HOUSE OF LORDS

Library Note

Autumn Statement 2012: Reaction

This Library Note provides a brief summary of the key measures announced yesterday in the Chancellor's Autumn Statement, before outlining the immediate reaction to the Statement as expressed by the Shadow Chancellor in the House of Commons and by a range of organisations and commentators.

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1. Introduction

The following section of this House of Lords Library Note outlines key measures announced by the Chancellor of the Exchequer in the 2012 Autumn Statement. Section three summarises reaction to the Statement in Parliament, and section four summarises reaction to the Statement from a selection of commentators and organisations. Further details on the economic and public finance background to the Autumn Statement can be found in the House of Commons Library Standard Note, *Background to the 2012 Autumn Statement*,[1] and an analysis of the main measures can be found in the House of Commons Standard Note, *The 2012 Autumn Statement*.[2]

2. Autumn Statement

On 5 December 2012, the Chancellor of the Exchequer, George Osborne, delivered his Autumn Statement to the House of Commons. In his opening remarks, he stated:

> ... the message from today's autumn statement is that we are making progress. It is a hard road, but we are getting there. Britain is on the right track and turning back now would be a disaster. We have much more to do.

During his Statement, the Chancellor also reaffirmed the Government's "commitment to reducing the deficit":

> We show our determination to do this fairly, with further savings from bureaucracy, the benefit bills and the better-off. We go on equipping Britain to succeed in the global race by switching from current spending to capital investment in science, roads and education. We offer new support for business and enterprise, so they can create the jobs we need. In everything we do, we will show today that we are on the side of those who want to work hard and get on.[3]

2.1 Projections for Growth and Public Finances

In conjunction with the Chancellor's statement, the Office for Budget Responsibility issued a revised set of forecasts for the economy and public finances. They stated the economy had performed "less strongly" in 2012 than expected at the time of their projection in March, and forecast that GDP would fall by 0.1 percent in 2012. They went on to say that the economy would grow by 1.2 percent in 2013, 2 percent in 2014, 2.3 percent in 2015, 2.7 percent in 2016 and 2.8 percent in 2017, leaving real GDP 3.2 percent lower in 2016 than had been predicted in March. Nevertheless, the OBR assumed the downward revision was cyclical, and therefore would eventually be reversible, rather than structural or permanent.

Public sector borrowing was forecast at £108 billion or 6.9 percent of GDP in 2012, and projected to decline to £31 billion or 1.6 percent of GDP by 2017–18. The OBR stated this was a "smaller and slower" improvement than forecast in March.[4]

A detailed breakdown of these projections can be found in the Executive Summary of the OBR's *Economic and Fiscal Outlook*.

[1] House of Commons Library, *Background to the 2012 Autumn Statement*, 3 December 2012, SN/EP/06464.
[2] House of Commons Library, *The 2012 Autumn Statement*, 5 December 2012, SN/EP/6485.
[3] HC *Hansard*, 5 December 2012, col 871.
[4] Office for Budget Responsibility, *Economic and Fiscal Outlook*, December 2012.

2.2 Public Spending

The Chancellor announced that details of departmental spending plans for 2015–16 would be set out in a spending review in the first half of 2013. However, he stated the Government would operate, in the meantime, on the principle that departmental resource totals would continue on the same trajectory as in the current 2010 spending review. This would include reducing departmental resource budgets by 1 percent in 2013, and 2 percent in the year after. Local government budgets would also be cut by 2 percent in 2014. The Ministry of Defence was to be included in these measures; however, they were given flexibility on their multi-year budget to ensure it did not lead to reductions in military manpower, or the core defence equipment programme. In addition, the Chancellor confirmed the Government would honour its commitment to spend 0.7 percent of gross national income on international development.[5]

2.3 Investment and Infrastructure

In his Statement, the Chancellor set out the Government's plans to develop the UK's infrastructure to "meet the needs of businesses", and to support "long-term private investment".[6] These plans included:

- An extra £1 billion to roads, including four major new schemes to: upgrade key sections of the A1, bringing the route from London to Newcastle up to motorway standard; link the A5 with the M1; dual the A30 in Cornwall; and upgrade the M25.
- £1 billion loan to extend London's Northern Line to Battersea.
- £1 billion to improve schools and build 100 new free schools and academies. £270 million to fund improvements in further education colleges.
- Ultra-fast broadband expansion in 12 cities: Brighton and Hove, Cambridge, Coventry, Derby, Oxford, Portsmouth, Salford, York, Newport, Aberdeen, Perth and Derry/Londonderry.
- £600 million for scientific research.
- Funding to assist building of up to 120,000 homes.
- A temporary increase in the Annual Investment Allowance, from £25,000 to £250,000 for two years.
- Creation of a Business Bank to deploy £1 billion of additional capital.
- To devolve a greater proportion of growth-related spending to local areas from April 2015, in response to Lord Heseltine's economic review, *No Stone Unturned*.[7]

2.4 Measures Relating to Tax

2.4.1 Taxation

The Statement announced a series of tax measures intended to "support growth, reward work, help with the cost of living and ensure that those with the most contribute the most to the fiscal consolidation".[8] These measures included: an increase in the personal allowance by £235 in April 2013, raising it to £9,440; an increase of the higher threshold rate for income tax by 1 percent, rather than by inflation, in 2014–15 and 2015–16; and an increase by 1 percent in 2013 of the inheritance tax threshold.

