HOUSE OF LORDS

Library Note

Budget 2013: Reaction

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

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1. Budget 2013

The first section of this Library Note outlines key measures announced by the Chancellor in the 2013 Budget. Fuller initial analysis of the 2013 Budget can be found in the House of Commons Library Standard Note, *A Summary of the 2013 Budget*, (20 March 2013, SN06573). Section two of the Note then summarises the response to the Budget Statement by the Leader of the Opposition, and section three summarises reaction to the Budget by various commentators and organisations in the hours immediately following the Budget.

1.1 Projections for Growth and Public Finances

Declaring it a "Budget for people who aspire to work hard and get on" (HC *Hansard*, col 931), on 20 March 2013, the Chancellor of the Exchequer, George Osborne, set out the 2013 Budget (HC 1033). The release was accompanied by the publication of the latest economic forecasts from the Office for Budget Responsibility (OBR) (Cm 8573).

Setting out their forecasts for GDP growth, the OBR revised down their forecasts for 2013 to 0.6 percent. At the time of the last Budget they had predicted growth of 2 percent in 2013 (Cm 8303, p 5), and in their December forecasts they had downgraded that prediction to 1.2 percent (Cm 8481, p 5). They expect GDP growth to increase thereafter, with growth of 1.8 percent in 2014, 2.3 percent in 2015, 2.7 percent in 2016 and 2.8 percent in 2017.

Turning to public sector net borrowing (excluding Royal Mail and Asset Purchase Facility Transfers), the OBR stated that this had fallen by around a quarter between 2009–10 and 2011–12. They forecast that the rate will remain largely unchanged in 2012–13 and 2013–14 (at around £120 billion), and will then resume its decline in 2014–15. The cyclically-adjusted current budget is also expected to decline over the coming years, eventually coming into surplus in 2016–17. Present estimates suggest this will be in deficit at -2.8 percent of GDP in 2013–14, but will reach a surplus of 0.8 percent of GDP in 2017–18. However, public sector net debt is now expected to peak at 85.6 percent of GDP in 2016–17, rather than peaking at 79.9 percent in 2015–16 as was previously forecast (Cm 8481, p 6).

1.2 Business and Investment

Introduced by the Chancellor as the "largest tax cut in this Budget" (HC *Hansard*, 20 March 2013, col 944), one of the key announcements of the 2013 Budget was the Employment Allowance. This measure, due to start in April 2014, will give businesses and charities an entitlement to £2,000 per year towards their employer National Insurance contributions bill. The Chancellor stated that this would benefit around 98 percent of Small and Medium Sized Enterprises (SMEs), and would mean that "450,000 small businesses—one third of all employers in the country—will pay no jobs tax at all" (HC *Hansard*, 20 March 2013, col 944). The Chancellor also announced an expansion, from £40 million in 2012–13 to over £200 million in 2014–15, of the contracts available under the Small Business Research Initiative.

In addition, the Chancellor endorsed Lord Heseltine's recommendation for the creation of a Single Local Growth Fund, and sought to support the shale gas industry through a package of measures intended to stimulate growth and investment.

1.3 Measures Relating to Taxes and Duties

Another measure announced by the Chancellor with the intention of helping business was the further cutting of corporation tax to 20 percent from April 2015. With the rate already scheduled to drop to 21 percent in April 2014, the Treasury stated that "this means that by the end of this Parliament the UK will have the joint lowest rate of corporation tax in the G20 and a rate that is significantly lower than key competitors, including the US, Japan, France and Germany. This will support British businesses and encourage investment" (HC 1033, p 42). It was also announced that the small profits rate and the main rate will be unified into one single rate of corporation tax.

Turning to income tax, the Chancellor announced that the tax free allowance would be raised to £10,000 from April 2014. With the rate already due to be set at £9,440 from April 2013, the Treasury stated that "by April 2014, 2.7 million low income individuals under 65 will have been lifted out of income tax altogether and from April 2014 the typical basic rate taxpayer will pay £705 less income tax a year in cash terms" (HC 1033, p 5).

Other announcements related to tax and duty changes include:

- cancellation of the planned September 2013 fuel duty increase;
- reducing beer duty by two percent with effect from 25 March 2013, and removing it altogether from the general alcohol duty increase (which remains at the yearly rate of 2 percent over inflation);
- an increase in the tax-free limit for beneficial loans to employees from £5,000 to £10,000 (eg loans for season ticket travel costs) and
- tax reliefs for certain transactions affected by capital gains tax or stamp duty, and for private investment in social enterprises.

In addition to the tax and duty changes outlined in the Budget, there was also a stated intention to increase efforts to fight tax avoidance. This includes changes to the tax arrangements for limited liability partnerships and agreements with the Isle of Man, Guernsey and Jersey to exchange tax information. The Treasury estimated that these changes will raise over £4.6 billion of new revenue over the next five years.

1.4 Changes to Public Spending

The Chancellor announced an extra £3 billion a year of capital spending on infrastructure. Starting from 2015–16, this would extend the investment proposed in the 2010 Spending

Review. This increase in investment will be funded from reductions in spending elsewhere.

One area where the Chancellor is seeking to reduce spending is on the 2015–16 departmental budgets. With these due to be decided at the 26 June 2013 Spending Round, the Chancellor stated that he would now be seeking to make £11.5 billion savings in this area (up from £10 billion). However, spending on health and schools would be protected.

It was also announced that Departmental Expenditure Limits will be reduced by £1.1 billion in 2013–14 and £1.2 billion in 2014–15, and that limitations will apply to public sector pay increases. This would include a limit of 1 percent on public sector pay awards. However, the Chancellor confirmed that military personnel would be exempt from any change to progression pay for public sector workers, and that, from 1 May 2013, the "X Factor" pay increase recommended by the Armed Forces Pay Review Body (Cm 8571) would be applied.

