishPower and SSE, control 77% of the UK household energy market. There are also a number of smaller companies, which includes OVO Energy and Octopus Energy.

79 The bills received by households do not show the wholesale cost of energy, network costs, operating costs, green levies, SOLR levies, distribution and billing costs, profit or anything else.

In January 2020 SSE[105] identified six main elements in the cost of domestic energy supply (see below), which is likely to be typical across the sector (Figure 8). At that time, the energy cost for an average household was capped at £1,143 per annum.

Figure 8

[105] https://sse.co.uk/help/energy/gas-electricity-bill-payment/bill-price-breakdown

The SSE framework provides some clues about profits made by corporations involved in the supply chain. Before estimating those profits, a brief commentary is appropriate.

a) At 36% "Buying the energy" is the biggest component of the energy price billed to customers. The cost of producing energy has not changed significantly. Companies are not suddenly quadrupling workers' wages or investing vast amounts in producing oil, gas, solar, wind, coal, nuclear or other forms of energy. They are simply able to sell their output at a higher price due to market activity and the pricing formula used by Ofgem.

b) "Delivering he energy" accounts for 24% of the bill. The cost of delivering has not changed substantially. The same transmission facilities are being used.

c) Customer billing accounts for 20% of the bill and has not changed substantially.

d) "Government environment and social schemes" levies are fixed at 13% and do not change with increases in the Ofgem cap.

e) VAT at 5% is levied. The rate is fixed and the amount changes with the total value of the bill. Higher bills increase the amount of VAT i.e. the government collects additional sums.

f) The energy retail company profit is fixed at 2%. As the total amount of the bill increases, energy company profit also increases without any additional effort.

79. The above is processed into Table 1, which should be read in conjunction with the following commentary. Profit from the average household is shown in red.

    a) The delivery cost of £288 is the same, regardless of the level of the Ofgem cap. Indeed, the same volume of energy is delivered though it has a higher price.

    b) The customer billing costs is not a function of higher price and remains fixed at £240 for all levels of the Ofgem cap

    c) The Government levies are not a function of the total energy price. They are fixed at £156 for each customer.

    d) VAT is charged at the rate of 5% on domestic fuel and is a function of the total bill

    e) The retailing company profit is fixed at 2% of the selling price and therefore varies with the level of the Ofgem cap.

    f) The cost of primary energy is £389. This includes the normal profits made by oil, gas, nuclear, solar, wind, hydro, biomass and other producers.

Table 1

	Cost %	October 2021 Ofgem Cap £	April 2022 Ofgem Cap £	October 2022 Ofgem Cap £	January 2023 Ofgem Cap £
Average annual domestic cost		**1,200**	**1,971**	**3,549**	**4,500**
Consisting of:					
Delivering energy to your home (Distribution cost)	24%	288	288	288	288
Billing and customer services	20%	240	240	240	240
Government environmental and social schemes (Green and other levies)	13%	156	156	156	156
VAT	5%	60	99	177	225
Distribution company profit	2%	24	39	71	90
Cost of producing bought in energy	36%	389	389	389	389
Excess Energy production company profit		43	760	2,228	3,112
Average annual domestic cost	**100%**	**£1,200**	**1,971**	**3,549**	**4,500**

80. Table 1 has been based upon assumptions specified above. It assumes that certain costs, delivery and billing have not changed. As stated earlier, the cost of producing energy has not changed, the selling price has.

81. Table 1 shows that when the Ofgem household tariff cap increases in October 2022 and results in average household bill of £3.549, energy retailing companies' profits from each customer will rise to £71, from £24 in October 2021 and £39 in April 2022.

82. The biggest profit is upstream with producers of energy as Ofgem permits energy to be priced at the costs incurred by the most inefficient or costly supplier.

Their profits per average household will increase from £43 in October 2021 to £2,228 in October 2022. Let us imagine that the average 'cost of producing bought-in energy' has changed four-fold i.e. £389 X 4, even then there would still be significantly higher profits upstream, or over £1,000 per average household.

83. The profits will increase again in January 2023 when Ofgem revises its price cap, which is expected to take the average household bill to around £4,500 i.e. households will pay £2,500 and the government will pay £2,000.