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[5] HC *Hansard*, 5 December 2012, col 876.
[6] HM Treasury, *Autumn Statement 2012*, 5 December 2012, Cm 8480.
[7] The Rt Hon the Lord Heseltine, *No Stone Unturned*, October 2012.
[8] HM Treasury, *Autumn Statement 2012*, 5 December 2012, Cm 8480.

The Chancellor also announced a 1 percent cut in the main rate of corporation tax from April 2014, to 21 percent, and an increase in the Bank levy rate to 0.130 percent next year. Furthermore, to "provide further support to businesses and motorists", the 3.02 pence per litre fuel duty increase, planned for 1 January 2013, was cancelled and deferred until 1 September 2013.[9]

2.4.2 Tax Avoidance and Tax Evasion

The Chancellor announced the Government's intention to target the promoters of aggressive tax avoidance schemes through the introduction of a General Anti-Abuse Rule. He also revealed that a new HM Revenue and Customs unit, dedicated to tackling offshore tax evasion, would be created. This was to be accompanied by the publication of a new comprehensive offshore evasion strategy.

2.5 Benefits and Pensions

In the Autumn Statement, the Chancellor set out the Government's strategy to create an "affordable" welfare system, and to provide the "right incentives for people to work".[10] He announced that most working age benefits and tax credits, excluding disability and carers benefits, would rise by 1 percent for each of the next three years. In addition, child benefit would rise by 1 percent for two years from April 2014.

The Chancellor also revealed that, from 2014–15, the Government would reduce the lifetime allowance for pension contributions from £1.5 million to £1.25 million, and would reduce the annual allowance from £50,000 to £40,000. The basic State Pension was set to increase by 2.5 percent next year.

3. Reaction in Parliament

3.1 Shadow Chancellor of the Exchequer

Responding to the Chancellor's Statement, the Shadow Chancellor of the Exchequer, Ed Balls, declared:

> ... after two and a half years, we can see, and people can feel in the country, the true scale of this Government's economic failure. The economy this year is contracting... It is people who are already struggling to make ends meet, middle and lower-income families and pensioners, who are paying the price, while millionaires get a tax cut—a £3 billion welfare handout to the people who need it least.[11]

Furthermore, he argued that the Office for Budget Responsibility had shown that "more borrowing and higher deficits means higher national debt", and asserted:

> National debt will be higher at the end of this Parliament than the level inherited; it will be higher at the end of this Parliament than forecast in the plans he inherited; and it is no longer falling as a percentage of GDP in 2015. It is rising in 2015 and rising again in 2016, breaking the fiscal rule for falling debt upon which the Chancellor said his entire credibility depended.[12]

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[9] HM Treasury, *Autumn Statement 2012*, 5 December 2012, Cm 8480.
[10] ibid.
[11] HC *Hansard*, 5 December 2012, col 882.
[12] HC *Hansard*, 5 December 2012, col 884.

Commenting on the Government's plans to reform the welfare state, Ed Balls agreed with the Chancellor that "we do need to reform and modernise" and "reduce its costs". He also expressed his "support" for a benefit cap, "done fairly, with a higher level in London". However, he challenged the Chancellor's claim that the welfare bill would be cut:

> ... higher inflation and long-term unemployment mean that the benefits bill is forecast to be billions higher in this Parliament than he boasted. Let me help him: welfare to work—the clue is in the name. We cannot have a successful welfare to work programme without work, and we know that the Work programme has totally failed, with only two people in 100 going into permanent jobs.[13]

Closing his speech, Ed Balls stated:

> They are cutting the NHS, not the deficit; they are borrowing more than £212 billion more than they promised two years ago; and they are cutting taxes for the rich, while struggling families and pensioners pay the price—unfair, incompetent and completely out of touch.[14]

3.2 Other Members of Parliament

Cheryl Gillian, Conservative MP for Chesham and Amersham, welcomed the Chancellor's statement, particularly "the extension of the expenditure envelope for infrastructure plans".[15] However, she also asked for assurance that the transport policy would be "fully integrated":

> At present, the proposals for HS2 completely ignore any plans we might have to expand our airport capacity. There is little point in building or announcing any extension to the railway if it does not connect adequately to our major international hub airport.[16]

Stephen Williams, Chair of the Liberal Democrat Treasury Parliamentary Policy Committee, welcomed the "news of a further rise in the personal threshold—to £9,440", and argued:

> ... a restriction on tax relief on pension contributions for the very rich, and more resources to tackle tax evasion and tax avoidance effectively show that the coalition Government are committed to tax fairness even in difficult times.[17]

However, David Miliband, Labour MP for South Shields, addressed the issue of youth unemployment, and urged the Chancellor to re-examine the Work programme:

> Will he now agree, without point scoring, to look at the level of the wage subsidy to incentivise take-up, at the structure of the Work programme, so that voluntary organisations are not squeezed out, and at the role of a part-time job guarantee to give hope to these young people.[18]

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[13] ibid, cols 885–6.
[14] ibid, cols 886–7.
[15] ibid, cols 891–2.
[16] ibid.
[17] ibid, col 891.
[18] ibid, col 888.

4. Reaction to the Autumn Statement

4.1 Organisations

TUC—Pain without Purpose

The TUC General-Secretary, Brendan Barber, in a press release published on the TUC website, stated:

> When you are self-harming you should stop, not look for better sticking plasters.
>
> With the economy still scraping along the bottom, unemployment set to rise and the Chancellor missing his own debt target, we need a fundamental change in direction, not more muddling through.
>
> Cuts, austerity and squeezed living standards stretch seemingly without end into the future. What is missing today is any vision of a future economy that can deliver decent jobs and living standards—it's pain without purpose.