1.5 Personal Allowances and Financial Support in the Housing Market

Regarding personal allowances, the Chancellor confirmed a number of measures that had already been disclosed in advance of the Budget. Two of these, originally announced on 17 March 2013, related to a £72,000 cap on the amount the elderly would have to pay for social care funding, and the introduction of a single-tier state pension of around £144 a week. Both of these policies are now due to take effect in 2016. The Budget also confirmed the phasing in of a new Tax-Free Childcare Scheme from autumn 2015. This scheme will allow working parents to claim 20 percent of their childcare costs, per child, up to a maximum of £1,200 a year.

The Chancellor announced a number of new policies intended to offer support to people in the housing market. One of these policies, entitled 'Help to Buy', was described by the Treasury as consisting of two elements:

> First, from April 2013, the Government will extend First Buy to all those who aspire to own a new build home. The Government will provide an equity loan worth up to 20 percent of the value of a new build home, repayable once the home is sold, and significantly widen the eligibility criteria to ensure as many people as possible are able to benefit, including increasing the maximum home value to £600,000 and removing the income cap constraint. Second, the Government will create a mortgage guarantee for lenders who offer mortgages to people with a deposit of between 5 percent and 20 percent on homes with a value of up to £600,000.
>
> (HC 1033, p 4).

The Government hoped that the policy will increase the availability of mortgages to those with small deposits. The Budget also set out plans to reduce the qualifying period for Right to Buy from five years to three years, and a doubling of the affordable homes guarantee programme to support the provision of 15,000 new affordable homes by 2015.

1.6 Monetary Policy Remit

In addition to the Budget documents, the Treasury published a review of the monetary policy framework, setting out an updated remit for the Monetary Policy Committee of the Bank of England. Although reaffirming the need to comply with the inflation target of 2 percent, the new remit outlines an additional requirement to provide explicit forward guidance on the Bank's monetary policy and "recognises that the Monetary Policy Committee may need to use unconventional monetary instruments to support the economy while keeping inflation stable" (HC *Hansard*, 20 March 2013, col 935). The Chancellor went on to claim that "this can help the economy because it gives families planning their futures, and businesses wondering whether to invest, more confidence that interest rates will stay lower for longer" (ibid).

2. Reaction: Leader of the Opposition

The Leader of the Labour Party, Ed Miliband, began his Budget response by criticising the Chancellor over the state of the UK economy. In support of this view, Mr Miliband highlighted the OBR's reduced growth forecasts and revisions to the timetable to tackle public borrowing and debt.

Claiming that the Chancellor's approach to the economy's problems was failing, Mr Miliband listed several previous policy announcements that he deemed to have been unsuccessful. These included the National Loan Guarantee Scheme and the Funding for Lending Scheme. Turning to announcements in the current Budget, he compared the policies regarding housing to those of the 2011 housing strategy:

> Today, the Chancellor talked a lot about housing. When the Prime Minister launched his so-called housing strategy in 2011, in his own understated way he labelled it "a radical and unashamedly ambitious strategy". He said it would give the housing industry a "shot in the arm" and help 100,000 people to buy their own homes. Eighteen months later, how many families have been helped? Not 100,000. Not even 10,000. Just 1,500 out of the promised 100,000. That is 98,500 broken promises. For all the launches, strategies and plans, housing completions are now at their lowest level since the 1920s and 130,000 jobs have been lost in construction. It is a failing economic plan from a failing Chancellor.
>
> (HC *Hansard*, 20 March 2013, col 949)

Mr Miliband repeated his criticism of the planned cuts to the top rate of tax. Due to take effect from April 2013, he claimed that those earning an annual rate of £1 million would benefit from a tax cut of £42,500, "double the average wage" (ibid, col 948).

With the UK's credit rating having been downgraded on 24 February 2013, Mr Miliband questioned why the Chancellor had not addressed the issue in his Budget statement. He also sought to draw attention to another alleged omission by the Chancellor regarding living standards:

> Who is paying the price for the Chancellor's failure? Britain's families. In his first Budget, he predicted that living standards would rise over the Parliament, but

> wages are flat, prices are rising and Britain's families are squeezed. What the Chancellor did not tell us is that the Office for Budget Responsibility has already confirmed that the British people will be worse off in 2015 than they were in 2010.
>
> (ibid, col 947)

3. Reaction Outside Parliament

3.1 TUC: Budget is Wrong Answer to the Wrong Question

The TUC General Secretary, Frances O'Grady, in her reaction to the Budget said that the Budget was the "wrong answer to the wrong question". She argued that in the face of a "jobs, growth and living standards crisis" the Chancellor's proposals were "small beer that do little more than tinker at the edges". She maintained that the "only long-term way to mend the public finances" was to "get a healthy growing economy where businesses and workers earn enough to spend confidently, and those who can afford it pay proper rates of tax". She suggested that the Government might "use current low interest rates to borrow for investment in infrastructure and a big programme of house-building". She called for the Chancellor to "stop holding back the living standards of those most likely to spend, and stop cuts that suck growth out of the economy". She also questioned the decision to move "pensions and benefits into annual managed expenditure" because it raised the "possibility of further significant cuts in payments if spending exceeds the limit set by the Chancellor in his spending review". In an earlier press release, she responded to the latest unemployment figures published by the Office for National Statistics. She stated that an increase of 48,000 unemployed youngsters, which was nearing one million over all, indicated that: "Young people are bearing the brunt of our jobs crisis". It confirmed the TUC's fears that "economic stagnation has finally caught up with the jobs market", while for those in work "the gap between wages and the rising cost of living" was "growing even wider". She contended that there would be no recovery "in the jobs market until we get growth back into the economy".