84. The government's price freeze from 1st October 2022 limits the average household bill to £2,500, but energy companies will still get the full payment i.e. £2,500 from the customer and £1,049 (£3,549 minus £2,500) from the government. This improves corporate liquidity, reduces bad debts and increases profits.

    The financial subsidy provided by government would be needed for each quarter from the next two years or more, as Ofgem is expected to revise the cap upwards. This would enable upstream companies to continue to collect super profits, possibly even beyond the next two years.

85. The upstream profits are not necessarily made by companies based in the UK, as the UK imports gas and electricity. So a large amount of capital will be exported from the UK, which can't be good for the pound exchange rate.

86. The state has become guarantor of corporate profits.

87. By shifting green levies from individual customers to general taxation or government borrowing, the average household energy bill will be reduced by around £153 a year.

88. The government is not eliminating VAT from domestic fuel bills. If it were to do so, this would reduce average annual household energy bill by £177, assuming that the Ofgem cap for household bills remains at £3,549.

89. Profiteering is rife throughout the energy supply chain. It is a function of poor regulation and privatisation itself.

    a) Leaked UK Treasury papers suggest that UK gas producers and electricity generators are set to make excess profits totalling as much as £170 billion over the next two years[106].

    b) The Electricity and gas distribution companies have the highest profit margins of any UK industry at 42.5% and 40.5%, respectively[107]. They made a combined £6.3 billion profit in 2021.

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[106] https://www.bloomberg.com/news/articles/2022-08-30/uk-predicts-up-to-170-billion-excess-profits-for-energy-firms

[107] Joseph Baines and Sandy Brian Hager, Profiting Amid the Energy Crisis: The Distribution Networks at the Heart of the UK's Gas and Electricity System, Commonwealth, March 2022; https://uploads-ssl.webflow.com/5e2191f00f868d778b89ff85/62bc22a33a9246e7f372ac04_CW_Profiting%20Amid%20the%20Crisis%20v2.pdf

c) Research by Unite[108] shows that the “Big 4” energy providers (Centrica, E.ON, EDF and Scottish Power) made combined £9.5 billion profit in 2021, up 84% on 2019.

d) The top 10 global oil and gas companies made £174.5 billion[109] between them in 2021 – up 37% on 2019.

e) Seven top UK North Sea producers made a combined £41.6 billion in 2021, up 50% on 2019[110].

f) Global oil and gas industry has delivered \$2.8bn (£2.3bn) a day in pure profit for the last 50 years[111].

WHAT’S TO BE DONE?

> “No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged” (Adam Smith[112])

90. Earlier sections of this paper argued that the hardship faced by people from higher energy prices is a subset of broader consequences of institutionalised poverty and inequality. These are the outcomes of failures of economic policies, tax policies, industrial relations and broader politics which have systematically impoverished workers. Some evidence was provided

Successive governments have paid little attention to equitable distribution of income and wealth and have nakedly pursued policies which advance the interests of capital and increase its share of GDP at the expense of labour and investment. Such policies need to be reversed and will inevitably meet considerable resistance from those who benefit from status-quo and have got used to having their way by funding political parties, legislators, media, and a variety of so-called think tanks.

Poverty and inequality cannot be addressed without taking back control of the legislative and regulative frameworks and reconstruction of the state. Global capitalism has subverted democratic processes and captured the state through funding of political parties, legislators and think-tanks; control of media,

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108 Unite, Unite Investigates: Profiteering across the energy sector, August 2022; https://www.unitetheunion.org/media/4920/uniteinvestigates-energysectorprofiteering.pdf
109 https://www.glasgowtimes.co.uk/news/20818077.mike-dailly-urgent-action-needed-leaders-fix-energy-crisis/
110 https://www.glasgowtimes.co.uk/news/20818077.mike-dailly-urgent-action-needed-leaders-fix-energy-crisis/
111 https://www.theguardian.com/environment/2022/jul/21/revealed-oil-sectors-staggering-profits-last-50-years
112 https://www.ibiblio.org/ml/libri/s/SmithA_WealthNations_p.pdf

ideological wars, bribes, threats and more. The UK state has become the ultimate guarantor of corporate profits, to the detriment of the people. All this has been part of the right-wing coup which began in the 1970s and is now culminating in the loss of human rights, welfare rights, public services and disposable income, all sacrificed at the altar of wealth accumulation by the few.