Nigel Stone, writing on the TUC's blog, took issue with what he saw as the Chancellor's assertion that the richest were paying a high share of income tax. He maintained that this was because the richest have got richer: "If the rich are getting richer at a faster rate than everyone else—even if you change no tax rates or allowances—they will pay more tax". Duncan Weldon, also writing on the TUC blog, argued the Government was repeatedly downgrading its forecasts:

> Today the OBR revised down its forecast for growth in 2012 to -0.1 percent and its 2013 forecast to 1.2 percent—as recently as March they were expecting 0.8 percent and 2.0 percent.
>
> But back in June 2010 they expected 2.8 percent and 2.9 percent, in fact every time the Chancellor has stood up to announce new growth forecasts he has been forced to cut the numbers.

London First

The Chief Executive of London First, Baroness Valentine, in a press release, welcomed the decision to extend the Northern Line to Battersea, which would bring "economic growth, homes and jobs to a neglected part of London" and also the commitment to extend the proposed high speed rail link (HS2) to the North-West and West Yorkshire. Baroness Valentine also supported the announcement to extend the grace period for new developments as a "sound and forward-thinking move" that would boost "the speculative development that London needs in anticipation of future growth in demand". She contended that a property tax would have been "particularly damaging" for London and the South-East and called for "sensible revisions" to the Stamp Duty rules from the last Budget so that they tackled tax avoidance but did not penalise legitimate property investment businesses. She criticised the rise in the bank levy, and she saw it as a tax which penalised banks for choosing to operate in the UK, with the risk that the jobs, growth and tax revenues they created might go to other, more competitive, financial centres: "Investors look for stability and credibility in tax policy; the bank levy lacks both".

Resolution Foundation—Autumn Statement Hits "Strivers"

The Resolution Foundation, in its reaction, stated the "majority of cuts to benefit and tax credits announced in today's Autumn Statement will fall on working households". The

Foundation said its analysis showed that approximately 60 percent of the effect of a three-year below-inflation rise in benefits would hit working households, while 40 percent would affect those where no one is employed. On pension tax relief, the Foundation supported the principle behind reducing relief on lifetime pension contributions to £1.25 million, but suggested a limit of £1 million, as recommended by the Commission on Living Standards, would have raised more. It thought the money raised should have been used to support working families via expanded childcare, which would have reduced pressures on the cost of living, supported second earners and boosted female employment. Gavin Kelly, Chief Executive of the Foundation, said: "The majority of the cuts made to benefits and tax credits announced today will come from working households—it's completely wrong to say that today was all about helping so-called strivers".

Federation of Small Businesses (FSB)—Tough Times Ahead but We're on the Right Road for Small Business Growth

In a press release issued on the FSB website, John Walker, the FSB National Chairman, welcomed the Autumn Statement. He accepted that "bold actions are needed to boost the economy" and hoped the Government was "on the right road to helping small firms". He believed the Chancellor had listened to the concerns of many FSB members, on issues such as capital allowances, more encouragement for investors to place funding in small businesses and cancelling the 3p rise in fuel duty. He was hopeful that further details on the small business bank would play a central role in opening up finance for small firms. He noted that the OBR's figures suggested the recovery would take longer than anticipated, and agreed with efforts to boost short-term growth where possible whilst supporting measures to raise the long term productivity of the economy. In particular, he welcomed the additional funds earmarked for spending in key areas such as schools and infrastructure, which were likely to have a positive immediate effect across the construction industry and help boost the productive potential of the economy. He supported the intention to fully explore options to make full use of gas resources to reduce energy bills and build on the UK's expertise in that area. He was also pleased with the announced £1.5 billion export finance facility. However, he urged caution regarding the devolving of significant funds to Local Enterprise Partnerships, as suggested by Lord Heseltine. He believed their development was "patchy" and that their institutional capacity was "low", which raised questions about their ability to deliver. He was sceptical about whether they were the correct bodies to direct transport policy. Finally, he said the FSB was "disappointed" that the Chancellor had not extended the regional National Insurance Contributions holiday to all small firms across the UK, as FSB research had shown that "if it were extended to all UK-wide micro firms it would create 45,000 jobs and add £1.3 billion to UK GDP".

Public and Commercial Services Union—Wildly Out of Touch and Miles Off Course

The General-Secretary of the Public and Commercial Services Union, Mark Serwotka, in a press release, was very critical of the Autumn Statement. He said austerity was not working but that the Chancellor was refusing to change track and instead was presenting "a smoke and mirrors statement that will do nothing to boost our ailing economy". He thought that a "toxic combination of arrogance and economic illiteracy" was leading to "real people's lives and communities... being torn apart by this Government's failed policies". He was particularly dismayed by what he saw as the Government's use of "hard-working public servants as a political football", when instead it needed to "invest in public services and chase down the tax dodgers who deprive our economy of tens of billions of pounds a year". In a separate press release, Mr Serwotka sought to highlight that the Government had backed away from local public sector pay deals, which he said had been hidden in the detail of the Autumn Statement: "Maybe George Osborne couldn't bear to give the unions any credit for pointing out what an economic disaster it would have been and how it would depress pay in the regions already suffering from his failed obsession with austerity".