3.2 British Chambers of Commerce (BCC)

The BCC's Director General, John Longworth, in his response welcomed some measures in the Budget, such as reviewing the MPC's remit, scrapping the rise on fuel duty, and putting £3.5 billion into helping buyers afford new homes. However, he thought that the Government should "have gone further to support enterprise and growth, such as scrapping damaging increases in business rates" and "be doing everything in its power to get the economy moving". He thought that many of the measures were targeted at larger corporates, and that "those that will benefit smaller companies will not take effect until 2015, which is too late". He accepted that business would appreciate many of the Chancellor's measures, and his personal commitment to fiscal discipline and support for enterprise, but thought that many would have wished "he had been more radical in the pursuit of growth".

3.3 Policy Exchange (PE): The Boddington's Budget

PE's response began by acknowledging that "growth forecasts were down and that borrowing was still high (albeit less than under Labour)" and that there "were no short-term fixes to either of these issues". However, it thought there was at least a glimmer of hope for the future. Bringing forward the rise to £10,000 in the personal income tax allowance to April 2014, reductions in tax on beer and fuel and support for those struggling to obtain mortgages would all be attractive for families struggling to make ends meet. There was also positive news for businesses, such as the further cut to 20 percent in the headline rate of corporation tax and the Employment Allowance that would pay the first £2,000 employers' National Insurance Contributions. There was also a raft of other measures aimed at improving finance and incentives for small and growing firms, like the abolition of Stamp Tax on shares listed on growth markets. Importantly, these measures were funded out of existing budgets or by cutting expenditure elsewhere and it was right that tax cuts and incentives for firms should "be funded from reducing expenditure, not by hoping that a short-term tax cut or spending driven stimulus will solve the longer-term maths". PE also believed that while further reductions in departmental budgets and restrictions in public sector pay and automatic progression would be a political challenge, they were "steps in the right direction in reforming how the public sector is structured and rewarded". However, PE also pointed to a number of challenges. There was a need to restore balance to the UK's finances and stronger growth to the economy. A number of actions were required. The first of these was housing. The Government was right to try to free up the credit market for struggling families. However, if it did not do this without properly tackling housing supply in the UK, at "best this will be a short-term solution and, at worst, may just boost prices further". The second was to do more to promote sectors, such as finance, where the UK was a world leader. It feared that a slight return to the banking levy in the Budget, combined with a rush to raise capital requirements, might act as a lead weight on lending to SMEs and dent the attractiveness of the UK as a location for investment. A third related to the need to "tackle the sheer size and scope of the public sector". It welcomed the Government's announcement to address the remuneration of public sector employees. Measures for progression pay were "a welcome start on the road to significant reform", though "much more needs to be done to ensure that the public sector takes on board best practice from the private sector to ensure that pay reflects performance and costs of living". This could drive productivity, job creation and regional rebalancing.

3.4 UNISON

UNISON's General Secretary, Dave Prentice, in a press release said that the Chancellor was "out of ideas" and that his Budget announcement acknowledged that "the country is in desperate need of economic stimulus". He maintained that the Government's "bleak austerity agenda and fiscal inertia" was leading to "stagnation, robbing the country of the Government's prized AAA rating and tipping it towards a triple dip recession". He also criticised what he saw as an attack on the public sector and pay: "He is attacking pay progression that is designed to reflect workers' aspirations—doing more training, gaining skills and experience and demonstrating commitment to their jobs to get to the top of their grade... On top of the three-year public service pay freeze workers will now have their pay pegged to 1 percent until 2015/16—what does that say about giving people aspirations?". The press release also criticised the Chancellor for missing a "golden

opportunity to make a real difference to struggling families by reversing the three-year freeze on child benefit" at the same time that the "Government's decision to cut the 50p rate of tax would hand the 13,000 millionaires in the UK an average of £97,884.62 next year, at a cost to the Treasury of £1,272.5 million". It suggested that if this tax had been collected, it "could have funded an increase to child benefit—in line with CPI inflation—for the first two children in every family, effectively helping 12,049,360 children in nearly 8 million families".

3.5 Centre for Policy Studies (CPS): The Good, the Bad and the Ugly

Tim Knox, Director of the CPS, in his response stated that this "was a Budget of the Good, the Bad and the Ugly. But the good did not dominate". The good supply-side reforms included the faster increase in the personal income tax threshold to £10,000 and the planned reduction of Corporation Tax to 20 percent, thereby scrapping the higher rate altogether. Bad initiatives, such as the £1 billion on childcare subsidies, the £1.3 billion Heseltinian industrial policy and the £10,000 loans that employers can offer tax free to pay for items such as season tickets, suggested micro-economic management. The ugly concerned the fact that the deficit was "still extraordinarily high", with the result that "the gross debt (under the Maastricht criteria) will have broken through the 100 percent of GDP barrier in 2015/16". Ryan Bourne, Head of Economic Research at the CPS, said that the main story of the Budget was the miserable growth and borrowing forecasts which accompanied it. Once all the one-off factors were stripped out, underlying borrowing would have fallen by just £1 billion to £120 billion between 2011/12 and 2013/14, while despite the talk of strong spending control, the Office for Budget Responsibility showed that real spending will fall by just 2.2 percent between 2011/12 and 2014/15. He suggested that what was needed was an "agenda to raise our potential growth rate—reducing the burden of spending and tax, and implementing robust supply-side and pro-competition reforms". CPS research fellow Kathy Gyngell was especially critical of the Budget's childcare measures: "This Budget is worse than nothing for the stay at home mother (the single earner couple family). Already grossly penalised in the tax and benefits system for the instinctive and reasonable choice to care for their infants at home, now this couple are meant to subsidise rich working women's nannies".