The left needs to develop tools and strategies for reconstruction of the state and common-sense of the people. Yes, the forces marshalled against the people have overwhelming financial and political resources, but in any game of chess the king can be cornered by pawns. History shows that against all the odds, our predecessors secured some social rights by repositioning people's sense oratory, songs, music, plays, leaflets, theatres, marches and grass roots campaigns. The same is necessary again.

The dominant narratives of neoliberalism need to be disarticulated. Otherwise, the logic of neoliberalism cannot be dismantled. Chief amongst them is the view that tax revenues somehow constrain the state from improving the quality of life for the people. The absence of tax revenues did not prevent the state from bailing out banks and energy companies, handing billions of Covid-related contracts or £895 billion of QE to corporations.

A massive shake-up of institutions of government and the state's relationship with capital and labour is needed. The alternative is poverty, social squalor, low economic growth, economic stagnation, higher market volatility and heightened possibilities of social disorder and riots.

The following steps need to be taken immediately to make a start on relieving poverty.

Relieving Poverty

91 Increase the value of state pension, benefits and wages at least in line with inflation to give people some breathing space.

92 A minimum Living Wage of £15 per hour is needed

93. End employee insecurity – end fire and rehire, end zero-hour contracts, give employment rights to agency workers, end abuse of umbrella companies.

94. Empower trade unions and free collective bargaining.

95. The UK state pension is a round 21% of average earnings and is the lowest, as a percentage of average earnings, in the industrialised world. It is the main or the only source of income for majority of retirees. With low ages and demise of final salary pension schemes, it will be the only source of income for future retirees. The state pension should not be less than the minimum wage. Within the life cycle of two parliaments, the state pension should be aligned with the minimum wage.

96. Relieve labour shortages – by providing affordable child care. Currently, around one in three (32%) working parents with pre-school children spend more than a third of their wages on childcare. This is prohibitive and dissuades many from entering the labour market.

97. Social security support must not condemn people to extreme levels of poverty. Universal Credit and other welfare benefits should not be less than 80% of the national living wage.

98. The government should set out a programme to make UK living standards more resilient and the UK economy more resistant to a future crisis. This requires strengthening employment, pension and benefit rights and curbs on profiteering.

99. Capital's share of GDP must be reduced. Without this, worker's share of GDP cannot be increased. Without good purchasing power, large sections of society are excluded from consumption and a sustainable economy cannot be built. Enhancing trade union and worker rights is a necessary step towards that.

Rethink the Role of Taxation

100. Progressive taxation policies are needed to reduce inequalities. Poor should not pay a higher proportion of their income direct and indirect taxes, compared to the richest. This exacerbates poverty and inequality.

The neoliberal logic of tax and spend is deeply normalised and emphasized in the mainstream media even though taxes have not ex-ante funded any government spending, whether relating to the creation of the National Health Service, fighting wars or corporate rescues.

In the modern era, the state's ability to create money is not dependent on quantities of gold. It is dependent upon the health of the economy. The UK state (and others with major international currencies, such as the Pound, Euro, US Dollar) can create money to relieve poverty, build schools, hospitals and affordable homes (also see later sections). The role of tax policy is essentially to remove a certain amount of money from general circulation to achieve political objectives, which in recent years have been to funnel wealth upwards. That needs to change and the conventional neoliberal logics need to be problematized and debunked.

Any increase in the basic rate (20%) of income tax or the additional rate (40%) or national insurance contributions by the masses condemns more people to poverty, and has had little effect in reducing poverty and inequality or denting the power enjoyed by the elites. Inequalities can be reduced by addressing tax anomalies and by eliminating tax perks for the rich.

Here are some examples of how tax reform can reduce inequalities.