CBI—The Chancellor Sticks to his Guns on Deficit Reduction

John Cridland, the CBI Director-General, in a CBI press release, welcomed the Government's proposals on infrastructure, investment and support for exports: "£5 billion on near-term infrastructure, like the tube to Battersea, half a billion a year tax relief for small firms, and £1.5 billion extra export support should boost investment and create jobs". He also supported the decision not to raise fuel duty and to extend the exemption period for empty property rates on new commercial projects, which would "boost confidence in the property market and encourage more construction activity". He accepted that "after a difficult year the economic realities dictate that austerity and debt reduction will take longer", and that the Chancellor had "stuck to his guns" on deficit reduction by "avoiding deeper cuts or more borrowing in order to retain international credibility".

There were a number of other specific policies that he highlighted. He supported the speeding up of the release of public sector land and the kick-starting of large, stalled sites to get the housing market moving. He also welcomed the cutting of the headline corporation tax rate by an extra 1 percent, which sent "a clear signal that the UK is a leading place to invest", while increasing the Annual Investment Allowance from £25,000 to £250,000 for two years would "stimulate business investment in buildings and machinery, particularly by SMEs". Similarly, the extension of the enhanced small business rate relief for another year was good news for firms facing significant cost pressures. Though he was encouraged by a commitment to ensure the UK visa system was open to the best and brightest, he felt a full re-assessment of the migration target was required. He believed that extending public spending restraint for a further year to meet the Government's primary fiscal mandate was an "appropriate response to the OBR's growth downgrade", which over the medium-term would contribute to economic stability. On the question of pensions, he noted the Chancellor had avoided some of the "more sweeping effects" that would have been caused by cutting the annual tax relief limit to £30,000, but contended the cut to £40,000 still "undermines the Government's efforts to encourage saving and investment in our economy". However, the CBI was pleased the Chancellor had recognised the economic case for addressing pension fund deficits. On the question of the Heseltine Review, he supported plans for new funding for Local Enterprise Partnerships and the expansion of the Regional Growth Fund, as it would give local businesses "more control to create growth in their area". He welcomed the Government's gas strategy, which would improve confidence for investors in the UK's energy sector, though he thought it important the UK did not become dependent on any one source of energy. He did not think a review of the Carbon Reduction Commitment went far enough, and called instead for it to be scrapped when public finances allowed, and for it to be replaced with a "more coherent approach to business energy efficiency". On tax avoidance and evasion, he supported the extra £77 million funding for HM Revenue and Customs to expand their programme to tackle abusive avoidance and evasion, though he added the taxation of multinationals was "complex and has to be tackled internationally at the OECD, EU and G20 levels, not unilaterally, which would risk damaging the UK's attractiveness as a place to invest".

IPPR—Chancellor's Fiscal Rules a Busted Flush

Nick Pearce, Director at IPPR, in a press release, was generally critical. He said the Chancellor's fiscal rules were a "busted flush" and the economy needed "greater stimulus now, offset by more rapid consolidation later", and that "the fiscal framework should support that approach”. He welcomed the increases in capital investment, but suggested that more help with childcare, rather than increases in the Personal Tax Allowance, should have been given to working families, who would also see their tax credits cut further in real terms. He thought the Chancellor had also missed the opportunity to introduce fair wealth taxes: “In reality, only 4 percent of the fiscal consolidation in 2015/16 comes from taxes, while 96 percent comes from public spending and welfare cuts”. Ed Cox, Director of IPPR North, in the same press release, sought to highlight the regional imbalance in the Statement. Though it contained some small measures to enhance local growth, the Chancellor had to accept that “northern prosperity is national prosperity” and had to take more radical measures to shift investment in London and the South East northwards”.

Institute of Directors (IoD)—A Tricky Job, Well Done

Graeme Leach, Chief Economist at the Institute of Directors, in an IoD press release, said that faced with a weaker outlook for GDP growth, the Chancellor had largely succeeded in raising business confidence, especially through a cut in corporation tax, whilst at the same time he had kept the deficit on a downward path. Though the IoD would have preferred further and faster deficit reduction, it accepted this was politically unlikely. However, the IoD was concerned that the OBR’s growth forecasts would “yet again prove too optimistic, with the result that the deficit in the out years will be much higher than forecast”. The IoD welcomed the cancellation of the planned fuel duty rise and thought the Chancellor had “got it right” on shale gas, Annual Investment Allowances, infrastructure spending and on the extension to the business rate relief scheme. However, the IoD reiterated its support for localised pay schemes for school teachers and thought the announcements regarding pensions were mixed. With regard to the latter, Malcolm Small, the IoD’s Senior Adviser on Pensions Policy, suggested that cutting tax reliefs on pensions would “be yet more evidence for a suspicious public that the Treasury views pension savings as a cash cow”, which was “another blow to public confidence at a time when we should be encouraging people to put money aside”. By contrast, he thought increasing the drawdown rate and expanding the scale and range of tax exemptions for ISAs were both welcome steps.

National Pensioners Convention (NPC)

The NPC in a press release criticised the Government for “failing to address the main concerns of millions of older people in today’s Autumn Statement”. Dot Gibson, the NPC General-Secretary, stated that though George Osborne had said he intended to give older people a guaranteed 2.5 percent increase in the state pension next April, he had not made it clear that “this is just £2.70 a week extra and only £1.60 a week more for millions of older women who don’t get a full pension”. Even with this increase, she contended that one in five older people would continue to live in poverty, with three million pensioner households in fuel poverty and millions more struggling to make ends meet. The Chancellor had said nothing about scrapping the freeze on the age related personal tax allowances which he planned for next April, which would reverse his earlier cut to the winter fuel allowance. There had also been no mention of the future of social care funding. She concluded by saying it was immoral that he had signalled “another twelve months of belt tightening amongst Britain’s pensioners—at a time when the super rich are still getting a 5 percent reduction in their tax rate”.