3.6 Linda Yueh: Late to it, but the Focus has Finally Shifted to Growth

Linda Yueh, in a blog on the London School of Economics and Political Science website, wrote that "quietly and not billed as such, the UK Budget has shifted towards stimulating growth". Though it might not have been "enough and should have been more strongly emphasised", the Budget had "reconstituted tax cuts and government spending to generate a limited fiscal stimulus targeted at jobs, businesses, and homeowners". The Budget was fiscally neutral, so the tax cuts had been offset by spending cuts of some £2.5 billion and an increased levy on banks of 0.142 percent, among others. The measures included a surprise exemption from National Insurance of the first £2,000 for small firms, which might help employment, while raising the income tax threshold to £10,000 provided some support for workers. They also included a cut in corporation tax to 20 percent from 2015, down from 28 percent when the Government came to power, which resulted in one of the lowest tax regimes for a major economy. There was further

support for R&D spending, which placed the right emphasis on innovation, and £15 billion for new infrastructure from 2015–20, which was needed but rather late in the game. The Government was also extending its shared equity scheme with interest-free loans up to 20 percent of the value of new homes, along with bank guarantees to support £130 billion of new mortgage lending for three years from 2014. Though the latter was controversial because some worried that it would entangle the Government in the mortgage market, others believed that it was a significant part of the deleveraging process in relation to household debt. She considered the context in which the Budget was delivered. The slow and uneven growth path was "the biggest challenge and should have been tackled much earlier". The budget deficit might have been cut by one-third since the crisis but it was still 7.4 percent of GDP, then estimated to fall to 6.8 percent, 5.9 percent in 2014/15 at the end of this Parliament, 5 percent, 3.4 percent, and only reaching 2.2 percent in 2017/18. As a result, the debt target had "deteriorated" and would peak at 85.6 percent of GDP in 2016/17, one of the factors that had triggered Moody's downgrade of the UK's AAA credit rating. She thought that what had been needed was a more convincing vision, which "encompassed seeking new markets, addressing the credit crunch and providing other supportive policies to improve the business environment".

3.7 Federation of Small Businesses (FSB): Restoring Confidence and Growth

The FSB response "warmly welcomed" the measures which would mean that many small businesses would not have to pay National Insurance Contributions (NICs) under £2,000. This would give small firms "the confidence to create thousands of new jobs in the private sector". John Walker, National Chairman of the FSB, said that the Budget "opens the door for small firms to grow and create jobs" and that the Chancellor had pulled "out all the stops with a wide-ranging package of measures to support small firms". The 'Help to Buy' scheme would help reinvigorate the construction sector, while the National Insurance Contributions cut went further than the FSB had hoped. He welcomed the complete scrapping of the 3p fuel duty rise due in September and looked forward to hearing details on how the Government intended to take forward the Business Bank that would help provide much needed access to capital for small firms. He was also pleased with the change to the childcare voucher scheme which would help create a stronger and more flexible workforce and get many of the women who were out of work back into the workforce.

3.8 EEF, the Manufacturers' Organisation: Budget Statement is Job Half Done

Terry Scuoler, Chief Executive of EEF, in a press release acknowledged that the Budget contained some helpful measures on business taxation and some signs of re-prioritising spending for growth. However, he said that it "still feels like a job half done". He argued that the Chancellor had "over £11 billion of under-spending in his arsenal and should have done more to drive growth now, particularly through accelerating investment in infrastructure". In the same press release, EEF Chief Economist, Ms Lee Hopley, pointed to another cut to corporation tax and the enhancing of the R&D tax credit which would "help push the UK up the rankings as an investment location for large employers". The EEF Director of Policy, Steve Radley, said that measures to boost the Funding for Lending

Scheme were a positive sign that the Bank of England and Treasury were "looking for ways to adapt and improve the scheme rather than signing its obituary". EEF Head of Business Environment Policy, Roger Salomone, said that the Budget was a missed opportunity to show more urgency on infrastructure. An £11 billion departmental under-spend provided significant scope to get money more quickly into stalled and deferred transport projects and while a spending boost post-2015 was welcome, "the economy needs a stimulus now". EEF Head of Climate & Environment Policy, Gareth Stace, welcomed stronger safeguards for energy-intensive industries and tax incentives for investment in indigenous gas resources, and indicated that the Government was continuing its shift towards a more balanced energy policy. However, he added that the job was "far from done" and that "a rapidly escalating unilateral carbon tax" would remain "a major threat to the competitiveness of manufacturing". He did note some "welcome exemptions" from the Climate Change Levy, which would "bring UK firms in sectors such as ceramics and steel into line with the same tax regime applicable to many of their EU competitors". EEF Head of Employment Affairs, Tim Thomas, noted that the Budget showed that the Government was moving faster to create a simpler system for pension saving, but that it was now vital that it got "on with the job of communicating to employers what this will mean for them and of moving forward with its commitment to introduce a statutory override".

3.9 James Forsyth: Putting Petrol in the Tories Political Tank

James Forsyth, writing on the *Spectator* website, thought that the scrapping of the latest fuel duty rise would "please the cost of living caucus". The Government would have foregone £21.5 billion in fuel duty revenue by the end of this Parliament, which along with the increase in the personal allowance to £10,000 and the childcare changes announced the day before, would give the coalition a story to tell on cost of living. Furthermore, the 1p cut in beer duty was a "reverse pasty tax" which was "meant to show that the Chancellor understands the importance of the small pleasures in life". The Budget also marked a return to David Cameron's themes of aspiration and the global race. He accepted that the Government's moves to help home-buyers might concern many on the free market right, who would worry that it was just reflating the housing bubble. But it was worth noting that the coalition's planning reforms should have eased some of the supply constraints.