101. Capital gains are currently taxed at the rate 10-28% whereas earned income is taxed at marginal rates of 20%-45%. By taxing capital gains at the same rate

as earned income and charging national insurance on it would raise around £25bn a year. Indeed, all unearned income must be taxed at the same rate as earned income.

102. Dividends are taxed at marginal rates of 7.5% 32.5% and 38.1% whereas earned income is taxed at 20%, 40% and 45%. From April 2022, dividends are subject to another 1.25% charge in the form of a Health and Social care Levy. The recipients of wages up to £50,270 pay the full national insurance charge of 13.25%, However, the recipients of dividends do not pay the basic 12% national insurance charge. Curiously, the recipients of capital gains will not pay any national insurance, not even the 1.25% hike.

By taxing dividends at the same rates as applicable to earned income another £8bn or more can be removed.

Dividends to foreign investors are paid gross i.e. without any UK withholding tax. A charge of 20%, equivalent to the basic rate of income tax, can raise billions.

103. Currently, earnings between £12,570 and £50,270 are subjected to a 13.25% national insurance charge. Incomes above that attract a charge of only 3.25%. By extending the 13.25% charge to all income, an additional £15bn a year can be removed.

104. Tax system should be progressive i.e. should reduce inequalities i.e. what the mode of production cannot do, should be done by the tax system. Such a system is applied to income tax with marginal rates of 20%, 40% and 45%. However, the progressive elements are diluted with a variety of tax reliefs. For example, the government gives tax relief on pension contributions.

Around two-thirds of the £40bn a year tax relief on pension contributions goes to individuals paying income tax at the rate of 40% and 45%. By reducing the relief to 20%, the basic rate of income tax, the government can level the field and also remove £10bn from circulation.

105. A modest level of financial transaction tax on selected transactions (e.g. corporate bonds and equity and credit derivatives transactions) at rates ranging from 0.01% to 0.12% can remove £2.13 billion a year.

106. A higher rate of VAT (30%) on luxury goods could remove £2bn a year.

107. The Wealth Tax Commission recommended a wealth on individuals rather than households at the one-off rate of 5%, spread over a period of 5 years i.e. allowing a tax rate of 1% to be paid over each of the five years.

With an asset threshold of £500,000, some £260bn could be removed and create possibilities of a more equal society.

If the threshold was raised and tax was only payable on assets over £2m rather than £500,000, the tax take could be £80bn.

Of course, the rate and thresholds can be adjusted, but the point remains that wealth tax can generate revenues which reduce inequalities.

108. Restore the marginal income tax rate of 50% on individuals earning more than £150,000 a year.

109. HMRC fails to collect around £35bn of taxes each year due to avoidance, evasion, errors and other reasons. The official jargon is 'Tax Gap' i.e. the difference between what should have been collected and the amounts actually collected. So since 2010, around £420bn has not been collected. Other models put the estimate at between £700bn and £1,400bn. A clampdown on tax avoidance and good funding of HMRC would raise billions.

110. A large number of tax reliefs and given to individuals and businesses, with little awareness of their economic benefits. The Office for Tax Simplification has estimated that 1,140 tax reliefs. They include tax reliefs to support research and development, enterprise investment scheme ; entrepreneurs' relief , support for the film and TV industry and orchestras (not pop concerts), £24 billion for energy companies to decommission oil and gas infrastructure , and much more.

The full cost of tax reliefs is not known. HMRC has stated that in 2017-18, it administered 424 different tax reliefs, totalling over £400 billion though the full cost of all reliefs in not known.

A former head of HMRC has urged the government to abolish the "entrepreneurs' relief", one of the many tax reliefs, because it is just a tax perk and has provided "no incentive for real entrepreneurship". A thorough review of tax reliefs can generate billions.

111. Most private or independent schools in the UK are registered as charities, a status that confers considerable tax benefits upon them. In the words of Michael Gove, former Conservative education secretary, "Private school fees are VAT-exempt. That tax advantage allows the wealthiest in this country, indeed the very wealthiest in the globe, to buy a prestige service that secures their children a permanent positional edge in society at an effective 20 per cent discount".

In addition, as charities, private schools qualify for business rates relief. Typically, they get and 80% exemption.

