
Perspectives

Inside British Politics



Political Overview

Truss's lead over Sunak among Conservative Party members grew from 19 points to 24 points between the MP stage of the process and the announcement of the final two. Sunak needs to be bolder and take risks to pull this back - he has just 7 days to act because party members will receive their ballots by 5 August.

“Thinking about the upcoming Conservative leadership election, who will you vote for?”

Headline Voting Intention:



Source: [YouGov](#), 20-21 July, poll of 730 Conservative party members

Sunak has signalled a last-minute U-turn on tax policy with a promise to remove VAT on energy bills for one year. He has committed to protect the greenbelt (zones surrounding major UK urban areas where development is severely restricted) drawing a contrast with the pro-development policy of Truss. He has accepted an interview with Andrew Neil who has a robust reputation, Truss has declined.

The focus of this leadership election has been on economic policy and a battle between reducing Government debt sooner (Sunak) or going for growth (Truss) and the former is losing it. Issues such as crime, education and culture have barely featured, and immigration has been low on the agenda. Sunak's best hope is to raise these issues now.

VIEW FROM THE MEMBERSHIP

It is a battle to convince around 170,000 party members, a third of which have joined since 2019, many of them from Red Wall seats (constituencies in the north of England and the Midlands which the Conservatives won from Labour in 2019). They are pro-Brexit and more pro-Johnson. Sunak was a key instigator of Johnson's removal from office, which is impacting his trust ratings.

Sunak is running on telling difficult truths, but party members trust Truss to tell the truth more than Sunak.

“Do you think each of the following can or cannot be trusted to tell the truth?”



Source: [YouGov](#), 20-21 July, poll of 730 Conservative party members

- *Sunak has been criticised for his aggressive tone in the debates, but it is the content that is more problematic. Attacking Truss for being too pro tax relief is a strange decision when lower taxes are a key Conservative belief.*
- *Despite Sunak backing Leave he has allowed himself to be portrayed as running 'Project Fear 2.0' by Truss a Remain campaigner. Project Fear was a phrase used by Leave campaigners to characterise the Remain side in the EU Referendum campaign with its claims of the economic and socio-political dangers of a Leave vote.*

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- *YouGov polling shows that the debates are extending Truss's lead. Conservative members thought that Truss came across as more likeable, trustworthy and performed best in the BBC TV debate ([YouGov, 25-26 July](#)).*
 - *Many Conservative party members did not want Johnson to go and retain a positive view of his legacy. Truss's reluctance to write Johnson off is unpopular to his detractors but it reflects the views of many Party members.*

WHERE IS THERE BROAD AGREEMENT?

- **Public spending:** Neither candidate wants a return to austerity, and this is the biggest impact of the Johnson era. Sunak is proposing a consolidation through tax increases and Truss is relying mainly on growth. Both are different to the Osborne era when 80% of the consolidation was done through public spending cuts.
- **Brexit opportunities:** They view this in terms of deregulation. Sunak proposes a review of all EU retained legislation within 100 days and Truss refers to reforms to Solvency II.
- **Public sector strikes:** Pledge to restrict strikes in essential services which is a manifesto commitment. Both are likely to back reforms such as minimum service levels and a higher vote threshold before a strike can be approved.
- **China:** A tougher approach that will impact UK/China technology transfers, stronger defence of intellectual property, and controls on the purchase of strategic UK industries.
 - Truss states that the UK must avoid becoming strategically dependent on China in the way that western Europe did on Russia. Although, the UK already is in areas such as rare earths and semiconductors.
 - There has been a UK strategy on critical minerals released in recent weeks and the purchase of a UK semiconductor plant by a Chinese linked firm remains under review, expect more such actions whoever wins.
 - Leaked HM Treasury documents suggest that until recently Sunak had been discussing enhanced trading relations with China but has now changed.
- **Energy bills:** Whether it is a two-year moratorium on green energy levies (Truss) or a one-year break on VAT on energy (Sunak) both sides will offer relief for energy bills.
- **Ukraine:** Truss and Sunak would not take military steps that would lead to British involvement because Ukraine is not in Nato but will continue the support.
- **Interest rates:** They have been a flashpoint in the campaign with Sunak warning Truss will lead to higher interest rates. However, both camps expect higher rates, and both will leave rate setting under Bank of England control.
 - Sunak's case for bringing Government debt down sooner is that the UK's high stock of Government debt makes it vulnerable as interest rates rise.
 - Truss supporting economist Patrick Minford has said they could go as high as 7%, though he prefers a rate in a range of 2-4%. The current rate is 1.25.