3.10 Green Party: The Huge Green Economy-Shaped Hole

Green Party MP Caroline Lucas in a press release said that "amidst the tax breaks for shale gas and boastful roadbuilding pledges, there is one huge green economy-shaped hole in this flailing Chancellor's Budget". She thought that the Chancellor had failed to invest in the UK's green economy, "now worth over £120 billion—9 percent of GDP—providing nearly a million jobs and generating a third of our most recent economic growth". She called for the Government to drop austerity. She contended that that Government's cuts had failed and that what was now needed was "urgent investment in nationwide green infrastructure to stabilise the economy, tackle the environmental crisis and deliver clean and secure energy for the future". She said that it was "outrageous" that the Government was willing to "gift yet more tax breaks to companies drilling for hard-to-reach shale". She suggested instead that the Government, if it cared about bringing energy bills under control and improving energy security, would put its money on renewable: "where the

costs are predictable and falling". Furthermore, investment in offshore wind could, for example, "save £20 billion by 2030, create 70,000 more jobs, and lead to both lower climate emissions and lower fuel bills". She was critical of plans to invest in a new nuclear facility at Hinkley, which could be diverted to lift an estimated 7 million households out of fuel poverty. On the Budget more generally, she argued that while tax rises, welfare cuts, and wages freezes would push "over 7 million children below the breadline in the next two years", it was "scandalous that this millionaire Government is still so reluctant to make the richest in our society pay their fair share of tax". She noted that "while millions across the country struggle to pay rising household bills, the Government is cutting tax for corporations like Amazon, Starbucks and Google—when they choose to pay it at all—to 25 percent next month, 23 percent by 2014 then 20 percent the year after". She thought that the General Anti Avoidance Rule would not be enough to stop the tax dodgers as it would only apply to the "most egregious tax avoidance schemes". The Government needed instead to focus on areas such as shutting down tax havens, seeking a strong international agreement to force all multinationals to report their tax practices transparently.

3.11 British Bankers Association (BBA)

The BBA's Chief Executive Anthony Browne in his response said that "in difficult economic times it is absolutely right that the Chancellor focused on making the UK a more competitive place to do business". He commended a range of measures that would help boost growth, in particular the announcement of the abolition of stamp duty on companies on junior stock markets. This would send a "powerful message that the UK is open for business at a time when Europe is planning new taxes on financial transactions". The new monetary policy framework for the Bank of England would give the Bank greater flexibility to support growth and the BBA had written to the Government to suggest ways to extend the Funding for Lending Scheme (FLS) and looked forward to further discussion on enhancing this scheme to increase its benefit to British businesses. The commitment to reduce regulatory barriers to creating new banks would drive greater competition in the banking sector, as would the review of the payments infrastructure.

3.12 Stephanie Flanders: An 'Optimal' Budget?

Stephanie Flanders, the BBC's Economics Editor, in a blog on the BBC website, said that the Budget did not do much but reflected the fact that "if ever there was a Chancellor constrained by economic and political circumstances it is George Osborne" and that these circumstances had "just got a bit worse". Growth was down with the fall in the forecast for 2013, from 1.2 percent to 0.6 percent, which had been quite a lot bigger than most had predicted, and was due to continue in 2014. Borrowing was up over the medium term, with the UK public net debt in 2015–16 £60 billion higher than forecast in December. The structural deficit had also risen, with the OBR resetting the deficit in 2013–14 as 2.8 percent of GDP, not the 2.2 percent it thought in December—or the 0.7 percent it forecast in June 2010. In terms of the big picture, underscored by the OBR itself, the deficit would be more or less the same in 2011–12, 2012–13 and 2013–14: around £120 billion, which "meant that the effort to cut the overall deficit has stalled", which reflected the weak economy. However, experts had predicted a larger rise in borrowing. Flanders noted that this had been largely avoided because the expected

underspend by government departments in this fiscal year had risen, in just a few months, from an already high £7.5 billion to an astonishing £10.9 billion. She said that it was not the first time that the Treasury had used these tactics: "But you have to wonder whether Mr Osborne will continue to talk quite so much about the fiscal fiddles that went on in the Gordon Brown era". She concluded that "the Chancellor has done a little more than expected, given the great economic and political constraints that he is labouring under", but "we can say that Whitehall has bent itself to the Chancellor's will, even if the economy has not".

3.13 Institute of Directors (IoD): IoD Applauds Osborne's Budget

In his reaction, Simon Walker, Director General of the IoD, said that the IoD "applaud this budget" because the Chancellor had "stuck to his guns and held his nerve". Deficit reduction was "not an optional policy" but "an absolute necessity" and George Osborne was "right to reject the siren calls to abandon it". He thought that businesses would welcome the fact that the Chancellor had "continued the downward pressure on Corporation Tax", which would help Britain "become the most competitive place to do business" as it would encourage investment from abroad. He was pleased that the Government had proposed a reduction on the tax on employing people, which would be a boost for businesses who were working hard to grow. It was a reward for the private sector that had "done a huge amount to improve the employment figures" and would help more people out of unemployment. He also welcomed the Government's decision to set attractive conditions for shale exploration, as this would "create thousands of jobs, and reduce our reliance on expensive foreign imports".

3.14 Nick Robinson: A Budget of Paradoxes

Nick Robinson, the BBC's Political Editor, on his BBC blog, described what he saw as a "budget of paradoxes". He observed that George Osborne had been forced to read out a grim set of economic forecasts. These included the missing of his debt target, the halving of next year's growth forecast and borrowing up this year on one measure and only down on another thanks to "an unprecedented and surely unrepeatable" underspend by Whitehall departments. However, the Chancellor had not been convinced of the need to borrow more in an effort to stimulate growth by cutting taxes or investing in construction, though he did find money from squeezing day-to-day spending to pay for important personal and business tax cuts and a multi-billion pound attempt to boost the construction industry. Robinson saw the Budget as a very political speech from a "man in a very tight economic straitjacket", who demonstrated a "Brown-like determination to keep control of the economic statistics even though they are now drawn up by independent forecasters". Osborne echoed the Thatcherite rhetoric on home ownership with 'Help to Buy' following 'Right to Buy'. He boasted that he would deliver a 20 percent Corporation Tax rate and a £10,000 personal tax allowance while promising a tighter spending round than expected. Robinson suggested that the Budget ultimately would not be judged by the headlines or by the measures or even by the Budget leak, but by whether "the next time he stands up the economic news appears to be any better or worse—yet again".