The Labour Party's 2017 and 2019 manifestos promised to remove the tax privileges of private schools. The charging of VAT on private school fees was estimated to raise around £1.5bn a year and the payment of full business rates by private schools would raise another £100 million.

112. Introduce withholding tax. The UK typically does not levy withholding tax on dividends and interest payments by companies i.e. a basic rate of tax is not deducted at source. This results in a loss of tax revenues, especially when payments are made to natural and legal persons residing outside the UK. A well-known illustration is provided by BHS, which in 2005 paid a record dividend of £1.3 billion. Some £1.2 billion of this went to Monaco-resident Lady Green, the

main shareholder in BHS. There was no UK withholding tax and Monaco does not levy income tax. There are numerous similar transactions.

Numerous companies have engineered intragroup debt from offshore companies. The contrived interest payments reduce UK tax liability whilst the offshore entity pays no tax on interest received.

113. A report by the National Food Strategy recommended that a new tax be levied to reduce sugar and salt content from food and drinks. This could be set at £3/kg for sugar and £6/kg for salt sold wholesale for use in processed foods, or in restaurants and catering businesses, and could raise £3.4bn a year.

114. Environmental degradation is a major threat to life on planet earth. Rising carbon emissions are a major contributor to global warming and changes in climate. Currently, there are some implicit taxes on the producers of carbon through duties on the consumption of petrol and taxes, but despite widespread acceptance of the principle of 'polluter pays' there is no general taxation on consumption which directly generates carbon emissions and greenhouse gasses.

The ultimate aim is to encourage industry and consumers to switch to cleaner energy but polluters will be penalised. The Zero Carbon Campaign argues that levies on energy suppliers, transport including flying, food, imports and other high-carbon goods and services could generate revenues of £27 billion a year by 2030.

115. An inequality tax should be levied on a company or a similar organisation for inflicting harms emanating from inequitable distribution of income.

All wages, salaries and benefits paid by employing organisations are currently treated as a tax deductible expense i.e. they reduce the taxable profit and tax liability of a company. Currently, companies are rewarded for excessive executive pay because that reduces its liability to corporation tax i.e. inequalities are subsidised by the tax system.

It is generally accepted that polluters should pay additional taxes to compensate society for the harms inflicted. That principle underpins carbon taxes. The same principle should also be applied to social pollution i.e. inequalities are a form of social pollution. Income and wealth inequalities have negative consequences for many and should be addressed through the imposition of an inequality tax.

An inequality tax would place an upper limit on the amount of executive remuneration (salary, benefits, pension contributions, bonuses) that a company can deduct from its taxable profits.

The cap could be a multiple of the national median pay, the national minimum wage or even a straight sum which could be £300,000 per executive or employee.

It is worth emphasising that the proposal does not place a cap on the ability of a company to pay large amounts to an employee/executive. It merely restricts the tax deductibility of excessive pay.

So, if a company pays a CEO remuneration of £100,300,000; currently all of it is tax deductible. Under the proposal above, only £300,000 may be allowed as an expense in the company's corporation tax liability calculation i.e. £100m would not be treated as a tax deductible expense. The company would pay additional tax at the prevailing rate of corporation tax. A tax rate of 19% would require the company to pay additional tax of £19m (£100,300,000 - £300,000 = £100m X 19%).

Corporate Governance for the Many, Not the Few

116. Many of the inequities originate from unaccountable corporate power. Taming the corporations is necessary for possibilities of democracy and good government. All wealth is generated by the cooperative efforts of a variety of stakeholders. Too many toil and suffer whilst the rewards are appropriated by a few. Corporate governance must be reformed[113]. At the very least, the following reforms must be introduced to democratise corporations.

a) Stakeholders, especially employees, consumers, and pension scheme trustees, together with long-term committed shareholders, to be represented on the board of large companies, that is about 7,500 companies.

b) Companies Act 2006 privileges short-termism and the short-term financial interests of shareholders. It must be changed to focus on the long-term and recognise the interest of a broader range of stakeholders by providing them with representation on the boards of directors of large companies. Those stakeholders will be people who have long-term interest in the prosperity and wellbeing of companies, in particular employees and consumers. The rights of shareholders must be changed to shift focus on the long-term rather than short-term speculative gains.

c) All directors, whether elected by shareholders, employees or consumers, would have identical duties, rights and powers. Their prime duty would be to work for the long-term success of the company for the benefit of all stakeholders, not just shareholders. The concept of the long-term success of the company must include the impact of the company on the rest of society and on the environment, rather than the pursuit of short-term profitability.

d) Directors' duties contained in Section 172 of the Companies Act 2006 should be amended so that shareholder interests are not placed above the interests of other stakeholders.