WHERE IS THERE A POLICY DIVIDE?

Levelling Up

This is a UK Government initiative to spread economic growth across the UK to reduce economy disparities between different regions and provide greater opportunities for people outside London and the South-East of England.

- **Truss:** Will move from a focus on central targets to a focus on low tax zones with simplified planning and expanded freeports. She wants to change the Treasury's investment rules to stop the pro London bias and has announced that she will support Northern Powerhouse rail (HS3). HS3 would improve connections in the north of England between east and west from Liverpool to Hull but it will not be as fast as HS2..
- **Sunak:** Levelling Up is more about civic pride, regenerating town and city centres and keeping crime low. It is also about skills because education today is the economy tomorrow. He is more sceptical about large infrastructure projects.

Taxation, public spending and Government debt

Below we explore Truss's case for lower taxes and Sunak's case for faster Government debt consolidation. Note that both want Government debt coming down as a percentage of GDP after three years if not before.

Truss's case for lower taxes:

- *Covid related Government debt should be treated as war debt* and paid down over a longer period.
- *Increases in corporation tax will threaten inward investment* on which many businesses rely and could cause a recession.
- *Other G7 countries are not raising taxes now* and some have higher Government debt than us, we would be an outlier.
- *The planned corporation tax increase will make us uncompetitive* (from 19% to 25%), with a rate twice as high as Ireland.
- *The facts have changed since the March 2021 Budget* when these tax increases were announced, and tax relief is now affordable and needed:
 - Government borrowing for 2021/22 is £130 billion lower than the OBR expected.
 - Inflation is now around 10 per cent compared to the 2-4% the Bank of England was expecting.
- *Targeted cost of living support for energy bills is needed:* Energy bills are predicted to reach £3-4k. A two-year moratorium on green levies provides that relief. Other European countries such as Germany are doing something similar.
- *These tax measures are not that radical* they keep the corporation tax we now have and restore the national insurance rate we started the year on.
- *The Conservative Party promised not to raise NI in its 2019 manifesto.* Truss opposed this in cabinet and can now rebuild trust by reversing it.

Sunak's case for faster Government debt consolidation:

- *Interest rates could go up quickly and the stock of UK Government debt could become unsustainable* and reduce growth.
 - The UK is borrowing £100 billion a year which is not sustainable.
 - The UK is borrowing to fund current spending and not just investment.
 - The OBR predicts that interest payments will be £87 billion this year.
- *Tax cuts financed through higher Government debt have to be repaid later with higher taxes.*
- *There will be a package of tax reduction to encourage business investment:* This will include measures on capital allowances and reliefs, and this is what manufacturing businesses want rather than lower headline rates, see his Mais speech for more information.
- *Reducing UK inflation has to be the priority:* The IMF has revised up its expectation of UK inflation to 10.5% up from the 7.8% it predicted in April and UK GDP growth next year is forecast to be just 0.5%.
- *Keeping the fiscal rules will maintain investor confidence in the UK:* The current fiscal rules predict that Government debt should begin falling in three years and the budget should be in current surplus then. It is not easy to inflate away Government debt - a quarter of the UK's Government debt is index-linked, which means that the cost of servicing it is influenced by inflation.

WHAT IS COMING UP?

To look out for in the next week, the leadership contest will include:

- Friday 29 July:** Channel 4 interview hosted by Andrew Neil, with Sunak the only candidate participating.
- Monday 1 August:** Hustings in Exeter.
- Tuesday 3 August:** Hustings in Cardiff. Conservative members will start to receive their ballots by post.
- Thursday 4 August:** Sky News debate hosted by Kay Burley between both candidates is taking place at 8pm.
- Friday 5 August:** Hustings in Eastbourne.
- TBC:** Both candidates have signalled they would be willing to take part in a rescheduled TalkTV debate after this week's debate was cut short.