3.15 CBI

John Cridland, the CBI Director-General, responded by saying that the CBI was particularly pleased that the Government had heeded its calls for a focus on the short-term boost of housing alongside an increase in longer-term big ticket infrastructure spending. He suggested that this was recognition that it had been "a mistake to cut capital spending so sharply and that other growth-boosting measures were taking too long". However, by shifting £6 billion to housing and infrastructure, the Government had "sowed the seeds for growth and jobs". He welcomed the extra one penny cut in corporation tax which would also make "the UK one of the most internationally competitive locations in which to do business". The new obligation on the Pensions Regulator was an acknowledgement that the huge commitment employers are making to sustain pensions for employees could not be separated from the drive for growth. Small and medium-sized businesses would be particularly encouraged by the Chancellor's decision to cut the jobs tax through a new employment allowance, though Mr Cridland stressed the need to remember the "impact of business rates on the hard-pressed high street".

3.16 Adam Smith Institute (ASI): The Good, the Bad and the Ugly

Sam Bowman, Research Director at the ASI, in a blog identified what he saw as the good, bad and ugly in the Budget. He approved of the raising of the personal allowance to £10,000 by 2014, which was a "significant step to reducing the tax burden for low- and middle-income workers, and creates the tantalising prospect of the personal allowance being pegged to the minimum wage rate in 2015". Cutting Corporation Tax to 20 percent by 2015 would place the UK ahead of other 'major economies', though small countries like Ireland (which has a corporation tax rate of just 12.5 percent) would still be able to outcompete in attracting investment from multinational corporations. Cuts of up to £2,000 in National Insurance bills would allow some businesses, especially micro-businesses, to take on extra employees. A reduction of beer duty by 1p and the scrapping of the 'beer duty escalator' was a welcome reversal in "years of miserable, anti-poor paternalism". However, in terms of the bad he criticised the continuance of the Bank of England's 2 percent inflation target, which he argued had failed and which prevented the Chancellor from re-thinking monetary policy. He disliked the 20 percent tax relief on childcare vouchers up to £6,000 per child from 2015, because it did not address the central problem of expensive childcare—costly regulations, such as mandatory maximum children-to-staff ratios. He did not like tax evasion measures because legal tax avoidance was a "legitimate response to the perverse incentives of a complex tax code created by politicians trying to exempt a pet project or special interest that they favour". He thought that the best way to reduce evasion was "to simplify the tax code, not to persecute people taking advantages of a corrupt system". He thought that the announcement of capital spending projects ignored a "long history of infrastructure projects doing little to help... flagging economies". He thought that instead any extra money from spending cuts should "be given back to the private sector through tax cuts, where it can do the most good". Finally, he identified what he saw as the "ugly". He argued that bank guarantees to underpin £130 billion of new mortgage lending for three years from 2014 showed that the Treasury had not learned the lesson of 2008: "injecting taxpayer money into the housing sector will simply inflate prices, distorting price signals and stoking the housing bubble that already seems to be growing in the housing sector". Houses were expensive

because supply was "restricted by the planning system" and that instead of "throwing money at the problem and driving prices up even more, the Government should have the courage to liberalise planning to allow more development, including on green belt land". Tax breaks for specific industries was a "mug's game" as there was no "way the Government can know which industries to promote, and these projects inevitably collapse into a mess of overcomplicated grant schemes and politics-driven bailouts of failing firms". Finally, he contended that Government spending was still rising, because despite all the talk of cuts, by "leaving healthcare alone and failing to carry out the big structural reforms needed to reduce social security spending, the Government was not matching its rhetoric on spending with the action needed".

3.17 Spencer Thompson: £10k Personal Allowance won't Reverse Welfare Cuts

Spencer Thompson, an economic analyst at the Institute for Public Policy Research (IPPR), writing on the *New Statesman* website, considered the impact of the Budget decision to increase the personal tax allowance from £9,440 in to £10,000 in 2014/15. He said that while personal allowance rises were often presented as a measure benefitting those on the lowest incomes, "in actual fact it is middle and higher earning households that gain the most". He calculated that the lowest earners would only gain 0.05 percent of weekly incomes from the change, with the biggest winners being those earning more than median earnings, who would see their weekly income rise by more than 0.2 percent. This was because the "lowest earning households are less likely to have incomes above the personal allowance anyway, so an increase has little or no effect on them", while the highest earners "will often have two earners earning above the personal allowance, so they get the full benefit". When compared to the impact of the 1 percent benefit up-rating cap announced in the Autumn Statement, he maintained that "the regressive nature of the coalition's tax and benefit policies is even starker". It was clear that "the small benefit the lowest earners will see as a result of today's tax allowance rise does little to compensate for the enormous hit they will take because of real-terms cuts in child benefit, tax credits and a host of other working-age benefits".