The revised Section 172 could simply state that "A director of a company must act in the way s/he considers, in good faith, would be most likely to promote the success of the company for the benefit of its stakeholders as a whole".

[113] http://visar.csustan.edu/aaba/LabourCorpGovReview2018.pdf

Those stakeholders will include the employees, consumers, shareholders, pension scheme members, supply chains and the community more broadly.

The revised directors' duties will give recognition to the fact that large companies are public institutions with social obligations.

e) Companies are bought and sold in takeover bazaars by shareholders with little/no long-term interest in them. Their interest in stripping assets, jobs, wages, pensions and environment welfare and management oblige.

f) The power of short-term shareholders on companies must be constrained. There must be a on short-term shareholders voting in take-overs and other specified resolutions unless shares have been held by an identifiable owner for at least two years.

g) Shareholders to be encouraged to take a long-term view. Those holding shares for two years or more to have double votes.

Equitable Distribution of Income

117. Equitable distribution of income is the key to eradicating poverty and inequalities. This cannot be achieved without democratisation of the place of work and giving employees and other stakeholders power to shape distribution of income[114].

a) In designing and fixing executive remuneration packages, a company must demonstrate that it has given due regard to the interests of its employees and consumers, and its investment and capital needs.
b) Executive remuneration contracts in large companies to be made publicly available.

c) The cult of bonus payments to be discouraged. Bonuses, if any, should only be paid for carefully specified and extraordinary performance. What have company executives done that is beyond the call of their normal duties?

d) Central and local government are the biggest spenders in any economy. Their policies must also help to secure equitable distribution of income. They must apply a 'fit and proper' person test to all suppliers seeking public contracts of £5 million or more. This would attach weight to equitable distribution of income, environmental and social responsibilities in determining the fitness of a supplier to secure public contracts.

e) Directors to explicitly state in their annual report, that no employee has received remuneration which is less than the National Minimum Wage or the Living Wage. In the event of wilful or persistent failure to pay the legally mandated rate of pay, a minimum fine equivalent to the remuneration of the entire board should be levied and at least 50% of that should be paid by the directors personally.

[114] http://visar.csustan.edu/aaba/LabourExecutiveRemunerationReview2018.pdf

f) If executives are required to hold company shares, they are to be purchased with their own resources rather than provided by the company.

g) Executive remuneration to be in cash as rewards in share options, shares and perks invite abuses and complicate the calculation.

h) Executive remuneration packages must not be changed to compensate executives for changes in their personal tax status.

i) In large companies, all executive remuneration contracts are to be formulated by the company board (or stakeholder board in the case of two-tier boards). It may wish to be advised by a remuneration committee. If such a committee is created, it must have representatives of employees and other stakeholders.

j) The remuneration of each executive at large company to be the subject of an annual binding vote (not just advisory, as is currently the case) by stakeholders, including shareholders, employees and consumers.

k) The vote on executive remuneration to be in two parts.

l) The basic remuneration of each executive can be the subject of a simple majority vote by all stakeholders.

m) The stakeholder ballot for the incentive-based element for each executive to require a two-stage approval.

(i) There needs to be a 50% turnout
(Reminder - In England, Scotland and Wales, the legislation states that industrial action ballots must attract at least a 50% turnout and the majority must vote yes for action to be lawful. So, if 100 workers are eligible to vote, and only 49 turn out for the vote, workers cannot take industrial action even if all 49 vote in favour).
This has been hailed by CBI as an example of industrial democracy. So, why not apply the same logic to corporate governance!