British Bankers Association (BBA)

The BBA’s Chief Executive, Anthony Browne, in his reaction, was supportive of the Statement. He thought it “focused clearly on supporting the UK’s businesses” with a number of targeted measures designed to help, particularly SMEs”. He welcomed the rise in the annual ISA investment allowance to £11,520, and was particularly pleased the Government was consulting on including shares quoted on junior stock markets such as AIM. In terms of specific positive proposals, he highlighted: an increase in the capital allowance for plant and machinery; support for export activity; more money for local enterprise partnerships and regional growth funds; a new business bank; recognition of the BBA Business Finance Taskforce initiatives, including the Business Growth Fund and the scheme to refer businesses that are declined bank finance to their local community development finance institution (CDFI). On the question of the Bank Levy, he called for stability in the tax system so that banks could reasonably plan for the future.

Teachers' Unions

A number of teaching unions responded to the Government's proposals regarding the linking of teachers' pay to performance. In her response, Christine Blower, General Secretary of the National Union of Teachers, argued that mandatory national pay scales were one of the few things that had kept the teaching profession attractive. She was concerned that removing incremental progression and linking pay ever closer to appraisal would anger teachers, and pointed to recent Government figures that had shown the number of teachers leaving English state schools had risen by almost a fifth in one year. More specifically, she thought linking teachers' pay with appraisal would not enhance performance or motivate teachers, and would encourage teachers to spend more time teaching to their individual objectives. It would also lead to head teachers and governors devoting much more time to taking individual pay decisions for every teacher. It would be seen by many teachers as "a further attack on their pay and conditions". Chris Keates, General Secretary of the NASUWT, in their response, argued the proposals represented a continuation of the Government's "war on teachers". She contended that if implemented, the recommendations would "leave behind the wreckage of a national pay framework which will be incapable of delivering consistent, fair and transparent approaches to pay". The proposals in her opinion would also "place virtually unlimited discretion on teachers' pay in the hands of head teachers at a time when unfairness and discrimination are already rife". However, she acknowledged that the Chancellor had "finally been forced to concede what everyone else knew all along, that regional and local pay was a bad idea".

The National Association of Head Teachers (NAHT) took a different line in its reaction. Russell Hobby, General-Secretary of the NAHT, welcomed the fact that regional pay awards had been dropped. He thought progression on the basis of good performance was "a sensible principle, if hard to implement, and is certainly the norm in most sectors". The NAHT thought that it was sufficient to reward performance, without more radical and divisive elements like bonuses, though it would require slow and steady implementation, backed by training, as staff had "a right to confidence in the performance management system before their progression is connected to it".

Adam Smith Institute (ASI)—Economic Stagnation is Here to Stay

Sam Bowman, writing on the ASI blog, said that without a change of course that focused on deregulation and targeted tax cuts there could be "no growth and no prospect of growth" and more fundamentally there "could be no trade-off between growth and deficit reduction". He argued the private sector was crucial to growth, but that Government regulation was "smothering small and medium-sized businesses", and that the announcement regarding rate relief was "not enough to help them". He instead called for the scrapping of employers' National Insurance because it was a tax on jobs which prevented the "creation of over 500,000 jobs by small and medium businesses". He welcomed the rise in the tax-free personal allowance, which the ASI had supported, though he considered that it should have been raised to the minimum wage level so that the poorest earners would pay no tax at all. He welcomed the decision not to raise fuel duty. However, he thought the Government should have announced deeper cuts to public spending, but contended these were not possible "without a fundamental shift away from socialistic monoliths like the NHS" and a shift to "more efficient, market-based models of social insurance for healthcare and welfare".

4.2 Press and Media

Robert Peston—Carrot and Stick for Business

Writing on the BBC News website, Robert Peston, the BBC's Business Editor, suggested the Chancellor had two challenges in the Pre-Budget Statement: "to do something to wake the UK economy from the torpor that has afflicted it since 2008, while also persuading investors of the world that lending to the Government remains a prudent thing to do". He noted that in terms of business investment, the Chancellor had set out a number of proposals. These included using the forecast £3.5 billion of proceeds from the auction of 4G broadband services to give some temporary tax cuts to business, such as an increase for two years in the annual investment allowance, which at a cost of around £2 billion would provide "a valuable tax incentive for investment to small and medium size businesses". There would also be a cut in corporation tax of 1 percent, which Peston thought would make "it almost inevitable that by the time of the 2015 election, the mainstream rate of corporation tax will be 20 percent", which "would be the joint lowest rate of any of the large G20 economies". However, the Chancellor was also "trying to make it harder for multinationals to shuffle their costs and revenues around the globe to minimise the amount of corporation tax they pay to him". In addition, tax cuts for banks were still seen as "toxic", so the Chancellor had increased the bank levy to sustain the net annual proceeds from the levy at £2.5 billion, while he had also increased taxes raised from those on high earnings by £1 billion a year, through the device of limiting the tax relief they could enjoy on pension saving. Peston suggested investors would not welcome the news that it would take a further year for the ratio of national debt to GDP to start falling. Though not unexpected, there was also a real possibility the UK could lose its AAA credit rating in early 2013. However, he suggested this would be more of a political embarrassment for George Osborne and David Cameron, as the markets already appeared to be taking stock of a possible ratings downgrade.