3.18 Institute for Economic Affairs (IEA): Not Much to Bring Growth

Mark Littlewood, Director General at the IEA, said that it was "a fiddly, tinkering, complicated Budget which cannot be expected to do much to promote the economic growth the UK so badly needs". Spending remained too high and the Government might continue to run a deficit for the rest of the decade, thereby still adding to the national debt. He thought that the ring-fencing of areas of very high Government spending had "made it much harder for the Chancellor to come remotely close to balancing the books", while his "more modest plan to eventually stop over-spending is reliant on growth forecasts which, to date, have been wildly over-optimistic". He contended that the Chancellor had not stuck to the course. He had allowed his targets on deficit reduction to slip, providing no real room for serious reductions in tax. Increases to the basic income tax threshold to £10,000 risked dragging many middle earners into the higher rate band. He concluded that if this "strategy is what George Osborne considers to be austerity, one dreads to think what largesse might look like". Professor Philip Booth, Editorial Director at the IEA, commended the Chancellor for reducing

Corporation Tax to 20 percent, which would "remove important distortions in the tax system" and also the decision to reduce fuel and beer duty. However, he saw these as occasional bright spots in an "otherwise uninspiring package". He thought that the Government had decided to make the tax system "yet more complex by the extension of tax relief for childcare and special tax incentives for private investment in social enterprises, the ceramics industry, high-end entertainment and low-emissions vehicles". This would make the tax system "ever-more incoherent" and provide more "opportunities for aggressive tax avoidance". He described the Government's approach to the growth agenda as "shambolic". For example, he believed that the decision to provide further Treasury guarantees for mortgages was "leading the Government to get involved in exactly the sort of reckless behaviour that led to the failure of major banks in 2007–08".

3.19 TaxPayers Alliance (TPA)

The TPA welcomed a number of the Budget's measures including: the cut in beer duty, and the abolition of the beer duty escalator; another freeze in fuel duty; an increase in the Personal Tax Allowance; a cut in employers' National Insurance; a cut in Corporation Tax to 20 percent. However, the TPA warned that the Chancellor was "still relying too much on complicated measures to help specific industries, rather than making fairer and simpler changes to the overall tax structure". Matthew Sinclair, Chief Executive of the TPA, said that "simpler, strategic tax reforms that reduce the overall burden would be fairer and do more to produce the stronger economy Britain needs".

3.20 Martin Wolf: Shrewd Politics Disguises Brutal Economics

Martin Wolf, writing on the *Financial Times* website, thought that the Chancellor, despite being constrained by a tight envelope, had politically succeeded in providing favours to three core constituencies. The first was business, through a further 1 percentage point reduction in corporation tax, to 20 percent, a £2,000 employment allowance in national insurance and sundry small schemes. The second was the Liberal Democrats, who had obtained a rise in the income tax allowance to £10,000 next year. The last was the "aspiring" working and middle classes to whom he offered lower beer prices and help for young people looking to buy a house. However, Wolf noted that the Budget economics were "more problematic", with outcomes for economic activity and public finances slipping still "further from the expectations with which he launched the Government's programme in the emergency Budget of June 2010". Tax receipts and GDP growth were weak, while public sector borrowing would remain at £120 billion and net debt was predicted to slip further. The key question was whether Government policy could accelerate economic growth in the short to medium term, with OBR forecasts for such growth worsening. Wolf thought that the case for ensuring the financial system functions properly was "surely overwhelming", as was the need for measures that generated demand, while expanding supply. Yet he feared that the proposed cuts in corporation tax would encourage retention of corporate earnings, not higher investment. Similarly, he warned that the focus on the liability side of the public sector balance sheet ignored the "opportunity to expand assets through higher public investment": the Government's strategy was working too slowly largely because the economy was flat. This unfortunately had created a debate over whether the constraints are mainly on supply or demand. While the intellectual answer had to be "a mixture of the two", the policy answer was to

"address supply and demand simultaneously". This required a range of reforms aimed at promoting public and private investment, including a more rapid restructuring of the financial sector. He concluded that the Budget would not make much difference, which was not good enough as greater radicalism was needed.

3.21 Larry Elliott: George Osborne is Still Wedded to Plan A

Larry Elliott, writing on the *Guardian* website, argued that the Budget would most likely prove to be a five-minute wonder. The previously announced changes to benefits and tax credits dwarfed the small giveaways, while the gap between wage increases and price increases was large and widening, cutting into living standards. There was also no indication that the state of the economy would materially improve soon. He accepted that in three important respects, the Budget could be seen as a presentational success: "It was better than last year's omnishambles (not hard, admittedly); it went down moderately well in the financial markets even though there was more bad news on growth and borrowing; and it fleshed out a clear political strategy in which the Government targeted voters in swing seats". In addition, the 1p off a pint of beer, the freezing of excise duty on petrol and the help on offer to homebuyers were "all populist measures designed to show that the Chancellor was on the side of 'strivers', rather than welfare claimants, public sector workers and tax dodgers" .The Chancellor had also managed to raise money subtly, through technical changes to pensions and a fresh clampdown on tax avoidance and evasion. Elliott thought that as a result, the Budget "had the feel of a giveaway package even though it wasn't". However, the economic backdrop remained "dreadful" and there was to "be no fundamental change to Government thinking on how to bring to an end the weakest recovery from recession in almost a century". In the face of this, Elliott contended that the Chancellor had an opportunity to change course. But he had decided to stick with a slightly amended Plan A. This meant abandoning the "commitment to start reducing national debt as a share of GDP by the end of this Parliament (now pushed back by a further year)... allowing the automatic fiscal stabilisers (borrowing more to compensate for growth shortfalls) to work" and the Treasury putting more money into the economy than it takes out in both 2014 and 2015. He suspected that the Chancellor would try to ensure that the Bank of England would continue to shoulder responsibility for getting the economy moving again: "From the start, it has been Osborne's conviction that by aggressively tackling the budget deficit, he creates space for the Bank to boost growth through ultra-low interest rates, quantitative easing and a competitive level for the pound". However, Elliott warned that "one lesson from the past few years is that the mix of tight fiscal and loose monetary policy is unlikely to lead to a recovery when interest rates are close to zero and consumers want to pay down debt".

