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STUDENT CONFERENCES

POLECONUK - ECONOMICS CONFERENCE C443

December 2nd 2025

NOTES AND THOUGHTS FROM THE CHAIR

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Firstly I have to congratulate the students and teachers for being such a great audience. Sitting in a chair, absorbing eight presentations, all in one day, is a feat that's very commendable. But over and above that, the quality of questions from the audience was the best any of us can remember, and I've been doing this task with PoEconUK for many years: since the days well before mobile phones, social media and Powerpoint. We hope the Q & A segments will continue to evolve to become an interactive feature in themselves, which is why I welcome the assistance of Steven Hunsaker in coordinating this aspect.

Vicky Pryce, Jamie Rush, Ben Zaranko, Torsten Bell and George Magnus all provided Powerpoint presentations, which will be made available to teachers in PDF format. **They are purely for your use in the classroom and must not be used / reproduced anywhere else. The same is true for the following post conference notes.**

The following notes and thoughts will identify some important themes, and I hope will also remind you of some salient points from **Ed Balls, Hugh Pym and Mark Littlewood.**

All our talks were highly relevant and well informed, and focus on issues raised which might form the basis of examination questions - trying to "spot" future exam questions is a fruitless exercise, but in economics there is a relatively small number of constant "themes" which pervade the subject matter and I would suggest that most A level essay questions are related directly or indirectly to one or more of these...

1. WHAT CAN MARKETS DO WELL, AND NOT SO WELL?
2. WHAT CAN GOVERNMENTS DO WELL, AND NOT SO WELL?
3. WHAT IS THE MOST EFFECTIVE BALANCE BETWEEN MARKET FORCES AND COMPETITION ON THE ONE HAND, AND GOVERNMENT PLANNING AND REGULAION ON THE OTHER.

These themes were evident in talks from **Huw Pym**, **Mark Littlewood** and **George Magnus**. The presentations from the others were more closely linked to the following...

4. GROWTH: WHAT TO GROW? HOW TO GROW IT? AND FOR WHOM? (INCOME CREATION AND DISTRIBUTION)

5. WHAT ARE THE BENEFITS AND COSTS OF GROWTH?

6. POLICIES FOR GROWTH, EMPLOYMENT, STABLE PRICES AND TRADE: WHAT ARE THEY AND WHY MIGHT THEY CONFLICT?

The conference was a few days after the second “Budget Day” of the present government, widely presented in the media as a make-or-break event, and this was reflected in the presentations. As a young economist, I hope you will learn to view the news through the lens of an economist rather than the view of a journalist.

The story in the media was relatively narrow, focussing on just one aspect of budgetary policy, largely concerned with filling “black holes” through revenue raising.

In economics exams, the higher grades are achieved by students who can critique and evaluate, and the marks for evaluation are the most difficult and elusive marks to achieve. A good way of working for them is to look for the aspects that are overlooked by the majority of commentators. For example, taxes are NOT all about bringing money into the government. Historically, they were, when monarchs, warlords and landowners collected dues to finance their households and pay mercenaries for their battles. In the modern world, tax revenue is still important of course, but taxes and government spending have a whole range of macro and micro economic objectives.

Here are some notes on (1) Growth and (2) Taxing and Spending, which might help you reflect on the presentations.

1. GROWTH

Economic growth takes place when there is either an increase in a country’s productive capacity (**potential growth**) or when there is an increase in the national income (GDP) of a country (**actual growth**).

Economists often speak of a **trade-off** between economic objectives. The **Phillips Curve** is often used to show a short-run trade-off between controlling inflation and unemployment.

From a political point of view, the problem with long-run growth is that the benefits of a major investment in, say, a high-speed railway line, might take 10, 20 or 30 years to be realised. Meanwhile governments have to seek re-election every 4 or 5 years. This can lead to a mentality of **short-termism**.

The current government claims that growth will enable it to fulfil its promises without increasing any of the rates of the three major taxes: income tax, National Insurance, and Value Added Tax (VAT).

From the macro presentations you saw at the conference, particularly the ones from **Jamie Rush** and **Ben Zaranko**, it’s quite clear that this plan is not working just yet! Long-run growth in the UK in recent decades has rarely been much above 2 or 3 per cent per annum. It’s bouncing along around 1 per cent or even less as we speak.