Nick Robinson—Is George Osborne Right to Look Confident after "Mini-Budget"?

Nick Robinson, the BBC's Political Editor, in his reaction to the Chancellor's Statement on the BBC website, sought to gauge the political impact. He thought that though the Chancellor had a "grim" economic message, there might be some reasons why he thought he had got the politics right, though he might later be proved wrong. Firstly, the Chancellor had hailed the fact that the deficit and borrowing were still falling, contrary to most economists' expectations, and which allowed him to claim that the Government was still making progress. Secondly, the Chancellor believed that so long as the public perceived the problem with the British economy was borrowing, they would see the Government's budget hawks as the solution and Labour as the problem. Thirdly, the Government believed its chosen targets for cuts were popular. Fourthly, alongside the pain the Chancellor had also offered voters some gains, such as the cancellation of the next planned fuel duty rise and another small income tax cut by an increase in the personal tax allowance. Fifthly, the announcement of a cut to business taxes and the switch of £5 billion from day to day "current" spending to investment or "capital" spending had been welcomed by business. However, Robinson went on to note that one of the oldest political clichés was that a budget should not be judged on the day it is delivered: "The reason sayings become clichés is because they are usually true".

James Forsyth—Autumn Statement was the Antithesis of the Budget

James Forsyth, in a post on the *Spectator* website, sensed that Conservative MPs thought the Autumn Statement had avoided the last Budget's mistakes. In talking to the 1922 Committee after his Statement, Osborne had stressed the importance of cancelling the 3p rise in fuel duty, and told MPs they should tell voters that it showed the Government understood how hard family budgets were being squeezed. Forsyth also reported that Tory MPs were pleased with the politics of a Commons vote on limiting the increases in working age benefits to 1 percent for the next three years, and were convinced that if Labour opposed it, it would help the Tories win votes.

New Statesman—Chancellor is Making Growth Less Likely, not More

The *New Statesman,* in a leader article, argued the Chancellor had failed in his promises to both restore the public finances to a sustainable path and unleash a private sector recovery to compensate for the shrinking state. It noted that for the fifth time since it was established, the OBR had downgraded its growth forecasts, predicting that the economy would shrink by 0.1 percent this year and grow by just 1.2 percent next year, meaning that "an austerity programme that was originally intended to last for five years will now last for eight and Mr Osborne would miss his target to reduce the national debt as a share of GDP by 2015–16". It questioned what it saw as Mr Osborne's reasons for this, such as the eurozone crisis, higher oil prices and the slowdown in emerging markets:

> ... but the UK remains the only G20 country apart from Italy to have suffered a double-dip recession... With its own currency, its own independent monetary policy and the ability to borrow at historically low rates, Britain could and should be doing better. Four years on from the beginning of the crisis, GDP remains 3.1 percent below its pre-recession peak. In the US, by contrast, where the Obama administration maintained fiscal stimulus, it is 2.3 percent above.

It was sceptical about some of the Government's specific proposals. It characterised the £5 billion increase in capital spending as "a belated acknowledgement that the state must intervene at times of stagnation to promote growth", but added that "since the move is funded through additional cuts elsewhere, it will make little difference to output". It also questioned whether the Statement would share the burden of austerity. It argued that the cut in the top rate of income tax from 50p to 45p, "worth an average £107,500 to the country's 8,000 income-millionaires", would proceed as expected next April, while at the same time, benefit levels would be raised by just 1 percent: "a real-terms cut in income for the UK's poorest citizens, many of whom are already dependent on charity". It agreed with his decisions to reduce tax relief on pensions for higher earners, but thought he had "missed an opportunity to radically shift the burden of taxation away from earned income and towards unearned wealth", as he had rejected any move towards a "mansion tax", though property taxes were "fair, easy to collect and economically beneficial". The *New Statesman* concluded that stagnation could be avoided with a genuine strategy for growth, including the establishment of a National Investment Bank, a major house-building programme and significant tax cuts.

Janan Ganesh—Chancellor Makes the Best of a Bad Job

In an article published on the *Financial Times* website, Janan Ganesh thought that with growth in the past quarter and the well-received appointment of Mark Carney as the next Bank of England Governor, the Chancellor needed an accident-free Autumn Statement, which he "seemingly delivered". The extension of austerity well into the next Parliament and the difficulties of him meeting his debt target had been "finessed but not concealed", while he was "spared the humiliation of announcing that borrowing is actually on the rise, something the Treasury has dreaded for most of this year". He also thought that despite the grim economic picture, it was a situation that favoured the Government. Though trust in its economic management was slipping, Ganesh believed voters still blamed the previous Government and a combination of external events, namely the banking crash and the eurozone crisis. In addition, he thought there was "not yet a popular backlash against austerity, only an increasingly grudging forbearance". Alongside this, Labour found itself in a difficult position. Labour was still viewed negatively by many for its own profligacy in office, meaning that while many voters deplored the Government, they would "not entertain the Opposition on the issue". Labour also suffered from the complexity of its alternative: "The idea that borrowing more in the short term might actually be the ultimate deficit-reduction strategy is internally consistent and enjoys a famous pedigree. But it is difficult to sell". By contrast he suggested that the Government's economic message, "for all its exaggerations, has a bludgeoning clarity to it". Finally, Labour was in "an awkward position" on many budgetary specifics. He thought that its "ambiguity" on welfare allowed "the Government to portray Labour as the party of idlers", while its refusal to say whether it would reverse a cut to the top rate of income tax blunted the party's attacks on the policy. He concluded that though the Autumn Statement was no triumph, "it has made it clearer that, if the Government is unlucky in its economic circumstances, it is rather fortunate in its enemies".