(ii) In addition, there must be support from at least 90% of all voting stakeholders to approve each item of bonus and other incentive-based payments.

n) If 20% of stakeholders vote against remuneration policy or remuneration of any executive then all directors to receive a warning (a yellow-card).

Following, the first yellow-card, the company’s next remuneration report must explain the Board’s response and the action taken to address stakeholder concerns.

If for the second consecutive year, 20% or more of the eligible stakeholders reject the remuneration report, a second warning (or a yellow-card) must be issued.

This would automatically trigger an additional resolution for the accompanying AGM. This resolution must consider whether the executive and stakeholder directors, with the exception of the managing director and/or chairman, need to stand for re-election. If this resolution is supported by 50% or more of the eligible stakeholders then a meeting to consider re-election of directors must be convened in accordance with the requirements of the Companies Act 2006 or any new provisions that might need to be enacted.

o) Company law to be changed to give stakeholders the right to fix an upper limit i.e. 'cap' executive remuneration package. It must provide a framework for claw back of executive remuneration.

p) Golden handshakes, hellos, handcuffs, parachutes, goodbyes and severance have all become a way of boosting executive remuneration and must be prohibited.

q) In the case of companies with deficits on their employee pension scheme, their directors must not be eligible to receive any bonus or increase in remuneration unless they have reached a binding deficit reduction agreement with the Pensions Regulator.

r) There needs to be an upper limit on the tax deductibility of total executive remuneration for each person. This proposal penalises companies that continue to engage in inequitable distribution of income.

FIXING THE ENERGY PRICE CRISIS

98. The energy prices crisis cannot be fixed by the mechanisms and policies which have created it.

    There can be no effective competition in the transmission, distribution and supply of household and business energy. Upstream, relatively few gas, oil and nuclear power companies control the supply. For any market to work effectively, it must have many buyers and sellers. That is not possible. Therefore, we have a state-guaranteed private monopoly and its profiteering is endangering the welfare of the rest of society.

99. The energy sector needs to be brought under public ownership so that the resources extracted by shareholder are instead used to boost investment and lower bills.

Public ownership has numerous models[115] ranging from corporations, cooperatives, mutual, not-for-profit and other organisations, all managed by professional managers and fully accountable to parliament.

100. Public ownership can be in many forms ranging from 100% ownership and control to majority or fractional stake, giving the government representation on company boards to influence decisions.

101. Any form of public ownership must be based on democratic principles, with workers and employees on boards overseeing the performance of the executives and fixing their rewards.

102. Any mention of public ownership sends neoliberals into cold shivers and they demand to know how this will be financed.

Such questions were not asked when governments gifted £895bn of quantitative easing[116] to speculators, or provided £1,162bn of guarantees and cash to rescue banks after the 2007-08 crash[117], or handed vast Covid related contracts to Conservative party donors.

The same process of generating money/resources can be used to bring energy (and other essential sectors) into public ownership.

103. There is virtually no cost of bringing the energy retail sector into public ownership. .

a) The government is already bailing out Bulb Energy. It could formally bring it into public ownership and through it offer low-profit energy to consumers. This would immediately bring other retailers into line and those who don't will be pushed out of the market.

b) The current retailers, such as OVO and Octopus, could be allowed to run their current contracts to maturity and then be eased out of the supply chain and be replaced by a not-for-profit organisation.

c) All retail suppliers can be replaced by state-owned regional boards/companies, as was the case before privatisation.

d) Under public ownership, no retailer can go bust. There will be no costs associated with supplier bankruptcy, SOLR levy and other costs.

[115] For example, see ALTERNATIVE MODELS OF OWNERSHIP, published by the Labour Party in 2017, https://labour.org.uk/wp-content/uploads/2017/10/Alternative-Models-of-Ownership.pdf; Also see https://weownit.org.uk/sites/default/files/attachments/When%20We%20Own%20It%20-%20A%20model%20for%20public%20ownership%20in%20the%2021st%20century.pdf
[116] https://www.bankofengland.co.uk/monetary-policy/quantitative-easing
[117] https://www.nao.org.uk/taxpayer-support-for-uk-banks-faqs/

104. Transmission, distribution and supply companies can be bought into public ownership.

There is no need to borrow money as that only increases profits for banks.