International trade has long been recognised as a major source of growth. **Vicky Pryce** argued it is difficult to see how UK growth can be increased significantly when Brexit has placed **trade barriers** between the UK and its nearest and largest markets.

2. TAXING AND SPENDING

Why do governments levy taxes? If an economics student is asked this question in an exam, many will answer along the lines of “To pay for roads, schools, hospitals...”

And while this is the truth, it is not the whole truth.

In fact, in a modern society there are **THREE** main reasons for taxation, and these are the keywords: **allocation**, **distribution** and **stabilisation**. You would do well to remember all three of these words when you go into an economics examination.

ALLOCATION, as suggested earlier, is the most familiar reason for levying taxes, and it is as old as the hills. Over hundreds or thousands of years, chieftains, war-lords, barons, kings, queens, dictators, presidents, governments and parliaments have collected taxes to **allocate** them to purposes which would otherwise not be achieved. Maybe taxes were collected in some shape or form to build Stonehenge! As history has progressed, the public sector has taken on more and more responsibilities, all financed by allocation from taxes: public goods, merit goods and services such as defence, schools, hospitals, transport, law and order, social services and so on.

DISTRIBUTION refers to the way in which taxes can behave like Robin Hood, “taking from the rich, to give to the poor”, or as we are more likely to say today, “re-distributing from the better off to the less well off”. Taxes that do this most effectively are called **progressive** taxes. Taxes that do the opposite are called **regressive** taxes. You can research, think, discuss, and decide for yourself whether income tax, VAT and National Insurance Contributions are progressive or regressive. Talking about progressive taxes (taxes based on the ability to pay) brings us to the concept of **equity**, which in everyday English can be thought of in terms of **justice** and **fairness**. Sadly, economists traditionally have not been very good at discussing justice and fairness, but in recent years this has changed somewhat and, particularly in France and Britain, a growing number of economists are providing not only some theory, but also a great deal of hard evidence that **more equal societies nearly always do much better** in terms of all sorts of indicators, such as health, education, lifespan, law and order and general happiness.

When politicians go on and on about growth, a useful question to ask would be: **who is going to benefit** from this growth? Will the extra income go to hard working families facing a rising cost of living, or will it go to billionaires so they can take joyrides in space?

STABILISATION refers to the way in which taxes affect aggregate demand and so affect the level of economic activity. This can be thought of as the most recent of the reasons for taxation, widely attributable to the economic analysis of J.M Keynes, developed in the 1930s, first fully implemented in the 1940s and still arguably underlying economic policy today.

Sometimes the stabilisation function clashes with the allocation function. For example, reducing taxes in order to boost the economy might mean there is not enough government money to allocate to essential services. This can lead to a need to increase government

borrowing. Is government debt a bad thing? Perhaps it depends partly on what the borrowed money is going to be used for. Recently, politicians in Britain have been talking about “**borrowing to invest**”. How does this differ from **borrowing to spend**? Discuss!

EXAM PREPARATION

Bearing in mind the “public health warning” I gave earlier about predicting exams, let’s look at some further themes and topics which might be useful for you to think about analytically and critically.

Torsten Bell mentioned the lifting of the cap on welfare payments to include families with more than two children. So here is the issue of “equity” (see “distribution” above). The right wing media and certain politicians are characterising this aspect of the budget as a question of “allocation”, taking cash from “working people” and transferring it to “welfare claimants” who aren’t working. This is a simplification and something of a caricature, as many recipients of income support are actually in work. So there are underlying issues here, such as the low level of wages in an economy where the cost of living is rising, and the possibility that some government benefits are in effect subsidising employers. Another underlying issue not mentioned by some commentators is that all children in a family are affected by poverty, not just the first two, and all children are punished by decisions that politicians might make in order to discourage family size.

If you are interested in the “distribution” aspects of taxation and spending, there was plenty of food for thought for you in Torsten’s presentation. He also touched on the issue of the “minimum wage”, a topic area that often generates exam questions, for example regarding the difference between a “minimum wage” and a “living wage”.