***Guardian*—Dodgy Sums, Breached Promises**

The *Guardian's* editorial claimed that the Chancellor had made a series of "objectionable" assertions in his Autumn Statement. It argued that his view that the "economy is healing" was undermined by the OBR, who according to the *Guardian* had suggested the economy was fragile, with the nation's annual income set to shrink in 2012 and grow by a feeble 1.2 percent in 2013 (against March's forecast of 2 percent and June 2010's prediction of 2.8 percent). The Chancellor's claim that the Government was "on track" was also questionable. The *Guardian* noted the Government had admitted that it would miss one of its two key budget targets—that the debt-to-GDP ratio should be falling by 2015. In addition, the paper stated that "the longest and sharpest austerity programme imposed on any big rich country since 1945 will now carry on for a full eight years (at least), rather than the one Parliament originally envisaged". The *Guardian* also maintained that "some of the sums offered up by the Treasury (and approved by an obliging OBR) were far too questionable to bet a country's finances on". For instance, though it was technically true that public debt was falling in 2012, despite the slump, once account was taken of the "Treasury's raid on the Royal Mail's pension fund, the Bank of England's income from the quantitative-easing scheme and the auction of 4G telecoms licences... the fall turns into a rise". In addition, it pointed to the Treasury's reckoning that government departments would spend £4.5 billion less than their official budgets in 2012, and would do so again over the next two years. The *Guardian* believed that this raised the question of when was a spending cut not a cut and asked whether "this wishful extension of one-time windfalls [was] any different from the accountancy practised at Enron". Despite attempts to deflect blame for getting the sums wrong on issues such as the eurozone crisis, Washington's squabbling over its fiscal cliff and the slowdown in China, it thought the Chancellor had to "cop some blame, for starting historic cuts amid a global slump" without having "a meaningful growth strategy". It finished by arguing that a costly cut in fuel duty undermined the Government's green credentials, while "a token raid on rich people's pension contributions" did not offset the huge sums and misery of a welfare raid, and so questioned the notion of everybody being "all in it together".

Larry Elliott—Is Third-Class Britain Really on the Right Track?

Larry Elliott, the *Guardian's* Economics Editor, in an article on the paper's website, argued that many of the Chancellor's predictions had worsened. Deficit reduction that was first going to take five years and was later revised to a seven-year austerity programme, would now take eight years. On arriving in office, Mr Osborne had expected the economy to grow by 5.7 percent between early 2010 and mid 2012, when the actual increase was 0.9 percent, all of which Elliott argued had actually occurred under the last Government. Similarly, he contended that a predicted budget deficit in 2013 of £60 billion, the latest forecast—stripped of all the one-off factors—was actually for £112 billion. The only reason why the Chancellor could claim the deficit was coming down in 2012 was "because he has included the proceeds of the auction of the 4G mobile phone spectrum, which hasn't yet taken place". Elliot thought this was evidence that the Government's economic strategy had failed. However, he doubted whether the Chancellor could grasp that Britain's economic performance was being blighted by an under-performing and unbalanced supply side, banks that had lost the lending habit and a shortage of effective demand. While corporate tax changes and increased infrastructure spending might address the first problem, he had left the malfunctioning banks untouched, and had done virtually nothing to boost spending power. Elliot suspected that Mr Osborne was trying to find a way to persuade the credit rating agencies that he was still serious about deficit reduction, but without taking tough steps now that might drive the economy back into recession, which explained why he was postponing most of the additional austerity until after the next election. It was, however, debatable whether this would be enough to save the UK's AAA credit rating. When it came to addressing the revenue shortfalls caused by the under-performance of the economy, he thought it was revealing how this was arrived at. While there would be less generous tax breaks for the pensions of the rich and there was a hit to middle Britain from a below-inflation increase in the 40 percent income tax threshold, he thought that the "real pain was saved for the poor". The latter included the limiting of increases to welfare benefits to 1 percent, which would "hurt those who have least, and who have been hardest hit by rising global commodity prices because they spend a higher share of their limited incomes on food and fuel". He also thought that though welcome, it was hard to see how the increase in capital allowances and money for science and boosting exports would be any more successful than previous attempts to promote growth. This was all the more disappointing as Germany, France and the United States had recovered more quickly from 2008–09.

Jeremy Warner—Not Yet Radical Enough

Jeremy Warner, the Assistant Editor of the *Daily Telegraph*, in his piece on the Autumn Statement, thought that it was "fine as far as it goes, but not yet radical enough" and that there was "a lot more work to be done". He acknowledged the Chancellor had had to concede that he would not meet his fiscal rule of reducing debt as a proportion of GDP by the end of the Parliament, but suggested that this was of more significance politically than economically. He welcomed measures to stimulate business, such as a further 1 percent point reduction in the headline rate of corporation tax and the ten-fold increase in investment allowances to £250,000 a year, but questioned whether they were radical enough to make a significant difference. He thought that though the further squeeze on benefits was a meaningful amount of money—£3.7 billion—it was "not the game changing reduction in entitlement spending necessary to get the public finances back onto a sustainable footing". He was disappointed by the decision to further squeeze those on middle incomes by increasing the level at which the 40 percent tax band would kick in. However, he concluded that in most respects, the Chancellor was moving in the right direction, with a case of more needing to be done.