3.22 Seamus Milne: It's a Package that Clearly won't Work

Seamus Milne, writing on the *Guardian* website, said that by any objective measure, George Osborne had just "fessed up to failure on a gargantuan scale". Growth forecasts had halved for the year, borrowing and the deficit was up—£121 billion to £123.2 billion—once special factors were stripped out, while the debt target had been missed by an extra year. In addition, living standards and real wages were set to fall for the rest of the Parliament. It had attempted to add a "dash of Thatcherite populism", centred around 1p off a pint, frozen fuel duty, cuts to employers' National Insurance Contributions and,

more significantly, mortgage guarantees and loans for newbuild homes and low deposits. However, Milne suggested that the rest of the Budget—with yet another cut in corporation tax to 20 percent—would be "heavily regressive and skewed to benefit the well-off and corporate Britain (along with other choice Tory wheezes, such as shale gas subsidies)" and "in time for next month's tax cuts for the richest". More importantly, it was a package that clearly would not work, if work meant kick-starting a stagnant economy. The boost to capital spending was too small to make a difference. He maintained that "featherbedding the corporate sector and the wealthy won't deliver recovery, let alone share the burden of failure".

3.23 Jeremy Warner: A Long, Slow Walk to Recovery

Jeremy Warner, commenting on the *Telegraph* website, said that in macro-economic terms the Budget was "pretty much a non-event and therefore another missed opportunity". It did "little or nothing to boost short-term growth, nor did it do anything to spur a reverse in the now four-year-old decline in ordinary living standards". He accepted that some of the measures were good. The reduction in National Insurance for small firms was "very welcome", as was the accelerated introduction of a 20p corporation tax rate and the £10,000 tax-free allowance. The abolition of stamp duty on AIM-listed stocks and limited action to ease the burden of the climate change levy on selected industries indicated that the Chancellor was listening to and acting on some very worthwhile suggestions. However, he believed that it was "just tinkering" and that none of it went "nearly far enough and what giveaways there have been are as much funded by sleight of hand as meaningful further cuts in the size of the state". Though on the surface the Budget appeared neutral, he saw the detail as "much more troubling", as they showed that the five big tax-and-spend "giveaways"—employers' National Insurance, corporation tax, the higher personal allowance, cancellation of the fuel duty increase, and higher capital spending—were essentially paid for "by bringing forward long-planned pension reforms and unspecified further departmental spending cuts". He was also sceptical about a further clampdown on tax avoidance, which was "very long on promise but ultimately short on delivery". He questioned whether the proposed £3.3 billion a year saving on the contracted-out element of the public sector's National Insurance contributions was in fact "only one bit of the public sector paying more money to another, so in the round it makes no difference". He was concerned that plans for up to £130 billion of guaranteed mortgage finance had the potential to create a British-style Fannie Mae and Freddie Mac, which could mean that the next time the "housing market goes belly up, it won't be the banks that are on the hook, but the British taxpayer". Furthermore, the Government was not getting on top of debt. The deficit remained at £120 billion and only less than the year before because some "departments have underspent their allocations—something that no doubt they will make up for in the future". He also suggested that the present strategy would not work with the goal of balanced budgets and falling national indebtedness "getting pushed ever further into the future". The Chancellor instead needed to be lowering marginal rates of tax, applying higher infrastructure and housing expenditure now, not in two years' time, and relaxing the ring-fence around health, education and pensions to pay for it all.

3.24 *Independent*: Missed Targets and More Gloom

The *Independent*, in its editorial, argued that it was the Chancellor's "gloomiest yet" Budget. It stated that Britain's borrowing levels were still colossally high compared with Germany's or France's, which meant that if the Chancellor was to splash out on debt-funded Keynesian spending, as his critics recommend, the "black hole would grow bigger still". Growth was an "anaemic 0.6 percent this year", which in turn meant that tax revenues were so depressed, that borrowing remained stubbornly high. This meant that a "fiscally neutral Budget was, therefore, the only option". The Chancellor was heavily constrained, which meant that the best he could probably do was to try to shift spending into the most economically productive areas. Therefore Whitehall departments and public sector pay were to be squeezed harder than ever, with proceeds to be channelled into infrastructure investment, tax cuts and "an eye-catching attempt to galvanise the moribund house-building sector by offering buyers of newly built homes help with their deposits". Tweaks such as a percentage point off corporation tax, a hike in research and development incentives and the abolition of stamp duty on trade in growth stocks, might give "a tilt to Britain's economic balance over the medium term" but would do little to "shake off the torpor of the here and now". The cancelling of the rise in petrol duty, 1p off the price of beer, defrayed childcare costs and a rise in the income tax threshold to £10,000 in 2014, were "scrawny rabbits" pulled out of a "threadbare hat". It concluded that the "immediate economic outlook is bleak" and that the Budget "did little to improve it".

3.25 David Blanchflower: Just Fiddling on the Edges of the Economy

David Blanchflower, posting on the *Independent* website, pointed to gloomy figures. The OBR had halved its growth forecast for 2013 to 0.6 percent, down from the 1.2 percent it forecast in December and the 2.9 percent it forecast in November 2010. The OBR had also admitted that weaker receipts had halted the fall in the deficit so that debt as a percentage of GDP would now not fall until 2017/18. After adjusting for special factors, the decline in cash borrowing appeared to have stalled so that Public Sector Net Borrowing was predicted to be broadly flat in 2013 and 2014, while the Chancellor was going to borrow £200 billion more than he originally planned. Blanchflower maintained that this showed that austerity had failed and that there was "no evidence that consumption, net investment or net trade—which are the main components of growth—will grow any time soon". He was concerned that there was a "better than even prospect that the UK will be downgraded another notch this year, especially after we enter triple-dip recession". He thought that the new Employment Allowance in 2014 was "a good idea, but too little too late", while the extra infrastructure spending of £3 billion was "derisory" and the housing allowance measures were "inadequate". He concluded that the Budget did not propose anything fundamentally new and was a case of "more fiddling".