Any state with a major currency can create money to reshape society. The UK is one such state and is already adept at creating money. For example, it handed £895bn of quantitative easing to speculators. So, the state can create money to bring energy sector into public ownership. The only reason, it might not do so is if the economy is at full throttle, and that is not the case.

If the creation of that money is considered to be inflationary, then it can remove some of the money from the economy through progressive taxation and by eliminating tax anomalies. For example, by taxing capital gains at the same rates as earned income and charging national insurance on the same, it can generate more than £25bn i.e. remove £25bn a year from the economy.

Under this approach taxation isn't part of some 'tax and spend' formula, a residue from the logic of gold standard days now long gone. Instead taxation becomes part of fiscal, economic and social policy management.

105. Quantitative easing (QE) will not increase government debt, according to Business Secretary Jacob Ress-Mogg.

This is what he told Sky News on 2 August 2022, when questioned about Prime Minister Liz Truss's plan to cut taxes by £30 billion and to borrow to pay for it.

> "If you look at the borrowing of the state at the moment, total borrowing, excluding the quantitative easing of 875 billion pounds, which is owed by the government to the government, so if you net that off, we under 60 per cent of GDP, I think that is a perfectly sustainable level[118]"

He seemed to say that government borrowing does not matter and that QE has cancelled £875 billion [it should be £895bn] of the national debt.

106. We know that the City of London which has long profited from the state will oppose People's QE. The irony is that the state creates money, hands it to banks and borrows it from banks at higher costs. Why are banks allowed to create money, which is what any act of lending does, when the state can create it?

Neoliberals want the state to borrow money and they then refer to excessive debt as a negative development. They claim that taxes finance government expenditure. It is hard to think of any era when taxes ex-ante funded government expenditure.

107. Even for industries brought into public ownership by borrowing, neoliberal logic overlooks some important aspects. The purchase of industries or even minority share in those industries with debt gives rise to two things.

Firstly, there is a liability on the government balance sheet.

[118] https://twitter.com/SkyNews/status/1554361779857362945

Secondly, at the same time, the government balance sheet will have new assets. So there is no net increase in government liability. This is how businesses operate. In the case of the government, the City emphasises debt but ignores the asset side.

That liability can be serviced by debt interest payments, just like companies pay interest on their leverage.

Public ownership will mean that the amounts currently paid to shareholders will not need to be paid and will instead be either invested in business or used to lower bills.

The government can issue redeemable public bonds in nationalised entities acquired with borrowing, giving people a return in the form of an interest payment. This loads the public debt onto companies brought into public ownership, a practice used by private equity and admired by the City.

108. The regulator for the energy sector must have stakeholder representatives on its board.

109. The UK government needs change its policies and prioritise investment in renewable energy. To accompany the May 2022 windfall tax (see above), the government handed tax sweeteners to oil and gas companies. They will receive an 80% investment allowance for "new" investment in fossil fuels. For every £100 invested, they will receive a subsidy of £91. The companies can lease second-hand assets and claim the investment allowance[119]. The oil and gas produced with public subsidies need not be sold to UK households.

In contrast, for every £100 invested in renewable energy, the investors receive a tax relief of £25, and from April 2023 this will decline to only £4.50. One possible explanation for indulgence of oil/gas companies is that they have been rewarded for funding the Conservative Party[120].

110. Public ownership needs to be accompanied by initiatives to improve energy efficiency. For example, giving poorer households grants to insulate homes and supporting the use of solar panels, wind, biomass and other renewable sources to generate electricity.

111. New buildings must be built to a higher level of energy efficiency. This requires regulation, the very thing that the government is opposed to. Indeed, its "permitted development" policy allows the improvement and extension of homes without the need to apply for planning permission[121], and builders can hire their own inspectors rather than be guided by local authority inspectors.

[119] https://publications.parliament.uk/pa/bills/cbill/58-03/0135/en/220135en.pdf
[120] https://www.mirror.co.uk/news/politics/fresh-sleaze-claims-tories-take-25439527
[121] https://www.gov.uk/government/publications/permitted-development-rights-for-householders-technical-guidance