Benedict Brogan—George Osborne Plays a Terrible Hand with Skill

Benedict Brogan, the *Daily Telegraph's* Deputy Editor, in his article argued that the Statement was good for the Government, as agreeing the package was a reminder of why it had come together in the first place—to deal with the economic mess. He also thought that the Chancellor had benefitted from it, as it had shown that he had learnt some of the lessons from his earlier "misjudged" Budget. He had given something to Tory backbenchers, with the scrapping of the petrol duty rise and by resisting demands for a mansion tax. He had also managed to speak strongly against crude attacks on the wealthy, while squeezing the better off in a number of discreet ways. The Liberal Democrats were also pleased, as the Statement had come close to delivering their pledge to raise the starting rate of tax to £10,000. There appeared to be no "stinkers", such as the pasty tax, and business liked the cut in corporation tax and the increase in capital allowances. The markets also seemed to be prepared to accept a downgrade in Britain's AAA-rating in 2013. He thought Mr Osborne's main achievement, considering the circumstances, was to have consolidated the idea that the Government was intent on doing what it must to keep Britain from global relegation. By contrast, Brogan thought Labour had had a bad day. The latter had allowed itself to be set up to vote against what would be electorally popular limitations on welfare payments, while he wondered whether the strategy of borrowing more could survive scrutiny for much longer. However, it still remained the case that "the nation's prospects, for the moment, remain bleak".

Hamish McRae—Looking a Decade into the Future

Hamish McRae, an Associate Editor of the *Independent*, in his comment on the Statement, argued that economic recovery would take a lot longer than that forecast by the Chancellor. Though the latter had predicted in the Statement that recovery would take a year more than previously forecast, McRae contended it would take a decade longer to achieve. This was because debts built up over the past few years, which were constantly increasing, would not be "cleared until well into the 2020s, unless the governments of the day decide somehow to write them off, that is to say steal the money from savers". He suggested that finding the room to address this problem would be very difficult. Tax revenues, for example, had been stuck at 38 percent of GDP since the late 1980s, and could not rise much further unless they could "be ramped up to the levels they were at during the early years of the Thatcher Government, when they were boosted by high North Sea oil revenues and privatisation proceeds". This would occur at the same time as a squeeze on spending, with pressures from rising costs in areas such as medical costs for an ageing population. The evidence suggested that in 2017, public spending would still be higher as a percentage of GDP than it was in the early years of Gordon Brown as Chancellor. Another problem was the unpredictability of how things would unfold. He thought the OBR in its assessment had acknowledged the uncertainties that the economy faced. One of these uncertainties was the strength of employment. The figures showed there were half a million more jobs in December than expected back in March, of which half were part-time, which meant that unemployment was 7.8 percent against an expected 8.7 percent. This had occurred against growth that was worse than predicted—minus 0.2 percent against plus 0.8 percent. If there was uncertainty about the present, he wondered how one could forecast the economy in three or five years. This meant that if one accepted that the macro-economic background was pretty much set, the Chancellor's room for manoeuvre was minimal. However, he thought the Chancellor was learning to get the detail right, such as tackling tax evasion, whilst bringing down business costs and efforts to encourage investment, even if they would have a marginal impact. Nonetheless, prospects remained "terrible", which suggested that "all we can hope for is reasonable competence in handling a very difficult situation".

David Blanchflower—Slashing Public Spending and Talking Down the Economy

Writing in the *Independent*, David Blanchflower, a former external member of the Bank of England's interest rate-setting Monetary Policy Committee, accused the Chancellor of continuing to "put his head in the sand by sticking to his failed fiscal consolidation plans". He also criticised his use of terms such as "the economy is healing" and that his economic plans were "on the right track". He argued these were "ludicrous claims". The Chancellor had had to admit he would not meet his self-imposed fiscal rule of reducing debt as a proportion of GDP by the end of this Parliament, while the 1 percent cut in corporation tax was unlikely to be popular, bearing in mind recent disquiet over big firms failing to pay tax in the UK. The real cuts in benefits, especially to Job Seekers Allowance, would reduce consumption further as the poor would "have high marginal propensities to consume and will add to a growing sense of unfairness". He suggested that the economy was instead shrinking. He pointed to long-term unemployment, which had nearly doubled over the last 18 months, with the numbers claiming Job Seekers Allowance for more than a year rising from 220,000 in June 2011 to 431,000 in October 2012. He also highlighted data for the services, construction and manufacturing industries which indicated that the economy would shrink in the fourth quarter of 2012. He acknowledged that the total deficit had come down by about a fifth in the year to September 2012, compared to the peak in the year to March 2010, but maintained that this was achieved by cutting public investment, which had halved over the same period. Growth was also down. He noted that when the Government took office, the OBR predicted in its pre-Budget report in June 2010 that the economy would have grown to 6 percent by December 2012, but it had in fact grown by 0.6 percent, and the OBR was forecasting that the economy would shrink over 2012 by -0.1 percent. With the MPC also forecasting negative growth in 2012, he thought the implication was that the UK was in a "triple-dip recession". Future forecasts were also down with the OBR predicting growth of 1.2 percent in 2013, 2 percent in 2014 and 2.3 percent in 2015, down from the Budget forecast of 2.8 percent, 2.8 percent and 2.6 percent. Finally, he also wondered whether the Chancellor would be able to protect the UK's AAA credit rating.

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