Ben Zaranco, in the traditions of the Institute for Fiscal Studies (IFS), gave a forensic report on the recent budget. One detail which struck me as good A Level material was the proposal to charge electric cars 3p a mile in a few years’ time. About 20 years ago, Alistair Darling was Transport Secretary in the Gordon Brown Labour government, and he floated the idea of road pricing, but not as an immediate policy, but something for the future. It’s as if there’s a politician’s prayer which says “Please give us road pricing, but not just yet”. There are numerous advantages and disadvantages of road pricing. The strongest argument in favour is that it would treat roads as a scarce good, instead of a public good free at the point of use. The present system, where road taxes are an up-front fixed cost, encourages people to use their cars more, in order to reduce the average cost of a road trip. Economic efficiency occurs when spending decisions are made at the margin, so pricing road space per each mile travelled would help reduce congestion rather than increase it. However, there are arguments for and against, which might be worth your while thinking about.

Jamie Rush produced a wealth of graphs and statistics which will be very useful for exam preparation. Bear in mind that under exam conditions it is more important to have an appreciation of the magnitude of a number rather than know the exact statistic to the last decimal place. For example, is a budget of £20 billion a large amount for a government project such as an airport extension, or is it vanishingly small? How many trillions is the UK National Income? Go into your economics exam with “ball park” figures for such variables stored somewhere in your head.

Vicky Pryce and George Magnus provided similar useful material, data and arguments surrounding the EU and China, two topic areas which feature strongly in data-response examination questions as well as essays.

Hugh Pym also dealt with a scarce resource, the NHS, which like road space in the UK is mostly provided free at the point of use, and therefore potentially faced with unlimited demand. He was one of the speakers who drew attention to the increasing attention being paid to Artificial Intelligence (A.I.) in improving efficiency in an organisation large enough to suffer diseconomies of scale. There are still too many paper prescriptions rather than electronic ones; letter offering an appointment are too often arriving at a date after the actual appointment. He outlined the idea of “virtual wards” where patients are treated at home but keep in touch with doctors nurses, and the times for their doses of medicines on screen. He also pointed out that there are some important economies of scale associated with a large organisation like the NHS, as long as it is efficiently regulated by NICE, and Mr Trump is very envious of the cheaper prices the NHS can negotiate for American-made medicines. Finally Hugh mentioned that social attitude surveys show that there is no evidence that people would prefer an American-style insurance system for health care. I would add that the current Monopolies and Mergers investigation into spiralling costs and prices in the insurance-based market for veterinary services might indicate for animal health care in the UK might provide some warning signs for human health services.

Mark Littlewood argued that the UK economy is not exactly broken but is currently underperforming. He asked whether the public sector was to blame and replied “not necessarily”. However, in spite of the internet, mobile phones and A.I., he argued that productivity gains in the public sector are way behind the private sector. It would be worth thinking about why this might be.

My own immediate reaction is to wonder whether this is something to do with the nature of work in the public sector compared with the private sector, and whether the methods of measuring productivity in one sector are appropriate for the other. We might be comparing apples with oranges. How does the output of a machine operator in car manufacturing compare with the “output” of a teacher, for example?

Ed Balls named three events as the main causes of Britain’s current economic problems, and he put them in this order of importance

1. The banking and financial crisis of 2008
2. The Brexit referendum decision of 2016
3. The Covid pandemic of 2020

If I was listening properly I think Ed put banking above Brexit because Brexit primarily affected the UK whereas banking affected the whole world. Personally, I would look at this question from the UK viewpoint and put Brexit at no.1. This is because Brexit was avoidable, unnecessary and self-inflicted, whereas the other two were more clearly what economists call “External shocks”. What do you think?

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Dr Charles Smith is one of the most experienced economics examiners in Britain. He has taught economics in secondary schools, colleges and at university level - at Swansea Business School and Swansea School of Education.

He has been an "A" Level examiner since the 1980s and in two different decades he was Chief Examiner in Economics, firstly for an international diploma programme, and secondly for a major UK A Level exam board. In both cases he played a leading role in curriculum development. He no longer contributes questions to future exams but continues today as an assessor.

Charles is available to visit schools and colleges to give talks on exam topics, or to run workshops for students or educators. If you are a teacher or administrator interested in discussing a possible visit please email Charles at: smithcej@hotmail.com.